

ISBN - 978-93-5586-480-2

Scanner Appendix

CA Inter Group - II
(Solutions of May - 2023
and Questions of November - 2023)

Paper - 5 : Auditing and Ethics

Chapter - 2 : Audit Strategy, Audit Planning, Audit Programme

7

Documentation

2023 - May [1] {C} (a)

Answer:

Incorrect: As per SA 300, documentation of the overall audit strategy is not a record of the audit evidence considered necessary to properly plan the audit and assign various audit functions to the engagement team. It outlines the scope, objectives and approach of the audit engagement.

2

Planning Process-Elements of Planning

2023 - May [4] (a)

Answer:

As per SA 315, 'Identifying and Assessing the Risk and Material Misstatement through Understanding the Entity and its Environment', without adequate knowledge of Client's business, a proper audit is not possible. The auditor shall obtain an understanding of the following:

- (1) Relevant industry, regulatory & external factors including the applicable FRF.
- (2) **The nature of entity includes:**
 - Its operations

- Its ownership and governance
 - The types of investments that the entity is making and plans to make, including investments in special-purpose.
 - The way that the entity is structured & how it is financed; to enable auditor to understand the classes of transaction, account balances & disclosures:
- (3) The entity's selection and application of accounting policies, including the reasons for changes thereto.
- (4) The entity's objectives and strategies and those related business risks may result in risks of material misstatement.
- (5) The measurement and review of the entity's financial performance.

Chapter - 3 : Risk Assessment and Internal Control

8***What is an Automated Environment?***

2023 - May [1] {C} (h)

Answer:

Incorrect: Utilizing integrated ERP software can stream line the audit process by providing centralized data, standardized process, a robust audit trail, data analysis capabilities and built-in - controls. However, the overall complexity of the audit is influenced by additional factors beyond the software used like size, complexity of business operation & effectiveness of internal controls implemented within ERP system.

2023 - May [2] (a)

Answer:

The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

The level of sampling risk that the auditor is willing to effects the sample size required.

The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

Sampling Risk: The risk that the auditor's conclusions based on a sample may be different from conclusions if the entire population were subjected to the same audit procedure.

If the acceptable sampling risk is low, larger sample size is needed.

Non-Sampling Risk: The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

1**Audit Risk**

2023 - May [2] (b)

Answer:

Audit risk means the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Thus, it is the risk that the auditor may fail to express an appropriate opinion in an audit assignment.

Example: - Strength Ltd. purchased P&M ₹ 2 cr. in F.Y. 20-21.

The accountant debited ₹ 2 cr. in the Repair & Maintenance account in the statement of P&L instead of taking it to the balance sheet as PPE and claim depreciation on it.

While auditing the accounts of this company the auditor did not notice this and consequently may not report anything regarding the Plant and Machinery.

Therefore, opinion given by auditor would be inappropriate.

Following are not included in Audit Risk:

- (1) Audit risk does not include the risk that auditor might express an opinion on F.S. are materially misstated when they are not.
- (2) Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events with the audit of F.S.

10***Data Analytics for Audit*****2023 - May [2] (d)****Answer:**

Data analytics can be used in the testing of electronic records and data residing in IT system using spread sheets and specialised audit tools to perform the following:

- (1) Check completeness of data and population is used in test of controls.
- (2) Selection of audit samples
- (3) Re-computation of balances-reconstruction of trial balance from transaction data.
- (4) Reperformance of mathematical calⁿ - depⁿ, bank int calⁿ
- (5) Analysis of journal entries as required by SA 240
- (6) Fraud investigation
- (7) Evaluating the impact of control deficiencies.

4***Internal Control*****2023 - May [4] (d)****Answer:**

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

1. Whether the risk is a risk of fraud;
2. Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention;
3. Whether the risk involves significant transactions with related parties;
4. The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
5. Whether the risk involves significant transactions that are outside the normal course of business of the entity or that otherwise appear to be unusual.

4***Internal Control*****2023 - Nov [1] {C} (h)**

State with reason whether the following statement is correct or incorrect.

(h) Internal controls over financial reporting is required where auditors are required to express an opinion on the effectiveness of an entity's internal controls over financial reporting. (2 marks)

1***Audit Risk*****2023 - Nov [2] (b)**

Answer the following questions:

Strained relationship between management and the current or predecessor auditor is one of the risk factors relating to misstatements arising from Fraudulent Financial Reporting. Mention such circumstances. (4 marks)

8***What is an Automated Environment?*****2023 - Nov [3] (c)**

Elucidate the impact on substantive audit if IT related risks are not mitigated in an automated environment. (3 marks)

2***Materiality*****2023 - Nov [4] (a)**

The auditor's determination of materiality is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, what are the assumptions that an auditor reasonably makes in respect of the users of the financial statements? (4 marks)

1***Audit Risk*****2023 - Nov [4] (c)**

Discrepancies in the accounting records, including transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification or entity policy is one of the circumstances that indicate the possibility of fraud. Give four other examples relating to discrepancies in the accounting records which indicate the possibility of fraud. (3 marks)

Chapter - 4 : Audit Evidence**1*****Audit Evidence*****2023 - May [1] {C} (e)****Answer:**

Incorrect: As per SA 500 - Audit evidence, appropriateness is not a measure of the quantity of audit evidence. Appropriateness refers to quality on relevance of the audit evidence gathered by the auditor.

8***Analytical Procedures (SA 520)*****2023 - May [1] {C} (f)****Answer:**

Correct: As per SA 520 Analytical Procedure - analytical procedures can be used during execution and conclusion stage of audit & as per SA 315, it should be used in planning the audit, especially in risk assessment procedure.

5***External Confirmations (SA 505)*****2023 - May [3] (a)****Answer:****If management refuses to allow the auditor to send a confirmation request, the auditor shall:**

- (1) Inquire as to management reasons for the refusal and seek audit evidence as their validity and reasonableness;
- (2) Evaluate the implications of management refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of Fraud, NTE of audit procedure &
- (3) Perform alternative audit procedure designed to obtain relevant & reliable audit evidence.

If the auditor concludes that management refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant & reliable audit evidence from alternative audit procedure, the auditor shall communicate with TCNG with SA 260.

Also determine implications in accordance with SA 705.

1***Audit Evidence*****2023 - Nov [1] {C} (c)**

State with reason whether the following statement is correct or incorrect.

Sales invoice is an example of external evidence. (2 marks)

3***Audit Sampling (SA 530)*****2023 - Nov [1] {C} (f)**

State with reason whether the following statement is correct or incorrect.

Block sampling does not involve judgement, does not even use the random number tables and has no structured approach. (2 marks)

7***Related Parties (SA 550)*****2023 - Nov [3] (d)**

The nature of related party relationship and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Explain with the help of examples. (3 marks)

1***Audit Evidence*****2023 - Nov [5] (a)**

You are the senior member of the engagement team of M/s BB & Associates. Before starting the audit, you explained to other junior assistants about the meaning of Audit evidence. One of the junior assistant is of the view that audit evidence includes only information contained in the accounting records and no other information. You are of the opinion that a combination of tests of accounting records and other information is generally used by the auditor to support his opinion on the financial statements.

In the above context, illustrate with two appropriate examples of each:

- (i) Information contained in the accounting records.
- (ii) Other information that authenticates the accounting records.

(4 marks)

8***Analytical Procedures (SA 520)*****2023 - Nov [5] (c)**

While conducting the audit of PDP Ltd. for the financial year 2022-23, the statutory auditor identified certain inconsistencies while applying analytical procedures to the financial and non financial data of PDP Ltd. Can statutory auditor investigate results of Analytical Procedures duly performed in accordance with SA 520? Discuss. (3 marks)

3***Audit Sampling (SA 530)*****2023 - Nov [6] (b)**

Mention any four factors that should be considered for deciding upon the extent of checking on sampling plan. (4 marks)

Chapter - 5 : Audit of Items of Financial Statements**4E*****Statement of Profit and Loss Captions:
Depreciation and Amortisation*****2023 - May [1] {C} (c)****Answer:**

Incorrect: Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

3A***Balance Sheet Captions: Share Capital*****2023 - May [3] (b)****Answer:****As per Section 53 of the Companies Act, 2013:**

- (1) A Company **shall not issue shares at a discount** except as provided in Section 54.
- (2) Any share issued by a company at a discount shall be **void**
- (3) However, a co. may issue shares at a discount to its creditors when its **debt is converted into share in pursuance of any statutory redaction plan on debt restructuring scheme** in accordance with RBI Act.
- (4) Any Company **fails to comply with provision of Section 53**, such co. and every officer who is in default shall be liable to:
 - (a) A penalty equal to the **amount raised through the issue of shares at a discount or ₹ 5 Lakhs** whichever is less, and

- (b) Liable to **refund all monies received with interest at the rate of 12% p.a.**

In the given case, it is clear that is can issue shares to its creditors are not as per low. The auditor needs to check:

1. He should verify that the shares issued at a discount by recording the minutes of meeting of its directors & shareholders authorizing the issue of share capital & issue price.
2. He should discuss the issue with management and inform the TCWG and also consider the impact of non-compliance on its Auditor report.

4A***Statement of Profit and Loss Captions: Sale of Products and Services***

2023 - May [3] (c)

Answer:

Audit Procedures for sale of Scrap as follows:

1. Review the internal control as regards generation, storage and disposal of scrap.
2. Check whether the organization is maintaining a reasonable record for the generation of scrap.
3. Analyze the raw material used, production & generation pattern of scrap and compare the same with figures of the earlier year.
4. Check the rates at which scrap has been sold & compare the rate with previous year.
5. Vouch sales, with invoices raised, the advertisement for tender, rate contract with scrap dealers.
6. Ensure that there exists a proper control procedure to identity scrap.
7. Make an overall assessment of the value of realization from scrap as to its reasonableness.

3K***Balance Sheet Captions: Provisions and
Contingent Liabilities***

2023 - May [3] (d)

Answer:

Assertion	Audit Procedure
Existence	1. Inspect underlying agreements like agreement with customers to assess warranty commitments, any legal & other claims on entity.
Completeness	1. Obtain list of all provisions & compare them with balances in ledger. 2. Obtain written representation from mgt that it has made all provisions which were required to be made as per recognized accounting principles.
Valuation	1. Obtain underlying working & basis for each of provisions made & verify same is complete & accurate. 2. Obtain expert's report cal ⁿ & underlying working for provision amount. Request for assessment made by legal expert in relation to likelihood of liability devolving on entity.

3G***Balance Sheet Captions: PPE***

2023 - Nov [1] {C} (e)

State with reasons whether the following statements are correct or incorrect
Under 'finance lease' lease term generally extends to less than 75% of the
projected useful life of the leased asset. (2 marks)

3F***Balance Sheet Captions: Inventories*****2023 - Nov [3] (b)**

Narrate the audit procedures to be performed by an auditor in order to ascertain that the Raw materials and consumables are valued appropriately and as per generally accepted accounting policies and practices.(4 marks)

3C***Balance Sheet Captions: Borrowings*****2023 - Nov [4] (b)**

How is "Short Term Borrowings" disclosed in the Financial Statements as required under Part I of Scheduled III to the Companies Act, 2013?

(4 marks)

Chapter - 7 : Completion and Review**2*****Meaning of Going Concern and its Significance (SA 570)*****2023 - May [5] (a)****Answer:**

Assuming use of going concern Basis of Accounting is Appropriate, but a Material Uncertainty Exists:

The identification of material uncertainty is a matter that is important to user's understanding of the F.S. The use of a Separate Section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance:

(1) Adequate Disclosure of a Material Uncertainty is made in the Financial Statements:

If adequate disclosure about the material uncertainty is made in the Financial Statement the auditor shall express an unmodified opinion, and the auditor's report shall include a separate Section under the heading "Material Uncertainty related to Going Concern."

(2) **Adequate Disclosure of a Material Uncertainty is not made in the Financial Statement**

If adequate disclosure about the material uncertainty is not made in Financial Statement the auditor shall:

- (1) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 and
- (2) In the Basis for qualified opinion Section of the auditor's report state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as going concern and Financial Statement do not adequately disclose this matter.

5

Significance of Communication with Those Charged with Governance (SA 260)

2023 - Nov [5] (d)

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, explain the areas of concern that an auditor should take into account. (3 marks)

Chapter - 8 : Audit Report

7

Communicating Key Matters in the Independent Auditor's Report (SA 701)

2023 - May [1] {C} (b)

Answer:

Incorrect: Communicating key audit matter is a requirement of SA 701 to provide additional information about significant matters in the audit process. It does not represent separate opinions on individual matters.

12

**Reporting Under the Companies Auditor's
Report Order, 2020 (CARO, 2020)**

2023 - May [4] (b)

Answer:

As per Clause (ix) of CARO, 2020, reporting requirements in case of default by the company in repayments of borrowings would be:

- (a) Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:-

Nature of borrowing including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks , if any
	Lender-wise details to be provided in case of				
	defaults to banks, financial institutions and Government.				

- (b) Whether the company is a declared wilful defaulter by any bank or financial institution or other lender.
- (c) Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported.
- (d) Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated.

5

***Modifications to the Opinion in the
Independent Auditor's Report (SA 705)***

2023 - May [5] (c)

Answer:

In following cases auditor shall modify the opinion in auditor's report:-

1. The auditor concludes that, based on the audit evidence obtained, the F.S. as a whole are not free from material misstatement or.
2. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the F.S. as a whole are free from material misstatement.

There are 3 types of modified opinions:

- (1) Qualified (2) An adverse (3) A disclaimer

Nature of Matter Giving Rise to the Modifications	Auditor's judgement about the Pervasiveness of the effects on possible effects on the F.S.	
	Material but not pervasive	Material and Pervasive
Financial Statement are materials misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence (SAAE)	Qualified opinion	Disclaimer of opinion

The decision regarding types of opinion depends upon:

- (a) The nature of matter giving rise to the modification, that is whether the F.S. are material misstated or in case of an inability to obtain SAAE may be material misstated &
- (b) The auditor's judgement about pervasiveness of effects or possible effects of the matter on the F.S.

7***Communicating Key Matters in the Independent Auditor's Report (SA 701)*****2023 - Nov [2] (a)**

Answer the following questions:

M/s ABC & Associates, statutory auditors of Opaque Ltd., are in the process of finalizing the audit report of the company but in view of their inability to obtain sufficient appropriate audit evidence, they would like to disclaim their opinion on the financial statements. Explain reporting responsibilities of M/s ABC & Associates pursuant to SA 700(Revised). How they will address key audit matters section in accordance with SA 701 when they are expressing disclaimer of an opinion on the financial statements? (4 marks)

4***Auditor's Report Prescribed by Law or Regulation*****2023 - Nov [2] (d)**

Answer the following questions:

As per Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 auditor's report should state whether the accounting software used for maintaining its books of account has a feature of recording audit trail (edit log) facility. What are the reporting requirements under Rule 11(g)?

(3 marks)

12***Reporting Under the Companies Auditor's Report Order, 2020 (CARO, 2020)*****2023 - Nov [3] (a)**

UVW Ltd. A biopharma company and global manufacturers of select critical care medical products, has been sanctioned working capital limits of ₹ 5.99 crores from a nationalized bank on the basis of security of current assets.

During the year under audit, the statutory auditor of UVW Ltd. considers that inventory is material to the financial statements and performs audit procedures over the company's final inventory records to determine whether they accurately reflect actual inventory count and without any major discrepancies for each class of inventory. What are the reporting requirements under CARO 2020 in this case? (4 marks)

8

Standard on Auditing 710, Comparative Information- "Corresponding Figures and Comparative Financial Statements"

2023 - Nov [4] (d)

The nature of the comparative information that is presented in an entity's financial statements, depends on the requirements of the applicable financial reporting framework. There are two broad approaches to the auditor's reporting responsibilities in respect of such comparative information. Mention those two approaches and also mention the essential audit reporting differences between the two. (3 marks)

3

Auditor's Report

2023 - Nov [5] (b)

The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements". Give a brief description about management's responsibilities in the auditor's report as it helps to explain the users the premise on which an audit is conducted.

Also state the requirement specified in Standard on Auditing 210 for the auditor to agree management's responsibilities. (4 marks)

Chapter - 9 : Special Features of Audit of Different Types of Entities

13

Audit of Co-Operative Societies

2023 - May [1] {C} (g)

Answer:

Correct: As per State Act-Co-operative Society are required to annually contribute some amount to education funds such contribution is considered as a charge not appropriation.

2023 - May [5] (Or) (b)

Answer:

Section 72 of the Multi-State Co-operative Societies Act, 2002 states that a person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can only be appointed as auditor of Multi-State co-operative society.

Considering the facts given in the question, the following persons are not eligible for appointment as auditors of a Multi-State co-operative society-

- (a) An officer or employee of the Multi-State co-operative society.
- (b) A person who is a member or who is in the employment, of an officer or employee of the Multi-State co-operative society.

If view of above, CA, Z being officer of Multi State Co-operative Society is not eligible for appointment as Auditor and therefore proposed appointment of CA Z is not valid.

1

Government Audit

2023 - May [6] (b)

Answer:

Performance audit: The scope of the audit has been extended to cover efficiency, economy and effectiveness audit or performance audit, or **full scope audit.**

Efficiency audit: looks into whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them, i.e., the relationship between goods and services produced and resources used to produce them; and examination aimed to find out the extent to which operations are carried out in an economical and efficient manner.

Economy audit: looks into whether the government has acquired the financial, human and physical resources in an economical manner and whether the sanctioning and spending authorities have observed economy.

Effectiveness audit is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives as well as efficiency of the means adopted for the attainment of the objectives.

Efficiency: cum-performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

6***Audit of Charitable Institution*****2023 - May [6] (d)****Answer:**

- (1) Check the day to day administration exp. Incurred along with necessary vouchers.
- (2) Verify whether expresses incurred are in conformity with budgets prepared internally or filed with relevant authorities.
- (3) Check the amount spent on provisions of Various items with reference to bills etc.
- (4) See the whether heavy expenditure has been incurred on the renovation etc. the same is accounted for properly.

1***Government Audit*****2023 - Nov [1] {C} (a)**

State with reason whether the following statement is correct or incorrect. The relationships between individual financial statements items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or other non-business public sector entities.

(2 marks)

3***Audit of Non Governmental Organisations
(NGO's)*****2023 - Nov [1] {C} (b)**

State with reason whether the following statement is correct or incorrect. NGOs registered under the Companies Act, 2013 are not allowed to maintain accounts on cash basis.

(2 marks)

1***Government Audit*****2023 - Nov [1] {C} (g)**

State with reason whether the following statement is correct or incorrect. In government expenditure audit, audit against provision of funds aims at ensuring that each item of expenditure is covered by sanction, either general or special, of the competent authority.

(2 marks)

7***Audit of Educational Institutions (School,
College or Universities)*****2023 - Nov [6] (a)**

CA Z is appointed as the auditor of Chanakya Open University which offers higher learning educational courses through the Distance Mode of Education. Discuss four steps involved in his audit of other receipts/grants and donations received by the University.

(4 marks)

3

**Audit of Non Governmental Organisations
(NGO's)****2023 - Nov [6] (Or) (a)**

On 1st May 2022, NGO has been founded with the objective of disaster relief registered under section 8 of the Companies Act, 2013. In addition to corpus contribution, substantial foreign contributions also have been received by NGO. You have been appointed as the first auditor of the said NGO for the F.Y. 2022-23. While planning the audit of NGO which points you will focus upon? Mention any four such points. (4 marks)

Chapter - 10 : Audit of Banks

7

Computation of Drawing Power**2023 - May [6] (c)****Answer:**

Drawing power: It is the actual amount that borrower can currently withdraw or utilize from sanctioned credit limits.

Sanctioned limit: It is the total credit limit approved by the lender for the borrower, representing maximum amount of funds that can be made available.

It is important for the borrower to manage their utilization and keep track of their drawing power to ensure compliance with terms and conditions of credit facility.

- (1) **Bank's Duties:** Ensure the drawing in working capital account are covered by adequacy of current assets. Stock statement relied upon by banks for drawing power should not be older their 3 months.
- (2) **Auditor's Concern:** Statement quarterly returns & other statements submitted by borrower to bank should be scrutinized in details.
- (3) **Computation of DP:** DP is calculated as per extant guidelines formulated by BoD of respective bank.

- (4) **Stock Audit** : Stock Audit should be carried out by bank for all account having funded exposure of more than ₹ 5 Cr. Branches should obtain the stock audit report from the lead bank in cases where the bank is not leader of the consortium of working capital.

Chapter - 11 : Ethics and Terms of Audit Engagements

15***SA 220- Quality Control for an Audit of Financial Statements*****2023 - Nov [2] (c)**

Answer the following questions:

The engagement partner shall form a conclusion on compliance with independence requirements that apply to an audit engagement. State the relevant requirements as per relevant SA 220- Quality control for an audit of Financial Statements. (3 marks)

15***SA 220- Quality Control for an Audit of Financial Statements*****2023 - Nov [6] (c)**

An auditing firm should monitor compliance with quality control policies and procedures. Discuss the purpose of this. (3 marks)

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