

MEPL CLASSES

INTER – AUDIT

CARO AUDIT REPORT SA 560 SA 315 SA 500

TIME ALLOWED – 1 HOURS

1) What is meant by sufficiency of Audit Evidence? Explain the factors affecting the auditor's judgement as to the sufficiency of audit evidence. (1+4)

2) Bright Motors Ltd. is a company engaged in automobile spare parts trading. The audit for the year ended 31 March 2025 is being conducted in accordance with the standards issued by the Institute of Chartered Accountants of India.

The auditor, Mr. Amit, completed most of the audit work by 20 April 2025. The audit report was planned to be signed on 30 April 2025.

Before signing the report, the following events came to Mr. Amit's notice:

A) On 10 April 2025, a major customer of the company became insolvent and was unable to pay ₹8 lakh.

B) On 18 April 2025, a fire broke out in the warehouse causing heavy damage to inventory.

Qi) What are subsequent events as per SA 560?

Qii) What is meant by adjusting events and non-adjusting events?

Qiii) What is the auditor's responsibility in the above case (1+2+3)

3) Star Electronics Ltd. is a company engaged in manufacturing and selling mobile accessories. The audit for the year ended 31 March 2025 is being conducted as per the standards issued by the Institute of Chartered Accountants of India.

The auditor, Mr. Rohan, is planning the audit and wants to understand the company and its environment as required under SA 315.

During his preliminary review, he observed the following:

- The company recently introduced a new accounting software.
- There is frequent change in accounting staff.
- Sales have increased sharply in the last three months of the year.

- Internal controls over inventory and cash handling are weak.
- The company gives credit to customers without proper verification.
- Management pressure is high to show higher profits.

Mr. Rohan now needs to identify and assess the risk of material misstatement under SA 315.

Qi) What is meant by risk of material misstatement?

Qii) Which area is likely to have high inherent risk in this case? Give reasons.

Qiii) How does frequent staff change affect audit risk?

Qiv) What audit procedures should Mr. Rohan perform for weak inventory controls?
(1+2+2+2)

4) Explain any 3 clauses of CARO from the below mentioned :

a) Fixed Assets B) Statutory Dues C) Loans , Investments , Guarantee and Security
D) Related Party Transaction. (7)

5) What is the importance of management representations in forming an opinion?
When an Auditor should express Qualified Opinion. (3+2)