50 Questions of RTP→Simplified→Easy to remember & Revise→ in 10 Pages

Hello everyone as promised I am helping you to deal with RTP, These notes are useful to understand tricky questions to remember bulky answers and many tricks for retention. First we thought about video but it will be a video of 4-5 hours and hence doesn't make sense. During exam times we don't have so much time, further some students may be good at question 1 other at question 2 so summary of RTP is best to focus on what we are lacking at. These are summary answers express & elaborate it in your own words.

Answer Q1(a)

First of all RTP has quoted wrong SRE (If auditor & reviewer are same SRE 2410 is applicable if someone else is doing review SRE 2400 is applicable) so please quote SRE 2410. There are 19 points in this question we have arranged it in flow of doing review.

Procedure of Review

→Discuss terms (they have to do accounting & prepare financial statements) & scope (Audit Opinion will not be given) / Engagement letter as per discussed terms & scope / First get Previous Audits, Reviews files go through them for previous issues & how they were resolved / Understand changes in those issues as compared to previous year / Obtain understanding of entity & its current business / Inquire about action taken at meetings (Bonus / Right / Dividend) / Read Minutes to confirm Inquiry and check its accounting / Inquire whether all transactions are Authorised , Promptly Recorded , Completely Recorded/ Accounting Policies should be acceptable and as per FRF for recording transactions / Obtain Trial Balance / Obtain Financial Statements / Suitability of Presentation & Disclosure

→(these are special items of notes to accounts) Related Party / Contingency & Commitment / Disposal

→(analytical procedures) Compare with previous year / budget / forecast

Obtain explanation about unusual fluctuations, Inconsistency

→Effect of Unadjusted Error

→Written Representation

Answer Q1(b)

DIFFERENCES	AUDIT	REVIEW
Time	More	Less
Legal requirements	Covered in co act 2013	Not covered in co act 2013
Procedures	Detailed till we obtain satisfaction	Only inquiry + analytical procedures
Level of assurance	Reasonable (high)	Moderate
Nature of opinion	Positive assurance	Negative assurance
Wording of opinion	Fst gives true & fair view	Did not receive any information which suggests material misstatement
Example	Company audit	Quarterly review
Standards Applicable	SA	SREs

Answer 2(a)

a.Nature of the services taken (manufacturing , packing, transport, salary etc)

b.Significance of those services (production & revenue are more significant than salary processing or advertisement management)

c.Effect thereof on the user entity's internal control (Old procedures which are dumped & new procedures which are incorporated, for example now actuary is appointed by SO but we need to high security data transfer & communication)

d.Nature and materiality of the transaction (if salary is outsourced pension , gratuity etc will be affected)

e.Nature of the relationship (Subsidiary / BPO / KPO / Independent Party etc) between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation.(MOU / Agreement)

f.Auditor shall evaluate the design and implementation of "relevant controls" at the user entity (Cross checks by user entity on data received from SO)

g.Degree of interaction (More communication, less problems)

Answer 2(b)

→First give reference of SA 250

→Explain laws are divided in 2 parts Direct Effect & Others (Indirect Effect)

* **Direct effect** on determination of amount & disclosures of FST

Eg. Tax laws/ Depreciation/ Schedule VI/ POGA/POBA

Obtain **sufficient & appropriate evidence** about compliance

[In case of direct effect auditor have to check in detail and obtain evidence about **compliance**]

* **No direct** effect (Other Laws) on financial statements but affects

Continuity of business

Can result in material penalties

Eg. Environment Act/Labour Laws

Obtain evidence about **non-compliance**

Perform only specified audit procedure like enquiry from management, TCWG, **about non-compliance & check correspondence with authorities**

→Non compliance

When non-compliance is identified as suspected

Obtain understanding of Act

Circumstances

Effect on financial statements

Litigation/ Penalty /Going Concern/ Disclosure Requirement

Discuss with Mgmt & TCWG

Obtain legal advice if requirement

→If management is not co-operating or precluding (making it impossible) to get information modify as qualification / disclaimer as per SA 705

Answer 2(c)

→Sec 143(8) & SA 600 are applicable

→As per Sec 143(8)

Domestic Branch—Principle Auditor / Person qualified & not disqualified as per 141
Foreign Branch—Principle Auditor / Person Qualified as per foreign law applicable to branch
So even non-chartered accountant can become auditor of the foreign branch, so appointment in this case is perfectly fine

→SA 600 explains role of principle auditor & co-ordination between him & another auditor (branch auditor)
Role of Principle Auditor:- Build Rapport / Planning Stage Co-operation / Explain contribution of components / Inter Component Transactions / Time Table / Requirements of professional pronouncements / Special attention areas
Evaluate Competence & situation at branch
If required Discuss audit procedures / ask for summary / send questionnaire / visit

Answer 3(a)
Internal Audit Programme for P&M / Tools / Dies
→Check whether internal control covers following things
(Flow of answer Register-Purchase-Sale-Other Points)
Separate Register for Hired Assets, Owned Assets, Jointly Owned Assets / Procedure for purchasing new assets (Written Authority, Work Order, Vouchers Etc) / Independent Checking of Purchases by authorised person / Recording of movements of assets on various sites after purchase / Authorisation before declaring asset obsolete / scrapping & selling / After procedures proper recording of all additions & disposals / Periodic Inspection / Reconciling register with physical inspection & nominal ledger (general ledger) Regular review of security arrangements & insurance cover

(Register)
→Review of Asset Register (Date / Cost / Location / Depreciation etc)
→Code Register (Distinct Code for each asset or identification & maintenance)
(Purchase)
→Cost Register & Journal Register (to verify purchases)
→Movement Register (Proper recoding for movable assets to ensure physical verification & control)

(Sale)
→Asset Disposal Register (After proper Advice / Authorisation / Sale Records)
(Others)
→Review of Maintenance Activity (Performance of Maintenance Department)
→Spare Part Register (Availability of Spare Parts)
→Review of Obsolescence
→Review of R&D (Relevance for operations / maintenance / prevention of early obsolescence)
→Physical Verification

Answer 3(b)
If they ask question of "Audit Strategy" you will have to answer as per SA 300, but they have asked word "Overall Audit Plan" this word is not in SA it is in chapter so we will have to answer as per knowledge of chapter but both concepts and points are similar, un fortunate part of our syllabus.
(Explain each point after slash "/" as separate sentence)
→Terms of Engagement / Legal Requirements / Accounting Policy & Changes / New Accounting & Auditing Pronouncements
→Setting Materiality
→Identify Significant Areas / Conditions requiring special attention (material error, fraud, related party involvement) / Possible rotation of emphasis on Specific areas (Importance Changes)
→Degree of reliance on internal control & accounting system / Nature & Extent of audit evidence required
→Work of internal auditor / Other Auditor (Branch) / Joint Auditor
→Establishing & Co-ordinating Staff Requirements / Nature & timing of Communications

Answer 4(a)
Control Over Sale & Collection of tickets
→Printing Tickets (Pre Printed / Serially Numbered/ Avoid repetition of numbers during same month or year / Difficult to Duplicate / Safe Custody)
→Sales of Tickets (Centralised / Through Machines / Key of Machines in safe custody)
→Entrance Ticket Cancellation at gate after entry (to avoid reuse)
→Daily Cash Reconciliation (Use serial numbers to compute sale / reconcile with cash collection)
→Daily Banking (Next day deposit cash to bank / till that time safe custody & authorisations over movement)

(Special Issues)
→Advance Booking (Pre payment before show date)
→Discounts & Free Passes (Authorised through forms / preserve copy for verification)
→Surprise Checks (Cash Counting / Daily Banking / Stock on Unsold Tickets etc)

Answer 4(b)
Enhancing corporate responsibility (responsible & accountable behaviour) through Sarbox/Public Company Accounting Reform Act 2002—Contains 11 Title (Chapters)
Title 3 deals with corporate responsibility (Remember in sequence of hierarchy given below)
Audit Committee:- One member financial expert / more independent / more powers & oversight (supervision) duties
CEO & CFO:- Certify quarterly & annual reports sent to SEC
Mangers & Officers:- Rules of conduct regarding pension plans
Attorneys:- Report violation to Chief Legal Officer or CEO, if no action taken report Audit Committee

Answer 5(a)

Situation→Big Company→Big Volumes→Software Based Accounting→No Printing of Daily Transaction Book (Lack of Audit Trail)→they use "Exception Reporting"

→Explain Audit Trail & It's important for Audit Process / No printing of daily transaction book as leads to massive loss of audit trail / to compensate audit trail auditor will have to use exception reports (query based reports / error reports / unusual activity reports)

→Check whether there is appropriate programming as per parameter specified by management to generate "Exception Report" Eg Negative Stock or Cash, Sales or Expense above particular limit etc / Check whether it is operating accurately, do some error and see whether report covers it / Check whether all reports are printed and preserved

→Perform other audit procedure to compensate loss of audit trail, Audit Through Computers (White Box Approach)→Ensure → All transactions are entered in computer / Once entered accurately computer or individual should not be able to manipulate it / Processing programme appears proper verified through rejections, exceptions reported / all operator interventions , changes during operations are logged & scrutinised by department mangers

→To achieve above following internal controls will be required→systematically step by step recording of transactions with authorisation, error detection & no omissions→strict rules for modification of transactions once entered or not allowing any change→ online audit of transactions, that means once transactions are completed, auditor approves transactions and then they are locked, no changes can be done→Regular Back of data→Recovery Procedures→Input dummy data, see results

→Check transactions through data in system , perform analytical procedures and obtain exception reports such as purchase above 1 lakh, report matching outward freight & despatches etc

→If the auditor finds that reliance cannot be placed on the systems he can inform the management about the fact and also that the daybooks, etc., will need to printed to allow him to conduct the audit.

→Rest of the audit process with respect to finalisations & other areas would remain same.

Answer 5(b)

Important controls in computerised information system, frankly speaking I was expecting General EDP controls & Application EDP controls but as not specifically mentioned in question, these guys ended again a mixed bag I am arranging it in a sequence so that you can remember well.

Authenticity Control (Individuals with id, password, digital signature can enter transaction)
Accuracy Control (Data & programme used are correct)
Completeness Control (No data should be missing in input & processing)
Redundancy Control (Duplicates in input & processing should be removed)
Audit Trail Control (There should be system to trace transaction from start till end)
Privacy Controls (No authorised access & retrieval of data)

Existence Controls (Daily/Periodically it should be checked at start whether systems are available in working condition)
Effectiveness Controls (Achieve its goals of time/accuracy)
Efficiency Controls (Use of minimum resources—man hour/equipment)

Assets Safeguarding Controls (System should be protected from destruction & theft)

Answer 6

First explain Ceiling Limit as per Sec 141(3) [Disqualifications]
Ceiling Limit 20 | Full time employment = Zero | 4 Exclusions: - Private Company paid capital not exceeding 100 crore, One Person Company, Small Company, Dormant Company
Explain situation in given case:- 3 partners, none of them are in full time employment and their present audits are 4-Satyam 6-Shivam 10-Sundaram

(a)Total number of audits which firm can do → 20 x 3 = 60
Total number of existing audits→4+6+10= (20)
Remaining audit limits of firm 40
(b)Maximum number of audits available for each individual partner
Satyam 20-4 =16
Shivam 20-6=14
Sundaram 20-10=20
(c) 60 Private Companies having paid up capital less than 100 crores | 2 small Companies | 1 Dormant Company all these are covered in exclusions hence they can accept all of them.
(d) if 45 private companies which are offered have paid up capital more than 100 crores firm can accept only 40 as given in above (a) 5 needs to be rejected or replace existing 5 with new ones. So existing 20 + 40 = 60
Further mention there is limit of 30 as per Council Guidelines 2008 as per which upper limit is 30 and there is no such exclusions there so upper limit will 30 "including 4 types of companies" No need to apply this limit of 30 unless specifically specified in question

Answer 7

(a)First Explain- Sections 139(2) What is rotation? Which types of companies are covered? What is maximum tenure?
Then Explain- As per rules on manner of rotation if there are other firms with any of partner, then such firms covered in cooling period and cannot appointed auditor of that company.
Explain situation in given question where "CA Rock" is common partner between Ajay Associates & Vijay Associates so So Vijay Associates cannot be appointed as auditor
(b)Then explain other rule also which specifies if in charge partner who use to sign audit leaves audit firm and joins or makes other audit firm then such firm will also be covered in cooling period and cannot be appointed as auditor.
In given case CA Rock is doing same thing by joining Vijay Associate and hence Vijay Associates will be disqualified.

Answer 8(a)
Explain AS 26 is applicable. Further explain as per para 55 & 56 of AS 26 expenditure on internally generated brand or advertisement cannot be capitalised as intangible asset as they don't fulfil recognition criteria.
Then explain the complete case that this company is doing the same thing which is not allowed in AS 26
Conclusion such branding & advertisement expenses cannot be capitalised.

Answer 8(b)
Explain SA 570 is applicable. Explain it is management's duty to determine and implement status of going concern assumption. As auditor we have to determine whether management's assessment and implementation of going concern assumption is appropriate.
As per this SA auditor collects information to identify whether there are any negative indicators (Financial / Operating / Other Indicators) if there are such indicators he performs additional procedures.
Explain contents of this case, which indicates "material uncertainty" i.e doubt over going concern, in such situation auditor will ask management to explain this "doubt over going concern" in notes to accounts adequately. If they do it we will give clean report with EMP. If they don't do it then we will have to qualify or if required give adverse as per SA 705

"Drafting is expected" RTP has explained drafting when "adverse opinion is given"
You can also explain clean Opinion with EMP, pointing note to be read for more details.

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not give information required by the Companies Act, 2013 in the manner so required and also do not give a true and fair view in conformity with the accounting principles generally accepted in India:
(i) In the case of the Balance sheet, of the state of affairs of the Co as at Mar 31,20xx;
(ii) In the case of the P&L account, of the profit/loss for the year ended on that date; and
(iii) In the case of the CFS, of the cash flow for the year ended on that date.

Answer 8(c)
Explain Sec 181 applicable. Explain if Co wants to give donation for charity more than 5% of average net profits of past 3 years , prior permission will be required through general resolution at general meeting.
Explain current case average profit is 15,00,000 so 5% is 15,00,000 x 5% = 75,000. But donations during the year are (45,000 + 55,000) which is 1,00,000 and we are crossing limit of 75,000 so these donations are in contravention of Sec 181. It is non-compliance so SA 250 is also applicable & so company should treat it as illegal, show it as recoverable from concerned people & make provision for penalty. If they don't do proper accounting & disclosure then auditor should qualify his report as per SA 705.

Answer 8(d)
CARO 2015 is applicable.
In first case clause (xi) of Para 3 of CARO 2015 is applicable. So explain the complete clause which tells about utilisation of money received from term loans. As auditor we need to take loan documents such as sanction letter understand purpose for which loan is taken then track utilisation of money from concerned bank accounts see documents for end use.
Explain given case where money is not utilised for the purpose for which loan was taken. So we will have to report in CARO. Express that out of loan amount Rs 45 lakhs is not applied for the purpose specified for loan. If accounting is proper no need to qualify.
In second case clause (ii) of Para 3 of CARO 2015 is applicable. So explain the requirements of records / physical verification / adjustment of differences is any. Then explain the given case where physical verification is not conducted within 1 year (reasonable interval of time assumed) for 50% items. So auditor will have o report it in CARO. In this case no physical verification may lead lack of evidence so auditor may need to qualify as per SA 705.

Answer 9(a)
Explain Objective of Auditor as per SA 200 to give "reasonable assurance" whether financial statements give true & fair view. He has to do risk assessment, response to risk, collect sufficient & appropriate audit evidence and give his opinion.
If he has carefully performed above duties and gave honest opinion then he is not responsible for deep laid frauds being done by client.
Explain the whole case. Now give answer in 2 situations where auditor is not a fault no action will be taken against him. 2nd if he is at fault then he is guilty of professional misconduct under Second Schedule, Part I, Clause 7.

Answer 9(b)
Explain Section 34:- if prospectus includes any statement untrue (fake sales) or misleading (other income added to sales) then every person who authorises (auditor is one of them) issue of prospectus is liable U/s 447
Protection if proved that it is immaterial or authoriser had reasonable ground to believe that information is true & not misleading.
Explain Sec 147:-
No Compliance by Company (139-146) Min 25,000 to Max 5,00,000
No Compliance by officer (139-146) Min 10,000 to Max 1 lakhs
No Compliance by Auditor (139, 143,144,145) Min 25,000 to Max 5,00,000 | If fraud Min 1,00,000 Max 25,00,000 + Imprisonment of 1 year or both | May have to refund fees | Party to pay damages | Responsibility Joint & Several on all partners | Govt can set up authority for recovery
Explain Sec 447:- Imprisonment Min 6 months (if public interest is involved then minimum 3 years) Max 10 years | Fine up to 3 times amount
Explain Sec 448:- If any return , report, certificate, financial statement, prospectus, etc under company act 2013 by any person (includes auditor) make statement which is false or omission which is material will be liable u/s 447

Answer 10
See Annexure at the end

Answer 11(a)
Permanent consolidation adjustments are those adjustments that are made only on the first occasion of the preparation and presentation of consolidated financial statements. (In sequence of solving consolidation problem)
Determining pre-acquisition equity (share capital + profits + reserves)/ Adjusting cost of investment with pre acquisition equity / Adjusting pre acquisition dividend if any / Determining goodwill & capital reserve / Share of minority interest in pre-acquisition equity
If there is multiple subsidiaries netting of goodwill & capital reserve may take place
Things may change because of subsequent acquisition or disposal of shares

Role of auditor with respect to permanent consolidation adjustment:- Check Date of Acquisition used for pre/post division/ Careful division of pre acquisition equity between holing & minority / Check Calculations / Changes due to subsequent acquisition or disposal of shares / Examine joint venture agreements for any change in nature / Carefully check netting off gross goodwill & capital reserves

Answer 11(b)
Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done.
1. Allocation of post profit earned by subsidiary during the year between holding and minority & also abnormal profits & losses
2. Elimination of intra-group sales / purchases / interest received & paid / management fees received & paid etc
3. Adjusting intra group debtor / creditor, bill receivable/ payable, loan receivable & payable etc
4.Adjusting unrealized profits from down stream- upstream transactions
5. Adjustments related to harmonising the different accounting policies being followed by the parent enterprise and its subsidiaries
6. Adjustments made for the effects of significant transactions or other events that occur between the date of the financial statements of the parent and one or more of the components (Different balance sheet Date)
7. One of the important adjustment that may be required in the current period is determination of impairment loss that might exist for goodwill arising on consolidation.
8. Gap between year ending of holding & subsidiary can be maximum 6 months
9. Check whether disclosure of AS 21/23/27 are followed along with Schedule III of Company Act

Answer 12(a)
This question is Not about NPA classification it is about Secured VS Unsecured. Depending on nature advances are divided in 3 parts as explained below from HDFC Bank

B	(i)	Secured by tangible assets*	2,735,499,707
	(ii)	Covered by bank / government guarantees	63,453,979
	(iii)	Unsecured	855,996,626
		Total	3,654,950,312

I. Advances covered by ECGC (Export Credit Guarantee Corporation Of India Limited)/DICGC (Deposit Insurance And Credit Guarantee Corporation) guarantees.	If there is loan of 100 and guarantee is 60%, 60 will be shown under covered by bank / government guarantees and 40 will be shown in unsecured. Further if Rs 5 is received from ECGC / DICGC then it is accounted as Cash Dr 5, To Sundry Creditors 5 but for presentation it will be netted 60-5=55 will be shown under guaranteed amount.
(ii) An account which is fully secured but the margin in which is lower than that stipulated by the bank.	Loan = Rs 100 | Security = Rs 110 (Margin 10), as per agreement margin should be 25, so it is 15 short but still for presentation it will be shown as secured as security covers whole loan.
(iii) Advances covered against cheques purchased including self cheques.	Loan= Rs 100 | Cheque of any person or Self Cheque = Rs 105 but whole loan will be treated as unsecured, unless there is any other tangible collateral security.
(iv) Advances against supply bill. (Bill which shows that we have supplied bill to customer & amount is receivable)	Loan = Rs 100 | Supply Bill = Rs 150 | Whole loan of Rs 100 will be treated as unsecured unless something else is offered as collateral security.

Answer 12(b)
Focus in concurrent audit of banks (Easy to remember practical flow)
(First part is all about sanctioning powers)
Proper Sanction of loan→Sanction should be within delegated authority→Even letter of credits issued to suppliers on behalf of client, should within delegated power and it should be issued for genuine trade transaction & also check bank guarantees are proper as per bank policy & recorded→If delegated authority is exceeded then it should be promptly reported→Verify frequency & genuineness of such instances of exceeding authority

(Now usual flow after sanctioning till NPA & recovery)
→Securities & Documents received should be charged in favour of bank→Post disbursement supervision & follow up→Any misuse or diversion of funds→Classification of advance in Standard / NPA is proper→Follow up over due bills & advances→Timely submission of claims to ECGC / DICGC

Answer 13(a)
Requirements of IRDA regulations with respect to Financial Statements
FORM BRA – Revenue Account | BPL- P&L Account | BBS- Balance Sheet | Receipt & Payment – CFS as per AS 3 (Direct Method)

As receipt payment is part of financial statements it should be audited. We have to specify 3 things which we specify for all statements in financial statements
1. Whether it agrees with books of accounts & returns from branches
2.Is it as per IRDA Regulations / Company Act / Accounting Standards
3.Does it give true & fair view

Answer 13(b)
Duties of Auditor of Co-Operative Society
i.Overdue Interest→ Once loan receivable become overdue→Accrued Interest should be reversed i.e removed from P&L and now income should be booked on cash basis→In practical life instead of reversal, accrued interest is transferred to interest reserve account, some net effect is same interest is out of p&l.
ii.Compliance with Act, Rules & Bye laws of Society→ Auditor should obtain knowledge of specific state level act, rules & bye laws→Point out infringements / non compliances→ Assesses & quantify amount involved→Report it schedules to audit report→Some popular areas (in sequence of balance sheet & then P&L appropriation) Restrictions on Investment of Funds / For Grant of Loan & Surety / Maximum Share Holding / Transfer to Reserves / Contribution to Charity , Education Funds / Maximum Payment of Dividend.
iii.Special Report to Registrar
It is in addition to audit report / schedules to audit report / special report is issue immediately if there is some serious irregularity to registrar of co-operative society
Areas In sequence of their seriousness
1.Mismanagement & against Co-operative principles→ No proper meetings / discussions / policies / minutes / accounting or working for individual or family
2.In urban Co-operative banks→Disproportionate Advances to Vested groups / Reckless advancing without proper scrutiny / Negligence in recovery
3.Personal Profiteering→ Allocating contracts from Co-Operative Society to relatives
4.Fraud related to property purchase, purchase, store & other exp→ Fake Expenses / Excessive Payments /Poor Quality Goods

Answer 14(a)
Clause 29 of Form 3CD is applicable. Explain clause which supports and asks information for execution of Sec 56(2)(viib). In a company other than where public is substantially interested (Closely Held, generally private companies fall I such category) issue shares for amount more than FAIR VALUE, in such case excess s like gift to company and it will charged in "Income from Other Sources"
Explain complete case. FV 10, Premium 70, Issue Price 10+70=80, Fair Value 60, Excess 80-60= 20 will be charged to income tax. Collect issue related & valuation related documents and ascertain facts. From this discuss case and write conclusion.

Answer 14(b)
Clause 17 of form 3CD is applicable. It supports application of Sec 43CA / 50C. It says that if property is transferred for amount less than value assessed for stamp act then the difference will be charged in hands of transferee as it is unusual and indicates remaining is paid in cash as black money.
Auditor should see agreement to sale & sale deed for transfer consideration; also collect details of valuation as per stamp act. Requirements of clause 17 Form 3CD.

Details of property	Consideration received or accrued	Value adopted or assessed or assessable

Explain the clause / section its rational how auditor will check it and what should be written in form 3CD and his audit report.

Answer 14(c)
Simple flow as per practical accounting / auditing first transactions then books then trial balance then financial statements

Vouch Transactions:- Transactions should as per purpose of the trust→It should be authorised by trustees or as per delegated authority→all incomes should be recorded as per system of trust and corresponding assets should be under control with safety→all expenses should be again as per policy of trust→ such expenses should for object of the trust and shown as applied for the object→ All transactions without omissions should be accurately recorded
Books should be maintained as per system of internal controls & accounting
Obtain trial balance duly certified by trustees
Obtain balance Sheet & income expenditure statement and it should tally with trial blance.

Answer 15(a)
Section 148 is applicable explain, Who can do cost audit? What is procedure for appointing cost auditor? Practicing CWA can do Cost Audit. Audit Committee will recommend name to BOD (if no audit committee selection will be done by BOD) and then BOD has to appoint cost auditor in 180 days from start of the financial year and inform CG in 30 days but before 180 days are over. Form CRA 2 is for intimation to CG.
Explain the given case & specify that it is not a proper appointment, it is invalid, void ab intio.

Answer 15(b)
Cost audit should be carefully planned and executed at one go to be effective
First review records (simply collect key information)
Material→ Method of accounting RM, Stores, Spares (FIFO / Weighted etc) / Treatment of Spoilage , Defective etc
Labour→ System of recording wages, salaries, overtime and spares, wastages, etc (Time Vs Per Unit)
Overhead→Allocation of over head to cost centres, absorption on products, treatment of service department expenses
Depreciation→ Method of depreciation
Other Costs→Finance Costs / Research & Development / Royalties etc

Method of Costing→ JOB / Process / Batch etc

Verification of Cost Statements & Other Data(in sequence of flow in production)→ Licence, Installed & Utilised Capacity→Production Data→Cost of RM / Wages & Salaries / Power & Fuel / Overheads →Abnormal & Special Costs→Cost Statements→ Sale Realisation→Profits-→Reconciliation with financial books

Answer 16(a)

In private entity owner is worried about performance. But in government entity there is no such owner hence we need to make government departments accountable and responsible hence we have to do independent assessment of the performance of a government organization, program, activity, or function which is called PERFORMANCE AUDIT.
There 2 types of performance audits.

1.Economy & Efficiency Audit:- In this particular government department or PSU is targeted. (keep in mind example of power generation plant)

Resources→ Sound procedures for procurement→appropriate type, quantity & cost→Protecting & maintaining resources after procurement

Labour→No Overstaffing→ No idleness→No duplication of efforts → Using efficient operating procedures (less time more result techniques)

Optimum use of above to deliver best quality goods & services in timely manner st reasonable prices.

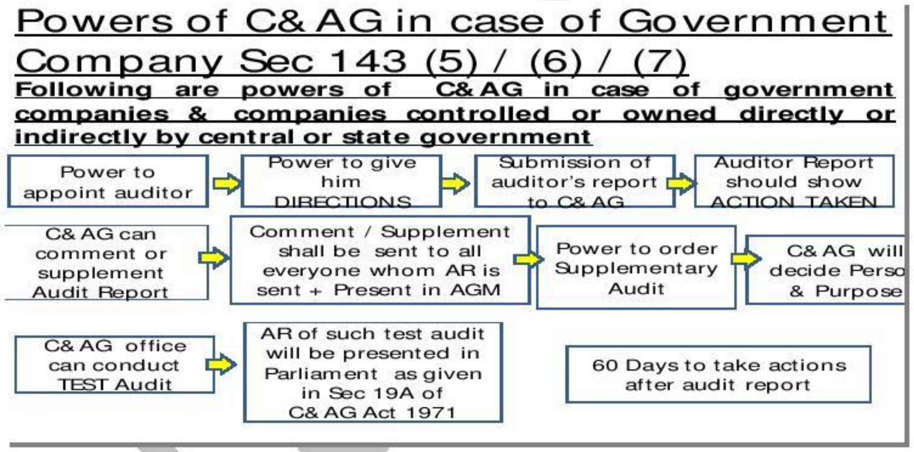
Check compliance of law / there should be system for monitoring / measurement / reporting / give valid & reliable suggestions for improvement

2.Program Audits:- Targets schemes run by government. (keep in mind MANREGA where 100 days of employment was promised in rural areas)

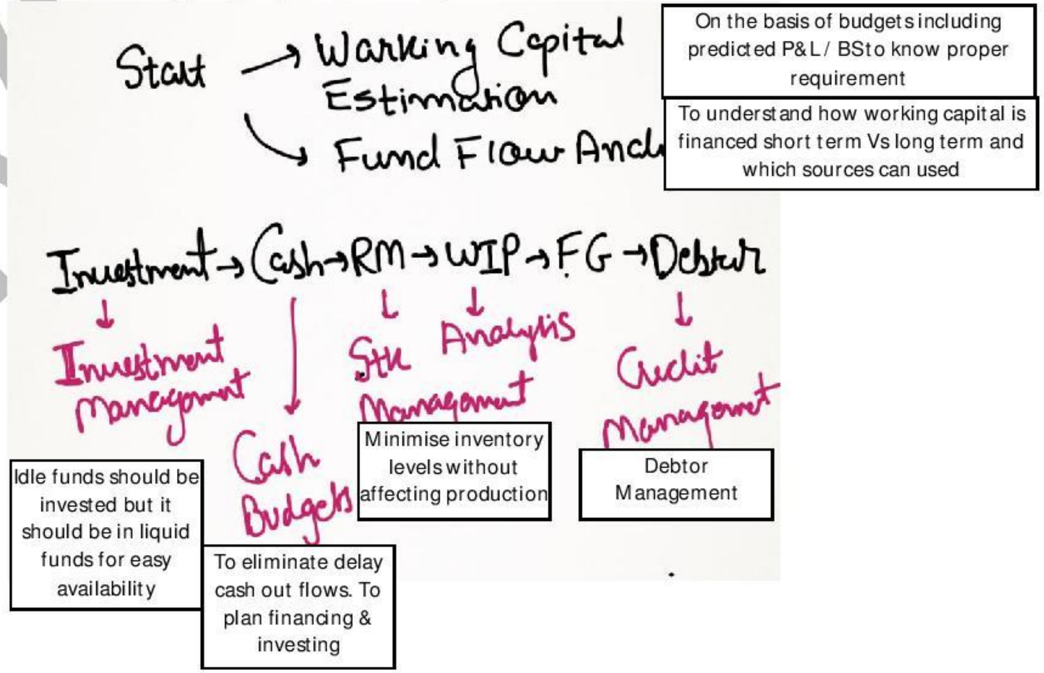
Whether objectives are proper (employment), suitable (work for own village), relevant (solves poverty)→Factors for judging performance (Numbers of days of employment)→Effectiveness of components (Communication of scheme, developing plan, initiating work, approving work done, disbursement of money to bank accounts)→are results as desired in the program (employment generation & poverty eradication)→alternatives ways (private public partnership)→is it duplicating conflicting with other programs→how to make it better (improve awareness of such programmes)

Check compliance of law / there should be system for monitoring / measurement / reporting / give valid & reliable suggestions for improvement

Answer 16(b)



Answer 17(a) Easy way to remember points



Answer 17(b)

→Suppose operational audit came up with 2 suggestions 1. Tender Process in Purchases 2. Separate & Independent Department for appointments.

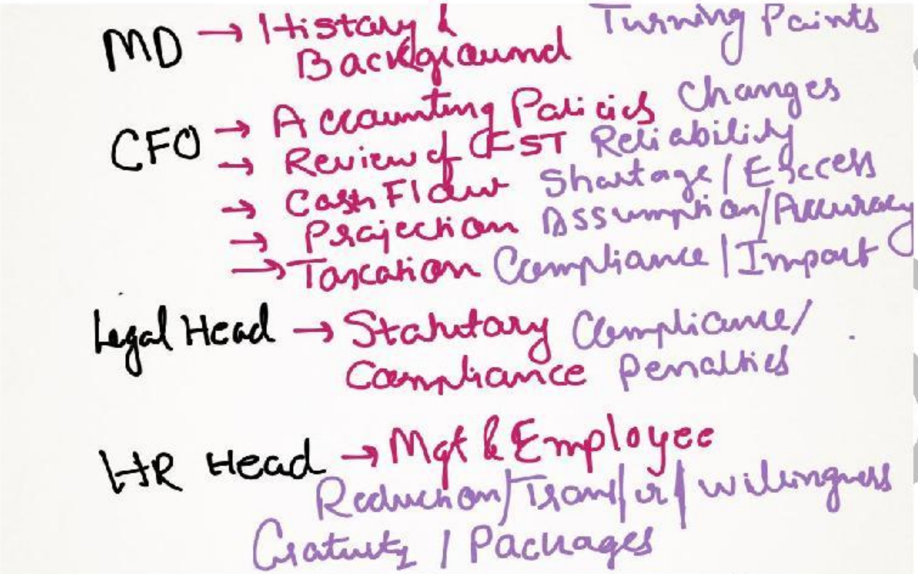
→Middle / Lower level Management can resist, oppose ad cold war can start.

→Participative Approach can be adopted (practical flow of things)
Expression of point of views / Discussions / Unanimous Decisions / Improves Acceptability
Reduces resistance to change/ Common Goals / Co-Operative Enterprise

Explain these points in sentence form

Answer 18(a)

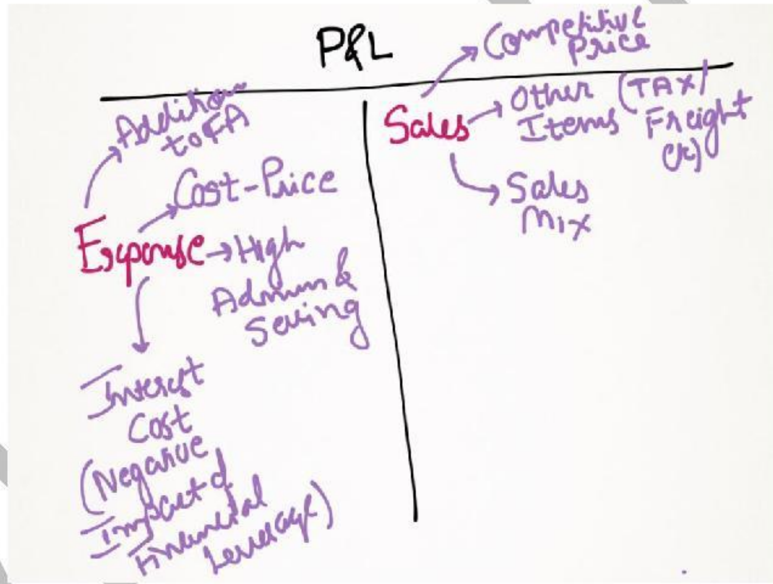
Use following image to remember key points, keep talking to these 4 guys, read points once from RTP



Further common question:-
-->Reason for Sale -->Good will valuation -->Remaining Lease Period OF LAND -->Unexpired period of Patent --> Age of Managerial Staff -->Sales to Few Customer

Answer 18(b)

Below diagram will be very useful to remember points



Answer 19(a)

→Second Schedule Part II Clause 1 is applicable. It says it is a misconduct if CA is not complying with CA Act / Regulations / Guidelines. Council guidelines 2008 specifies that practicing CA should maintain, CASH Book & Ledger and also details of his assignments such as clients / nature of assignments / fees / financial year etc.
Irrespective of whether Sec 44AB of Income Tax Act is applicable or not.
Explain case here CA is not maintaining books so he is guilty.

Answer 19(b)

→First Schedule Part I Clause (11) is applicable, explain clause, explain 2 types of permissions, General Vs Specific, explain that editorship of professional magazine is allowed in general permission without any approval.
Explain in the given case that magazine of company audit is professional magazine. Write proper conclusion that he is not guilty.

Answer 19(c)

→Second Schedule Part I Clause 3 is applicable. Explain Clause cannot give guarantee, cannot vouch accuracy of outcome & results, cannot certify profit / assets etc amount.
We can just comment on reasonableness of assumptions. Give reference of SAE 3400 also.

Explain given case. And write appropriate conclusion that assignment can be accepted.

Answer 19(d)
Very Interesting Case. First Schedule Part I Clause 6 is applicable. Clarification issued under this clause is applicable. As per clarification we can write designation & firm name on invitation cards for religious ceremony which will be sent to relative, friends & clients of "CONCERNED CA"
Discuss the case, here such invitations are sent to relatives , friends & clients of "BOTH the CA Partners" but it should sent only for concerned CA.

Hence here it is a professional misconduct. Write appropriate misconduct.

Answer 20(a) Haphazard Sampling.
→No structured technique / No steps, procedures & principles / just select any item of any area any product / try not to be biased towards particular person product etc / try not to be predictable as per last year pattern / it can used instead of systematic random sampling in small areas it reduce time & cost

Answer 20(b) Key functions of an Energy Auditor.
Conduct preliminary (Quick walk trough of plants, overview of machine, rough readings of energy consumptions) and then detailed energy audits (Step by step evaluation, detailed data, brain storming for alternatives, bringing radical changes etc)
Steps
-->Quantify energy cost and quantity. (Say kilowatt is decided common unit for power , coal, petrol, diesel, steam etc) -->Data collection and analysis -->Energy database format. (day wise, department wise, machine wise etc) -->Correlate production to energy cost. (Co-relate number of units produced with various consumptions etc) -->Measurements, mass and energy balances (transfer of mass & energy from process to process should be loss free for more productivity & efficiency) -->Highlight areas needing attention. (huge wastage, loss , idle etc) -->Identification of energy efficiency projects and techno-economic evaluation. (CFL, use of solar etc) -->Reviewing energy procurement practices. (Purchase contracts)
--> Energy Saving Goals / Targets -->Staffing -->Implementation time limit -->Energy Accounting -->Communication -->Public Relation -->Compliance of organization for policy aspect.

Answer 20(c) Collection of Evidence by Peer Reviewer
Peer Reviewer has to collect information about General Controls of Firm (Independence / Maintenance of Prof Skills & Standards / Supervision & Development / Office Administration) & Specific Information about selected assignments in sampling about quality of audit performance.

Methods of collecting information:- Inspection / Inquiry / Observation
Significant (Used for most of time):- Inspection of records
Reliable (Collected on own in real time) :- Inquiry & Observations

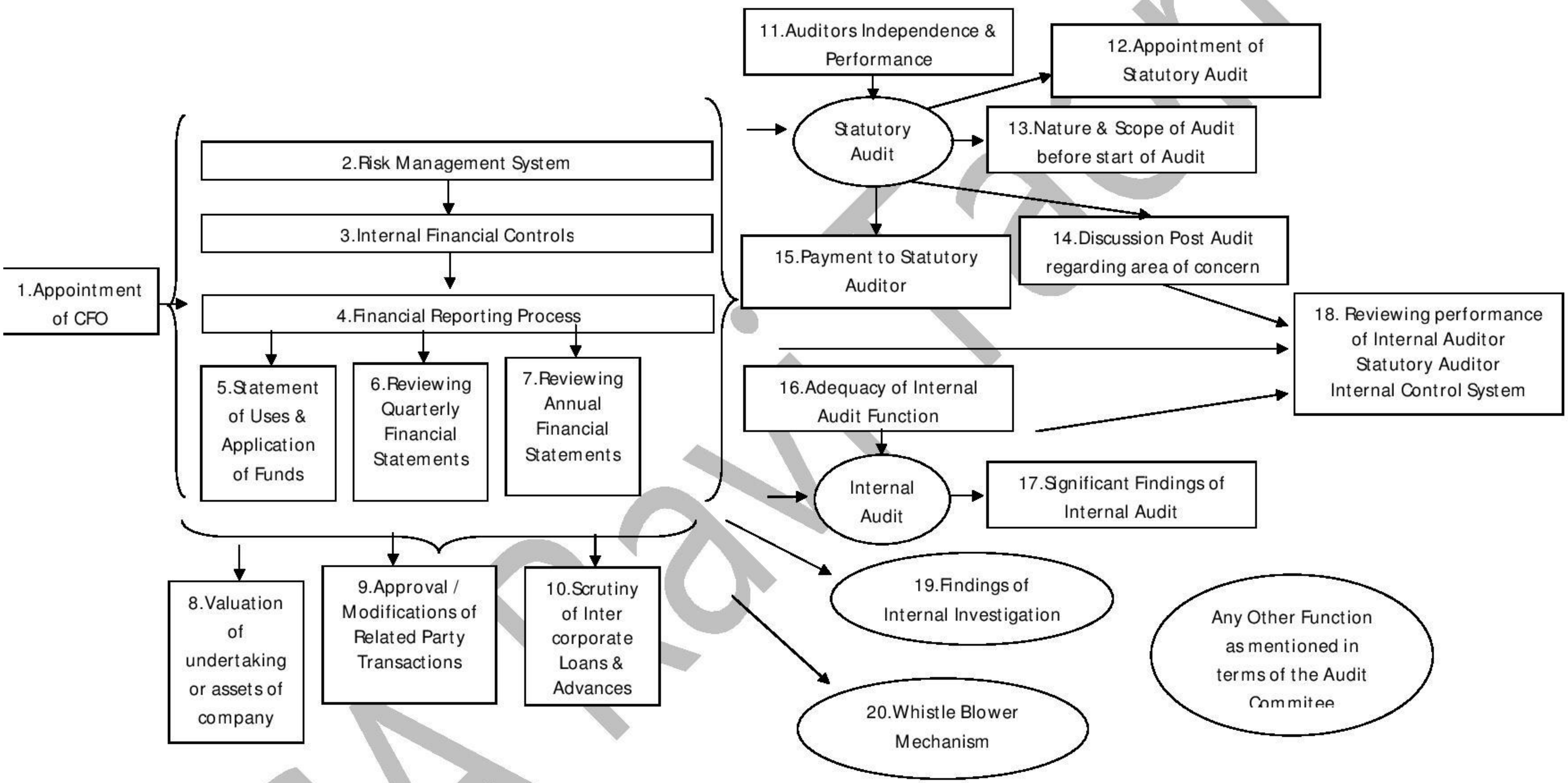
Answer 20(d)
There are 2 sets for prudential norms in case of NBFC "Accepting" & "Not Accepting Deposits" and it covers 25-35 points. in this answer they have simply covered title of 6-7 points. with one line explanation.
Best sequence to remember as loan is given & processed
1.Prohibition on loans & investments if failure to repay public deposits
2. Prohibition against giving loan on the basis of Own Shares.
3. Norms on Concentration on Credit (promoters etc)
4. Demand / call loans

5.Income recognition
6.Income from investments

7.Asset Classification
8.Provision for bad & doubtful debts

Answer 20(e)
Disqualifications of TAX auditor are changed as per amendment of Sec 288 and are effective from 1st June 2015, unfortunately answer is given in RTP is as per old amended Sec 288. Further indebted limit for companies is 5,00,000 and for non companies is even single rupee only relatives exempt upto Rs 1,00,000

Disqualifications of TAX Auditor
<u>HUF</u>
Family member of HUF***
<u>AOP</u>
Member of AOP***
<u>Firm</u>
Partner of firm***
<u>Company</u>
-->Who is disqualified to do statutory audit under Sec 141 (3)
All Assesses
→<u>Who can verify return u/s 139*</u>**
-->Officer or employee of Assessee
-->Partner or Employee of Employee or Officer
-->@Holding Security or Interest in assessee (Only Relative exempt up to FV 1,00,000)
-->@Indebted to assessee (Only Relative exempt up to Rs 1,00,000)
-->@Guarantee or Security of assessee for third party (Only Relative exempt up to Rs 1,00,000)
-->Direct / Indirect Business Relationship with assessee
-->Convicted by court for fraud, 10 years from date of conviction
(All points above are similar to company audit disqualifications but there are changes so be careful)
***** Including Relatives**
@By individual or His partner or His Relative


1.Appointment of CFO
2.Risk Management System
3.Internal Financial Controls
4.Financial Reporting Process
5.Statement of Uses & Application of Funds
6.Reviewing Quarterly Financial Statements
7.Reviewing Annual Financial Statements
8.Valuation of undertaking or assets of company
9.Approval / Modifications of Related Party Transactions
10.Scrutiny of Inter corporate Loans & Advances
11.Auditors Independence & Performance
Statutory Audit
12.Appointment of Statutory Audit
13.Nature & Scope of Audit before start of Audit
14.Discussion Post Audit regarding area of concern
15.Payment to Statutory Auditor
16.Adequacy of Internal Audit Function
Internal Audit
17.Significant Findings of Internal Audit
18. Reviewing performance of Internal Auditor Statutory Auditor Internal Control System
19.Findings of Internal Investigation
20.Whistle Blower Mechanism
Any Other Function as mentioned in terms of the Audit Commitee