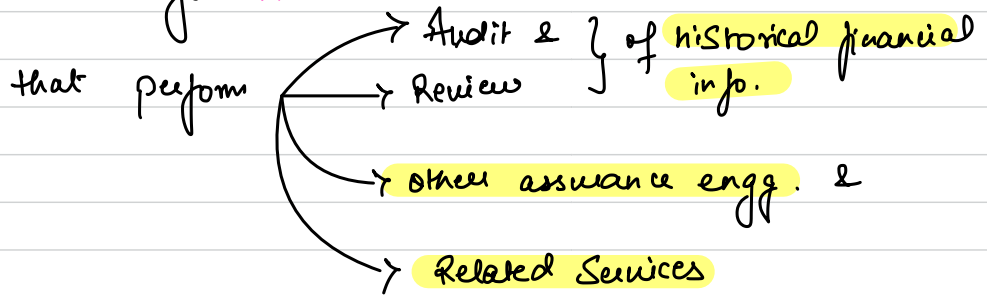


CA Final Audit Marathon

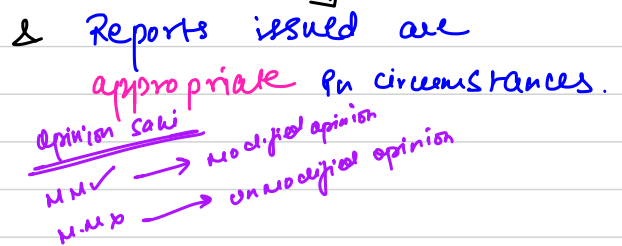
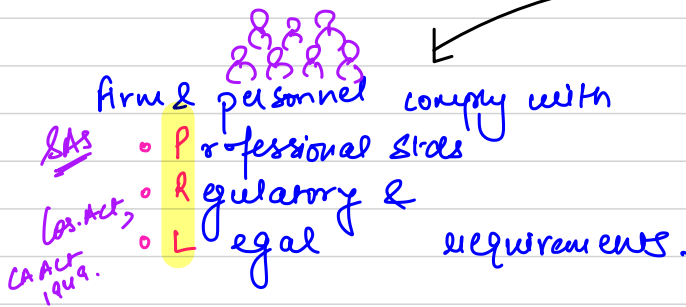
SQC-1, Quality control for firms



+ SA 220, "Quality control for Audit of Fs"

Firm → should have a System of Quality Control →

to get R.A



Leadership Responsibility

Firm (SQC-1)

• Firm should have policies & procedures to promote internal culture of quality.

• Firm's CEO/Managing partner will take ultimate responsibility for Q.C.

• encourages inner culture that recognise high quality work.

Person with operational resp. should have experience, ability & authority.

Audit (SA 220)

• Engg. Partner is responsible for quality of audit

Actions & msgs of E.P. → to other members emphasise:

- a) Importance of quality of:
 - i) Performing work as per PRL requirements
 - ii) Comply with Q.C. P.P. (Andarwali)
 - iii) Issue A/Report appt. in circumstances.
 - iv) Engg. Partner's ability to raise concerns without fear of reprisal. (punishment)

Q
Koun?
Kaise?
A.B.B. congrats!
Kous!
Team spotligh

Queries?

Considerations → Uphold ^(prioritise) Quality of firm.

i) Firm's personnel P&P designed to demonstrate commitment to quality
show

ii) Firm devotes sufficient resources for development & documentation of P&P.

iv) Before accepting obtain vital info. about client.

iii) Firm assigns its mgr responsibility that

Commercial considerations

↓
 don't over ride → Quality of work?

- What? }
 • Ethical requirements
 • CCTR (Competence, Capabilities, Time & Resources)
 • Integrity of client. (Honesty)

Question 1

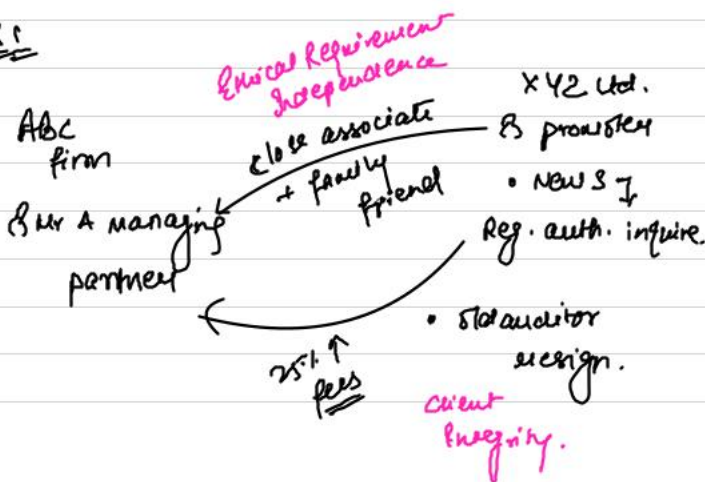
ABC & Associates, Chartered Accountants has a policy to accept the clients wherein the risk evaluation is conducted with respect to the Company and the promoter. XYZ Limited approached ABC & Associates. Promoter of XYZ Limited is a close associate and family friend of Mr. A, Managing Partner of ABC & Associates. XYZ Limited is in news in the previous year for certain inquiries from the regulatory authorities in relation to certain matters. The existing auditor of XYZ Limited has resigned and has created a casual vacancy. XYZ Limited is ready to offer 25% more than the existing fees and has approached ABC & Associates for appointment as Auditor. Mr. A has strong recommendation to the Firm to accept the audit.

① What is your understanding of the functioning of the tone at the top of the Firm ABC & Associates, Chartered Accountants? What are the considerations one should exercise to uphold Quality of the Firm?

Quality
 poor quality
 mgr

(SM)

Ans:



Ans. As per SOC1 firm should establish system of quality control, to provide reasonable assurance that firm & personnel comply with Professional standards, Regulatory & legal requirements.

- firm's business strategy should have overriding commitment to quality.
 - In given case commercial considerations are overriding factor.
 - Managing partner of firm is close associate & family friend of promoter. This affects independence of partner.
 - Inquiries from regulator & resignation of previous auditor raises question over integrity of client.
- ∴ There's lack of quality control at top of firm.

Considerations to uphold quality of firm: [Direct Ans. written above]

Independence Policy

Why? To get R.A. → that firm/personnel including experts maintain independence.

What to do?

- Communicate independence requirements to personnel.
- Identify & evaluate circumstances & relationships / breaches creating threats to independence. (complex) shares purchase
- Take appropriate action to • Eliminate / Reduce threat to acceptable level or
 - withdraw from engg.

• for listed entities → EP rotate office 7 years.

Info.? ⇒ Decide regarding ^{1st time} Acceptance / ^{subsequent} continuance of client relationship & engg.

- Significant matters arisen during ^{C.Y.} or ^{previous} audit engg. [eg sig. difficulties | sig. risks (fraud / R.P. transⁿ etc)]
- Compliance with ethical requirements. [COI Professional ^{C.20.C.} _B]
- Competence (including capabilities, time & resources) to perform engg.
- Integrity of principal owners, key mgmt & TCoY of entity.

NOTE: If any issues identified & firm decides to accept / continue, then document how issues were resolved.



Ans 4) As per SOCT & SA220, a firm before accepting an engg. should acquire info. about client.

this includes:

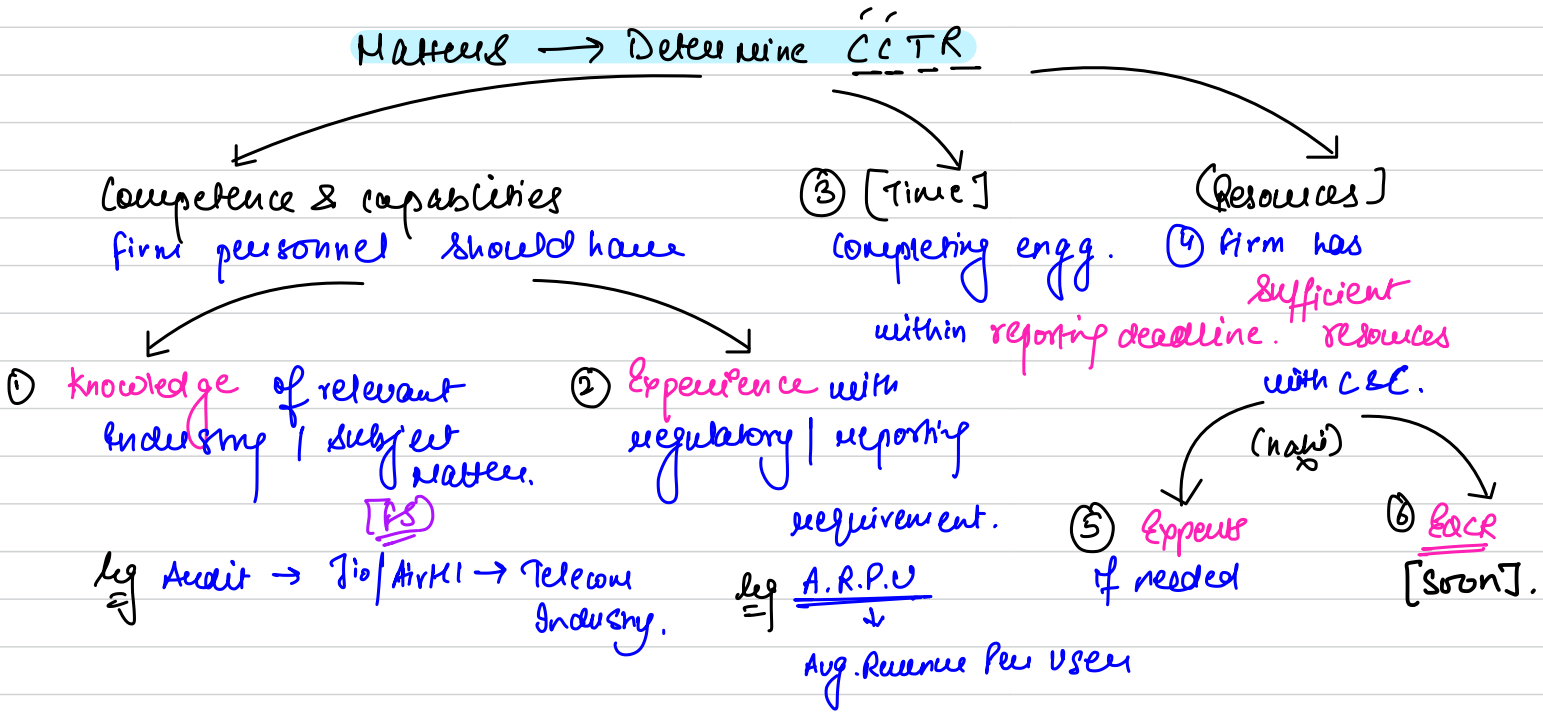
- Significant matters that arose in current / previous audit engagement.
- Compliance with ethical requirements.
- Competence (including capabilities, time & resources)
- Integrity of client, mgmt & TCoY.

⇒ where issues identified & firm decides to accept / continue with client, document how issues were resolved.

In given case: ◦ Search by Tax Authorities & seizure of all records raises question over integrity. Evaluate RMM due to non-disclosure of tax liabilities / disputes.

- There's also risk of transfer of CA's funds to political party.
- Sr. mgr who works on engg is providing accounting services to associate companies, this can affect independence & ethical requirements (objectivity).
- POR & Associates is yet to recruit another Sr. mgr with experience, affecting competence & capability to perform the engg.

Integrity points from the Book



Question 4b

SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D and associated regulatory frameworks. The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery.

In light of SQC 1 and SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality and professional standards? (RTP Sep'25)

[Auditor]

SBC & Associates

- Lack Experience
 - ↳ R&D industry
 - ↳ Regulations

- Time pressure.



[client]
Neuronix Ltd

- listed
- R&D - complex operations
- last Auditor Resigned [LOS].

Right? —

Ans Info. Accepting / Continuing Engg [SEC]

CCTA

- Knowledge → industry
- Experience → Regulatory / Reporting.
- [Time] Deadline
- Sufficient Resources
 - ↳ EXPERTS
 - ↳ EOCR.

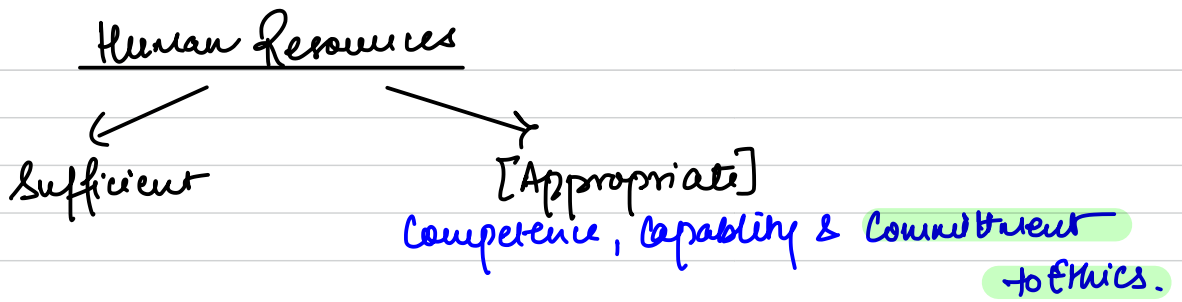
Conclusion:

- Engage Experts / EOCR.
- ↳ Reason for withdrawal

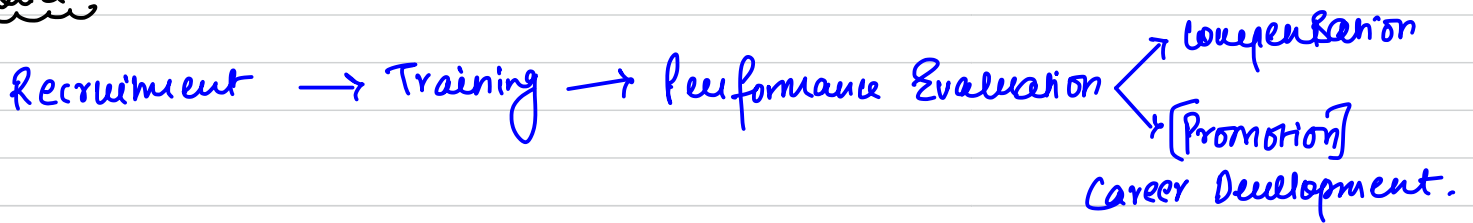
withdrawal [Breakup] (Nov '22)



⇒ [Book]



policies:



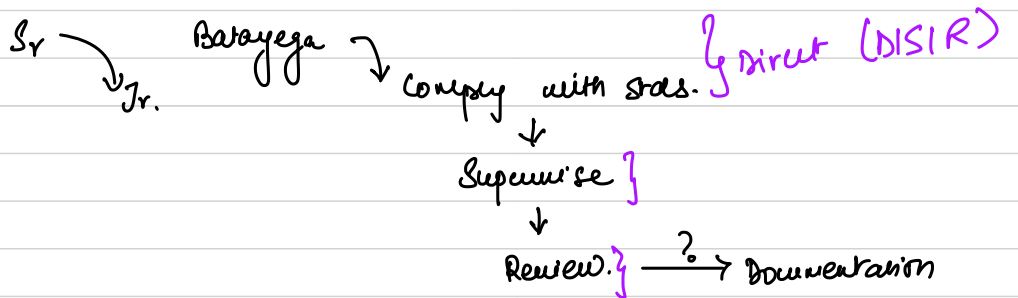
P&P for Engg. Partners [Sep'25]



- 1. Competence, Capability ⊕ Authority & Time
- 2. Communicate [Responsibilities] → to EP.
- 3. Communicate [Identity & Role] → to mgt & TCWG

Engg. Performance

Consistency in quality of engg. performance, achieved through:



- ① Briefing of ET of their objectives.
 - ② Complying with standards.
 - ③ Engg. supervision & training.
 - ④ Reviewing performance of work.
 - ⑤ Proper documentation of work performed
- processes for

Consultation (Z) → matters?
 easy x
 Debatable / Prov. / Cont. Liab.
 Difficult / Contentious matters
 From whom? Individuals with expertise [within / o/s firm]

Engg. Performance (EP)
 ① Responsibility Engg. Partner.
 E.T. (Engg. Team)
 Sr. Article Intern, A2, A3, Executive Mgr., Director
 ② D/SIR → ? → Audit Documentation
 Direct Supervisor Review
 Procedure, Evidence, Conclusion
 ④ Difficult / Contentious matters → Consultation.

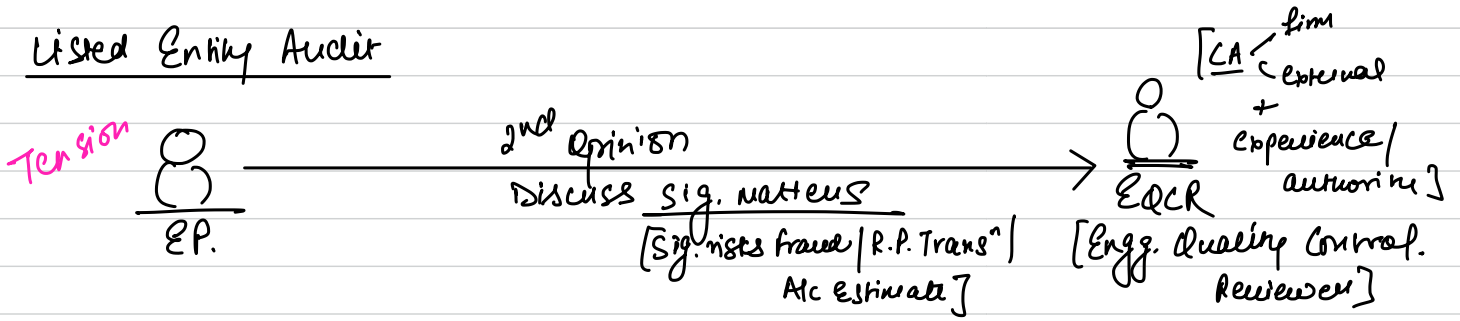
Sr. → Jr. → Review?

Sr.
 ① [Basic] P.R.L Requirement (Tough) → i) Sig. matters raised for further consideration
 Reviewed?
 Jr.
 ii) Appr. consultations taken place [D/C matters]
 iii) SAAE?
 iv) Revise NTE of Audit procedure
 (vi) conclusion?
 (vii) [opinion] objective achieve?

Spl. case: Relying on work of
 Other Auditor [eg C.F.S. Auditor → Sr. Auditor of Subsy.]
 Auditor Expert [eg Tax litigation]
 • Exercise skill & care & not aware of any reason to not rely.
 Carefully D/SIR the work performed
 obtain R.A. that work of other auditor/experts is adequate.



Listed Entity Audit

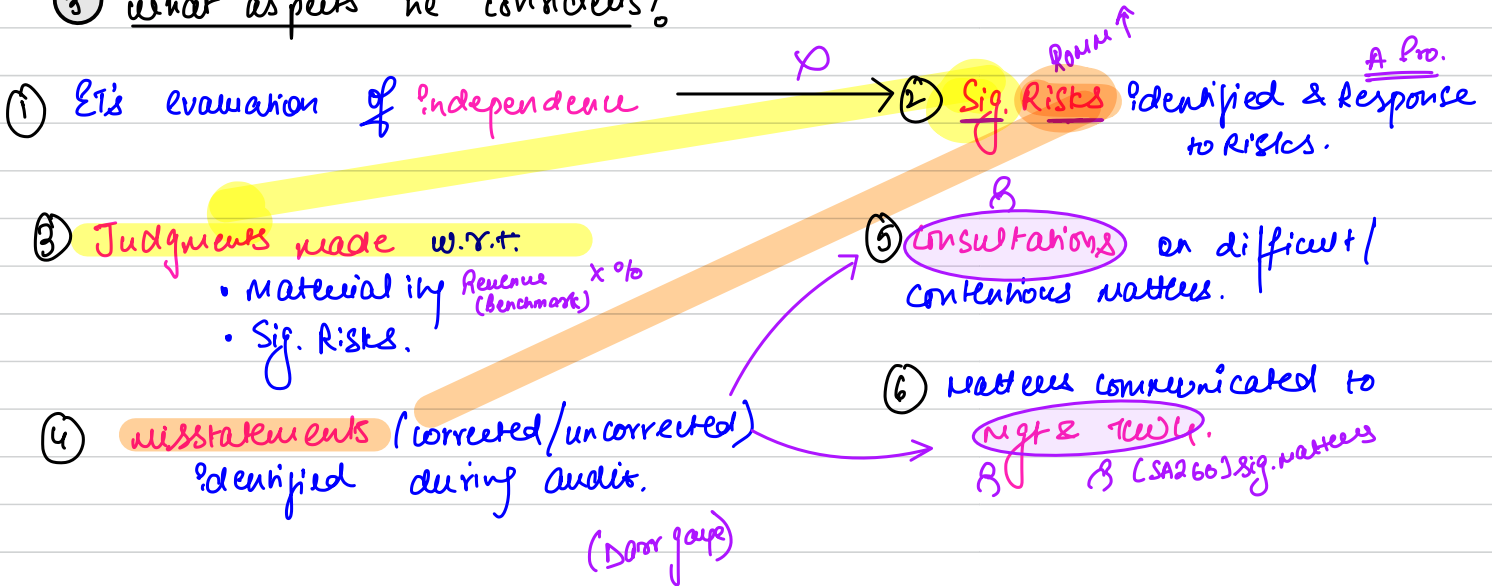


Engg. Quality Control Review [EQCR]

- ① Who?
 partner, any other person in firm [CA → member of ICAI]
 or
 qualified external person or team of individuals.
 (+)
 Also has, Experience & authority [Exp. → Auditing listed entities]

- ② what he does? To objectively evaluate **biases** check
 ↓
 Sig. judgments [by Atc policy / Estimate] that E.T. made.
 & conclusions reached.

③ what "aspects" he considers?



4 Documentation by EQCR

- ① Procedures performed.
 ② EQCR was completed before Atc is issued.
 ③ Not aware of any unresolved matters.
 to believe Sig. judgments & conclusions were not appropriate.
 negatively worded

5 who's responsible to get EOCR done?

E.P.s responsibility [listed Entities + others]

- ① EOCR is appointed
- ② Discuss significant matters with EOCR.
- ③ Not date ^{sign} ATR until completion of EOCR*

* As per SA 700, audit report can't be dated unless auditor obtained SAAE, EOCR assists the auditor to conclude if SAAE obtained.

④ If there's "difference of opinion" b/w EP & EOCR

↓
follow firm's PEP

eg consulting another practitioner / firm / professional or regulatory body.

6 How to ensure EOCR's objectivity?

(I)

Appointment

i) Not selected by E.P.

(II)

Participation

ii) Not participate in Engg => iii) Not make decisions for ET.

(general) iv) Not subject to other consideration that can threaten objectivity. [EOCR client co. shareholders]

Note: EP may consult EOCR, but it should not affect his objectivity

01/15/17

Engg. Documentation (ED)

$\frac{O}{A_1}$ $\frac{O}{A_2}$ $\frac{O}{A_3}$ $\frac{O}{A_4}$ $\frac{O}{\text{Executive}}$ $\frac{O}{\text{Ngr.}}$
 ED + ED + ED + ED + ED + ED => file

Assembly of file [SOCT]

timely basis

Audit. → 60 days from date of ATR.

Spl. case

Auditor

→ Subsy FS audit

ATR → Parent Co. [consolidation]

ATR → R.O.C filing } 60 days count?

Dono cases for Uye → along along 60 days nitenge

Retain? ^[CATH] 7 years from date of A/R or group A/R (if later)
[CFS → A/R]

ownership of E.D.? Engg. documentation is property of firm.

- firm "may" at its discretion
 - can share portions/extracts
 - with the client.

But it should not

undermine validity of work or Independence for assurance engg. performed.

Electronic & Physical form of documentation [ATP Mar '24 / RTP Jan 25]

As per SOC-1, firm should have P&P to maintain: ^{& Name} change ^{Date/Time}
Confidentiality, safe custody, Integrity,

Accessibility & Retrievability of doc.

• If Engg. Soc. is in $\begin{cases} \text{paper} \\ \text{or} \\ \text{electronic form} \end{cases}$ the I/A/R of data → maybe compromised if any alteration/addition/deletion happens.

• for practical reasons, documentation in paper form is → electronically scanned

Procedures?

- Generate scan of entire content.
Scan₁: my scan mgr. scan
Scan₂: mgr scan my person scan
- Include it in engg. file, including Indexing & Sign off on scanned copies.
- Enable scanned copies to be retrieved & printed.
(download)

Monitoring [System of Q.C.]

[Purpose?]

① Decide whether Q.C. systems are **appropriately** designed & implemented.

"SA Boo Series"

↓ [update?]

② whether **new developments** for P.R.L requirements reflected in Q.C. P&P.

③ Resp.? B

How?

Giving responsibility to Partner/
other persons
having **experience & authority.**

④ Dealing with **complaints & allegations.**
against firm/employees for
non-compliance with PRL req.

Taking Action

⑤ B

against person who didn't
comply with Q.C. P&P.

⑥ system.

when deficiencies in
design/implementation of
System of Q.C.

SA 240: Auditor's Responsibilities relating to Fraud

in an Audit of FS. [Simple + Scoring]

① How ngr does fraud? → ② Auditor's Responsibilities

↓
③ Response to fraud.

Q What's primary responsibility for prevention/detection of fraud? ngr & twg

Fraud (2 types) → **Fraudulent financial Reporting** [mgt → Earnings/Expenses/Assets/Liabilities N]
→ **Misappropriation of Assets**. [employees → small thefts]

Techniques of Fraudulent financial Reporting (FFR)

i) **Manipulation** / **falsification** / **alteration** of A/c records / supporting documents.
maraki / jhoot / Baar Badalna

ii) **Misrepresentation** / intentional omission of Events / Transⁿ from FS

iii) **Misapplication** of a/c principles relating to A.C.P.D [Amt, classif., Pres., Disc.]

↓
Mgt. override of controls follows

Techniques: Mgt override of controls

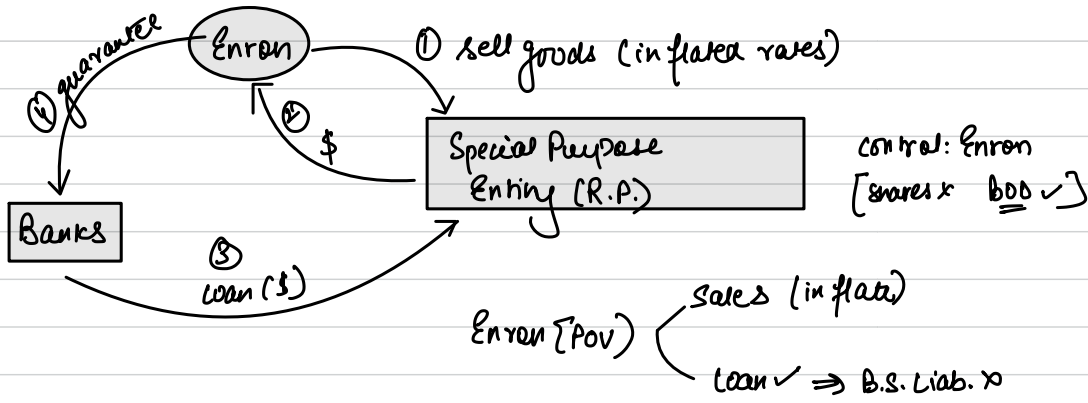
i) **Altering** records & terms of significant & unusual transactions. (Invoice/Agreements)

ii) **Fictitious JE's** close to end of A/c period to manipulate profits. (Fictitious purchases/sales)

iii) Inappropriately **adjusting** **assumptions** / judgments for **A/c estimates**. (Provision for penalty)

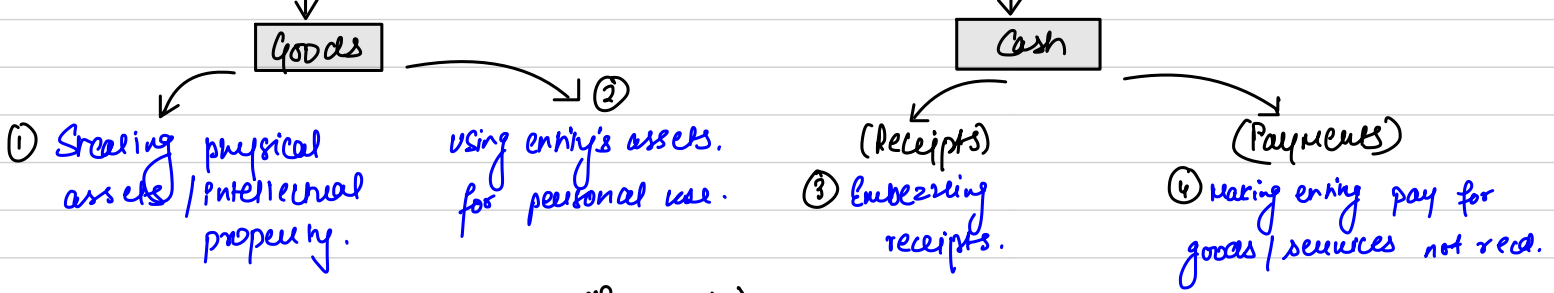
iv) **concealing** / not disclosing **facts** that could affect FS. amounts. (legal case)

v) **complex transⁿ** to misrepresent financial **position (B.S.)** or **performance (P&L)**



Technique: Altering Significant: Alter → Records → Sig. transⁿ
 Fictitious JE → end of AIC period.
 Adjusting Assumptions → AIC Estimates.
 Concealing facts
 Complex transⁿ
 Transⁿ Events — Omit
 — Advance
 — Delay.

Techniques: Misappropriation of Assets.



Auditor's Responsibility
 OTHER MATTERS
 • Fraud (Mgt collusion)
 • R.P. (R-transⁿ)
 • NOCLAR
 • a.c.

① obtaining R.A. that AS are free from M.M. (due to fraud or Error)
 ② Due to SLA, there's unavoidable risk that some M.M. may not be detected even though audit done as per SAS.

Risk of not detecting M.M. from

③ Fraud > Errors
 ∴ fraud may involve sophisticated & carefully organised schemes to conceal it.

④ Mgt fraud > Employee fraud.
 ∴ mgt can manipulate all records / override controls.
 e.g. Approve fictitious payments. (Mgt RASHEK (Bhaskar))

⑤ (kya karen?) Maintain professional skepticism. [shak]

(sabpe shak?)

(nahi)

(sirf jaha need hai)

• May Accept Records / docs as genuine.

• Investigate

Document is unauthentic / modified

Responses to inquiries of mgt are inconsistent.

Fraud Risk factors (Auditor) Indications / (Mgt) Reasons → Fraud

Attitude / Rationalisation

Incentive / Pressure

Opportunity

Fraudulent financial Reporting

Misappropriation of Assets

Incentive / Pressure

Economic, Industry, operating condⁿ

3rd party Expectations / Requirements

Personal finance of mgt & ^{TCU}TCU

Economic

• Rapid changes (tech / int rates)

• New Atc / statutory requirements.

Industry

• High competition

• customer demand ↓
⇒ Business failures

• Rapid growth / unusual profitability.

Expectations

• Profit expectations (Analysts, Institutional Investors etc)

• Adverse effects of poor financial results on Bus. combination / contracts.

Requirements

• obtain debt / equity for R&D / cap. exp.

• Meet debt / listing exchange requirements.

① Sig. financial intt in Entity

② compensation contingent on

stock price / earnings targets.

③ Pressure to meet financial targets.

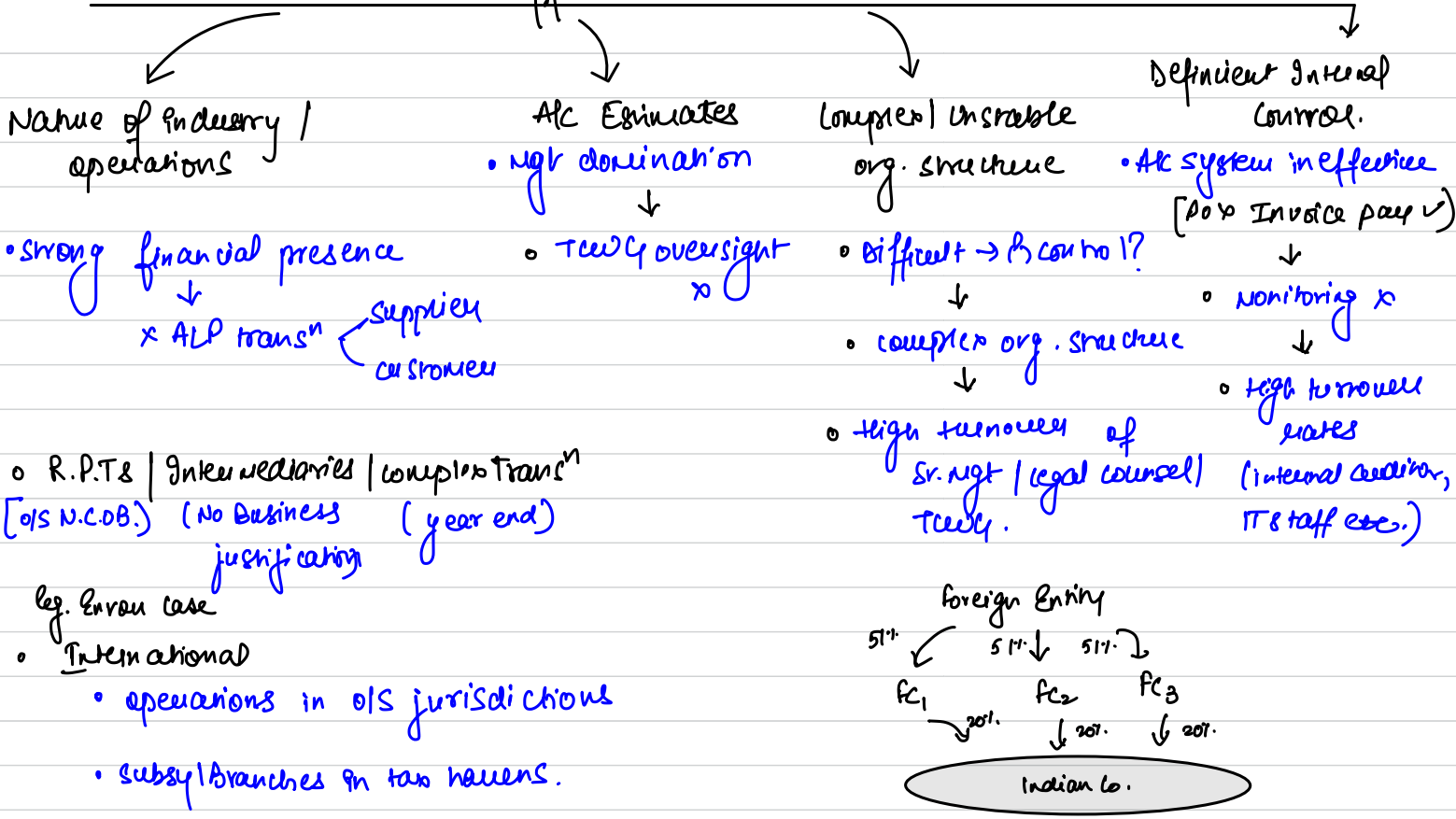
④ Personal guarantee of entity's debts.

operating

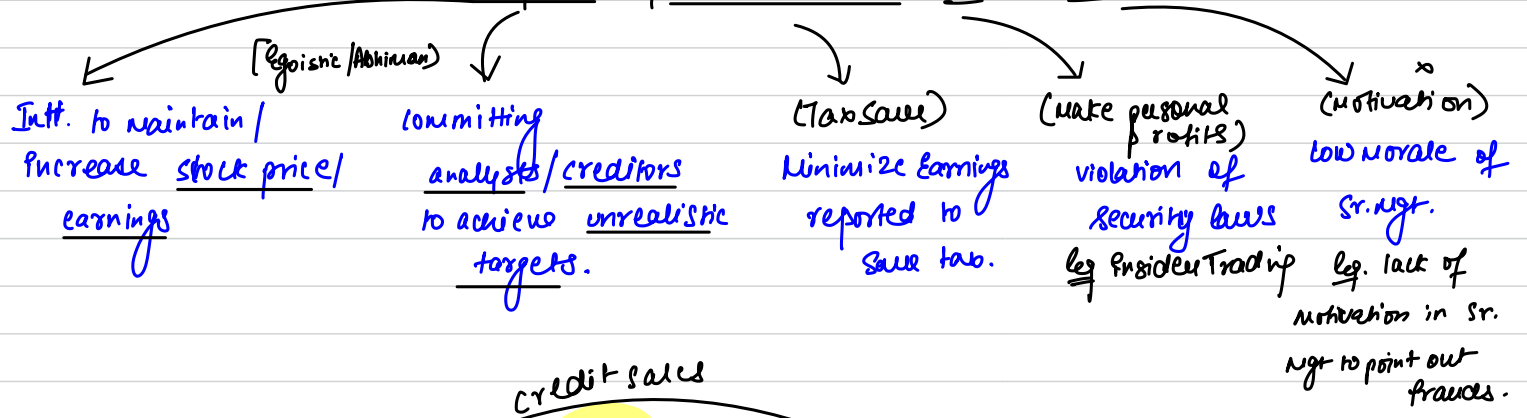
• operating losses.

• -ve cash flows.

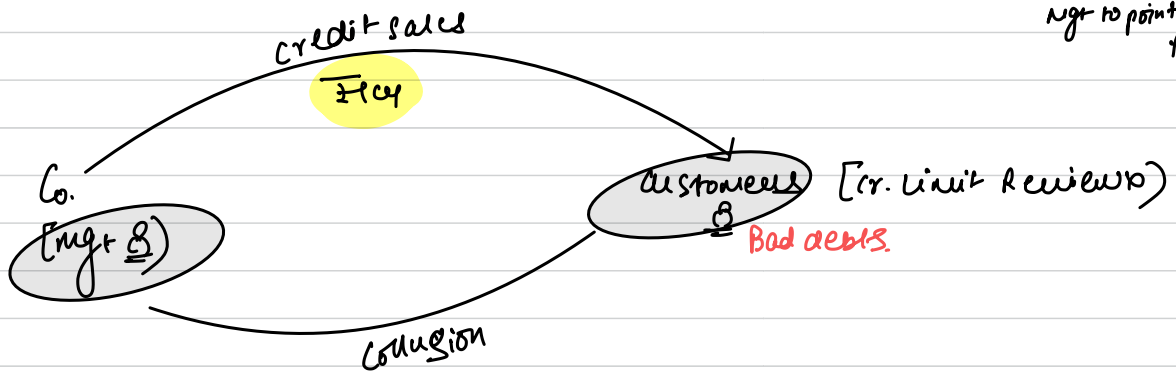
Opportunities



Attitude / Rationalisation (Fraud → purpose)



ANS 3



[Article]

Examples showing ^(kharab) Strained relationships b/w mgt & Auditor ^{Du-Re}

- Dominating mgt behaviour with auditor. Influencing scope, selection/continuance of auditor. ^(Took)
- Unreasonable demands on auditor. [Time constraints]
 2 weeks → complete [generally 2 months]
- Frequent disputes with auditor
- Restrictions on auditor. [Limit Access — people — Info. — T/Clg]

Fraud Risk Factors: Misappropriation of Assets

1. Incentive/Pressure: Personal financial obligation on employees / mgt having access to cash / other assets.

Adverse relation b/w entity & employees having access to cash / other assets.

Created by:

- ① changes to employee compensation
- ② promotion not as per expectations
- ③ Expected lay offs.

2. Opportunistic: eg
- large amounts of cash on hand
 - Inventory items: ↓ size, ↑ value + demand eg medicines
 - Fixed Assets: ↓ size, ↑ value, lack identification of ownership eg laptop/mobile
 - Convertible Assets: Bearer Bonds, diamonds, computer chips
→ cash eg i9, i7 processor.

Inadequate I.C.s over assets → Increase chances of misappropriation. ^(chsn)

Examples

- Inadequate
- Documentation of trans. eg credits for goods returned.
 - oversight of Sr. mgt expense. eg travel reimbursements.
 - physical safeguards over cash, inventory etc.
 - Record keeping w.r.t. assets. eg PAF/Inventory registers
 - segregation of duties / checks.



SOD

Chori kyu hui?

DOP Re nein SOD nahi hai

3. Attitude / Rationalisation

↓
Disregard for:

- Monitoring of risks
 - Internal control
- } over misapp of assets

↓
Behaviour

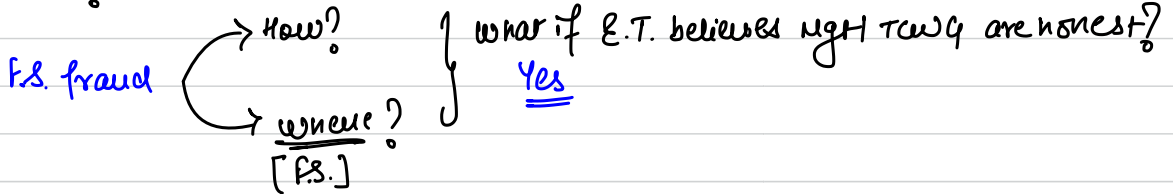
- of dissatisfaction with entity.
 - lifestyle changes, indicate assets misappropriated.
- ↳ Nano → Audi

↓
Tolerance for petty thefts.

Notes:

• fraud risk factors → Relevance for auditor? → Indicate ROMM due to fraud.

• E.T. discussion?



Q2-13

• Audit Procedures

1. Risk Assessment Procedures

Inquiry [mgt & others (IA Auditor/dates etc)]

(CFO)

• Understand → how TCW oversees



mgt process of

Identifying & Responding to fraud risk



& Internal controls to mitigate risk.

Analytical Procedures

Evaluation of Unexpected relationships.

[Sales 20% ↑ Shipping expense 10% ↓]



Re-negotiate

docs?

genuine?

Fraud

F.S. level

[Bigger manipulation]

• [Sr. mgt + multiple F.S. items]
eg fictitious revenue & R.P. frauds.

Assertion level

[Specific misstatements]

[Employee + single F.S. item]
eg steal inventory item

Responses to fraud at F.S. level [RTP Jan '26].

①

Evaluate Ac policies



related to subjective measurements Ac estimates



complex transactions



that whether it's F.F.R to manage earnings.

②

Include unpredictability in NTE of Audit Procedures.

③

Assign & supervise personnel considering

Knowledge Skill Ability of individuals.

eg Revenue / Inventory etc.



Risky Areas

Advice to Experienced

2min

AP On Personnel (SFA)

• Fraud → Assertion level

Change NTE of A. pro

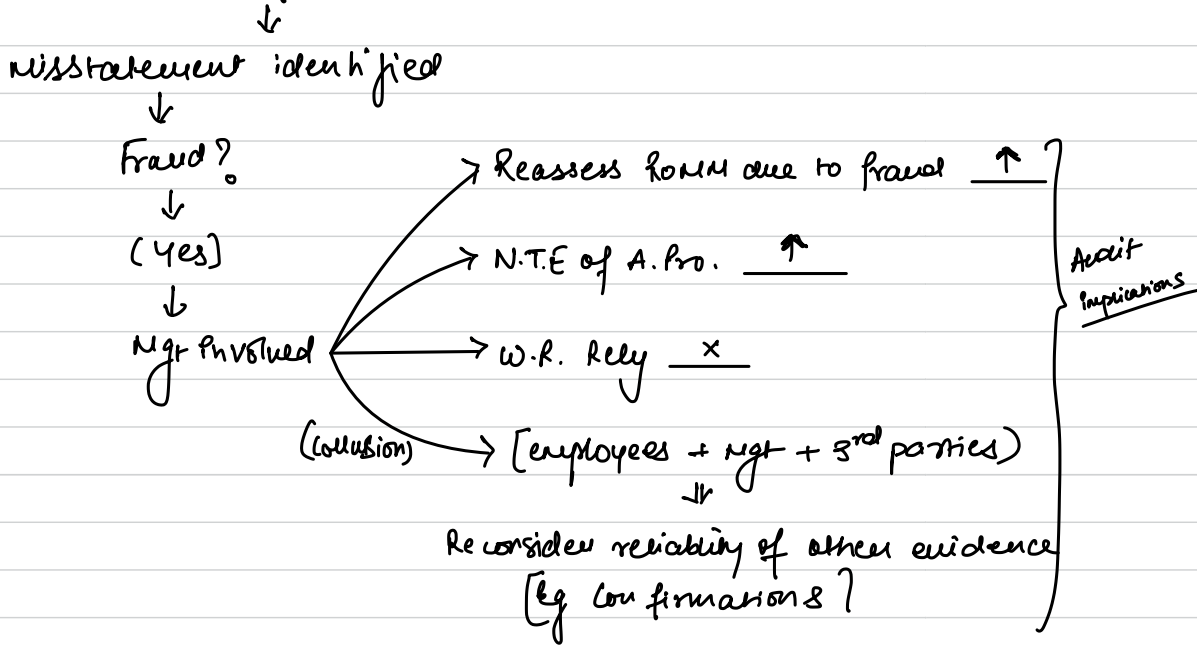
Relevant & Reliable AE
↑ corroborative info.

eg Sales contract changes

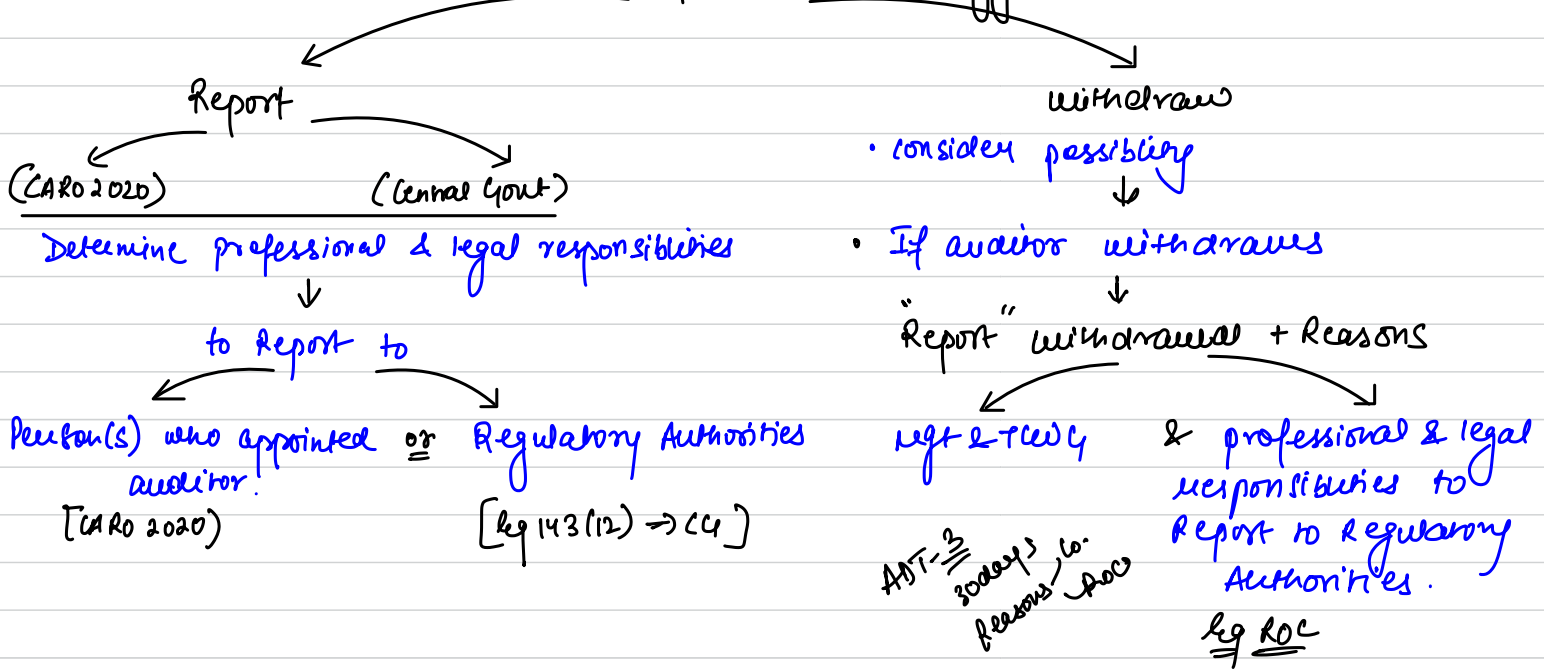
Pro.?
External confirmations

Inquiry non-financial persons (Sales).

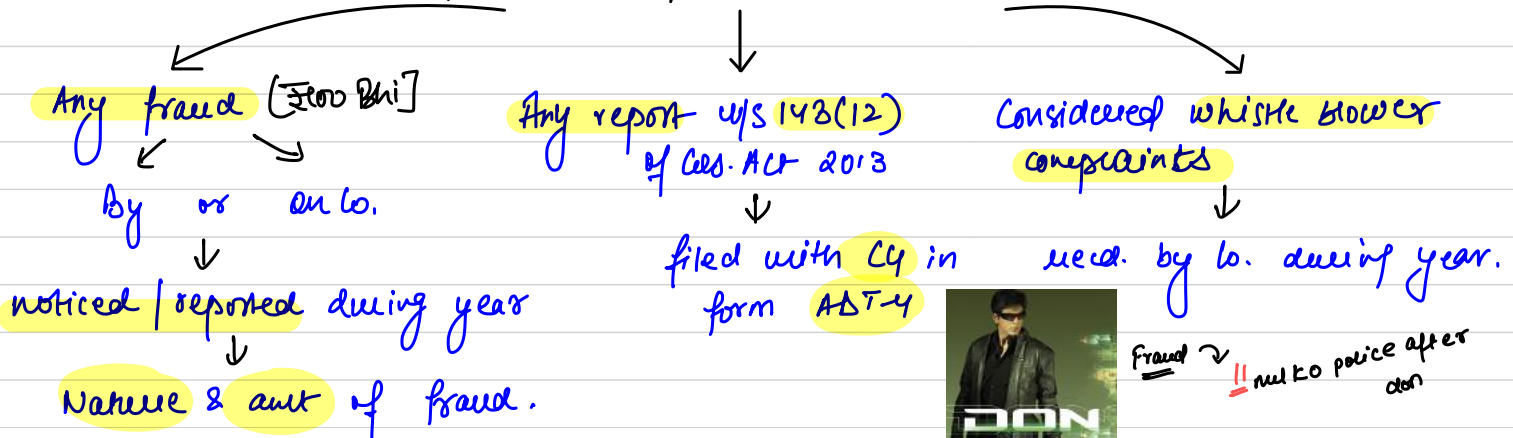
Evaluation of Audit Evidence



Unable to complete Audit Enngg



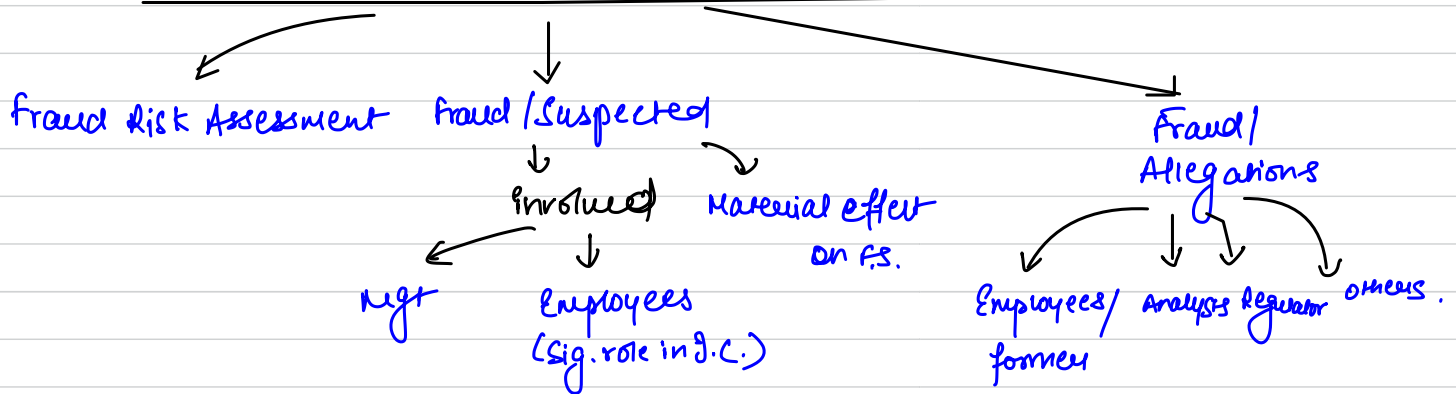
Clause (xi) of Para 3 of CARO 2020



Written Representation

• Mgt → DIM of IC → prevent & detect fraud

• Disclosed to auditor



Summary of SA240

① Fraud techniques

• **Fraudulent Financial Reporting**: Manipulation + Misapplication + Misrepresentation
 [A/c Records / supp. docs] [A/c Prin. → A/c PD] [Events / Transⁿ]

• **Mgt override of controls**: Altering Significant F A C T
 [Transⁿ → sig. transⁿ] [Fictitious J.E. (End of A/c period) + Assump. A/c Est. + Complex Transⁿ + (miscl. fees +)]

• **Misapp. of Assets**: Goods [steal / personal use] + Cash [Receipts embezzle + fictitious pay.]

② **Auditor Resp**: RA → ILA (Risk of MM detect x) → Fraud > Error → Mgt fraud > E.E. fraud
 → Prof step. → R/O genuine ✓ → Investigate [R/O manipulate + inquiry response inconsistent]

③ **Fraud Risk factors** [F.F.R + Misapp. of Assets] → Indicate ROMM due to fraud.

(Attitude
 Incentive/Pressure
 Opportunity) [taken from charts + Book]

④ **P.A.P.** [Inquiry (Risk & Controls) + Analytical Procedures]

⑤ **Responses to fraud** • **PS. level** [A/c Un Personnel]: A/c policy + Un predictability A/cro. + Personnel
 • **Assertion level**: Relevant & Reliable evidence or corroborative info. by sales contract: customer^{non-fin.} confirm / person inquiry
 • **Mgt override of controls**: J.E. testing + A/c Estimate (bias?) + Transⁿ o/s N.C.D.B. / unusual
 ↳ Business Rationale?

[S/K IA]

⑥ **Audit Evidence**: fraud ✓ → mgt involve ✓ → ROMM (fraud) + N.T.E of A.Pro. + W.R. Rely N + collusion [Other A.E. Rely N]

⑦ **Unable to complete Engg**: Report [B Appointment / Reg. auth.] + withdraw & report [mgt / team + Reg. auth.]

⑧ **W.R.**: DIM of IC + disclosed to auditor [Fraud risk Assessment + fraud / suspected]
 mgt involved / comm. by EE / Reg. / others

(R1E)

⑨ **Fraud Risk Presumption**: • Rebutted → Single Simple Revenue structure → Rental (single Property)
 • High fraud Risk → complex Revenue structure or lack of controls.

⑩ **Communicate to mgt & team**

⑪ **Document**: Decisions of PS. fraud + ROMM due to fraud (PS + Assertion level) → Responses + NTE of Pro. → Results + Communications [mgt, team, others]

⑫ **Addⁿ Reporting**: clause (ii) Para 3 CA02020 + [IC or above] Co's officers (E.E. ⇒ CC [sec 149(12)])

SA 250: Consideration of laws & Regulations (LIR)

In an Auditor of As.

Q Who has the responsibility to ensure entity complies with LIR?

mg + TCG. Auditor

Q What are policies & procedures entity implements
↓
company with L&RS? [Nov'20].

- Monitor legal requirements & ensure operating procedures designed to meet these requirements.
eg TDS deposit / Advance tax + GST
- Instating & Operating appt. system of Internal Control.
[Design] ↓ (general)
- Develop, publicise & follow a Code of conduct [specific]
[Emp. kosajham] ↓ [COC]
- Ensure employees are trained & understand COC.
↓
- Monitor compliance with COC.
↓
- Engaging legal advisors to assist in monitoring LIR requirements.
↓ [LIR applicable?]
- maintain Register of L&RS applicable to entity & record of complaints.

Q What is Auditor's responsibility?

Obtain R.A. that F.S. are free from M.M. due to Fraud or Error.
↓ [LIR]

Auditor considers applicable Legal/Regulatory framework of entity.

* Owing to "JLA" there's unavoidable risk that some M.M. may not be detected even though audit done as per SAs.

For LIRs ⇒ JLA to detect M.M. are greater because: (SM)

- There are many laws & regulations relating to operating aspects of entity that don't affect AS.
- Non-compliance may involve conduct designed to conceal it.
eg collusion, forgery etc.
- Whether Act is a non-compliance is decided by court of law.

Not captured by A/c system.

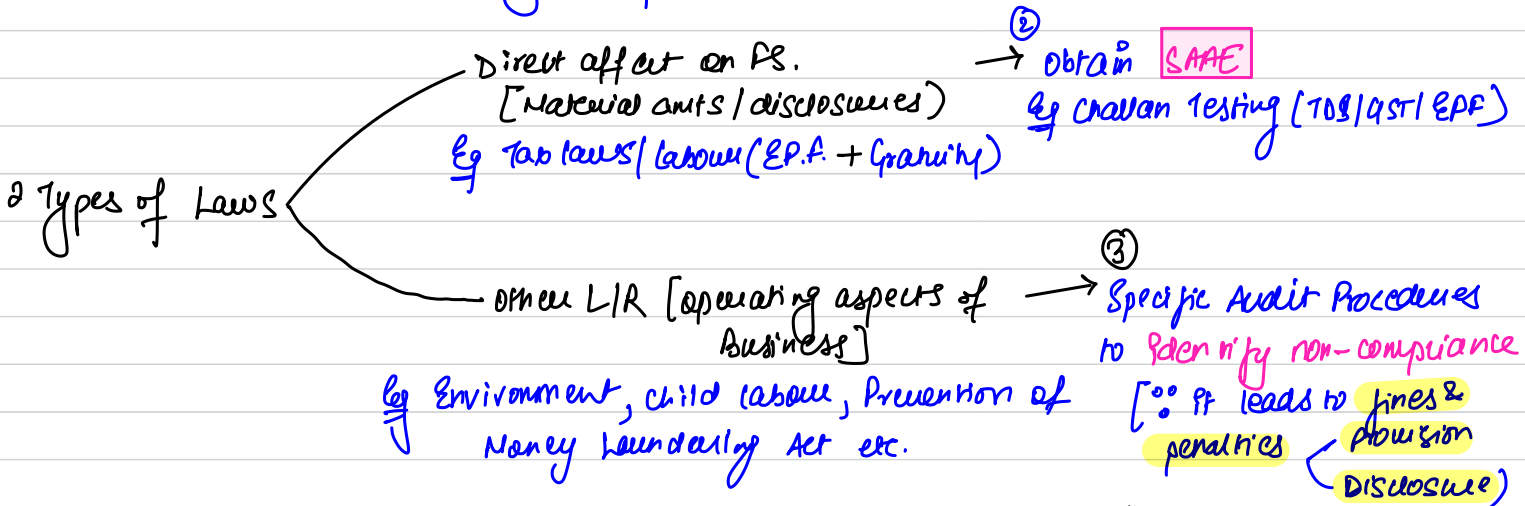
[2 mfn]

Audit Procedures

eg listed
SEBI

eg Jio/Airtel → Telecom
Indigo/Air India → Airline

- ① **Understand** • legal & regulatory framework of entity / industry
- How entity complies with framework.

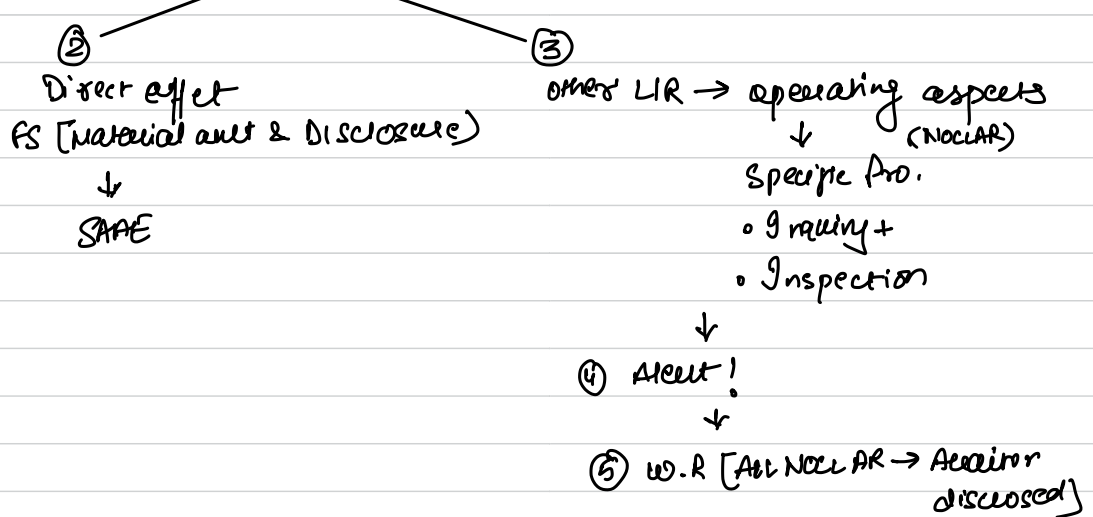


- Inquiry of mgt (+)
- Inspecting correspondence with regulatory authorities.

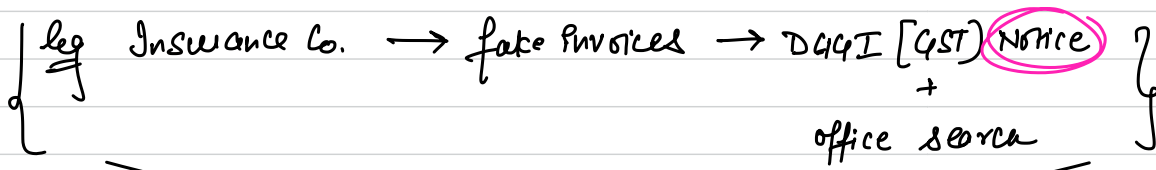
eg Notice from National Green Tribunal ⇒ identify non-compliance.

- ④ Remain **Alert** for instances of NOCLAR. [Prof skepticism]
- ⑤ obtain **w.R.** that all known NOCLARs disclosed to auditor.

Summary: ① Understand → LIR applicable + comply?



Audit Procedures when Non-Compliance is Identified / Suspected. [5★]



feel of NOCLAR

- ① obtain understanding of
- [kyahua?] name of activity
 - &
 - [kinn haalaton?] circumstances in which it has occurred.
- [Mgt fraud] → NOCLAR

- ② further info. to evaluate "possible" effect on FS.

Discuss with mgt & TCWG ⇒ ③ If they don't provide sufficient info & impact **maybe** material then, obtain legal advice.

- ④ If sufficient info. can't be obtained ⇒ ~~modify opinion~~

Evaluate effect of lack of SAE on the audit opinion

- ⑤ Evaluate effect of NOCLAR on **other aspects of audit** i.e.

Risk Assessment & Reliability of W.R. & take appt. action.
ROM ↑

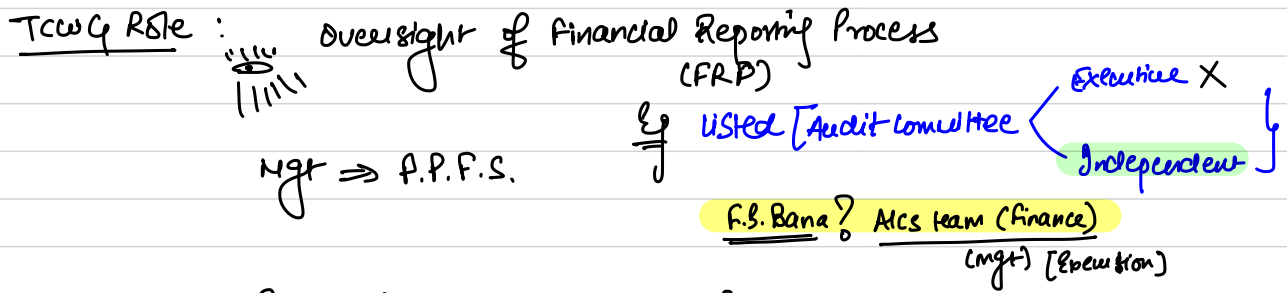
Summary ① Understand — Activity
— Circumstances

→ ② possible effect on FS → mgt + TCWG

↓
③ sufficient info ⇒ legal advice maybe material ✓

↓
⑤ other aspects → ROM + Reliability of W.R. ← ④ SAE ⇒ effect on audit opinion

SA 260: Communication with TCWG



Role of 2 way communication

Effective 2 way communication is important in assisting:

a) Auditor & TCWG in understanding matters relevant to audit. & develop constructive working relationship.

b) Auditor in obtaining info. relevant to audit.

c) TCWG in fulfilling responsibility to oversee Financial Reporting Process thereby reducing RMM.

eg. TCWG may assist auditor in: (SA 315)

- Understanding Entity/Environment
- Identifying source of evidence (SA 500)
- info. on specific transaction.

Objective of Auditor [SA 260]

RA. → opinion → AReport

To communicate with TCWG for Responsibilities of Auditor
 ↳ planned scope & timing of audit

To obtain from TCWG info. relevant to audit (Leng)

To provide TCWG (Leng)
 ↳ timely observations
 ↳ to oversee F.R.P

To promote 2 way communication b/w auditor & TCWG.

Significant findings from Audit

→ F.R.P
Tcwq ke matas

a) Significant qualitative aspects of entity's Ac practices { Ac estimates
Ac policies
Disclosures.

Amendukh

b) Significant difficulties felt during audit. [eg from book]

(Tgre)

c) Unless all Tcwq are managing entity:

- o Sig. matters discussed with mgt. [eg lease]
- o w.r.(s) auditor is requesting.

(Kamu lci Baat)

d) Circumstances that affect form & content of AReport. [Book.]

(Favourite)

e) Any other sig. matter in auditor's Professional Judgment (P.J.)
sig. to F.R.P.

"Significant Matters discussed with mgt" ⇒ Tcwq *
(Now) wins

① Business conditions that affect business plans that may affect RomM.
eg ITC Uol → tobacco products → C.C. Assess. → F.S.C.C ✓ → RomM
Ban (Inappropriate)

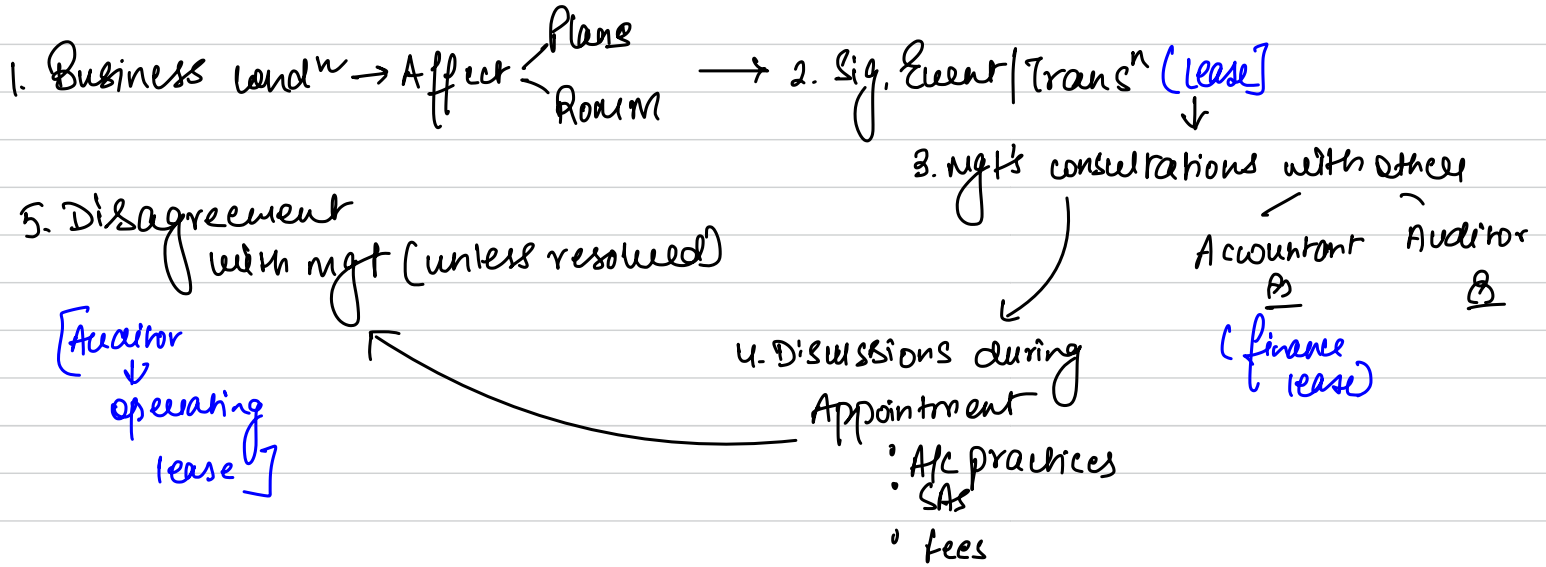
② Significant events / transactions during period.
eg Factory [tobacco produce] ⇒ "lease" ⇒ lessor Accounting

③ concerns about mgt's consultations with other accountants on Accounting & Audit matters.
eg: lease details → Accountant { op. lease
finance lease? ⇒ op. lease

④ discussions during appointment regarding Ac practices, SAs, & fees.
eg mgt → Auditor → Policy ⇒ op. lease ⇒ charge? ⇒ objectivity (Indep.).

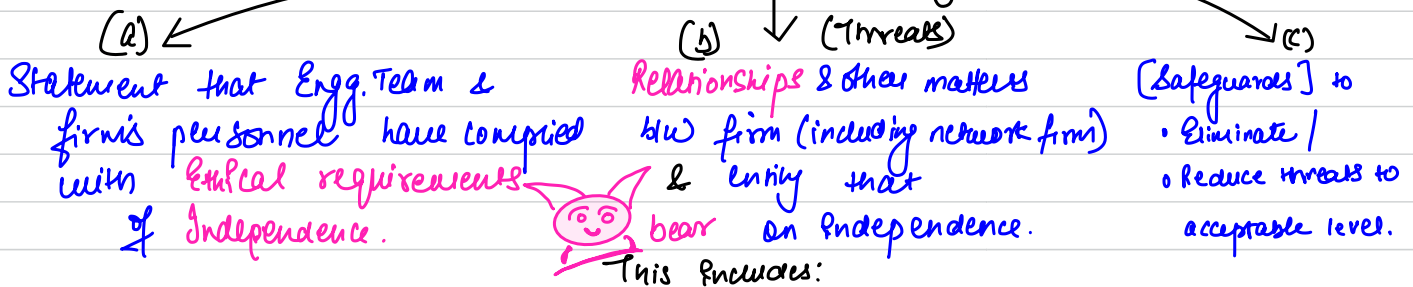
⑤ Sig. matters on which disagreement with mgt. (unless resolved by obtaining further info.)
eg lease - mgt → operating
Auditor → finance

Summary: Sig. matters communicated with TCWY



• Addⁿ info → ATR (BOOK)

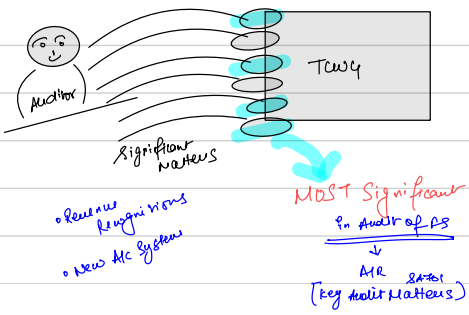
Auditor communication with TCWY regarding Independence (Listed Entities)



Total fees for $\begin{cases} \text{audit} \\ \text{non-audit services} \end{cases}$
 charged by firm (or network firms) to
 Entity / components controlled by Entity. (subsidiary)

03

[Audit fees ≈ 2 cr ^{two} Biased
 Tax Repⁿ fees ≈ 5 cr]



SA260: Communication with TCWY

1. **Significance of communication** • Understand Audit related matters + working relation

- Auditor obtain info.
- TCWY aware see F.R.P.
↓ Room (FS).

2. **Objective** • Communicate

[Audit Resp. + Scope & Timing]

• obtain relevant info.

• provide timely observations

→ 2-way communication

3. **Matters to be communicated**

a. Auditor's Resp.

- opinion on FS
- x Believe right TCWY

b. Planned

Scope & Timing

- Issues (Risk + Materiality)
- sig. risks
- x compromise audit effectiveness.

c. Sig. findings of Audit

- Sig. Qualitative Aspects of AIC practices (AIC policies, Estimates, Disclosures)
- Sig. Difficulties.
- Sig. matters discussed with mgt + WR.
- Circumstances affect A/R.
- other sig. matters

4. **Auditor's Independence (Listed Entities)**

• Statement → complied with Ethics + Independence

- Relationship & other circumstances bear on independence
[Fees → Audit & non audit)

• Safeguards

• Eliminate threats

• ↓ Reduce to acceptable level.

5. **Documentation** ORALLY → include + when + whom



WRITING → Retain a copy.

6. **Communicating KAM**

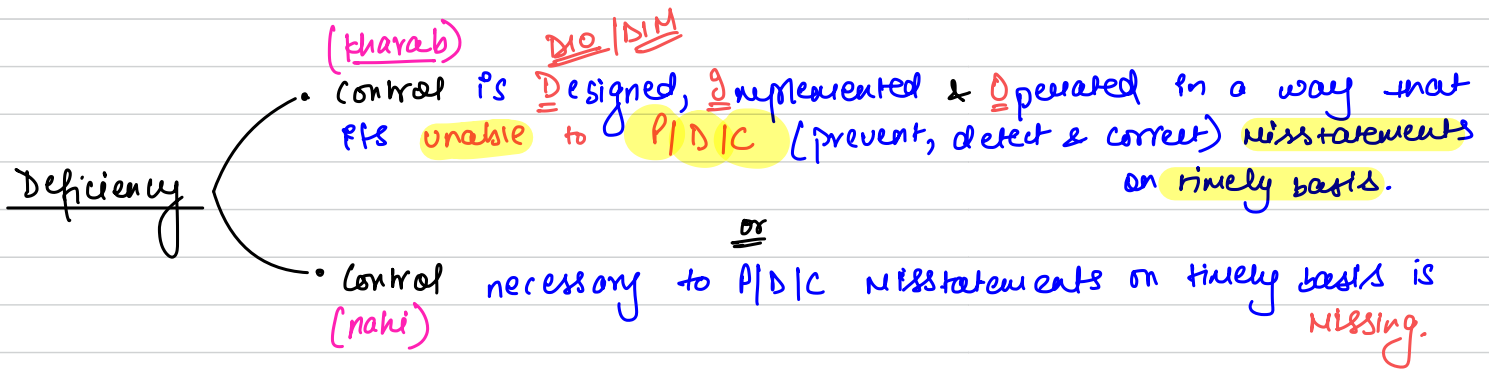
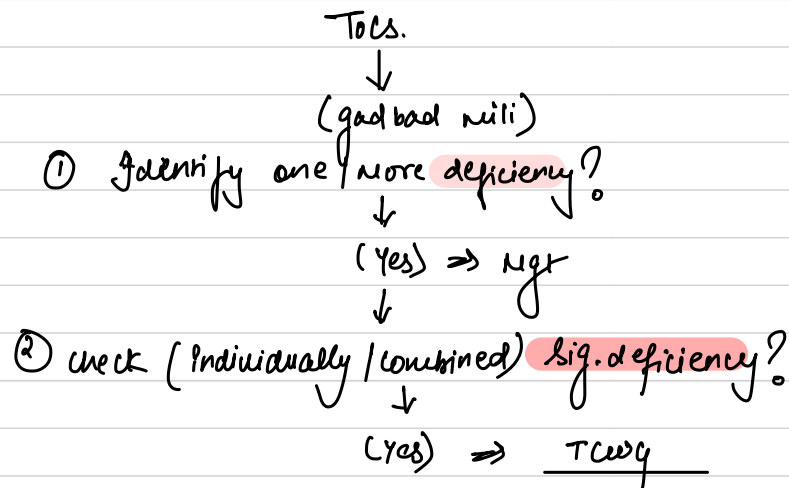
Timing

- Timely basis
- preliminary views → Scope & Timing
- further discuss → Audit findings

Usefulness

- TCWY aware of KAM
- obtain further clarification (Draft A/R)
- Recognize imp. role
- Basis for auditor's decisions + How described
- New/Enhance disclosures in FS.

SA 265 : Communicating Deficiencies in Internal Control to Mgt & TCWG



Sig. Deficiency: Deficiency or combination of deficiencies in I.C.

- that in auditor's P.T.
- of sufficient importance
- to merit attention of TCWG.

"Aisi deficiency ya deficienyan, jo auditor ki nazar mein,
TCWG ko pata honi chahiye"

Note: S.D. in J.C. depends on both Actual misstatement & Likelihood (chances) % ↑ & Magnitude (₹) ↑ of potential misstatement

by changes to supplier master data → Approval ↓ fraud % ↑

◦ S.D. can exist even though auditor has not identified any misstatement during audit

Communicating S.D. in J.C. ^{in writing} ~~orally~~

by S.D. (Mili) ⇒ physical verification of inventory ⇒ x Regular intervals.

Written communication

a) Description of deficiencies & explanation of potential effects

b) Sufficient info. to help TWC & mgmt to understand context of communication.

Inventory ⇒ verify x }
 ↓
 Effect?
 Defalcation of inventory ✓
 detect x
 ↓
 fraud

Explain:

- Clear! Purpose of audit is to express opinion on FS
- K. kyv check! Auditor considered controls to design. Subs. pro. But not for expressing opinion on effectiveness of J.C.
- Limited! Matters reported are limited
 - to deficiencies identified &
 - concluded to be of sufficient importance to merit attention of TWC.

Question 3

CA. S is statutory auditor of a listed company. On reviewing internal controls of the company, he is of the view that there can be possible situations where insurance premiums for keeping insurance policies current in respect of various assets of company may have become due and payable but internal control systems established by the company may not be able to capture it. Elaborate how he should proceed to deal with the above matter. (SM)

Ans Controls Review → Deficiency define → sig. deficiency (likelihood + magnitude) → Assets (uninsured) → Communicate (writing)

- description + effects
- SUFF. info → context.

SA 299: Joint Audit of F.S.

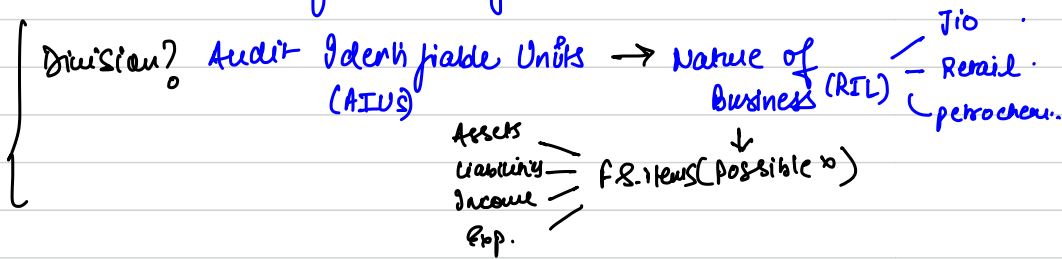
F.S. Audit by 2 or more auditors

• Planning? [NTE of A. Procedures (RAP, FAP)] ⇒ Joint Planning → J.A.₁ (EP + key members)
 → J.A.₂ (EP + key members)

• Strategy? [Decision → Risk Based Audit } → Sets Scope, Timing, Direction of audit.
 Risk Assess (Tocs/Subs-Pro.)

* (Factors) In developing plan, joint auditors shall:

① [Scope] Identify division of areas & common audit areas that define Scope for each joint auditor.



② [Timing] Know Reporting objectives to plan Timing of audit & communications.

eg AGM date → F.S. Ready → Audit meetings → complete.

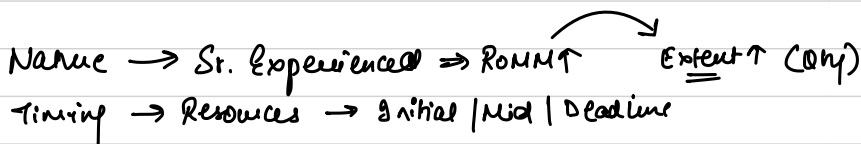
③ (Direction) Communicate factors that'll Direct E.T's efforts.

eg F.S. Item (ROMMT) ⇒ ↑ Testing. [SA 210 + SA 220] → EL → Ethical Requirement → Accept / continue? SEC

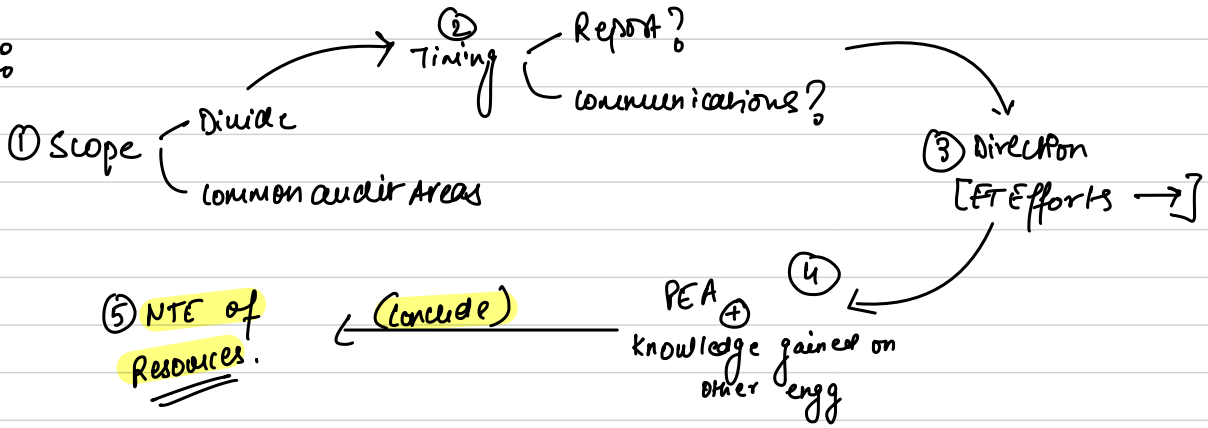
④ Consider results of (PEA) Preliminary Engg. Activities & knowledge gained on other engg

eg. Integrity of client, compliance with Ethical Requirements etc.

⑤ Ascertain NTE of resources to perform engg.



Summary



Responsibility of Joint Auditors

yahi apne area ki khud zimmedar hai

(Individual Responsibility)

work divided

Determine N.T.E of A. Procedures.

R.A.P.

Assess Risk

F.A.P [ToC]

Evaluate controls.

(Share Responsible)

Jointly & severally responsible

1 work not divided & carried by all.

2 Decision by all for planning NTE of A. Procedures for common areas

I.T. systems

Testing

→ common area [ATBIC]

Decide N.T.E of A.Pro. (Planning) *All responsible*

→ Execute Mr.B. → mistake

↓ Resp.? Mr.B.

3 matters brought to notice by one of them & agreement among all.

F.S.

4 Examine F.S. comply with relevant Statute.

leg COS Act 2013 → F.S. → AICStd + Sched. III + T/view.

Amr. C. cons. Pres. Dis. J. All

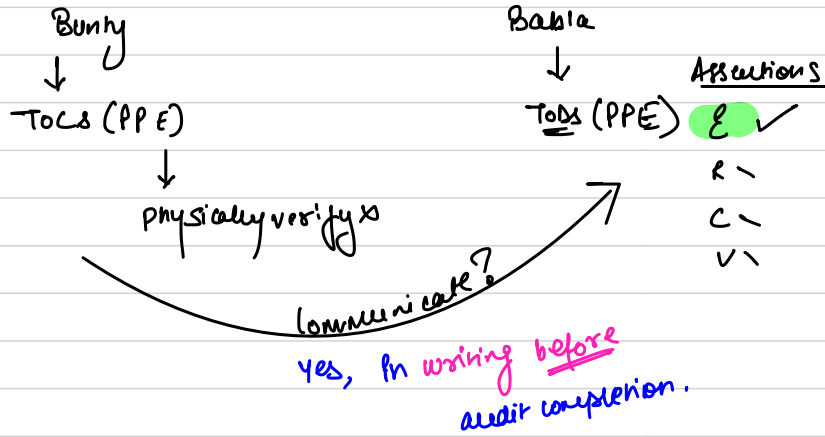
5 Presentation & disclosure of FS as per AFRC.

ATR

6 Ensuring that A. Report complies with

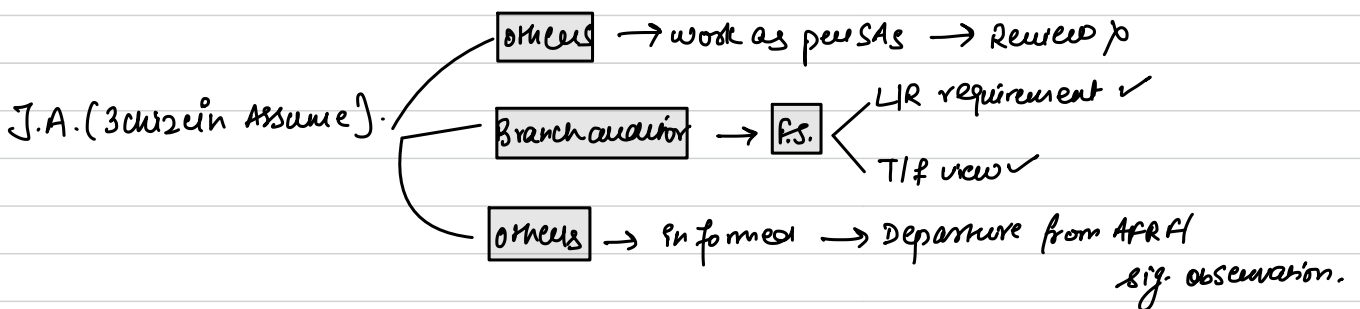
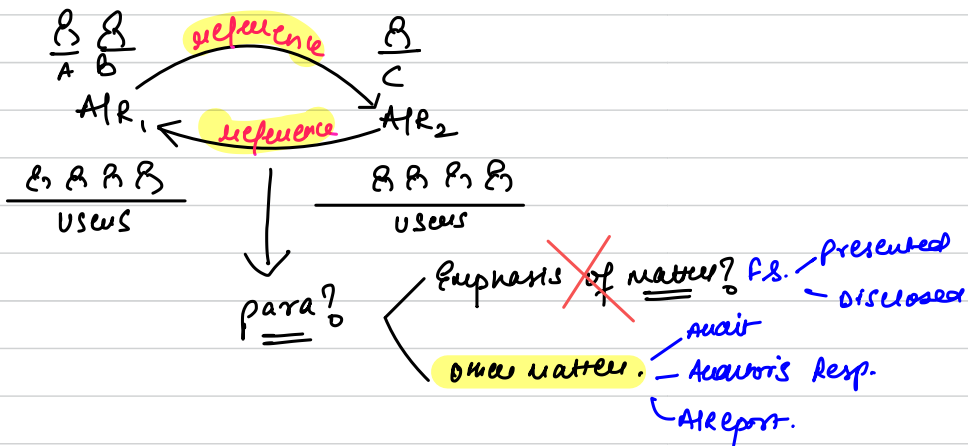
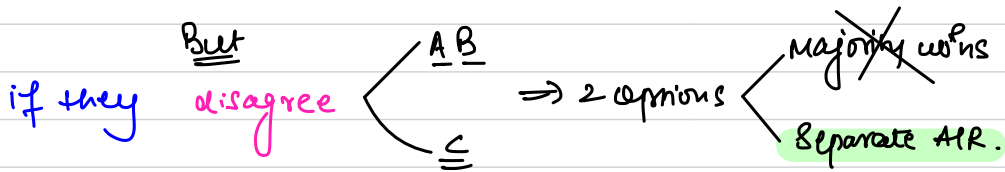
- relevant statute
- SAs.
- other ICAI pronouncements.

Coordination



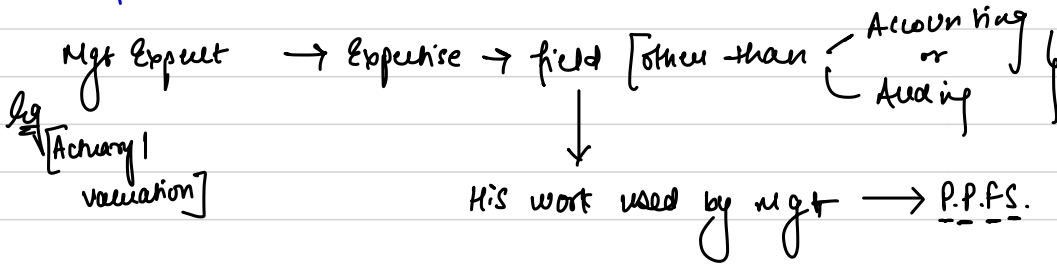
Conclusion & Reporting

- JA → issue common AIR

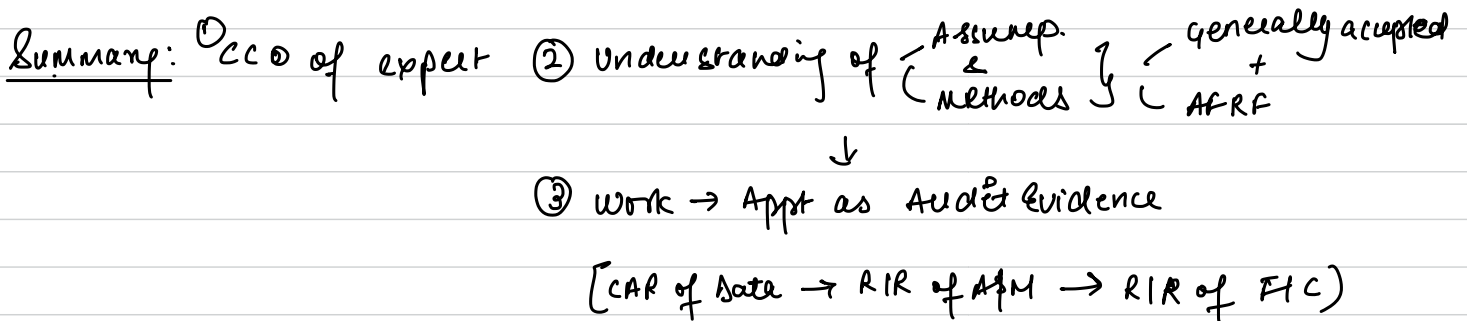
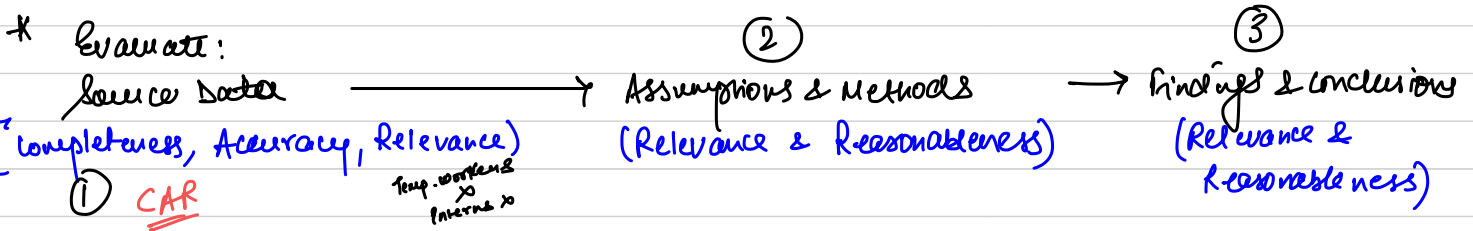
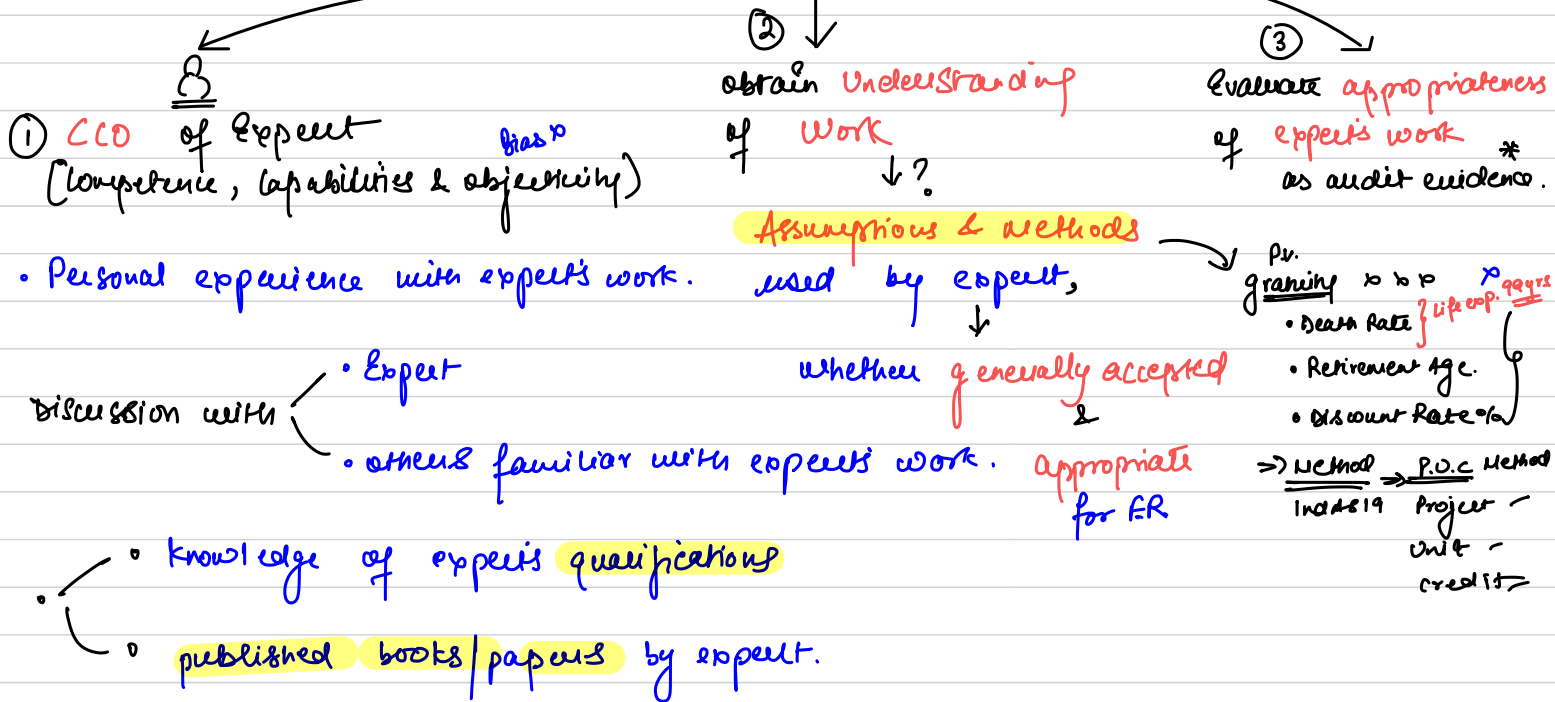


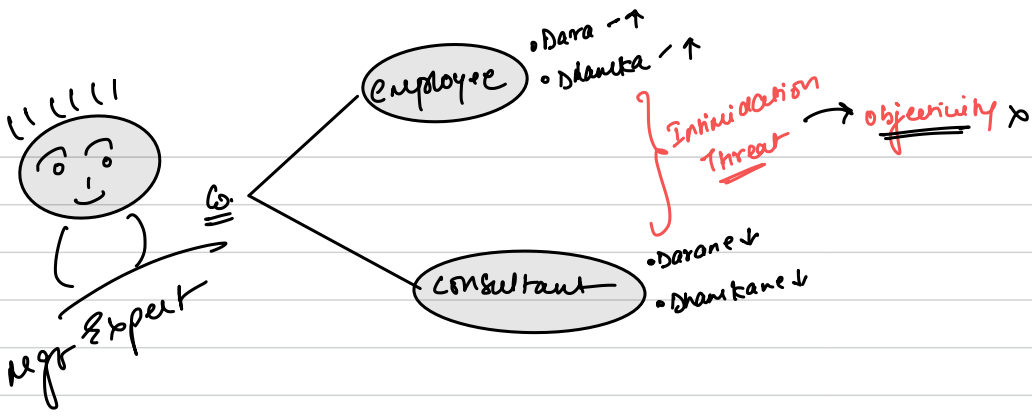
SA 500: Audit Evidence

Info. used to → arrive at conclusion → on which audit opinion is based.



Audit Procedures when using work of mgt expert





Evaluating objectivity of mgt expect (MTP Nov'24)



1. Circumstances may threaten objectivity.
 by self interest, self review, advocacy, familiarity & intimidation threats. (relative) (SAFI)

2. Safeguards may reduce threats* & can be created by [Self + feel]
 External structures (professional, regulation & legislation)
 or (Internal) mgt expect work environment [d.c. PEP.]
 Threats high
 ↓
 Accept x

* Safeguards can't eliminate threats.

by Intimidation Threat maybe lesser for expect engaged than expect employed by enviro.

3. Threat to objectivity always present in employee.

4. [What to do?] Discusses with 'mgt & expect', Intt. & relationships creating threats & safeguards.

5. Intt. & relationships creating threats may include:

- o Financial Intt.
- o Business relationship
- o Provision of other services.

Matters ⇒ N.T.E. of A. procedures [using mgt. expert's work].

① Name & complexity of matter →

② R.O.M.M ✓

↓ [Darr.]

③ Alternate source of evidence

↓ to

[Mgt. Expert Agreement]

Nature, scope & objectives
of mgt expert

④

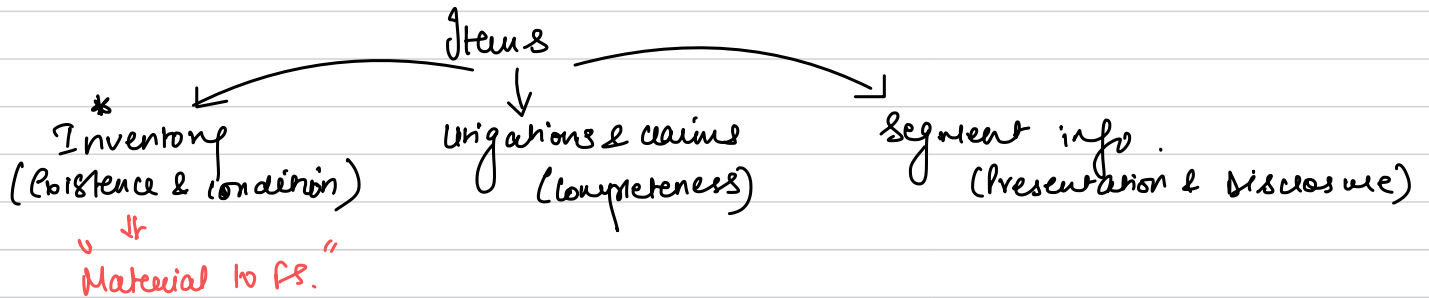
whether expert — employed
or
party engaged to provide
services.

⑤

↓

⑥ Extent to which mgt can exercise control. over mgt expert's work.

SA 501: Audit Evidence: Specific consideration for selected items. (SC for SI)



Mr. Jemmalal.
(Jema & Associates)



Goti
(Article Intern)



Babita Pur Uel.
(Inventory → Rasgulla)

i) Attend the physical inventory count unless impracticable: (rare)

Within {

- a) Evaluate mgmt instructions & procedures for inventory count.
- b) Observe mgmt. count procedures.

After {

- c) Inspect inventory.
- d) Perform test checking. (sample basis).

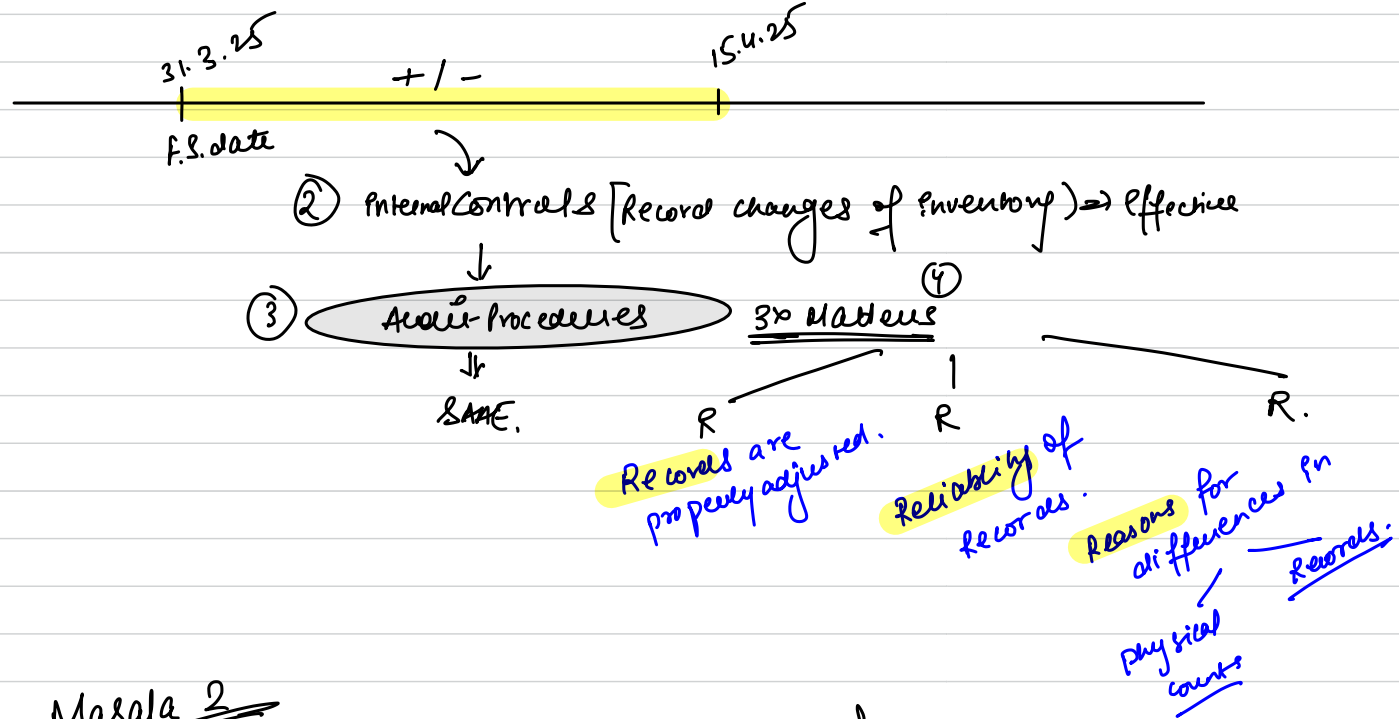
ii) Perform procedures over final inventory records to check if they reflect actual inventory count results.

eg

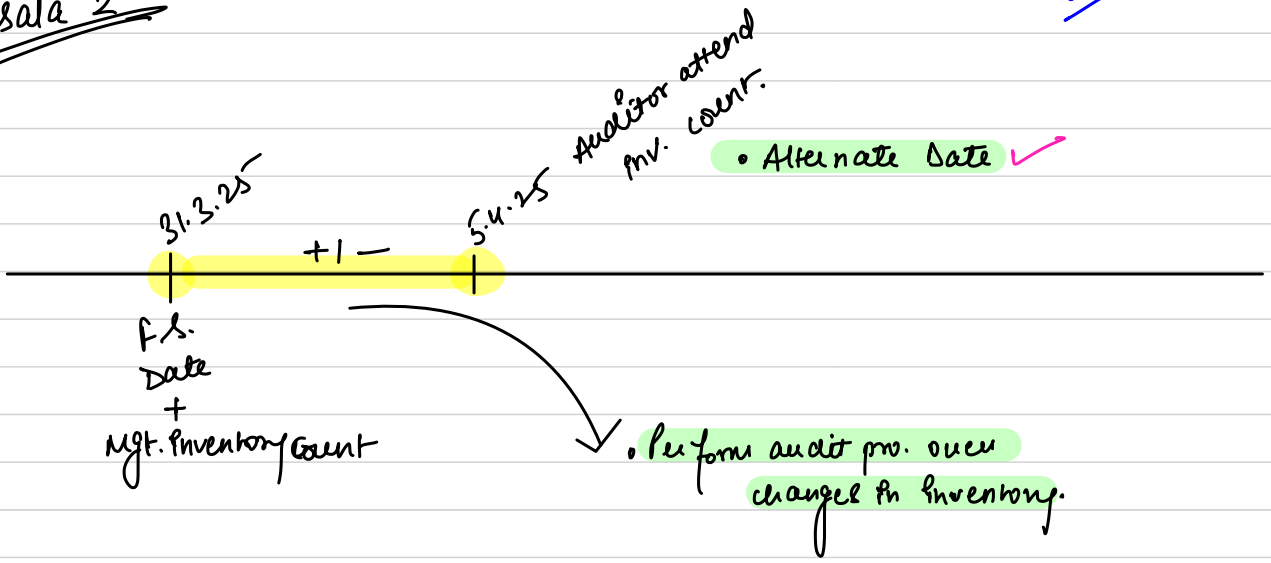
Inv Records	100 Qty	⇒	Final Inv. Records
Actual count	95 Qty		<u>95 Qty</u>

Spl. cases

Masala 1



Masala 2



Masala 3 Attendance at inventory count is impracticable (*)

- Intro: In some cases, attendance maybe impracticable due to.
- Nature (eg. Harmful chemicals)
 - location of inventory. (eg. Terrorist / Naxalites)
- eg. location may pose threat to auditor.

{ Qoti → phullewa gaon • Uber to • gamni ✓
 • Rickshaw ✓ • Mennat ✓ } Impracticable to
 kanchori ✓

2. Persuasive evidence is a "Must"

Matter of general inconvenience is not sufficient to say its impracticable.

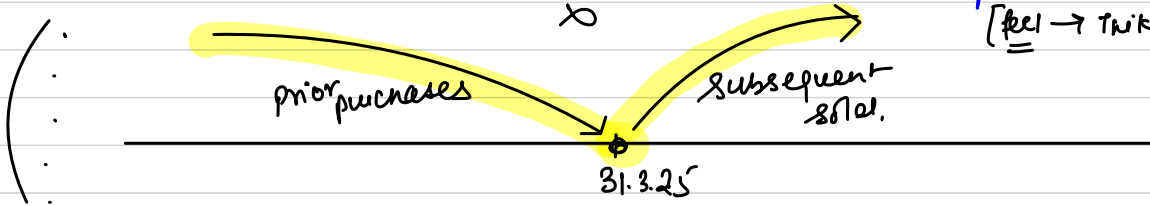
As per SA200, Matter of Difficulty,

- Time &
- Cost

is not a valid basis to:

Omit an A. pro. which has no alternative

OR settle for less than & persuade AE. (per → Trk)

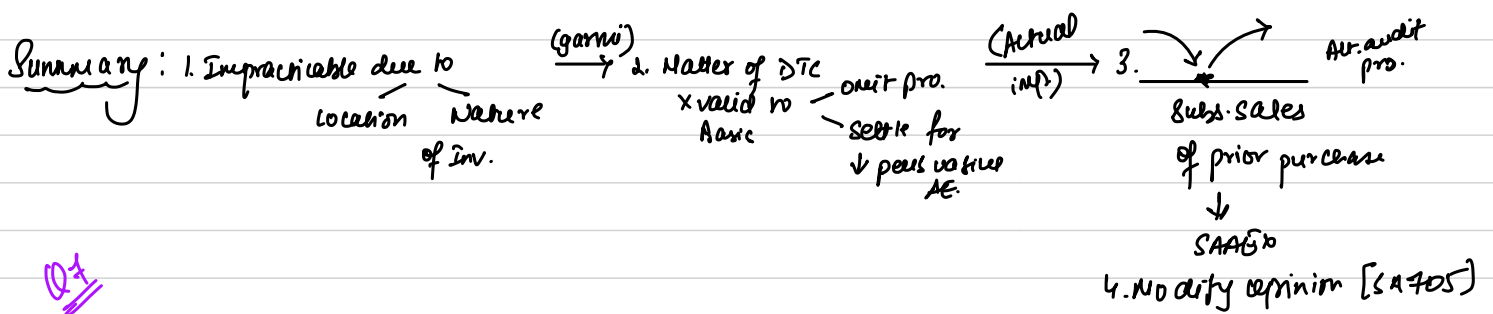


3. Perform alternate audit procedures

Inspection of subsequent sales of inventory purchased prior to physical count date.

4. Modified opinion

If SAAE not possible, modify opinion as per SA 705.



Q7

Masala 4



(Tyeer Put Utd) 40down.

Inventory is in custody of 3rd party

①

Request confirmation from 3rd party.

②

Doubt over integrity/objectivity of 3rd party

perform 1/more of following procedures:

(Chak jao) • Attending/arranging another auditor to attend 3rd party inventory count.

(wanguwalo) • obtain another auditor's report / service auditor's report on 3rd party's J.C. (J.C. → Report) SA4021 SA63402 over inventory count.

(Basic) • Inspect documentation eg. warehouse receipt.

(Repeat) • Request confirmation eg. if inventory pledged as collateral. (w.c. loan)

105

Question 6

While conducting the statutory audit of Tasty Foods Limited, CA. Careful has planned attendance at physical inventory count of the company from 29th March to 31st March 2025. The company is engaged in business of extracting rice from paddy grains and caters to domestic as well as international market particularly in Gulf region. It has its plant spread in area of about 20 acres located in National Capital Region (NCR). Paddy contained in jute bags of nearly standard sizes is purchased from dealers/agents. It is stored in heaps on pallets (kind of wooden structures) in open area covered by protective sheets and in steel silos (silos are huge steel containers with measuring strain gauges) in company's premises.

The company mainly produces three rice brands viz. "Raja" and "Shehzada" (both for the domestic market) and "Badshah" (for the international market). The process of obtaining rice from paddy consists of various steps like cleaning of paddy, removing outer husk layer from paddy grains to obtain brown rice, whitening, polishing, grading and sorting, packaging which is accomplished by means of various types of machineries installed in plant.

The company's management has prepared a set of instructions and procedures to be followed for recording and controlling results of company's physical inventory counting which are listed as under:-

Audit QB by CA Shubham Keswani

70

Ch-I Standards on Auditing

Learn with Fun

- The physical inventory count process is to be supervised by a responsible officer of company responsible for storage functions.
- There should be no disturbance to the routine process of receiving goods and despatch during the counting time period.
- Counting process is to be undertaken by constituting different teams of 3 members each for counting/verifying raw material, work in progress and finished goods.
- Paddy in steel silos is to be estimated using their capacity.
- Quantity of work in progress is to be estimated considering plant capacity as whole.
- The responsible officer should ensure that stocks have been counted/verified in all areas.

Before proceeding to attend physical inventory count process of company, evaluate management's instructions and procedures sent to CA. Careful as stated above. You may suggest modification/addition or removal of such instructions to ensure effective count process. [MTP May'24 + 5M]

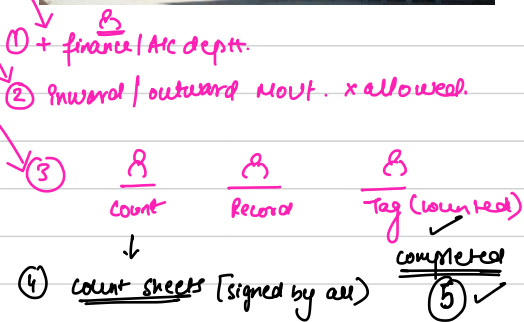


Size tag #



⑥ Measured using strain gauges.

⑦ Stage of prodⁿ



④ ⑥ No instruction for paddy in open area [count no. of jute bags x stor. weight]

Litigations & claims (completeness)

Legal cases → F.S. Farak?
 Provision
 Contingent Liability

Identify
 (Obtain) Inquiry with Mgt & In-house legal counsel (legal consultant)
 (Excite) Review • M.O.M. (meetings of TWC) &
 • correspondence btw → entity &
 → External legal counsel (ELC)
 (Basic) Review legal expense Acc

If auditor assesses ROM or
 feels other material LCS may exist

↓
 seek Direct communication with ELC

↓ (Kaise?)
 Through letter of inquiry → prepared by "Mgt" &
 sent by "Auditor"
 ↓

requesting ELC to communicate directly with auditor.

(Spl. case) ELC may not respond to letter of 'General Inquiry',
 ↓
 use letter of 'Specific Inquiry', it includes:

a) List of ELCs. 

↓ (Mgt: POV)
 b) Mgt's assessment of outcome
 &
 estimated financial impact.
 jeesega/Harega
 penalty (E)

↓ (ELC: POV)
 c) Request ELC to
 • confirm reasonableness of Mgt's assessment &
 • further info. if list is incomplete / incorrect.

Meeting with ELC possible? May meet ELC to discuss outcome of L&Cs. when?

Disagreement b/w Mgt & ELC



DISCO

Matter is

sig. Risk (RISK)

complex

akele akele? No Mgt. permission Mgt. → Representative attendance

If direct comm. with ELC not possible (Mgt & ELC) ⇒ alternate procedures.

SAAE

Modify opinion as per SA 705.

⊕ Written Representation

from Mgt & TCWG that all L&Cs

disclosed to auditors

& accounted & disclosed in FS.

Segment Information (Presentation & Disclosure) [AS 17 | Ind AS 108]

29. Segment Reporting

	2024			2023		
	External	Inter Segment	Total	External	Inter Segment	Total
1. Segment Revenue - Gross						
FMCG - Cigarettes	30596.59	-	30596.59	28206.83	-	28206.83
FMCG - Others	20922.47	44.36	20966.83	19081.48	41.02	19122.50
FMCG - Total	51519.06	44.36	51563.42	47288.31	41.02	47329.33
Hotels	2973.74	15.76	2989.50	2573.22	11.81	2585.03
Agri Business	8417.44	7374.39	15791.83	12314.86	5857.48	18172.34
Paperboards, Paper and Packaging	6535.96	1808.44	8344.40	7304.50	1776.85	9081.35
Segment Total	69446.20	9242.95	78689.15	69480.89	7687.16	77168.05
Eliminations			(9242.95)			(7687.16)
Gross Revenue from sale of products and services			69446.20			69480.89
2. Segment Results (Rev. - Exp.)						
FMCG - Cigarettes			19089.17			17927.06
FMCG - Others			1778.55			1374.18
FMCG - Total			20867.72			19301.24
Hotels			753.77			541.90
Agri Business			1254.43			1327.74
Paperboards, Paper and Packaging			1377.60			2293.99
Segment Total			24253.52			23464.87
Eliminations			(196.09)			22.19
Total			24057.47			23487.06
Unallocated corporate expenses net of unallocated income			(1067.88)			(1167.72)
Profit before interest etc. and taxation			22989.59			22319.34
Finance Costs			(45.73)			(41.81)
Interest earned on loans and deposits, income from current and non-current investments, profit and loss on sale of investments etc. - Net			3379.48			2400.01
Exceptional items [Refer Note 28(i)]			(7.57)			72.87
Profit before tax			26315.77			24750.41
Tax expense			(5893.80)			(5997.10)
Profit for the year			20421.97			18753.31

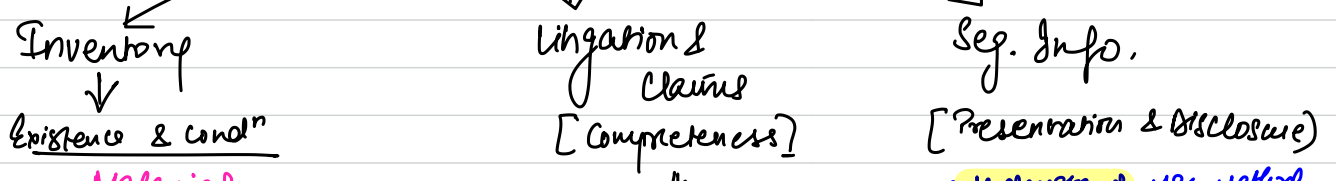
Assets / Liab.

Audit Pro.?

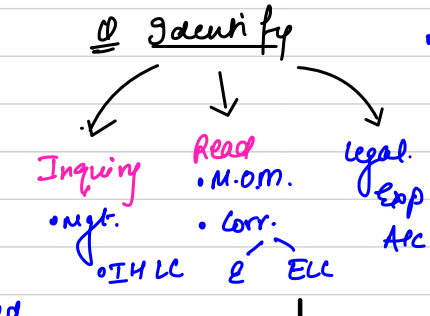
- understand Mgt Methods. to prepare seg. in fo.
- ⊕
- perform Analytical Pro. (Compare P.4)

OP

SAS 01 Summary [AE: SC for SI]

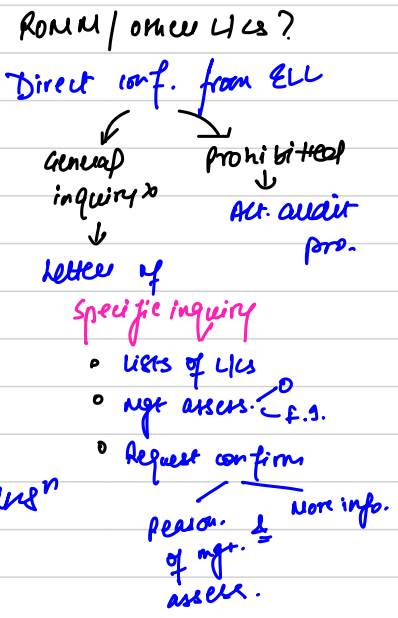
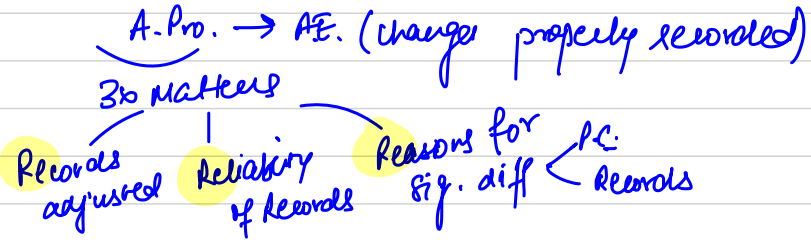


- Basic
- Attend count (unless impract)
 - Observe
 - Inspect
 - Test check
 - Evaluate → final inventory count results → recorded.



- Seg. Info. [Presentation & Disclosure]
- Understand mgt method.
 - Am. Pro.
- Matters?
- Stc blw seg. & elim.
 - Comp. < E.R.
 - Allocation
 - Prop period consistency.

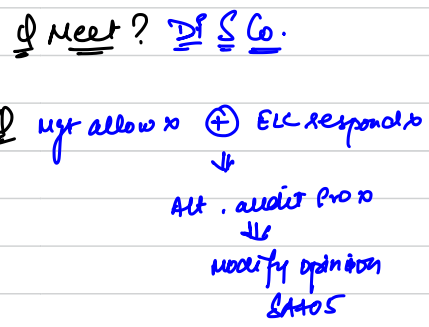
Masala 1 Count date other than date of FS.



Masala 2 Auditor — Alternate date perform pro. → interviewing transⁿ

Masala 3 Impracticable

- Due to nature/locⁿ of Inv.
- Matter of Gen. Inc. (DTC) not impracticable.
- Alt. audit pro [→]
- SAS 05 → modify opinion SAS 05



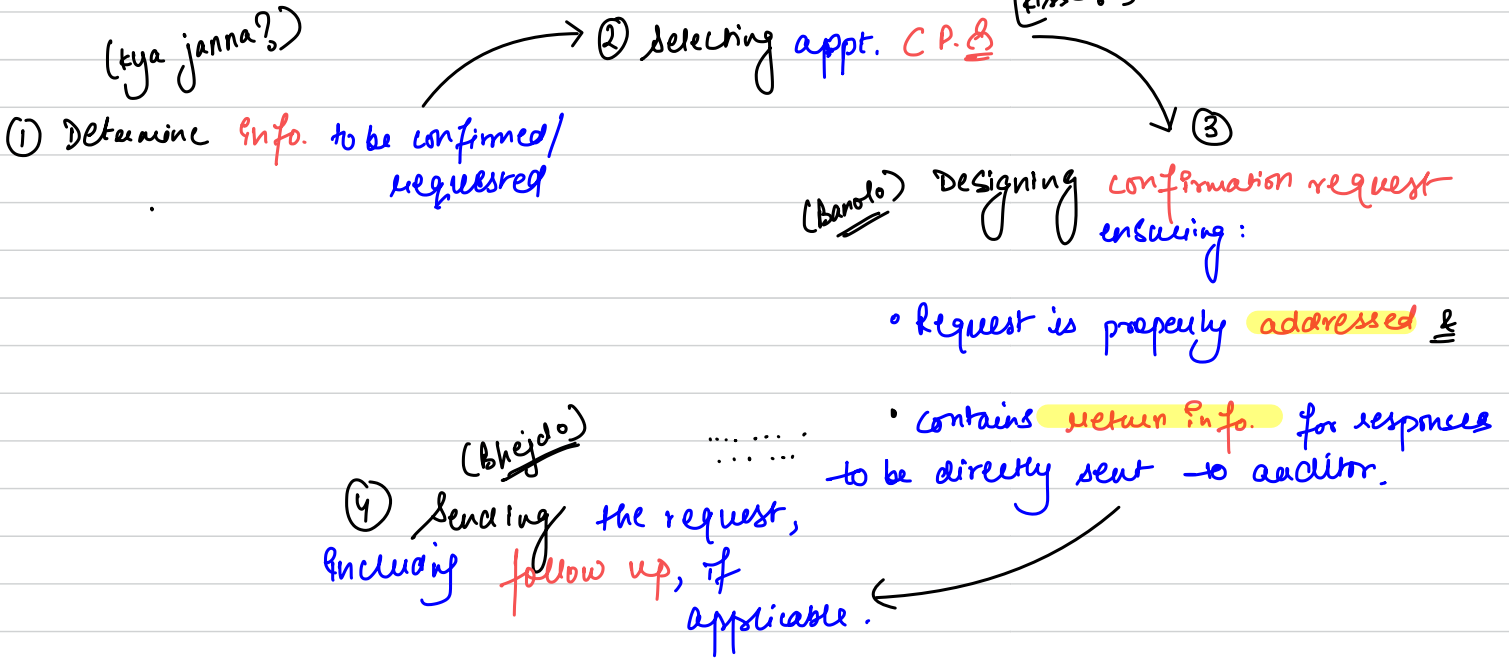
Masala 4 3rd party

- Confirmation
- Inspection & other pro.
 - Attend / someone else
 - Another Auditor Report
 - DOLⁿ
 - Confirmation

SASOS: External confirmations

- Audit Evidence → Direct written response → from C.P. to Auditor.
(physical / electronic)

External Confirmation Procedure (Auditor maintains "control" → Delegate to)



Factors to be considered → Designing Confirmation Request

- Annahi NI NI NI
- Layout & presentation of request.
 - Assertions being addressed. [LUs → competence]
 - Prior experience of audit.
 - Identified R.O.M.M including fraud risk. [Related parties]
- love guess
- Mgt's authorisation / encouragement to C.P. to respond to auditor.
 - Method of communication (e-mail / reg. post / softwares)
 - Ability of C.P. to confirm / provide requested info.
- Alan
- Eg Debtor x b b
- | | |
|--------------|----------------------|
| <u>x b k</u> | Invoice due |
| | I ₁ x b b |
| | I ₂ x b b |
| | I ₃ x b b |

Types of confirmation Request

Positive Confirmation Request (P.C.R)

Negative Confirmation Request (NCR)

- C.P. respond to Auditor directly ~~xxx~~
 - when C.P. Agrees/ Disagrees with info.

- C.P. responds directly to auditor only if C.P. disagrees with info. requested.

or
→ providing requesting info. —
i.e. reply in all cases.

- It provides less persuasive AF. than P.C.R.
- Why? Failure to receive response doesn't mean confirmation is recd. by C.P. \times or verification of accuracy of info. \times

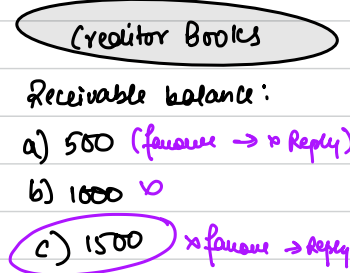
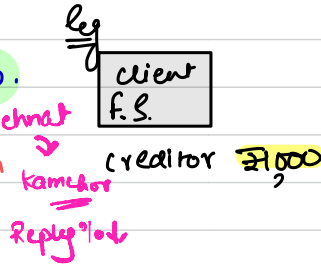
- Response to PCR provides Reliable AF.

- Risk is there that C.P. replies without verifying info. \rightarrow ~~fill~~

- C.P. more likely to respond with disagreement when info. requested is not in their favour.

- Reduce this risk by not stating and ask the C.P. to fill and/ provide info.

- (Risk) Use of this type of blat confirmation request may result in lower response rate, because of additional effort.



Q In which case creditor will respond?

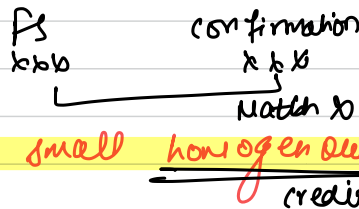
- As auditor don't perform NCR as "Sole substantive Procedure" unless All conditions satisfied:

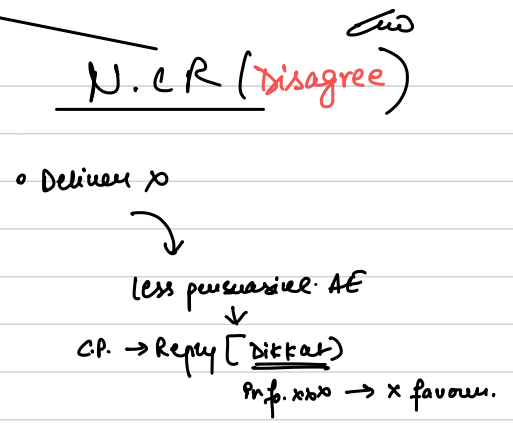
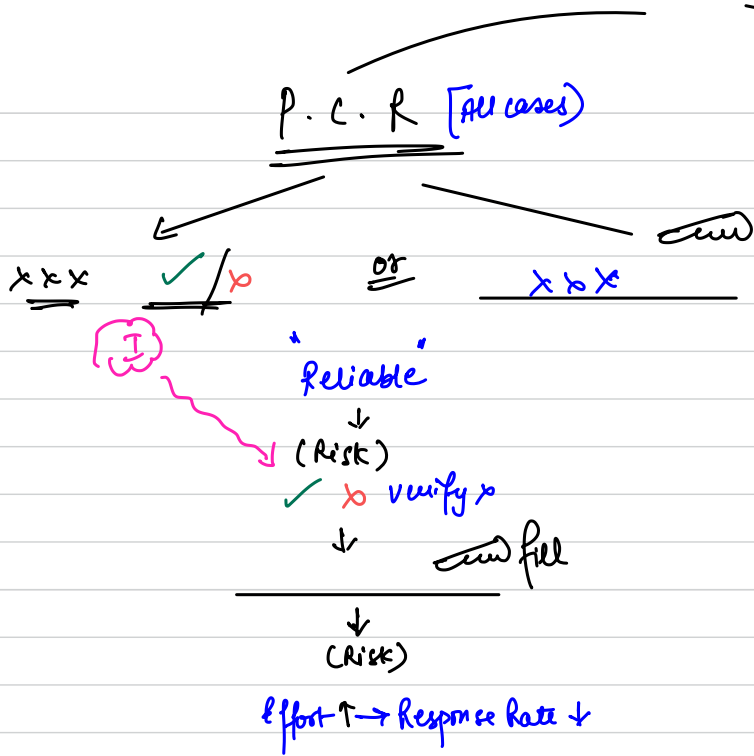
a) Low ROMM \downarrow & obtained SAAE about effectiveness of controls.

b) Very low exception rate.

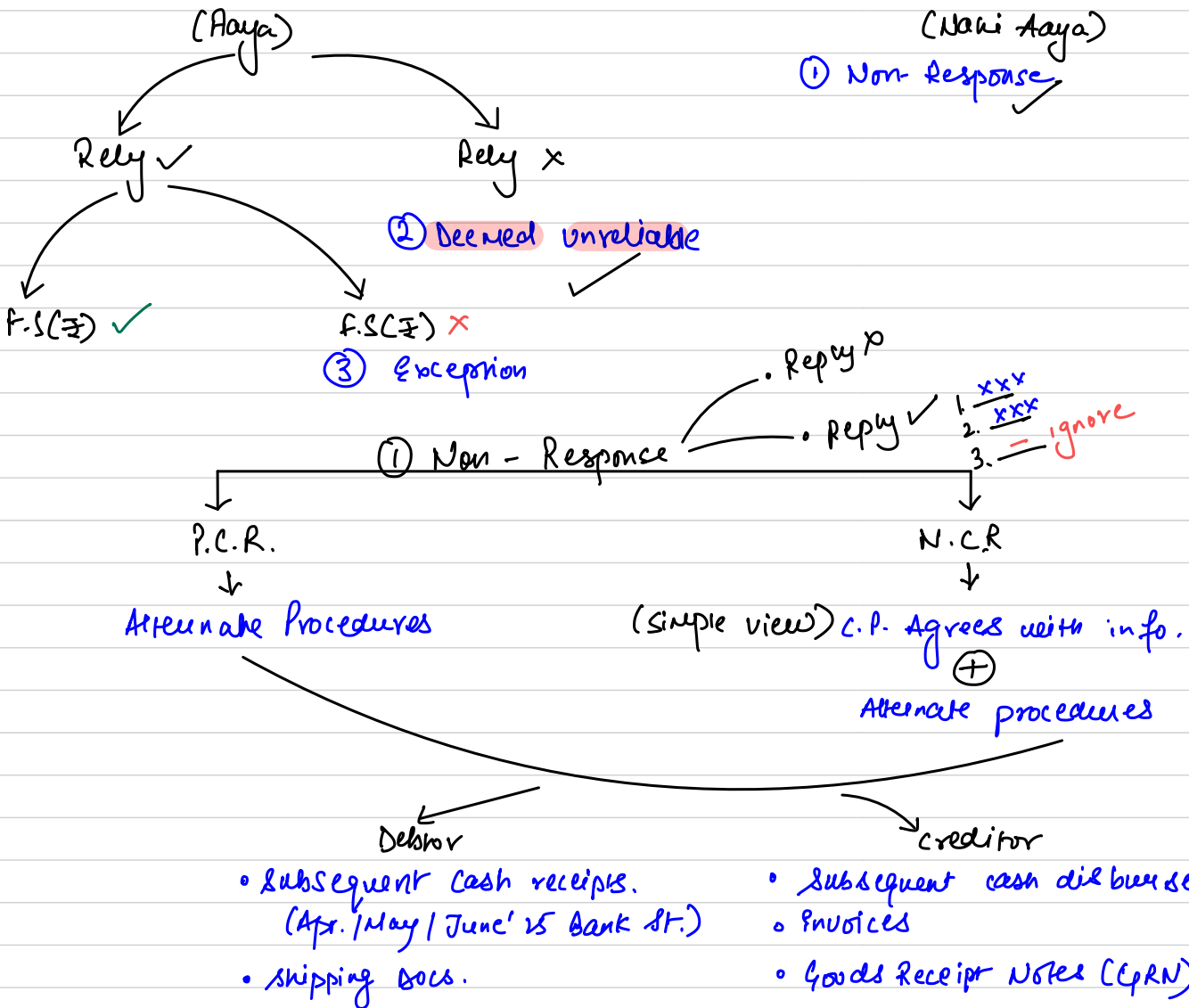
c) Population has large no. of small homogeneous items.

d) Auditor not aware of circumstances that C.P. will disregard the request.





Evaluating Response obtained



2. Unreliable response from C.P.

Intro: If auditor believes response is not reliable

evaluate implications on R.O.M.M i.e. fraud risk & N.T.E. of A. pro.

As per SA 500 even for evidence from external sources, circumstances may affect its reliability*

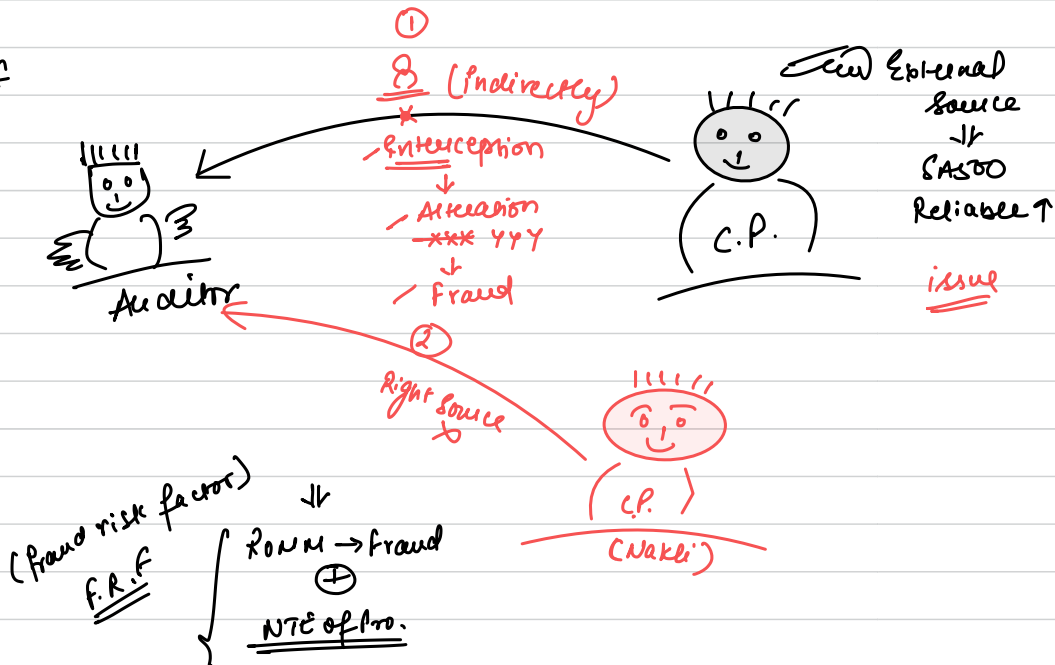
They carry risk of Interception/Alteration/fraud.

* factors that may affect reliability include, that it:

was recd. Indirectly. OR Not from original C.P.

∴ unreliable response create fraud risk factor. → R.O.M.M + FA.P. (Fraud)

Rough



Q5

3. Exception $\left[\begin{array}{cc} \text{Books of A/c} & \text{Confirmation} \\ \text{xxx} & \text{y to x} \\ \text{March 10} & \end{array} \right\}$

1. Response indicating difference b/w info. $\begin{cases} \rightarrow \text{Requested to be confirmed} \\ \text{ \& } \\ \rightarrow \text{provided by C.P.} \end{cases}$

2* $\left(\begin{array}{cc} \text{Books} & \text{Confirmation} \\ \text{Debtor} & 3,00,000 \\ \text{31.3.25} & 1,00,000 \end{array} \right)$
 \downarrow mgt \Rightarrow Reconcile $\begin{cases} \checkmark \text{ [Dr. pay 31.3.25 (Sham)} \rightarrow \text{Receive 1.4.25)} \\ \times \Rightarrow \text{misstatement} \end{cases}$

2* Co. should be asked to investigate & reconcile discrepancy indicated by C.P.

\downarrow (x [misstatement])

3. \neq what to do? Assessed to entire population, after analysing reason for difference.

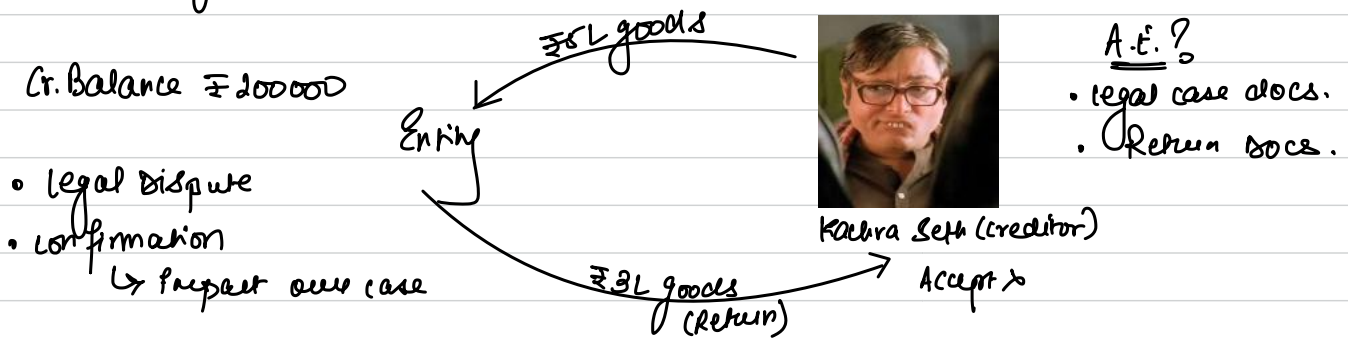
$\left(\text{Debtors } 1,00,000 \rightarrow \text{Sample } 10,000 \Rightarrow \text{Mist. } ₹ 10,000 \right)$
 Projected mist. = $\frac{₹ 10,000}{10,000} \times 1,00,000$

4. Conclusion: Evaluate whether along with other pro.:

\swarrow SAAT obtained $\text{ or } \searrow$ (SAAT) [Testing] performing F.A.P necessary as per SA-330.

- o Sales Invoice.
- o Agreement.
- o Inventory.

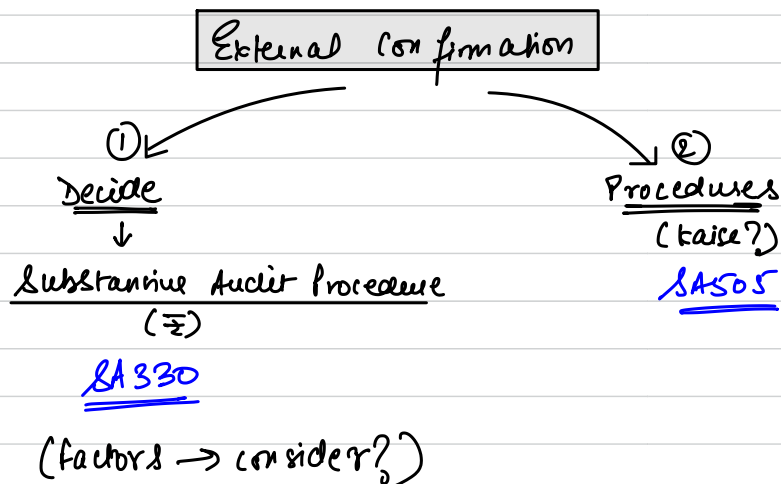
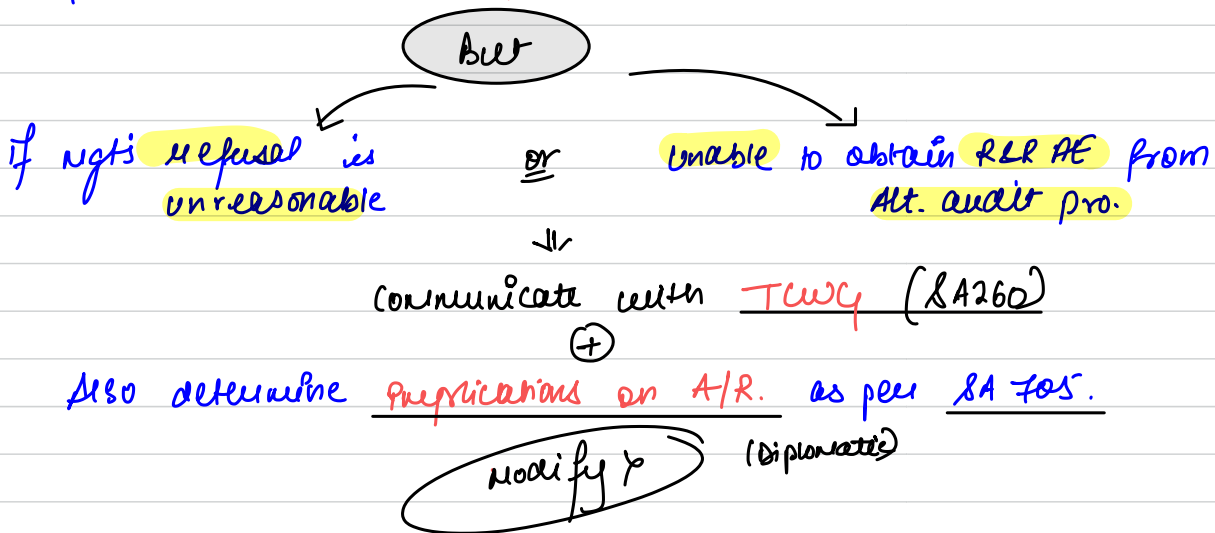
4. Mgt's refusal to allow Auditor to send confirmation request



What to do? a) **Inquire** mgt's **reasons** & seek **A.E.** for their **reasonableness** & **validity**.

b) Evaluate implications of mgt's refusal on **ROMM** i.e. **Risk of fraud** & **NTE of A. Pro.**

c) Perform alternate audit procedures to obtain relevant & reliable A.E.



SASOS [1] Pages Revision

Meaning: Direct written response → from CP to Auditor

Process: 1. Info.? 2. Appr. C.P. B (maintain control) 3. Design conf. request (Addressed + Return info.) 4. Sending + follow up.

factors

layout & presentation → Assertions → Prior Experience → Romm → mgt's authorisation
 method of communication → Ability of CP to confirm.

Types of Requests: PCR: • Reply (Agree/Disagree) or provide info. (All cases)
 [Reliable AE.] → Risk (Reply w/o verify info.)

x State amt + ask to fill amt

↓
 Risk (Blank request → ↓ response rate) ∴ Add. effort

NCR: Reply only if disagree → ↓ persuasive AE (Why?)

No Reply doesn't mean

Recd. by CP or verification of accuracy of info.

∴ C.P. more likely respond when info. not in favour

USE NCR → 4 cond ⁿ satisfied • Romm ↓ • Exception Rate ↓ items • ↑ No. of small homogenous • CP x disregard request.

Evaluating Response

1. **Non Response** → PCR → Alternate Audit Procedures

- NCR • C.P. Agree
- Alt. Audit Pro.

[Drs: Subs. cash receipts + shipping docs]
 [Crs: Subs. cash payments + G.R.N.]

2. **Unreliable Response** • Implication on Romm (Fraud) + NTE of A.Pro.

• SASO → Evidence (external sources)
 circumstances affect reliability → Risk of Interception Alteration Fraud.

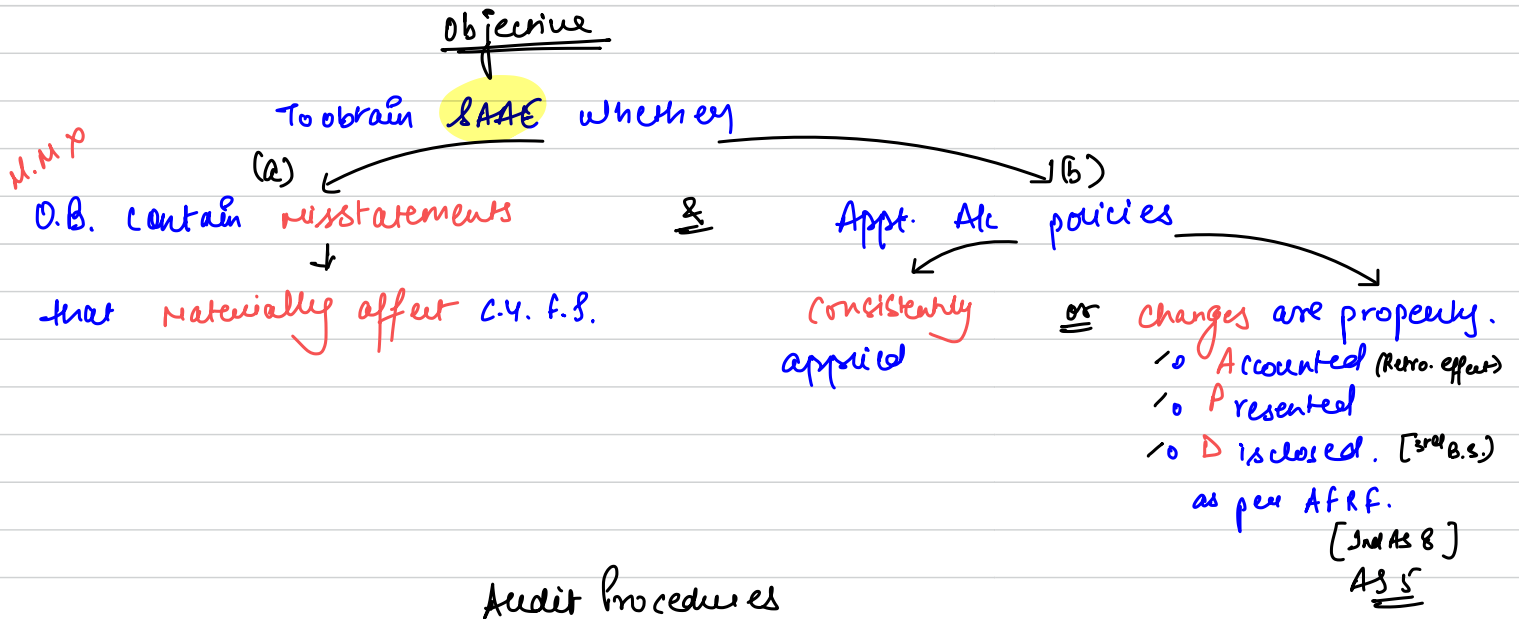
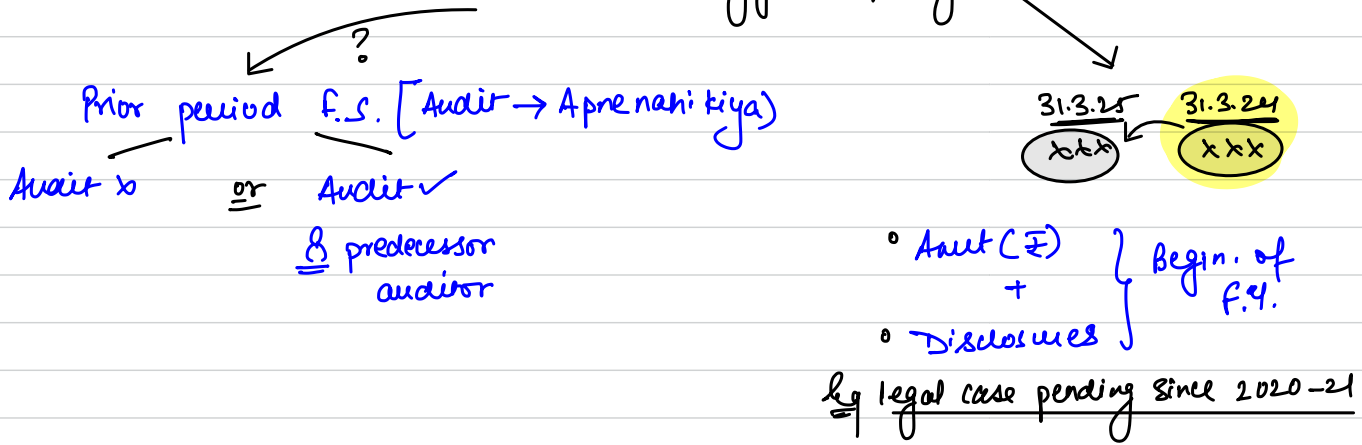
- ① Recd indirectly or ② Not from intended CP.
- [Conclusion] Fraud Risk favor.

3. **Exception** • Diff b/w info. (Requested & provided by CP.)

- Investigate & reconcile discrepancy
- Assess to entire popⁿ
- Evaluate [SAAE obtained or FAP]

4. **mgt's Refusal:** Inquire Reasons + AE → Reasonableness / Validity → Impact → Fraud risk / NTE of A.Pro. → Alt. Audit + TWU + SA#OS.

SA 510: Initial Audit Engg. : Opening Balances

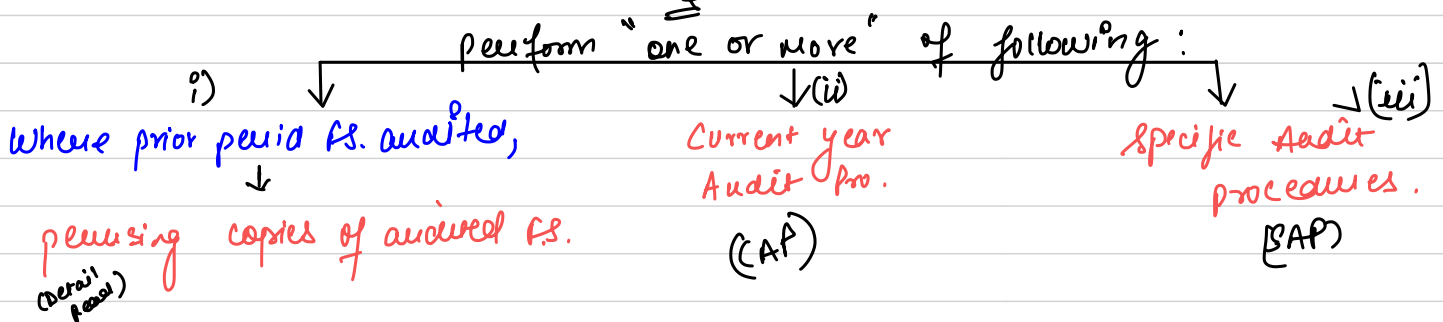


Audit Procedures

obtain SAAE whenever O.B. contain misstatements that materially affect current period f.s.

a) Determine whether prior period closing balances have been correctly brought forward to current period or any adjustments disclosed as prior period items in c.y. P&L. (PPI)

b) whether O.B. reflect application of appt. acc policies.

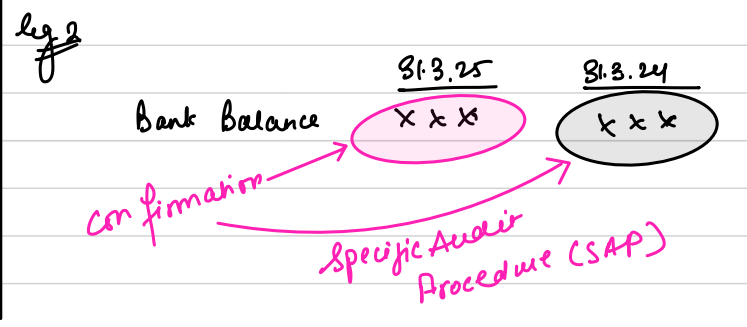
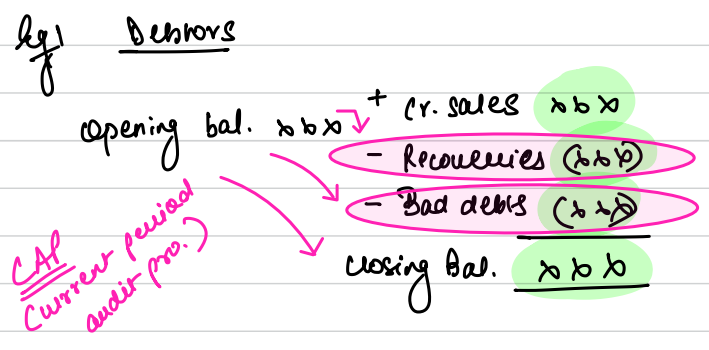


Skmesala

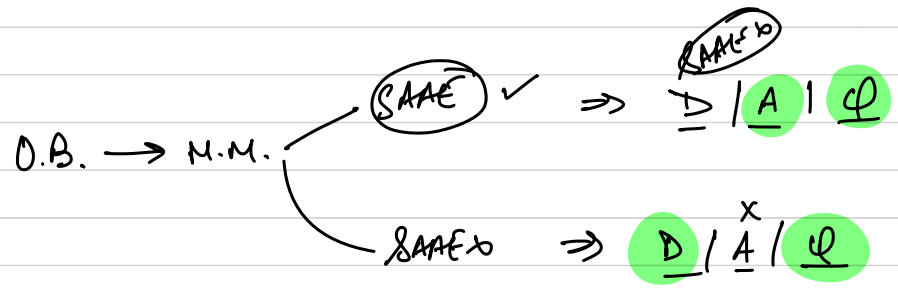
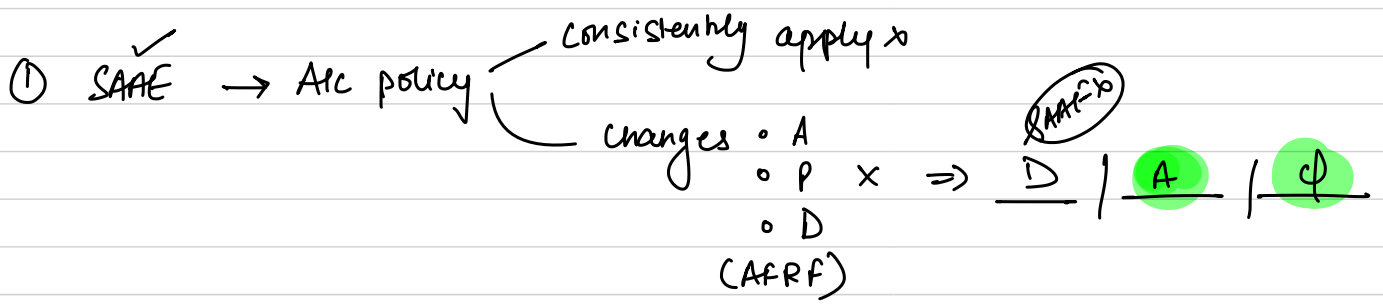
If auditor obtains AE that O.B. can have M.M. (skat)

per form Additional audit procedures

If auditor concludes, misstatement exist, communicate to mgr & TWY.



Same



Ans 1

As per SA 510, Initial Audit Engrg: opening balances, objective of auditor is to obtain SAAE whenever:

- opening balances contain misstatements that materially affect current period f.s. &
- Appropriate a/c policies consistently followed or changes properly accounted, presented & disclosed as per AFRP.

- when prior period f.s. audited by another auditor, peruse copies of audited f.s.
- Auditor can rely on closing balances of prior period f.s., unless current period audit procedures indicate misstatement in opening balances.
- Auditor may perform current audit procedures like ^{verifying} collection of debtors during period.

- As per SA 580, written representations, auditor may take written representations for specific assertions from mgt.

They provide necessary but not sufficient & appropriate audit evidence

Facts: Auditor excluded audit of a/c receivable from audit program.

Conclusion: • CA Jill should have requested mgt to provide written representation.

- He should have not excluded audit of a/c receivable from audit program.

* Also, guilty of professional misconduct for not exercising due diligence or gross negligence in his professional duties.

Analytical Procedures

Risk Assessment Pro.
(R.A.P.) **SAS 315**

Substantive Pro.
SAS 20

Conclusion Stage
SAS 20

F.S. A.S. / P.S. Y.O.Y % change
↓
variation % ↑
↓
R.O.M.M ↑

An. Pro. as Substantive Audit Procedures.

① **Suitability** of An. Pro. [for a given Assertion, R.O.M.M & T.O.B.s performed]
OCACC
x ✓ x x x

YoYo Hotels.
(Revenue)

No. of Rooms	100
Rent/Day	₹1000
No. of Days occupancy	200
80%	
Expected Revenue	₹1.6 cr.

④ Determine amt. of difference from expected value that's acceptable w/o any investigation.

② **Reliability of Data**
[from which auditor sets expectation]

Consider:

- **Source** of data [IT system]
- **Controls** over preparation of data
- **Comparability** of data
- **Relevance** of data.

③ Develop an **Expectation** of recorded aunts/ratios,
↓
ensure it's **precise** to identify a **M.M.**

1.76 cr
10% ↑ ↓
1.44 cr
16 lakh variation Acceptable w/o investigation

Case

Expected Rental revenue ⇒ 1.6 cr.

Difference Acceptable w/o Investigation = 16 lakhs

Actual Rent = ₹2 cr [Difference = 40 Lakhs]

Investigation

① Inquiring mgt & obtain A.E relevant to mgt's response.

② Performing other audit pro. when

mgt is unable to provide explanation or explanation with AE is inadequate

generally 2500 days
Actually 250 days

Rough ① Response to SAEs → Alt. Audit Pro.

② Response ✓ → AE Adequate → Addition

[OAR] Overall Analytical Review [Partner Review]

P&L

B.S.

C.Y. P.Y. variance % reasons.

Revenue

x10

x10

x10

20% ↑ last month
Big order

⋮

Expenses.

Revenue sheet

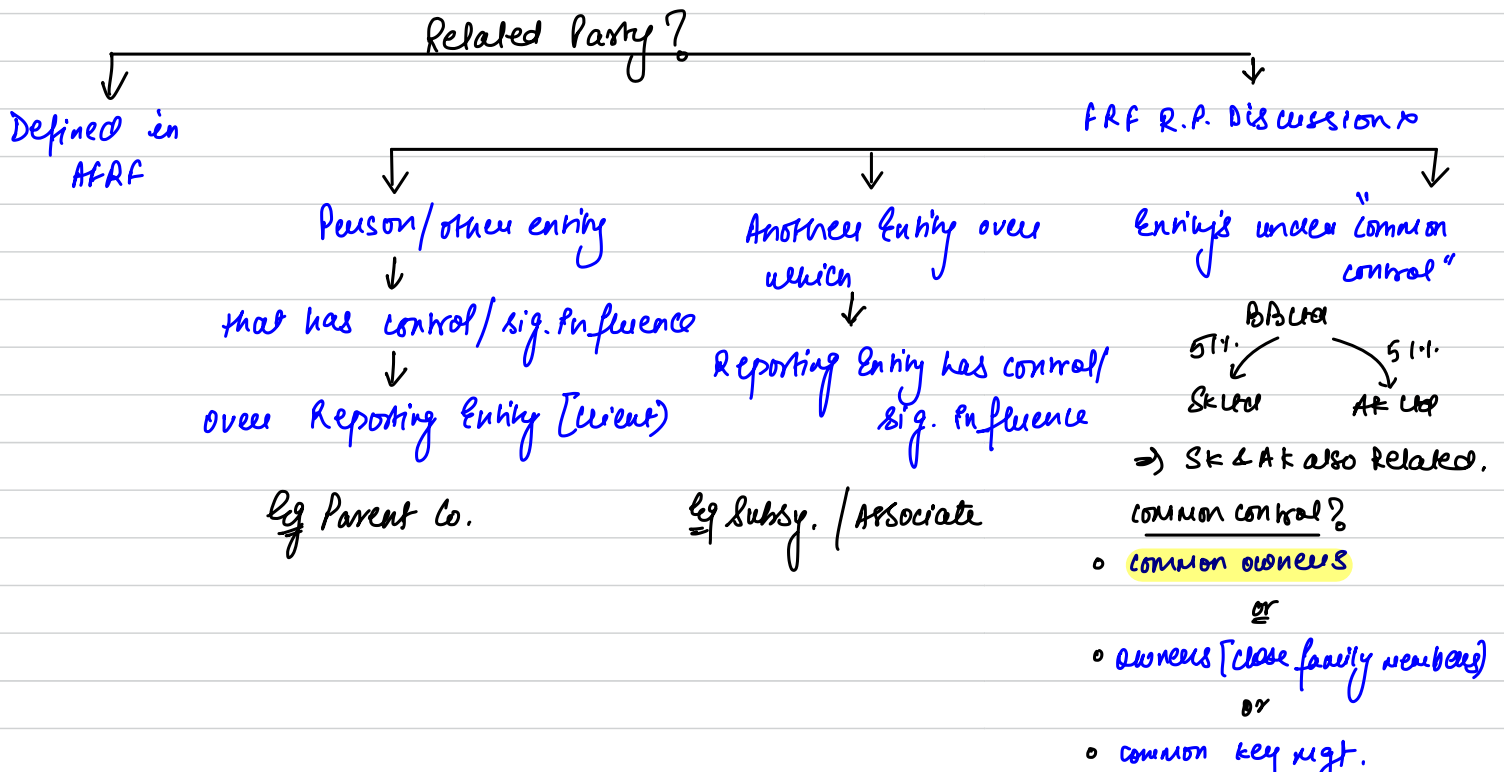
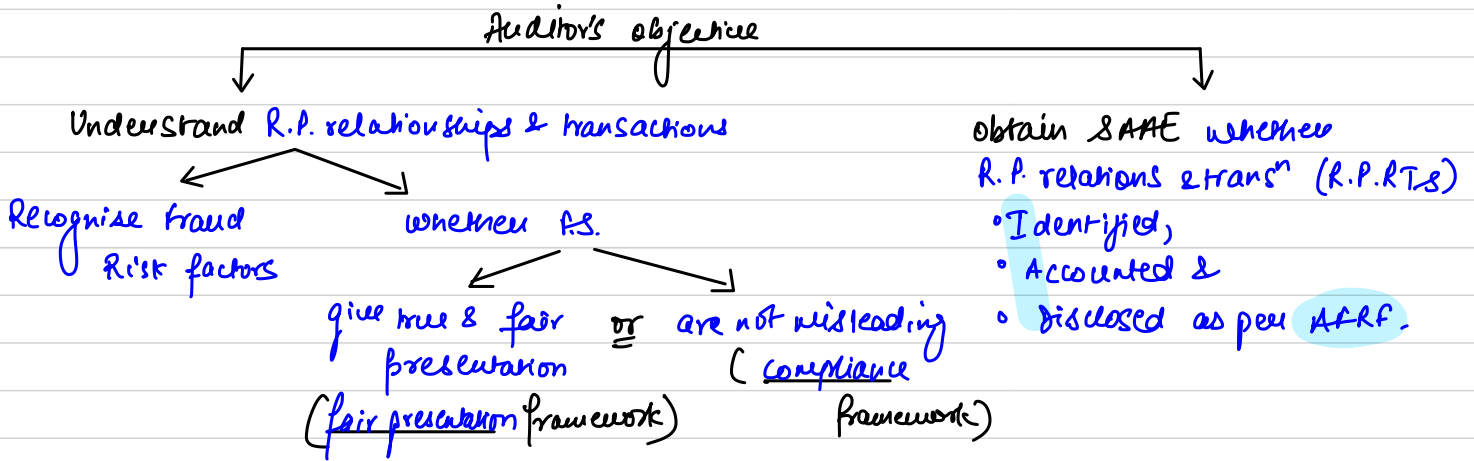
Agreement

Pre-Book

↑ Revenue ↑ [Fraud Risk]
↓
F.A.P.T

SA 550: Related Parties (R.P.)

F.R [Ind AS 24/AS 18] ⇒ F.S. Disclosure ⇒ R.P.
 Relationship
 Transactions
 Balances



Note: Entities under common control by state (National/State/Local govt.) not considered related unless they engage in sig. transⁿ **or** share sig. resources.

Ind AS 24: Disclose ?

- Name of Govt + Relationship with Reporting Entity [control/jointly control/sig. influence]
- Nature & Amt. of sig. transⁿ [individually/collectively.]

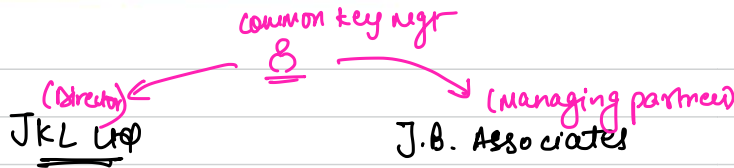
Engg. Team Discussion

[R.P.R.T → R.P. Relationships & Transⁿ]

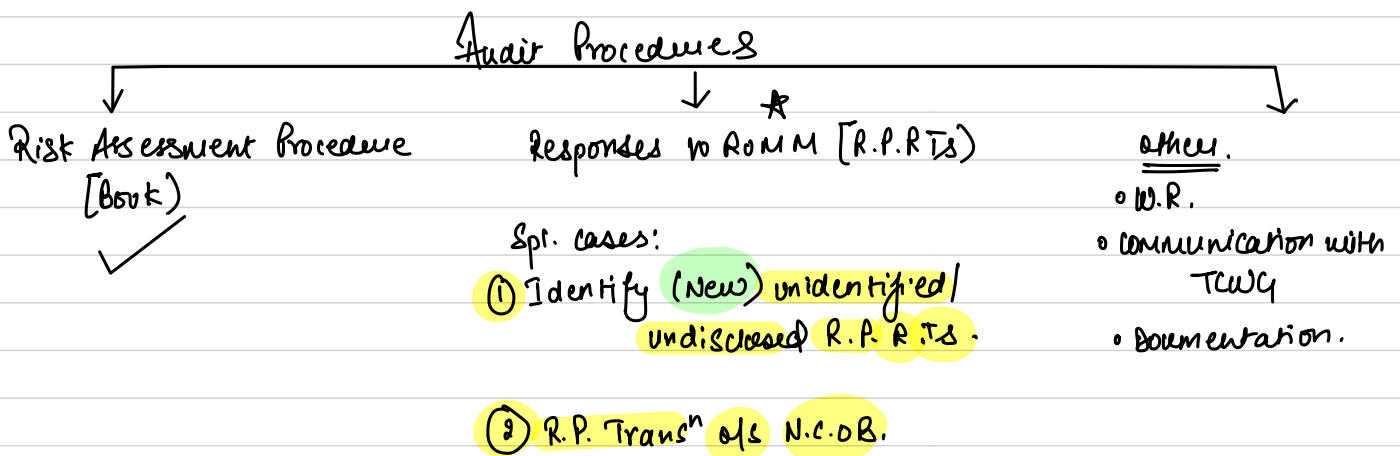
- ① Nature & Extent of R.P.R.T(s) → ② Records & Docs that may indicate R.P.R.Ts
↓ (Audit)
- ③ Maintain Professional Skepticism throughout audit
↓ ?
- ④ Circumstances indicating R.P.R.Ts not disclosed to auditor
← ?
- ⑤ Importance that mgt. attaches to maintain I.C.s for
 - Identification
 - Accounting.
 - Disclosure of R.P.R.Ts.

Question 1

JKL Limited is engaged in the business of Construction and real estate having various projects across states. M/s YT & Co, Chartered Accountants have been appointed as Statutory Auditors. Audit Team from M/s YT & Co for audit of JKL Limited comprises of CA Z — Engagement Partner, CA Q, a paid assistant and 3 Articled Assistants. During preliminary verification, CA Z observed that huge amount of sub-contract payments were made to M/s JB Associates, a partnership firm in which Director of JKL Limited is a managing partner. The engagement team discussed that SA 315 and SA 240 shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the JKL Limited's related party relationships and transaction. Highlight the matters that are to be addressed in the discussion by CA Z with engagement team members with reference to the relevant standard on Auditing. [May'22]



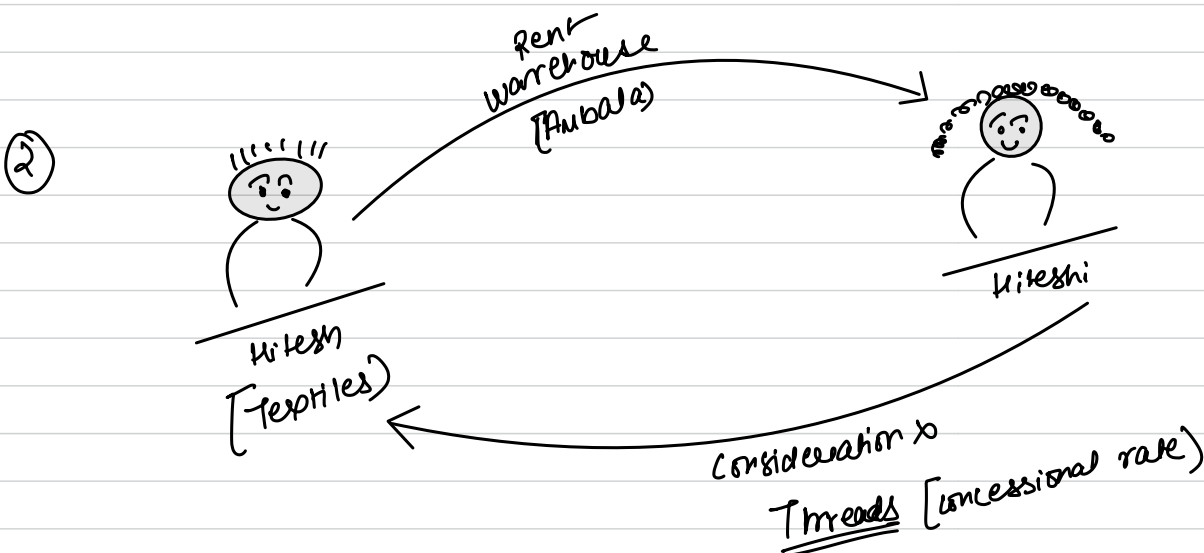
◦ Records & Docs. [Read from Book → 6 points learn]



Spl. Cases ① Identification of unidentified / undisclosed R.P. transaction

- a) Promptly communicate to other E.T. members → b) where FRF requires R.P. disclosures
 - Request mgt to identify all transactions with newly identified R.P.s
 - Inquire, why J.C. failed to identify / disclose R.P. R.T(s)
- d) Reconsider Risk that other R.P(s) or R.P.Ts may exist that mgt has not identified / disclosed.
 - c) Perform Substantive Audit Procedures on newly identified R.P. R.T(s)
- e) If non-disclosure appears intentional (i.e. RomK due to fraud), evaluate audit implications.

02



Sig. transⁿ o/s N.C.O.B. (Normal course of Business)

What to do?

- a) Inspect contract & evaluate:
 - Business Rationale of the transaction (logic)
 - Terms of transⁿ are consistent with mgt explanation.
- b) Transⁿ (Basic)
 - (AFC) Transⁿ accounted & disclosed as per AFRF
 - (Law) obtain A.E. evidence that transⁿ is authorised & approved.

Note: If no business rationale, sig. transⁿ o/s N.C.O.B
 ↓
 Fraud Risk Factor (SAARU)

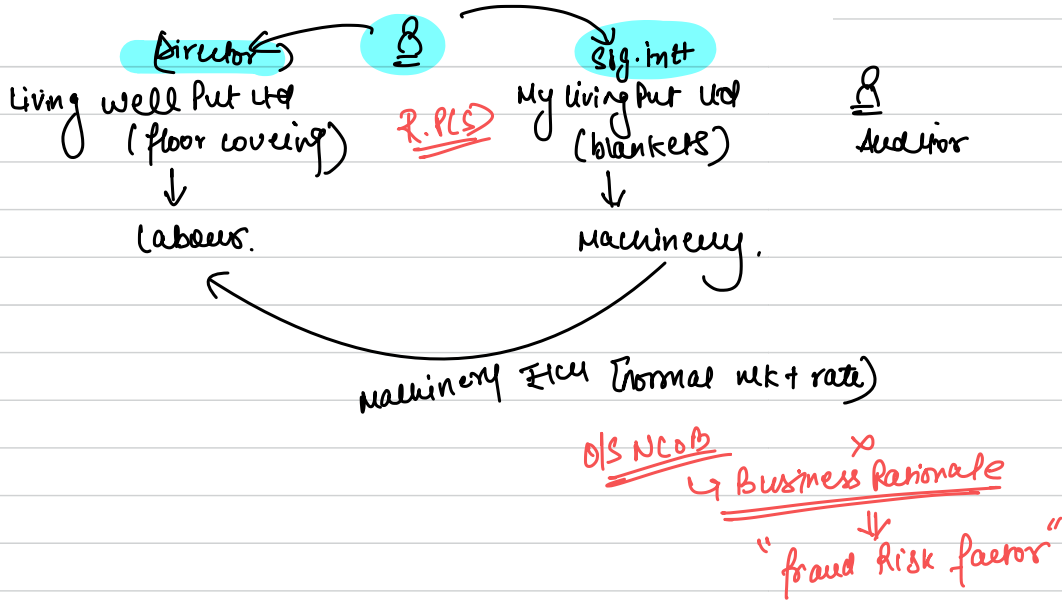
Question 4

Carpets

"Living Well Private Limited" is engaged in the manufacturing and export of floor coverings. Such products are labour-intensive and do not require much of capital investment in machinery. The company has no plans to diversify in other product lines. Its directors are also holding significant interest in another company "My Living Private Limited" engaged in manufacturing of blankets using capital intensive machinery.

During the course of the audit of "My Living Private Limited", it was noticed by you that the company has sold machinery of ₹ 1 crore to "Living Well Private Limited" during the year. The transaction has been done at normal market rates applicable to such used machinery.

How do you view the above transaction as auditor of "My Living Private Limited"? [5M]



SA 550 (1 Pg. Revision)

1. Objectives • Understand R.P. R.Ts
 ← fraud risk factor of R.P. with dominant influence
 AS - True & fair view? (AFP)
 ↳ misleading? (compliance framework)

2. R.P. Definition • (upar) Entity → Reporting Entity [control / sig. influence]
 • (niche) Reporting Entity → Entity (" / ")
 • (sath) common control.
 [Exception] By State (C4 / S4)

Ind AS 24 Disclose — name of Govt + Relationship
 ↳ sig. transⁿ with common control Entity (individual / collective)

3. ET Discussion • Nature & Extent R.P. R.Ts. → Records & Docs. → Prof. skepticism
 • Importance mgt gives to ← Circumstances
 GC (9 / A / D of R.P. R.Ts) (R.P. R.Ts × Disclosed to Auditor)

4. Audit Procedures
 • R.A.P [Understand] — Inquiry (R.P. — Relation
 ↳ Transⁿ (Type + Purpose)
 ↳ Inquiry I.C. — Atc & Disclose R.P. R.Ts
 ↳ Authorise — R.P. R.Ts
 ↳ o/s NCOB.

Spl. cases 1) Identify unidentified / undisclosed R.P. / RPT

• Prompt communicate ET members → Inquire mgt — other R.P.Ts
 ↳ IC → fail to identify?
 Reconsider risks ← Substantive Audit procedures (new RPTs)
 ↳ Intentional (Audit implications)

2) Sig. transⁿ o/s N.C.OB • Contract — Business Rationale
 ↳ Terms consistent → mgt explⁿ
 • (Basic) — Atc & Disclose → AFP
 — Authorised & approved.

• Sig. matters (R.P) → communicate to TCWG • W.R.: R.P. Disclosed
 ↳ Auditor
 • Document: Name & Transⁿ with RPs

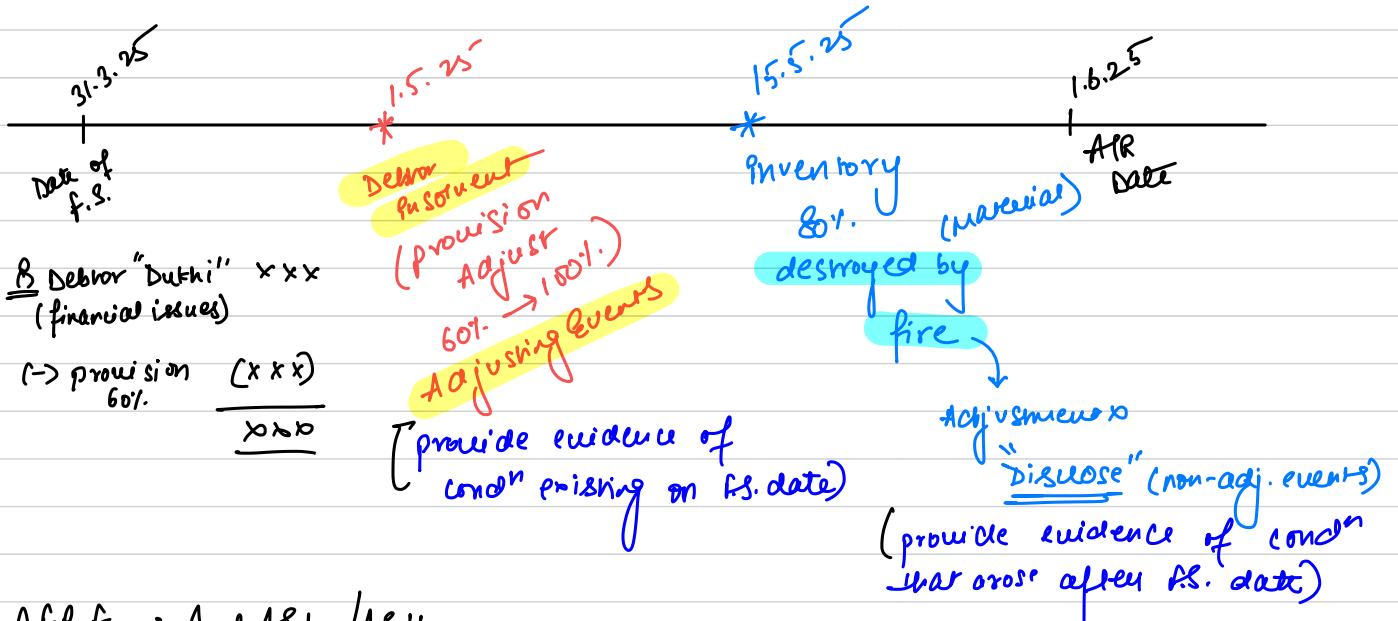
SA 560: Subsequent Events

1. Events b/w f.s. date & date of A/R

2. Facts that auditor knows

after date / issue of A/R
2A / 2B

f.s. date \Rightarrow B.S. date (31.3.25)
Date of A/R \Rightarrow sign A/R (date)



AFRF \Rightarrow Ind AS 10 / AS 4
Events occurring after reporting period / B.S. date.

Auditor (karna kya?) \Rightarrow Ensure that such events \rightarrow 'Identified'

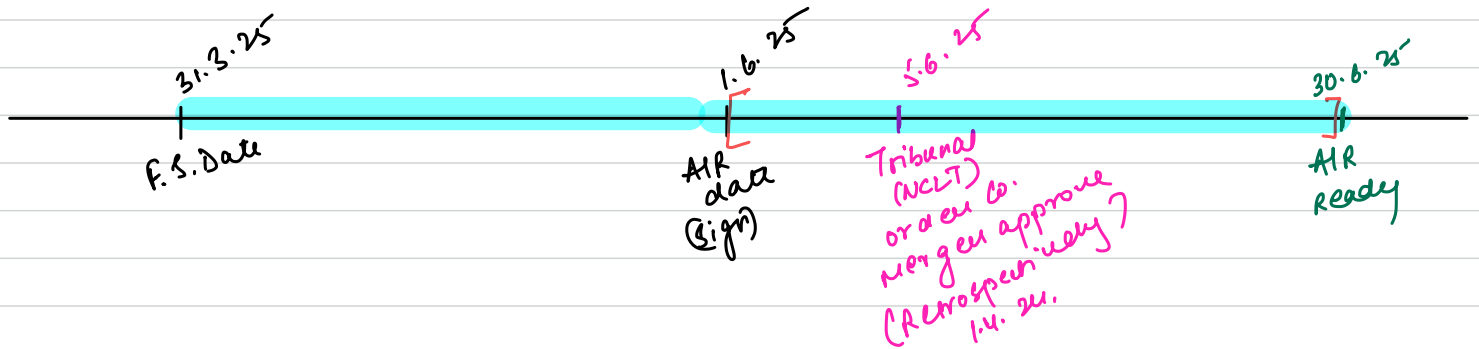
Obtain SAAE \rightarrow to ensure events requiring Adjustment or disclosure are identified.

Note: If previous procedures satisfied auditor \Rightarrow 'No need' for addⁿ audit pro.

Q What procedures to identify subsequent events?

- Understand mgmt's procedures for identifying subsequent events.
 - Inquiry of mgmt about subsequent events.
 - Read N.O.M (Minutes of meetings) held after f.s. date.
 - latest subsequent interim f.s., if any. Reg 0, 4, 25-26 (f.s.)
- (Event nil gaya)
- (feel is similar to SAAS L12)

2A. Facts become known to Auditor after date of A/R



a) No obligation to perform any procedure after date of A/R.

b) However, if fact becomes known to auditor after date of A/R, if known before, he may have amended A/R: (Tension)

- Discuss matter
- Determine if AS need amendment & if yes,
- Inquire how mgt will address this matter.

↓

Mgt AS Amend ✓

Carry out procedures on the amendment

Case I

• Extend procedures till date of new A/R.

• Provide New A/R on amended AS, not dated before date of approval of amended AS.

Case II

If law/reg. allows mgt, to restrict amendment in AS to subs. event Trib-order effect ✓

auditor can also restrict procedures to that event

(Dual Dating)

Include addⁿ date in A/R.

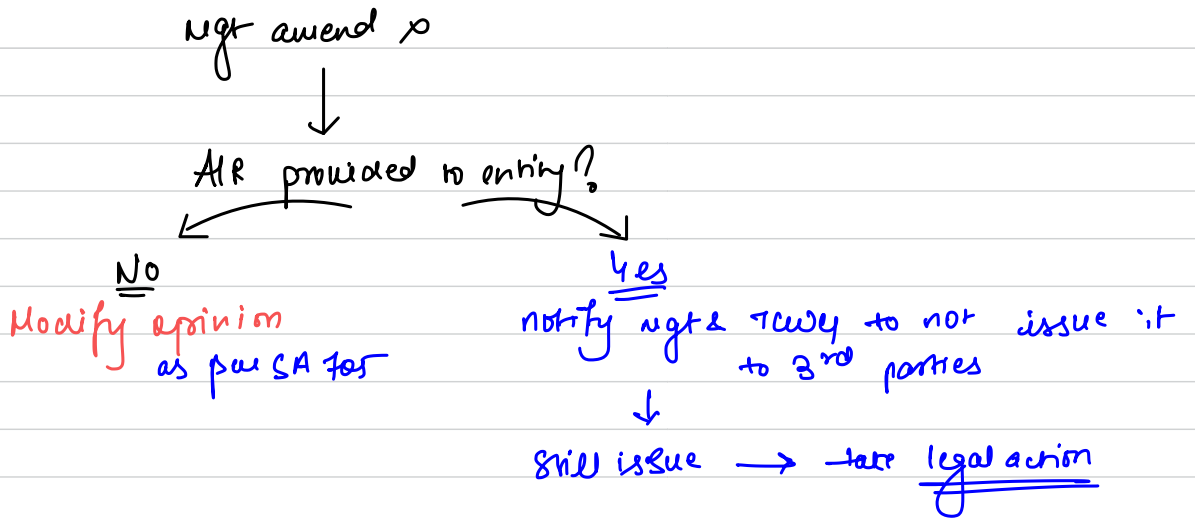
or

New Report Include EoM/OM para

that conveys audit pro. restricted to AS amendment.

Note: If cl is silent on Case I/II, go ahead with Case I.

1.6.25
30.6.25



Question 5

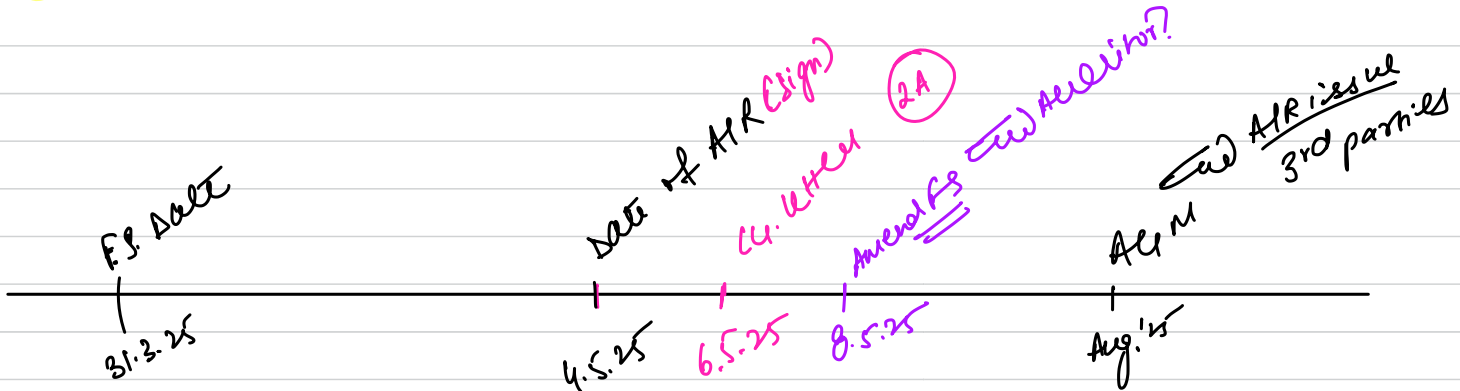
2A 2B

Amudhan & Co., are the Auditors of XYZ Company Ltd., for the year ended on 31/03/2025. The Audit Report for that year was signed by the Auditors on 04/05/2025. The Annual General Meeting was decided to be held during the month of August 2025. On 06/05/2025, the Company had received a communication from the Central Government that an amount of ₹ 5800 crore kept pending on account of incentives pertaining to Financial Year 2024-25 had been approved and the amount would be paid to the Company before the end of May 2025.

To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt.

Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31/03/2025. On 08/05/2025, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report on the Financial Statements for the year ended on 31/03/2025.

Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors. (SM + Nov'18)



Question 6 (5M)

The audit report of Rare (P) Ltd for F.Y. 2024-25 was issued by SRM & Co. on 23rd July, 2025. However, a case was filed against Rare (P) Ltd on 9th August, 2025, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2025, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

Mr. Rishabh discussed the said matter with the management, and it was determined to amend the financial statements for F.Y. 2024-25. Further, Mr. Rishabh inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.

The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report. In the context of aforesaid case-scenario, please answer to the following questions: -

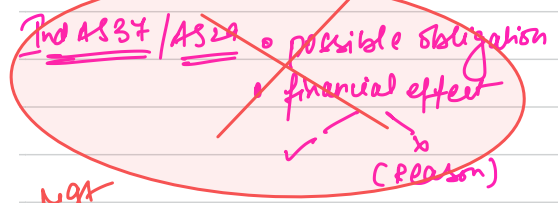
- i. Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?
- ii. Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the financial statements? (MTP May'24 + SM)

B.S.

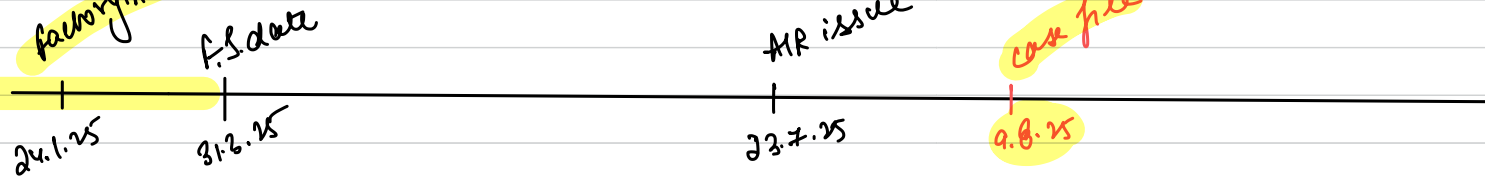
(Footnote)

(Contingent Liab)

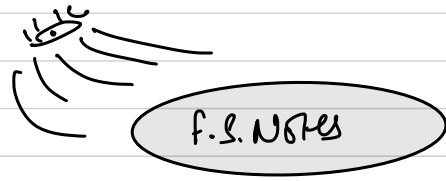
Em para



factory incident



Emphasis of matter ?



Not a substitute of

- Disclosure in F.S. as per AFRF
- Modified opinion as per SA 705 (BIA 10)
- Reporting as per SA 570

(MURG) Material Uncertainty Related to C.C.
(Detail SA 570)

ISA 560 [1 Pg. Revision]

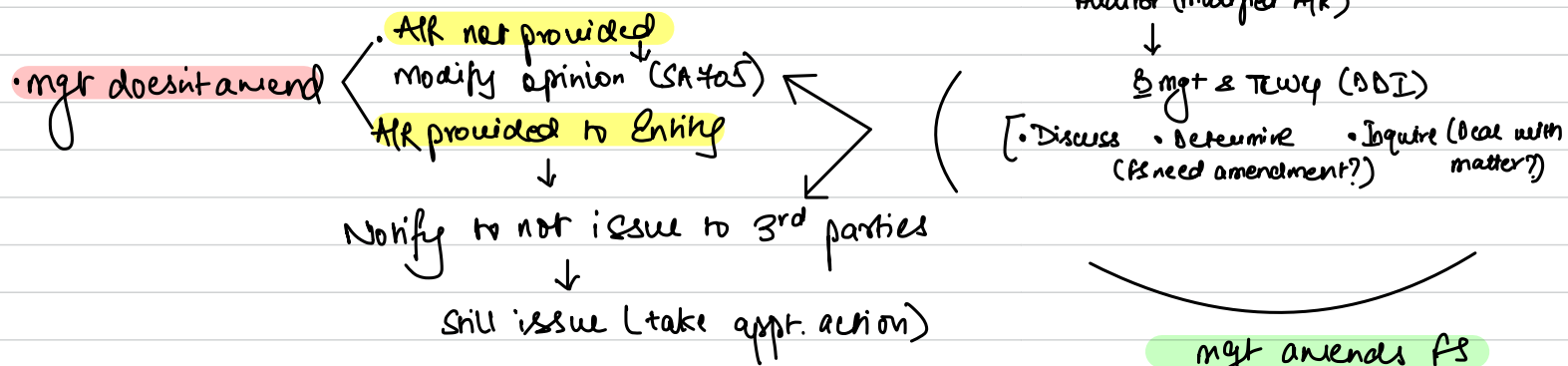
- **Subsequent Events:** 1. Events b/w FS date & date of A/R
- 2. Facts become known to auditor after



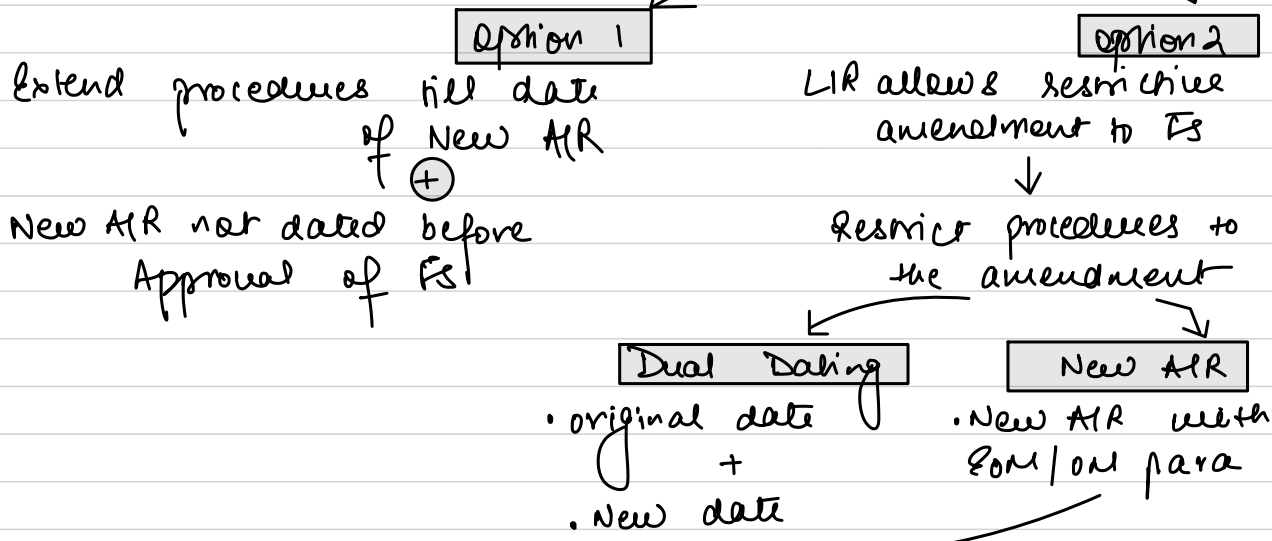
1. Events b/w FS date & A/R date → Identified → Adjusted & disclosed in FS (A/R F)

- Understand mgt process → • Inquire Events + Read — M.O.M + W.R (identified events)
- ↳ Inquire FS

2A. Facts → become known after date of A/R • No obligation • But → fact becomes known (known earlier)



Carry out procedures on amendment



Case 2B • Same as 2A + • Review mgt steps to inform users about situation
 • In new A/R → Add EoM/om para discussing reasons for amendment.

SA 570 : Going Concern (G.C.) [Simple + Scoring]

G.C. Basis of Accounting

kal band? (nahi) → (chatti jayegi) → → → →

F.S. are prepared on basis that entity will continue operations for a **foreseeable future.**

General Purpose FS (Common users) prepared using G.C. Basis.

Sp. Purpose F.S. (SA 800) [Specific users] may/may not be prepared using G.C. Basis. (nahi)

unless ^{Assets sell} _{Liab pay} entity intends to liquidate or has no other alternative.
or cease operations (bandhna band)

G.C. Appropriate? ⇒ [F.S. Effect].

Yes

No.

Assets & Liabilities recorded on a basis that entity be able to

F.S. are prepared using Liquidation basis.

Realise Assets & Discharge liabilities in N.C.O.B.

eg P.P.E

Value in use	₹ 5,00,000
Selling price	₹ 3,00,000
Record?	₹ 3,00,000

Q Mgt Responsibility? Assess G.C. + Appr. disclosures of G.C. in F.S.

Q Auditor Responsibility? (2 stages)

I. (Aaj) SAAE → conclude → G.C. Appropriate?

II. (kal ki chinta) conclude ⇒ **Material uncertainty** exist?

(entity functioning)

Note: Auditor **can't guarantee** entity's ability to continue as a G.C. ∴ of J.L.A.

↓
Maut! [P.C. enuncie]

Basic Concepts

1. Events & conditions (E/Cⁿ) that may affect G.C.

financial [A.S.]

- High liabilities
↓
pay x
- high losses [operating]
- -ve cash flows

operating (Supply chain)

- Suppliers x
- workers x
- K.M.P x
- competition (strong)
- customer demand ↓

other

- NOCLAR
- High legal claims
- catastrophe (calamity)
↓
insurance x

2. Material Uncertainty (E/Cⁿ)

Likelihood (% ↑) + Magnitude (£ ↑)

eg high chances of penalty of £500M ⇒ Co. pay x (future)

G.C. ⇒ Appropriate
Trik ✓ [Aaj]
Kal ⇒ 'dikker aa skhi'
M.V. ✓

3. Mitigating factor [Remove M.V. ✓ Bal Bal Bachhe]

eg a) Govt allowed Co. ⇒ to pay penalty in instalments over 100 yrs.
Also waived off tot. of penalty.

b) Insolvency Resolution Process [Bankrupt Co.]

[Resolution Plan ⇒ Approve]

Revive
[creditors ⇒ work. Restructure]

Auditor's Role

R.A.P
(Identify → E/Cⁿ)

Additional Audit Procedures
E/Cⁿ

M.V.? + mitigating factor?

Conclusion
• G.C. App? ↓ (yes)
• M.V.? ↓

Reporting

R.A.P \Rightarrow Identify E/cⁿ

check if mgt performed G.C. Assessment?

Yes

- Discuss the assessment with mgt
- +
• Inquire if any E/cⁿ identified?
- (Yes)
mgt's plans to address them.

No

- Discuss "Basis" of using G.C. Basis of Accounting
- +
• Inquire about E/cⁿ identified.

NOTE: 1. Stay Alert! for such E/cⁿ throughout audit.

2. Evaluate mgt's G.C. assessment

Detail?

No.

[Healthy operations]

Yes

(G.C. has issues)

Period?

- Same period as mgt
- Minimum 12 months from date of FS.

Additional Audit Procedures [5*]

(E/cⁿ identify \Rightarrow M.V.? \Rightarrow mitigating factor?)

khali
kaam?

② [Plan] Evaluate mgt's plans for future actions

- whether outcome likely to improve situation
- whether plans are feasible

(Sukha sukha)

① where mgt not yet performed G.C. assessment,

request mgt to make assessment.

④ Addⁿ facts/info. available since date of mgt's assessment.

③ where entity has prepared cash flow forecast & analysis of forecast is significant

Evaluate

Reliability of data used to prepare forecast

whether adequate support for assumptions in forecast.

by bank \rightarrow Addⁿ financing

Supporting Docs. ?

[Email / Agreement / Letter] official

⑤ Request W.R. from mgt & TCW regarding
• plans &
• their feasibility.

Conclusion

I. SAAE → Conclude → G.C. Appropriate?

II. Conclude → M.U. (E/Cⁿ) Exists?

↓
"Yes"
=

F.S. Disclosures (E/Cⁿ ✓ ⇒ M.U.?)

M.U. x

↓
E/Cⁿ

M.U. ✓ [4 x disclosures]

↓

"Read from Book"

B.P ↑ ○ E/Cⁿ → cast S.D. → G.C.

B.P ↓ ○ Plans

B.P ↑ ○ M.U.

○ Entity may be unable to

Realise Assets

Discharge Liab. on N.CoB

Reporting *

G.C. Inappropriate

G.C. Appropriate (M.U. Exists ✓)

F.S. prepared using

Liquidation (Trick) Basis

faili hai gaal baal

G.C. Basis

A. Unmodified Opinion

B. Adverse opinion (M.V + P.V)

Sp. case
mgt → f.s. disclose
galti → kharane sudharne

G.C. Basis follow ✓
But G.C. Inappropriate
↓
Adverse opinion

C. Disclosures ✓

○ Unmodified opinion

+
○ M.U.R.C. Section (M.U. related to G.C.)

→ Draw attention to note in f.s.

+
→ State M.U. exists & our opinion is not modified on this matter.

Disclosures to
D. ○ Qualified / Adverse Opinion

+
○ Basis for Q/A opinion section, state:
→ M.U. exists &
→ F.S. don't adequately disclose this matter.

[Trick: Over (G.C. issue v. high) disclosure Adverse / Under (less) disclosure Qualified]

E. mgt unwilling to make Extend

G.C. assessment ⇒ SAAE ⇒ Qualified / Disclaimer Opinion.

19 years → growing concern

CAO 2020 Reporting [clause XIX of Para B, CAO 2020]

- On basis of
 - Ageing & expected dates of realisation of financial assets,
 - payment of financial liabilities,
 - financial ratios, current ratio | quick ratio | DE ratio → Milenge
 - BODs & mg's plans &
 - other info. in FS.

whether auditor is of opinion that

No M.V. exists on date of A/R that

Co. is capable of meeting liabilities at B.S. date,

when they fall due within 1 year from B.S. date.

Q 1, 2, 3, 6, 7, 8, 9, 11, 12

Q6

Abhinandan Ltd

• profit ₹35 Cr

• TL ₹100 Cr

Show cause notice

Penalty ₹500 Cr

• provision to

• proper disclosure to

Environmental law violates } SA 250 ⇒ other law (SIS) ↓ NOCLAR. ↓ Ps. mate. effor

National Green Tribunal

Reporting

Disclosures (to 4)

• E/Cⁿ

• Plan

• M.V.

• - A^x N.C.O.B.

↳ L^b

(to disclosure)

↓
QIA

↘ Pervasive ✓
Adverse opinion

Sec 143(3)(j) *

pending litigation

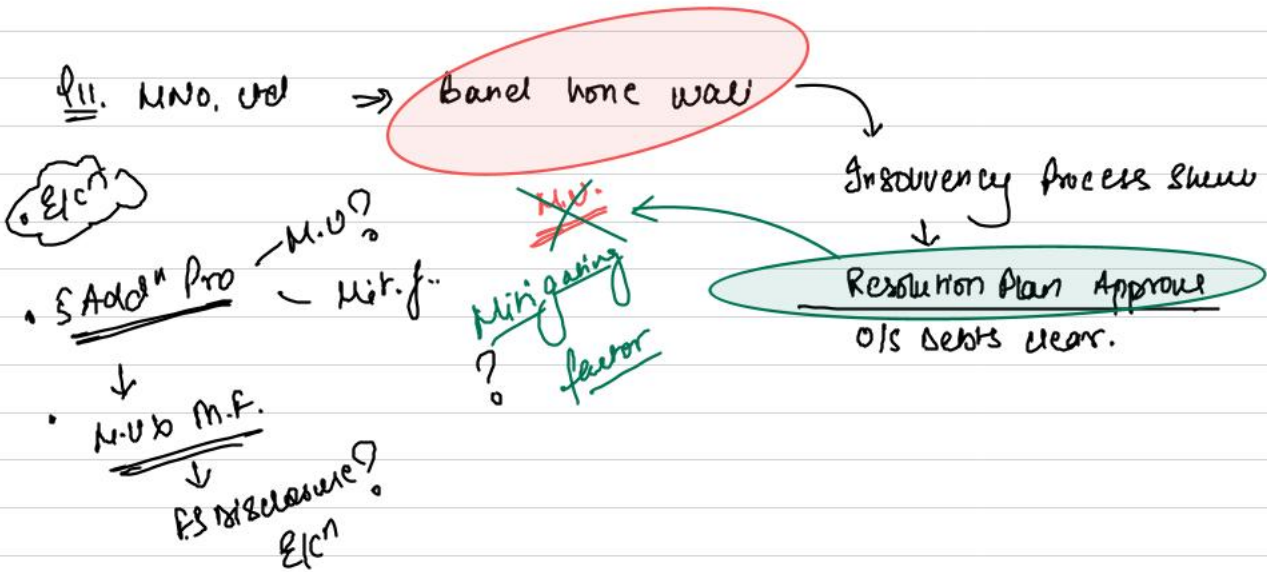
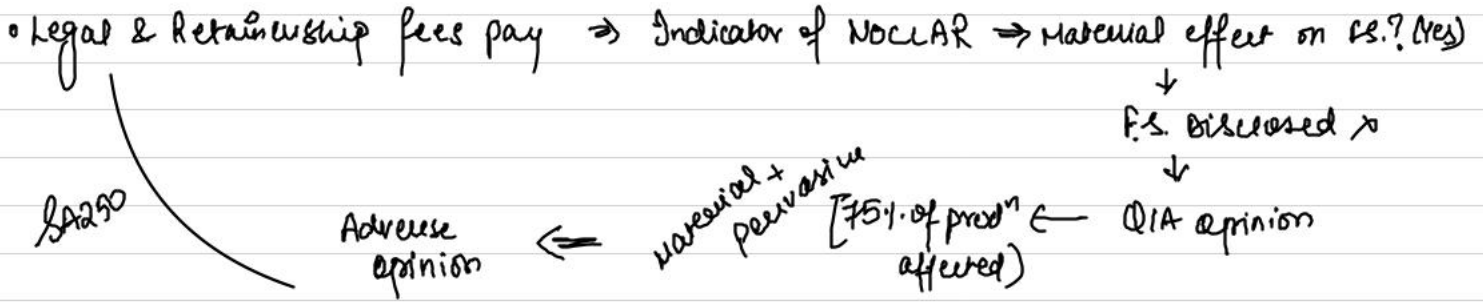
↓
Disclosed impact
in FS. ?

SA 250

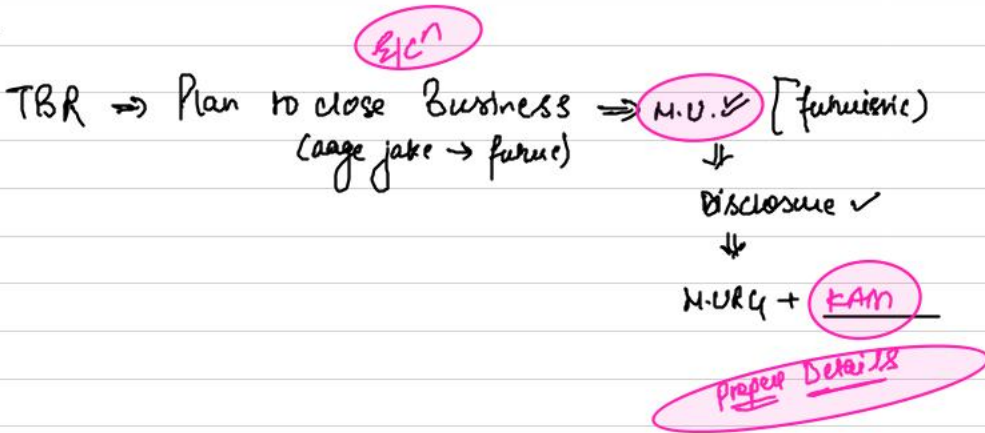
Identify ⇒ NOCLAR?

- Inquiry ?
- Inspection

Q8 Quorum Mechanics Ud



Q12



SA570 Summary chart

• **Q.C. Basis of Accounting** → Appropriate → A/L recorded $\begin{cases} A \rightarrow \text{Revalue} \\ L \rightarrow \text{Discharge N.C.O.B.} \end{cases}$
 → App'to → Liquidation Basis

• **mgt Resp.?** Assess Q.C. + Disclosures in PS.

• **Auditor Resp.?** I. SAAE → conclude → Q.C. Appt.?. II. conclude → M.U. Exists?

• **R.A.P. → Identify EICⁿ** → mgt $\begin{cases} \rightarrow \text{Q.C. Assess } \checkmark \rightarrow \text{Discuss + Inquire (EICⁿ) + Plans} \\ \rightarrow \text{Q.C. Assess } \times \rightarrow \text{Discuss + Inquire (EICⁿ)} \end{cases}$
 → Q.C. Assess. Evaluate → cover min. 12 months.

• **Addⁿ Audit Pro.** [EICⁿ → M.U.? + Mitigating factor?]

1. Request Q.C. Assessment
2. Plan [improve + feasible]
3. Cash flow forecast (beta + assumptions)
4. Addⁿ facts & info.
5. W.R. (plans + feasibility)

• **Conclusion** I. SAAE → conclude → Q.C. Appt.?. II. conclude → M.U. Exists?

• **Disclosures** → EICⁿ $\begin{cases} \rightarrow \text{M.U. } \checkmark \text{ [EICⁿ + Plans + M.U. + Assets Liab NCOB]} \\ \rightarrow \text{M.U. } \times \text{ (EICⁿ)} \end{cases}$

• **Reporting** $\begin{cases} \rightarrow \text{Q.C. Inappropriate (B. Q.C. Basis } \checkmark) \rightarrow \text{Adverse opinion} \\ \rightarrow \text{Q.C. Appt. (M.U. exists } \checkmark) \end{cases}$
 • Disclosures \checkmark → Unmodified opinion + NURC section $\begin{cases} \text{Draw attention} \\ \text{M.U. } \checkmark \\ \text{opinion } \times \text{ modified.} \end{cases}$

• Disclosures \times → RIA opinion + Basis for RIA opinion [M.U. \checkmark Disclosures \times]

• **CAO 2020** Basis of financial Asses/Liab ratios + mgt plans + other info

whether no. M.U. exists ⇒ Co. capable → meet Liab. at B.S. date due within 1 year from B.S. date.

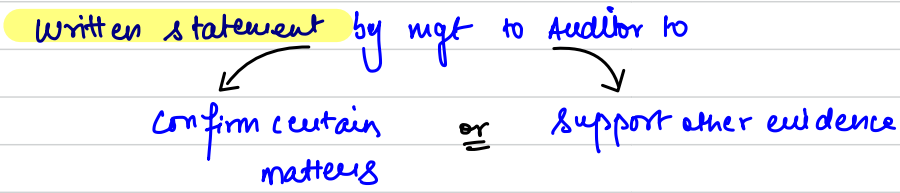
• **SA 701**: M.U. related to Q.C. by its nature a **KAM**.

Notes: • If no disclosure of M.U. (Q.C. severely affected ^{eg.} 75-1. prodⁿ / 500cr penalty) ⇒ Adverse opinion.

• **CAO Reporting** when Q.C. Inappropriate

• **SA 250** reference when Indicators of NOCLAR in Ques.

SA 580: Written Representations



Notes: • W.R. don't include FS, PTs assertions or books/records.

- They are necessary A.E. but not SAAE for the matters.
- If mgt provided WR, it doesn't affect nature/extent of other A.E. that auditor obtains.

Date & Period covered by W.R.

Date

- W.R. are necessary A.E., so A/R can't be dated ^(sign) before W.R. date.
- Also, as per SA 560, auditor is concerned with events up to date of A/R that may require adjustment/disclosure,
 - W.Rs are dated as near as practicable but not after date of A/R.
- For W.Rs on specific assertion [Eg. completeness] obtained during audit, may request an updated W.R.

[A/R (pehle nahi) → pees jina behtar utna → purane ke updated lelo]

Period covered by W.R.

- W.Rs are for all periods referred in A/R, ^{Eg mgt retained FS.} (kyu?)
 - FS: FY 21-25
 - FS: FY 23-24
 - FS: FY 22-23.
- mgt needs to reaffirm that previous W.Rs are appropriate.

(Wopis saara? nahi jugaad)

- Auditor & mgt may agree to a form of W.R. that updates W.R. of prior periods,

By addressing → whether any changes to W.R.?
&
if yes, what they are?

(mgt change)

- current mgt may not be present during all periods

They may assert that we can't provide W.R. for prior period.

This doesn't diminish their responsibility for FS as whole.

- auditor shall request W.R. for all relevant periods.

Q1

Doubt on Reliability of W.R.

- **W.R. Inconsistent with other A.E** ⇒ Perform Audit pro. to resolve matter

eg mgt → complete L/Cs

EL.C. confirmation
↓
L/Cs hidden

If matter is unresolved, reassess DICE

↓
Diligence
Integrity
Competence
Ethical values
of mgt

determine effect on Reliability of

Representations & other A.E. in general.
(oral/written)

- conclude that W.R. not reliable, then determine effect on Audit opinion in AR, i.e. Disclaimer of opinion.
- SAAE x [M.V.P. ✓]

W.R. not provided

1. Discuss with mgt.

2. Re-evaluate **Integrity** of mgt & effect on Reliability of

Representations (written/oral) & A.E. in general.

3. Take appt. actions, including possible effect on audit opinion in AR, i.e. Disclaimer of opinion.

→ ~~perform alternate audit pro. to get SAAE.~~

Q4 (SA 240 + 580)

CA. Arvind, statutory auditor of Divinity Technologies Pvt. Ltd., noticed that Mr. Kamlesh was engaged by Management for investigation of suspected fraud within the organisation. CA. Arvind formally requested a copy of the report of the same to understand the nature, extent and implications of the suspected fraud so that he could appropriately consider it in his audit procedures and reporting responsibilities. Despite multiple written reminders, the management did not provide the report. ✓

In view of this, CA. Arvind requested the management to at least provide a written representation regarding the fraud on/by the Company. The management neither provided the investigation report nor responded to his request to provide the requested representation. How should CA. Arvind deal in the given situation? (MTP Sep'25)

Ans

• W.R. not provided
↓
Sig. issues exist

Theory

SAS 580
• W.R. not provided

SA 240 (Reporting)

• 143 (12)
• CARO 2020

• Withdraw + Report.

CA Arvind (Auditor) ← x Inv. Report
x W.R.

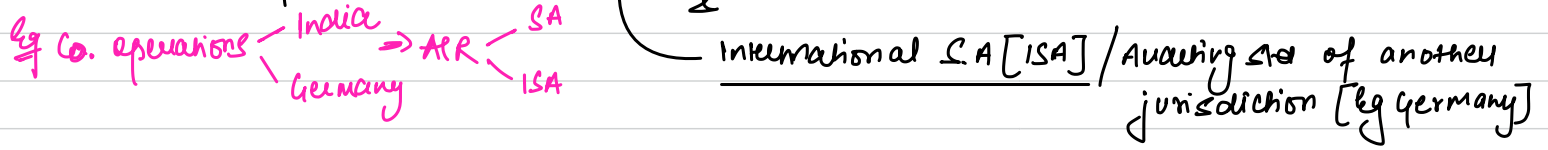
D.T. Kamlesh

Mr Kamlesh

(Investigation → Fraud)

SA 700: Forming an **Opinion** & **Reporting** on f.s. { Reporting - Sample Scoring }

Audit Report as per BOTH - SAs



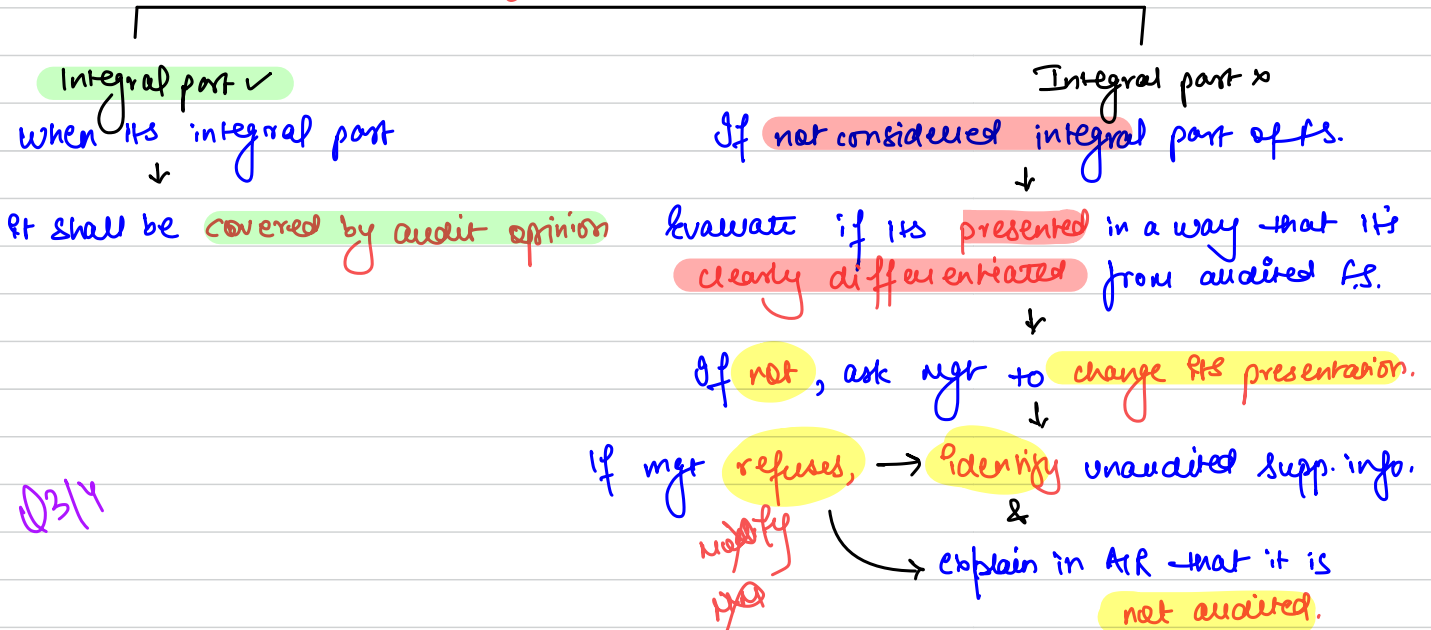
Auditor may refer to SA & ISA in AR only if:

- a) No conflict b/w SA & ISA that would lead:
 - to form different opinion
 - or
 - not include **com/only para** required by SAs. (SA 706)
- b) AR included **minimum elements** reqd. by SAs.

When AR refers to both SA & ISA → clearly identify the same including jurisdiction of other auditing std. eg Germany.

Supplementary Info. EUFI Requires.

If supplementary info. **not reqd. by ARF.** presented with audited f.s., evaluate if it's **integral part of f.s.**, due to **nature & how it's presented.**



03/14

Exam Room



Supplementary sheet



Extra sheet [Integral]



Evaluate ✓

Rough work [Integral part]



Evaluate ✗



Top of sheet "Rough sheet"

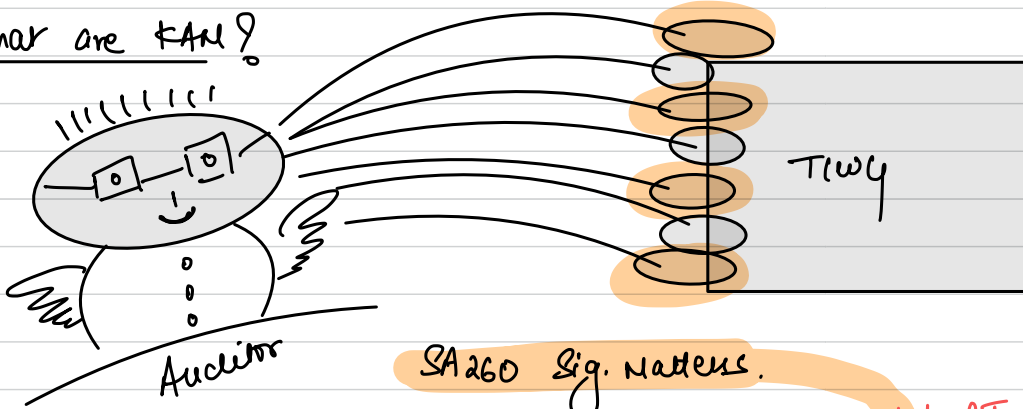
SA 701: Communicating Key Audit Matters in Independent A/R

Q For which entities? ⇒ compulsory ⇒ Audit of

- complete set of
- General purpose fs. of
- listed entities.

• others — Auditor need / LR requirement /

Q What are KAM?



KAM? Matters which are MOST Significant

- in auditor's P.T.
- no audit of fs.

⇒ These are selected from matters communicated with TCWG.

Q How to determine KAM?

↳ listed favourite JRD TATA

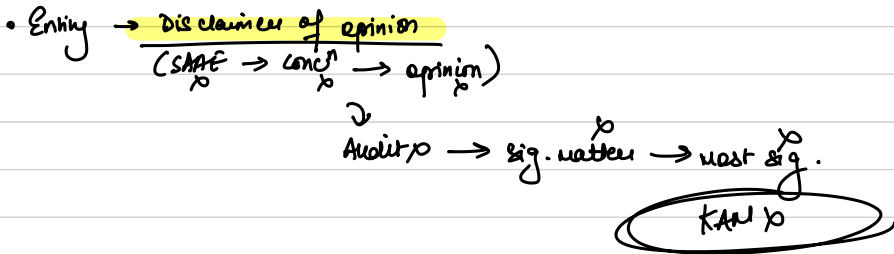
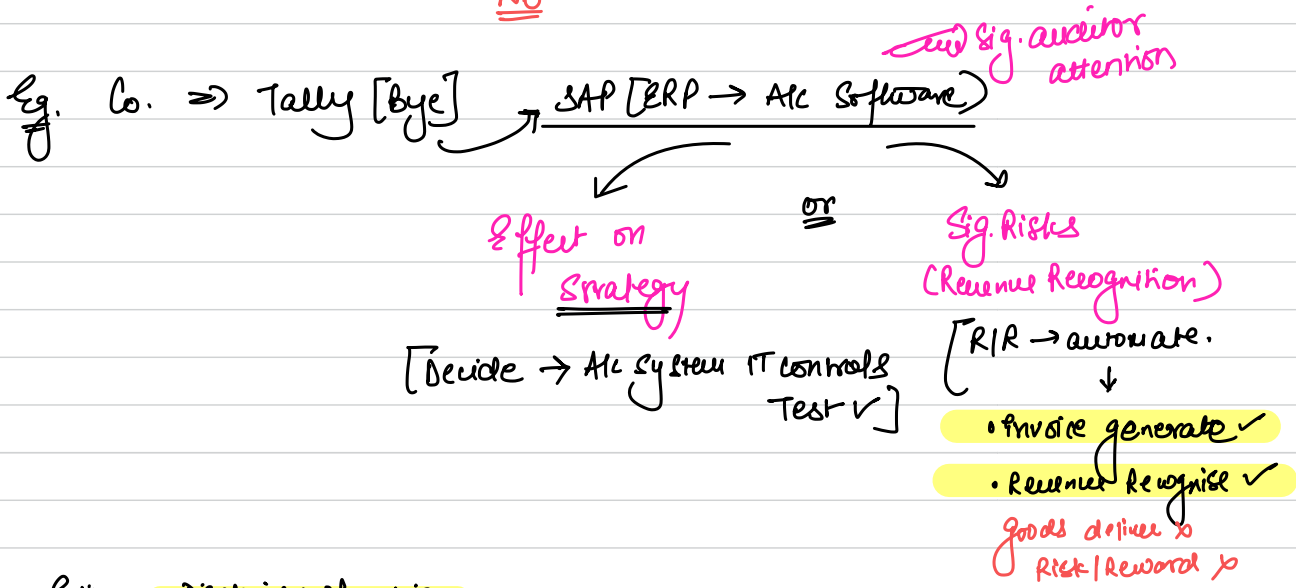
from matters communicated with TCWG,

KAM are those matters which required sig. auditor's attention.

Consider following:

- 1) Sig. auditor's judgment in fs. areas involving sig. mgt judgment including a/c estimates with high estimation uncertainty. [Litigation] [Actual outcome vs estimate] ↑
- 2) Areas of High RMM / Sig Risks as per SA 315. Complex FROUD → Revise SA 260
- 3) Effect on audit of Sig. Events / Transⁿ during period. HWL → Acquire Minimization

KAM → Select → Necessary? (F.S. disclosed)
No



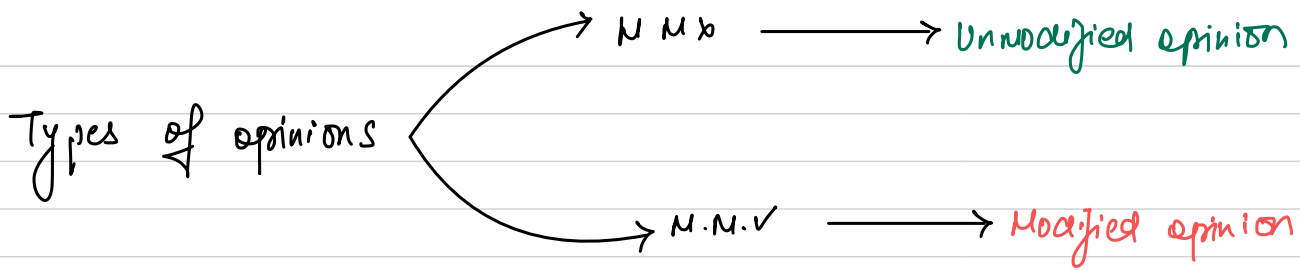
(revise → book)

KAM x → LIR precludes public disclosure
ⓓR

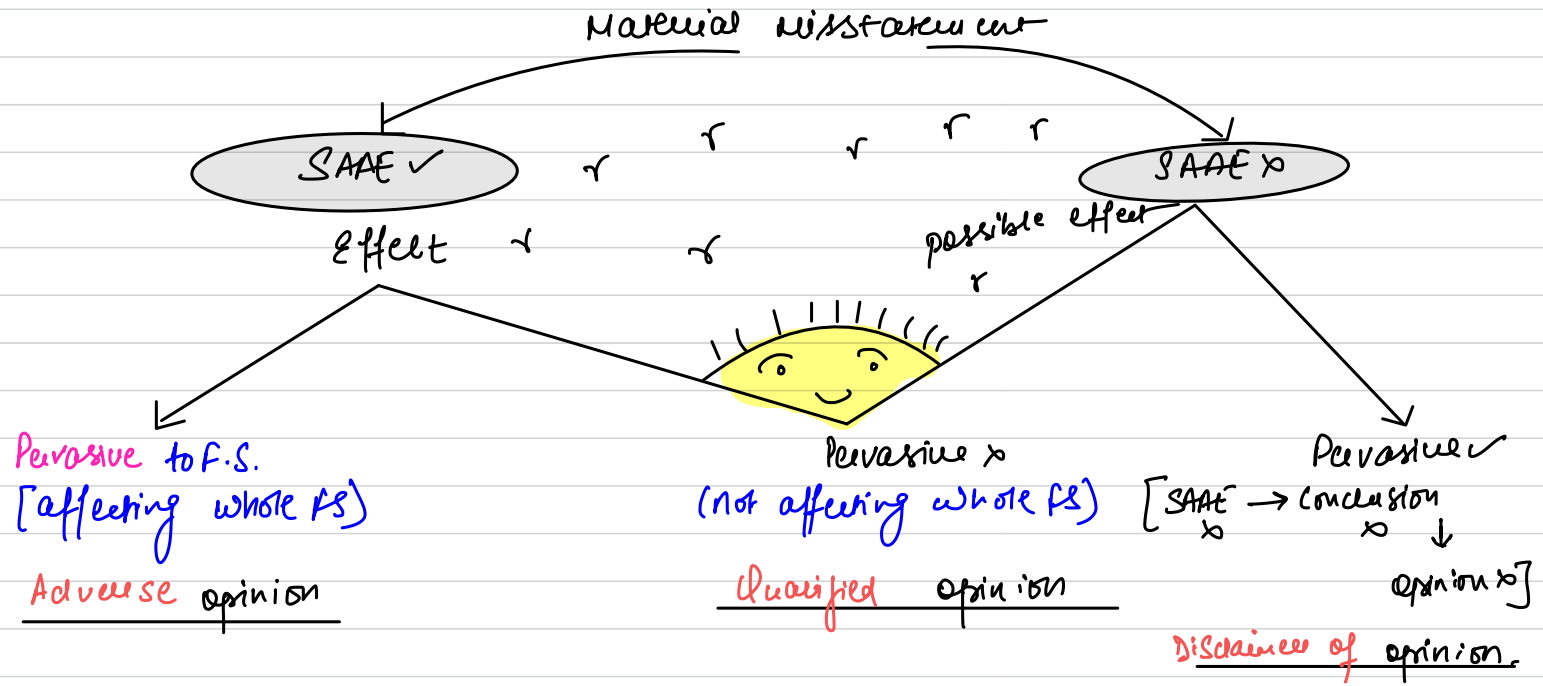
Adverse consequences > public int. benefits of communication

≠ General framework for case study d. : SA 701 + KAM defⁿ + Sig. JRT + "Specific theory"

Q1/2

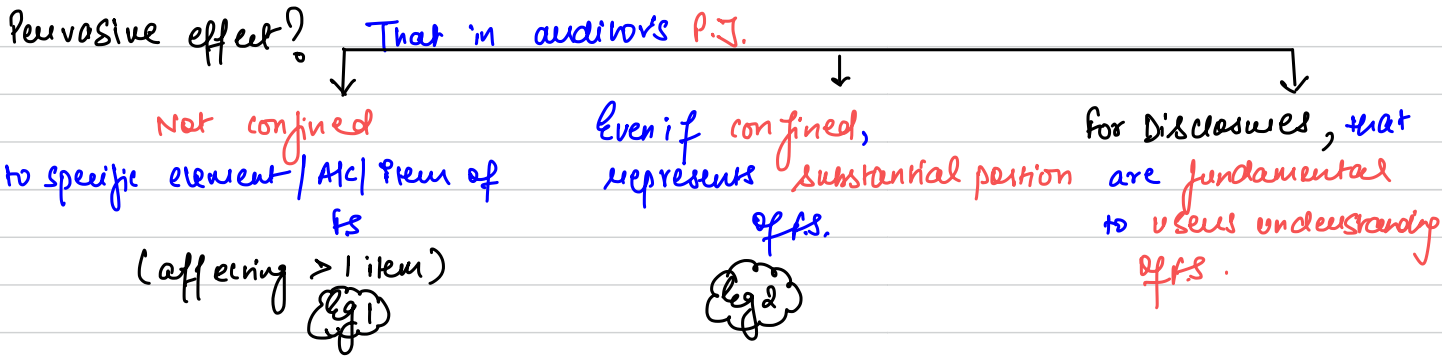


Modified Opinion (Types)



SA 705: Modification to opinion in Independent A/R

"Pervasive"? Used for misstatements to describe effects or possible effects*
 * If not obtained SAAE.

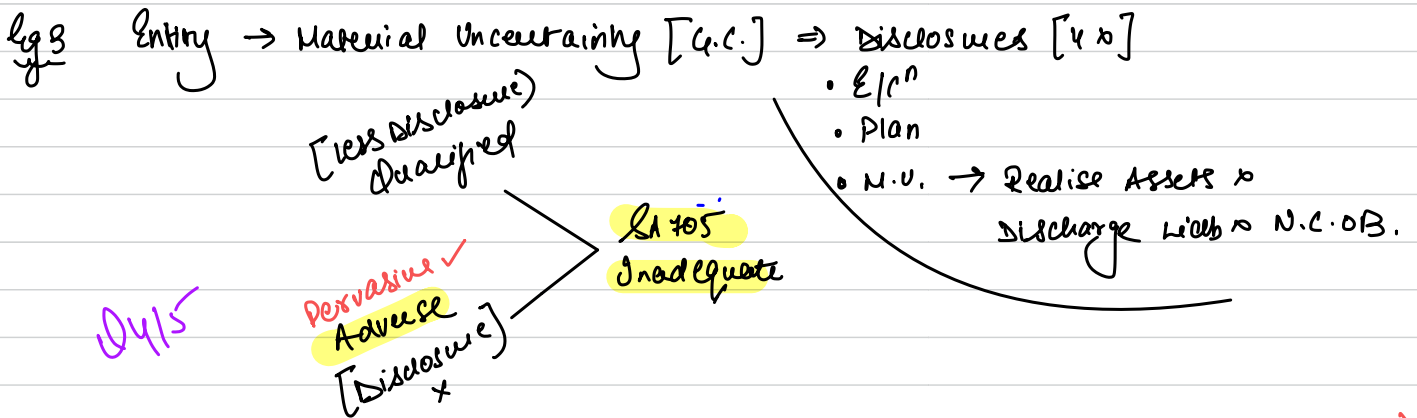


eg 1 B.S. Assets

	₹	Materiality = ₹1,00,000
PPE	2,00,000	
Inventory	3,00,000	} SAAE x ⇒ Pervasive? material ✓ pervasive ✓
Debtors	3,50,000	
Investments	1,00,000	650,000 ⇒ 65%
Cash & Bank	50,000	
	<u>10,00,000</u>	↓ <u>Disclaimer</u>

eg 2 B.S. Assets

	₹	Materiality = ₹1,00,000
PPE	2,00,000	
Inventory	6,00,000	} SAAE x ⇒ Pervasive? material ✓ pervasive ✓
Drs.	50,000	
Invest.	1,00,000	[substantial portion] of f.s.
Cash & Bank	50,000	
	<u>10,00,000</u>	↓ Disclaimer ✓



Notes: 1. If correction of misstatement ⇒ substantially wipes out profits of Co. (Pervasive)

2. If ngt bias detected → overstate earnings ⇒ Pervasive ✓

eg Drs → ↓ provision ⊕ PPE → useful life ↑ → Depⁿ ↓

Basis for opinion

(amend)

Basis for D/A/Q opinion
(include?)

↓

Describe matter giving rise to modification

Amt. (±)

Specific **Amts** including **Quantitative disclosures**

↓

- Description & quantification of financial effects of misstatement unless impracticable.

- If impracticable to quantify, state this fact.

"wrong" Narratives

disclosure

gatti

Explain how disclosure is misstated.

- Discuss about non-disclosure.

- Describe "nature" of omitted info.

&

- Include omitted info, if auditor obtained SAAE (permitted by LIR)

SAAE x

Reasons for inability.

Q5/6/8a/9

Mgt. imposed 'Limitation on Scope' [LOS] SAAE x
after accepting Audit

↓

If likely to result in **QID** of opinion

↓

Request mgt to remove LOS.

↓

If mgt refuses,

Ex. inv. x inventory count x

Communicate with **TCWY**

& determine if **Alternate audit pro.** possible to get **SAAE**.

↓

If still **can't get SAAE** & conclude **possible effect of miss. could be**

Material ✓ Pervasive to

Qualified opinion

Material ✓ Pervasive ✓

~~Disclaimer of opinion~~

- **withdraw*** from enng. (possible under LIR + practical)

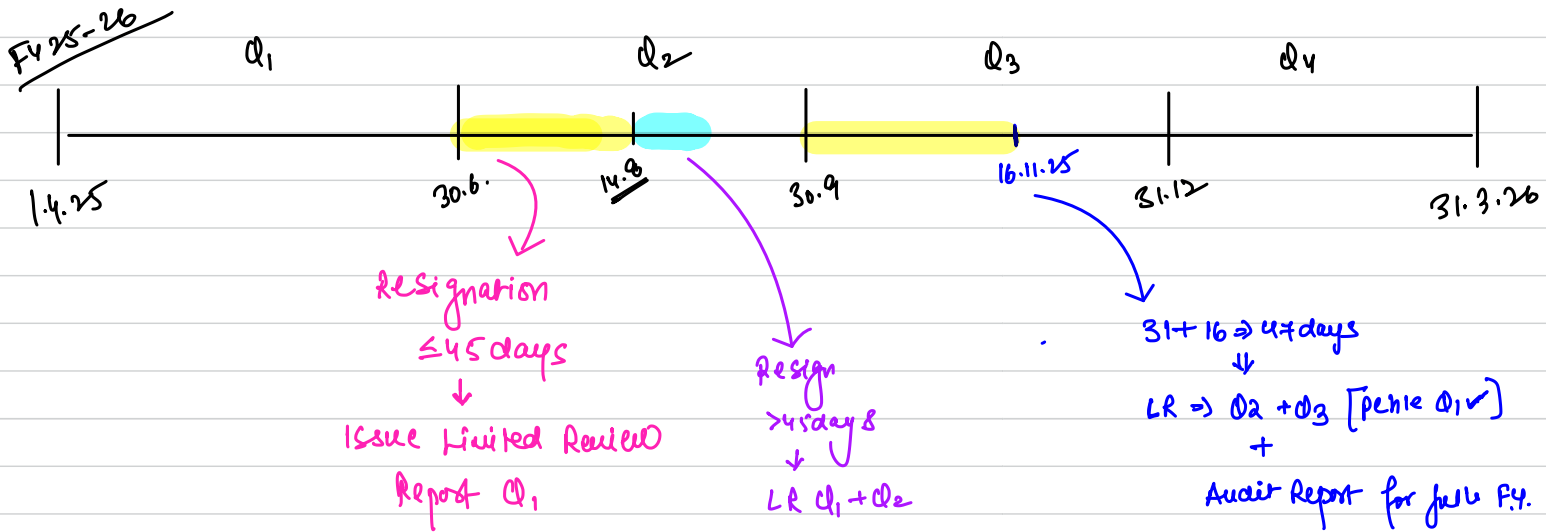
- If it's not possible to withdraw,

disclaim opinion.

Q11

* Before withdrawal communicate to TCWY, matters giving rise to modification.

SEBI Provisions on Auditor's Resignation (LISTED entities)



Q3 [KAM]

Question 3

While conducting audit of CGX Limited, a listed company, for year 2024-25, CA. Srishti notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income".

Liab. A/c Dr
To Other income

The details in this respect are as under: -

S. No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	₹ 3.50 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	₹ 2.00 crores

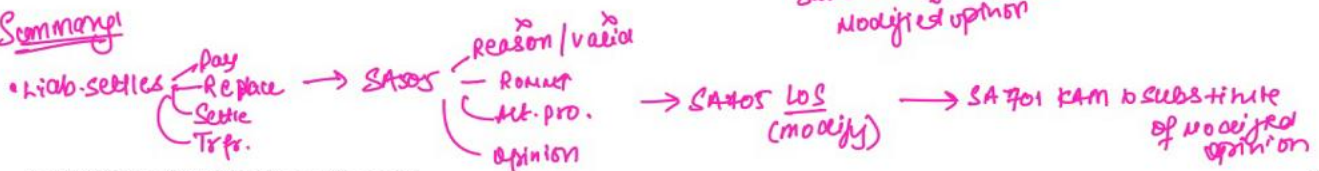
The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on financial statements would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstandings were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability.

SAS 505 \rightarrow Refuses E.C. \rightarrow Reason (valid + reasonable) \rightarrow ROMM + Act. Audit Pro.
LOS \rightarrow SA 705 (Modified opinion)

She is contemplating inclusion of above matters under "Key audit matters" in audit report. Analyse the situation threadbare. [MTP May-24]

Substitute? \rightarrow (NO) Modified opinion

Summary



SA 706: Emphasis of Matter (EOM)

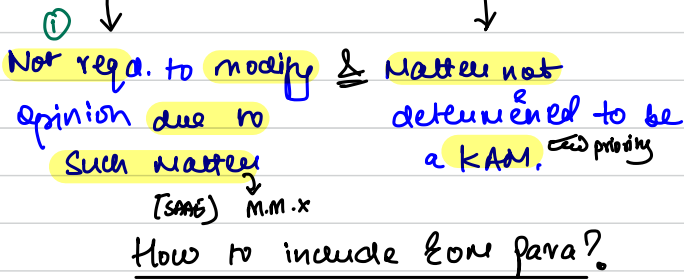
Other Matter (OM) para in Indep. A/R

users
F.S. Note
SAAS? yes
M.M.X

EOM para

- Para included in A/R
- that refers to matter **appropriately presented / disclosed** in FS.
- that in auditor's P.J.
- **fundamental** to users understanding of FS.

Condⁿ



1. **Separate section** in A/R with heading "Emphasis of Matter"

2. Include **clear reference to matter** & where it can be found in FS. [Note 4]

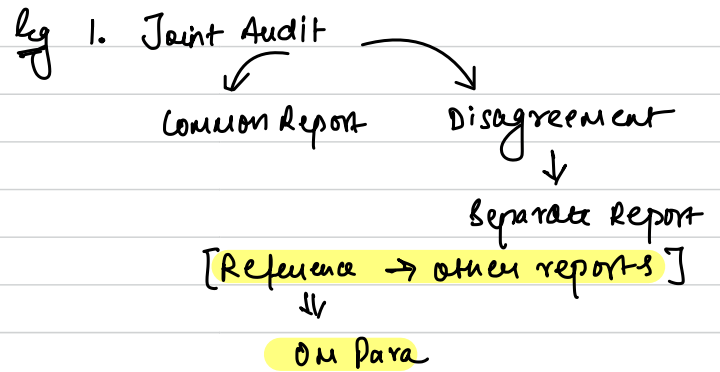
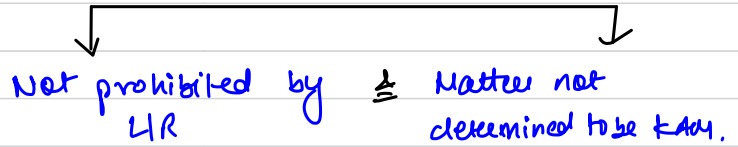
3. Indicate that auditor's **opinion not modified** for this matter. (Min SAS to work accordingly)

eg. Facts become known after date of A/R
↓
New Amended A/R → EOM para

OM para

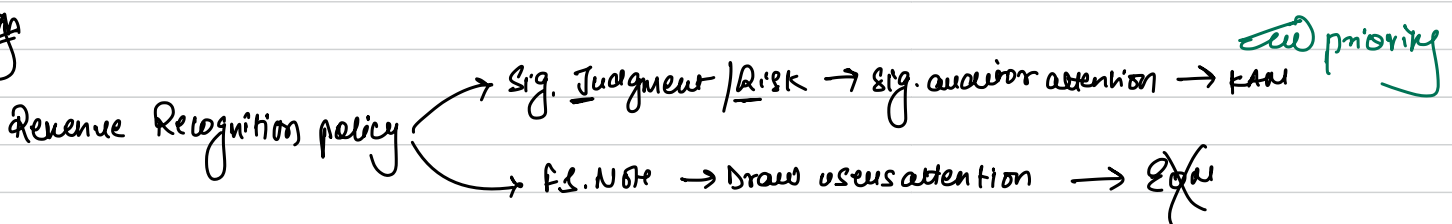
- Para included in A/R
- that refers to matter 'other than' presented / disclosed in FS.
- that in auditor's P.J.
- relevant to user's understanding of:
 - Audit,
 - Auditor's Responsibilities or
 - A/R report.

Condⁿ



2. Audit consal. FS. ↓
↳ Subsy. audited by other auditor
↓
OM para.

Rough



Examples of cases to include EoM para

Requirement by SAs.

SA 210

FRF prescribed by L/R is unacceptable



But the fact that it is prescribed by L/R

SA 560

Facts which become known to auditor after date of A/R



auditor gives new/amended A/R.

SA 800

To Alert users!



that AS are prepared as per Sp. purpose framework.

eg public sector entity



law



Cash Basis of Accounting

AS/and AS unacceptable

legally req. ✓

eg. of other circumstances

(pente wale)

(Baad wale)

Early appenⁿ of new acc std that has material effect on AS.

major catastrophe that has sig. effect on financial position of entity.

Uncertainty related to future outcome of pending litigation

Sig. subsequent event b/w date of AS & A/R.

02, 4, 5

SA 510: Initial Audit Engg: opening balances
 SA 710: Comparative Info.

Ant + Disclosures [C.Y.F.S. → Related to prior periods]

B.S. 31.3.25 31.3.24
 x x x x x x ←? Right

Audit procedures

(Basic) 1. Evaluate if comp. info. agrees with ant & disclosures of prior period

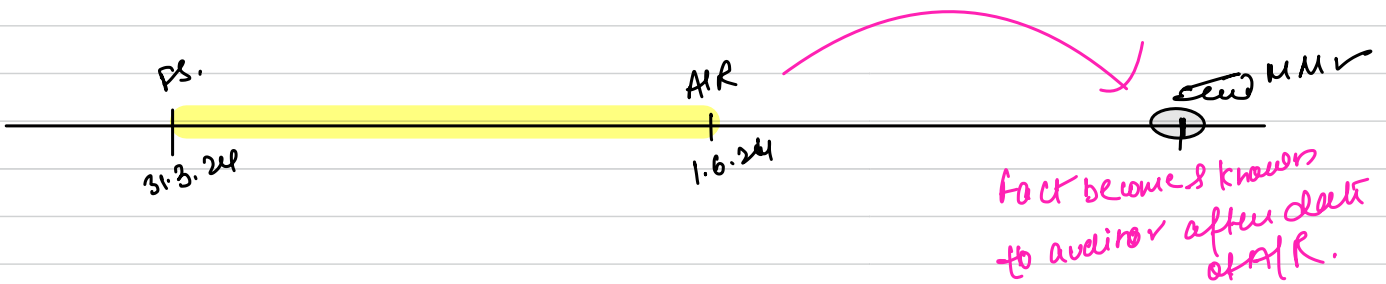
Aic policies are → consistently followed

or
 if there are changes, they are properly
 Accounted, Presented, Disclosed.

[Masala] 2. If auditor becomes aware of possible M.M. (shak) as per AFRF.
 (yakeen)
 perform addⁿ audit pro. to obtain SAAT whenever M.M. exists.

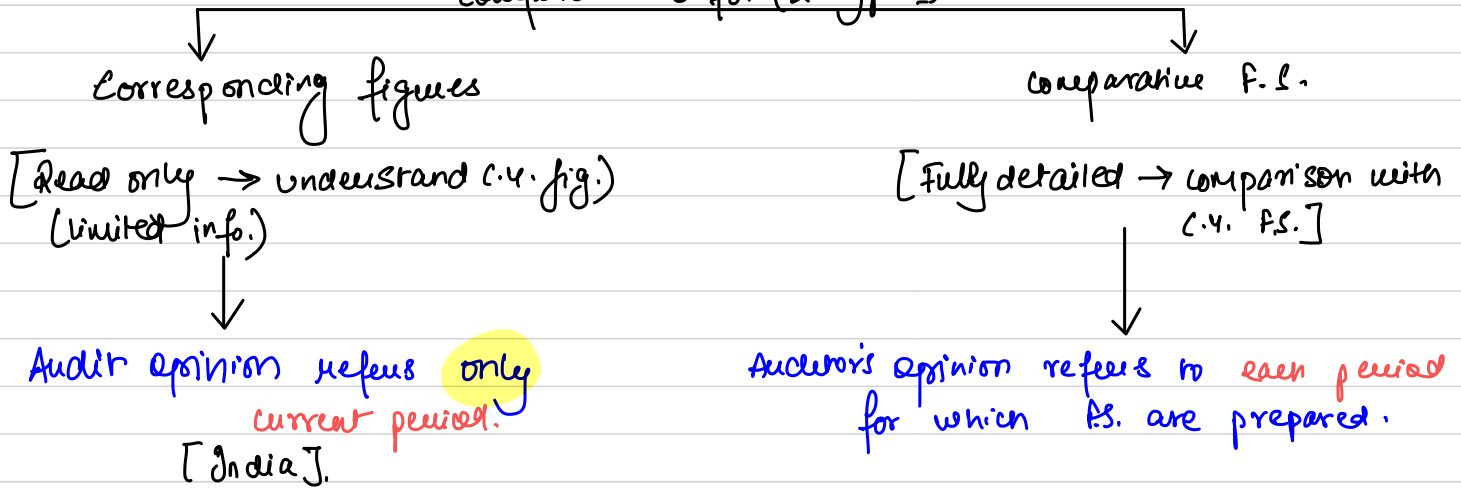
If auditor audited prior period P.S., follow SA 560.

[W.R] 3. W.R
 [SAS 80] requests WR for all periods referred in audit report.
 Also, specific WR for any prior period item disclosed in C.Y. P.R.

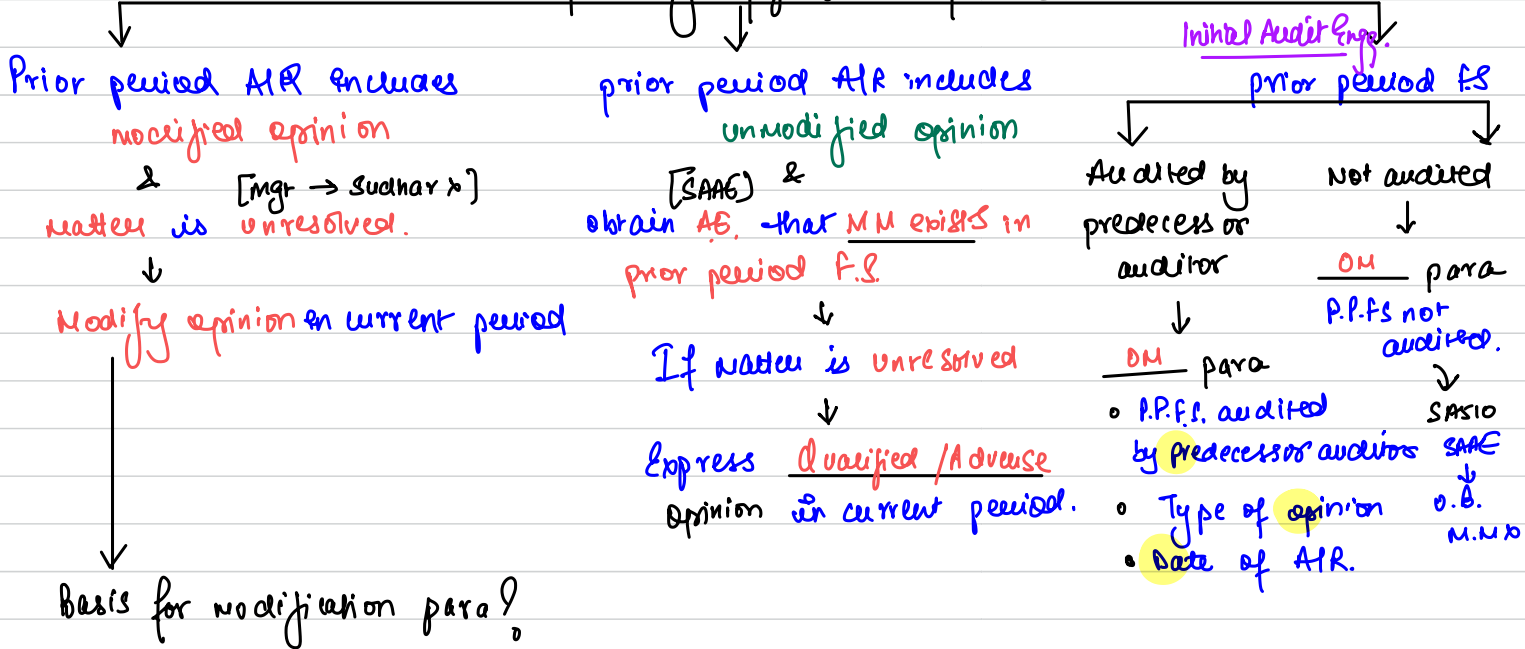


Summary:
 Basic — Comp. info. → agree prior period
 — Aic policies → consistent or changes [A.P.I.D.]
 ↓
 Masala [M.M. feel → yakeen [Addⁿ pro.] → P.P. P.S. [Auditor → SAS 60]
 ↓
 WR • All period
 • Specific → P.P. I.

Comparative Info. [2 Types]



Corresponding fig. [3 exceptions]

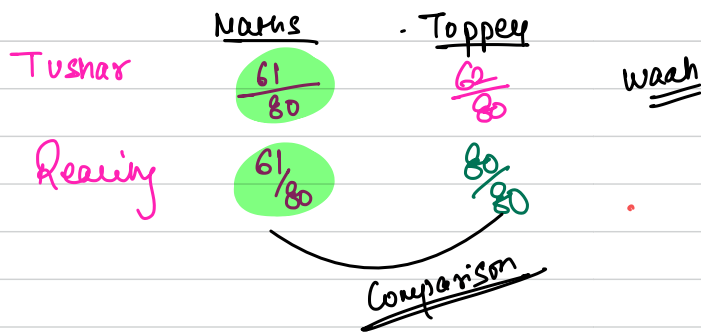


- (a) Refer to both current period & corresp. fig. in Description of matter giving rise to modification when **effects / possible effects** of matter on C.Y. figures are material.
- or
- (b) In other cases, explain audit opinion modified because of **effects / possible effects** of unresolved matter on **comparability** of current period & corresponding fig.

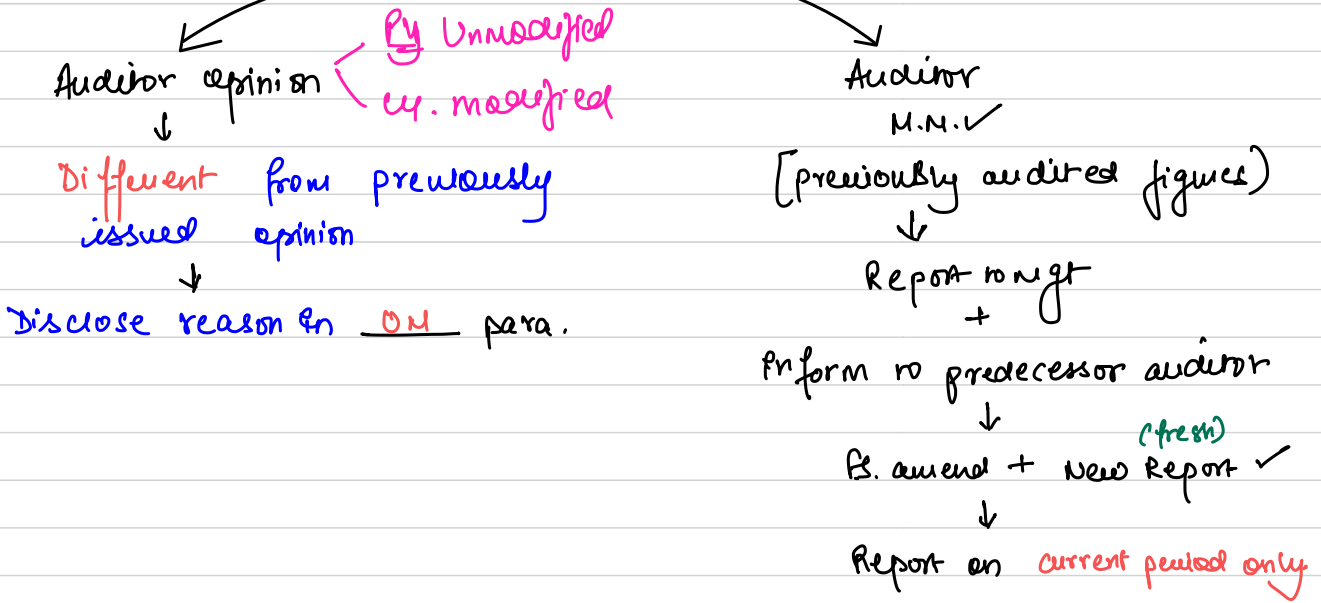
Q1

	Case (a)	Case (b)															
B.S.	Debtors	P&L Item															
	<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;">2025</td> <td style="text-align: center;">2024</td> <td></td> </tr> <tr> <td style="text-align: center;">xxx</td> <td style="text-align: center;">xxx</td> <td style="text-align: center;">(w) M.M.</td> </tr> <tr> <td colspan="3" style="text-align: center;"> + Cr. sales - Recoveries - Bad debts </td> </tr> </table>	2025	2024		xxx	xxx	(w) M.M.	+ Cr. sales - Recoveries - Bad debts			<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;">2025</td> <td style="text-align: center;">2024</td> </tr> <tr> <td style="text-align: center;">xxx</td> <td style="text-align: center;">xxx</td> </tr> <tr> <td colspan="2" style="text-align: center;"> ← Comparability </td> </tr> </table>	2025	2024	xxx	xxx	← Comparability	
2025	2024																
xxx	xxx	(w) M.M.															
+ Cr. sales - Recoveries - Bad debts																	
2025	2024																
xxx	xxx																
← Comparability																	

rough

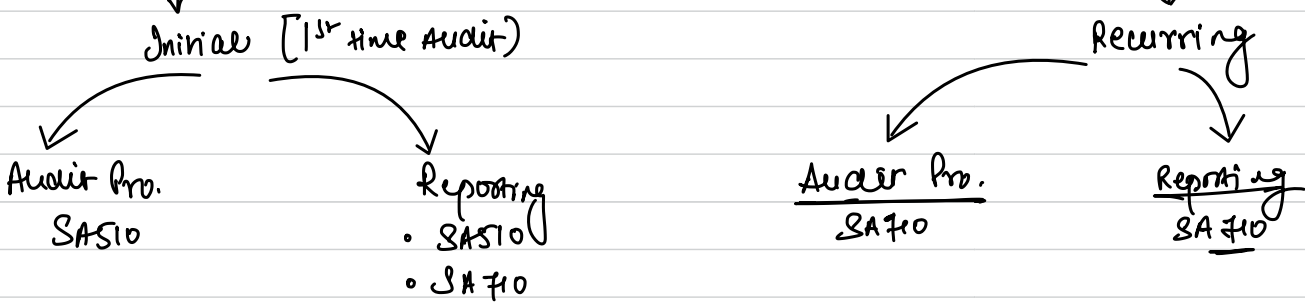


Comparative FS. (Refer → All periods → F.S. presented)



Q3

Audit Engg



SA 720: Auditor's Responsibility relating to other info.

financial / non-financial info. in Annual Report

Read & consider if its materially inconsistent from FS/auditor's understanding

Opinion to

This indicates M.M. in

F.S.

or

other info.

SA 705

or

auditor's understanding needs to be updated (SA 315)

Request mgt to provide basis for mgt's statements in other info.
[eg Paytm → losses → Annual Report → Adjusted EBITDA (+ve) → Basis of calcⁿ]

[other info → M.M.X]

Auditor maybe satisfied that other info. doesn't have M.M.

OR

[other info → M.M.V]

If auditor concludes M.M. exists in other info.

Request mgt to correct the other info.

If mgt

Agrees to correct

or

Refused to correct.

Determine that correction has been made.

or

Communicate with T&C & request for correction

If it's still uncorrected

other info. obtained prior to date of AR

or

other info obtained after date of AR.

~~Modify opinion as per SA~~

[Report]

a) Consider Implications for AR

[other info. section → report (M.M. of other info.) &

communicate to T&C about this reporting

or

b) withdraw from engg [practical/possible as per L.R.]

2, 3,

Reporting [book].

SAs Marathon

DD

00

