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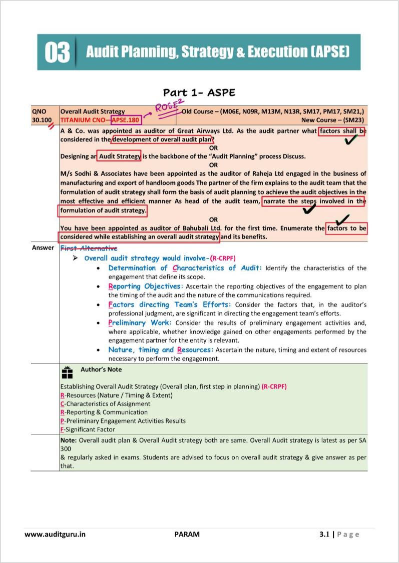


03 Audit Planning, Strategy & Execution (APSE)

Part 1- ASPE

QNO 30.100 **Overall Audit Strategy** **Old Course – (M06E, N09R, M13M, N13R, SM17, PM17, SM21,)**

TITANIUM CNO—APSE.180 → ROSE^2 **New Course – (SM23)**

A & Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan?

OR

Designing an Audit Strategy is the backbone of the "Audit Planning" process Discuss.

OR

M/s Sodhi & Associates have been appointed as the auditor of Raheja Ltd engaged in the business of manufacturing and export of handloom goods The partner of the firm explains to the audit team that the formulation of audit strategy shall form the basis of audit planning to achieve the audit objectives in the most effective and efficient manner As head of the audit team, narrate the steps involved in the formulation of audit strategy.

OR

You have been appointed as auditor of Bahubali Ltd. for the first time. Enumerate the factors to be considered while establishing an overall audit strategy and its benefits.

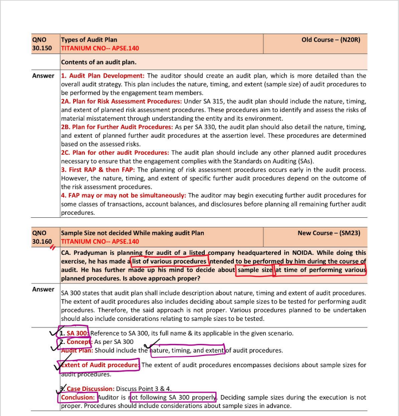
Answer ~~First Alternative~~

- **Overall audit strategy would involve-(R-CRPF)**
  - **Determination of Characteristics of Audit:** Identify the characteristics of the engagement that define its scope.
  - **Reporting Objectives:** Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.
  - **Factors directing Team's Efforts:** Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.
  - **Preliminary Work:** Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant.
  - **Nature, timing and Resources:** Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Author's Note

Establishing Overall Audit Strategy (Overall plan, first step in planning) **(R-CRPF)**
R-Resources (Nature / Timing & Extent)
C-Characteristics of Assignment
R-Reporting & Communication
P-Preliminary Engagement Activities Results
F-Significant Factor

Note: Overall audit plan & Overall Audit strategy both are same. Overall Audit strategy is latest as per SA 300
& regularly asked in exams. Students are advised to focus on overall audit strategy & give answer as per that.



QNO 30.150 **Types of Audit Plan** **Old Course – (N20R)**

TITANIUM CNO-- APSE.140

Contents of an audit plan.

Answer

1. Audit Plan Development: The auditor should create an audit plan, which is more detailed than the overall audit strategy. This plan includes the nature, timing, and extent (sample size) of audit procedures to be performed by the engagement team members.

2A. Plan for Risk Assessment Procedures: Under SA 315, the audit plan should include the nature, timing, and extent of planned risk assessment procedures. These procedures aim to identify and assess the risks of material misstatement through understanding the entity and its environment.

2B. Plan for Further Audit Procedures: As per SA 330, the audit plan should also detail the nature, timing, and extent of planned further audit procedures at the assertion level. These procedures are determined based on the assessed risks.

2C. Plan for other audit Procedures: The audit plan should include any other planned audit procedures necessary to ensure that the engagement complies with the Standards on Auditing (SAs).

3. First RAP & then FAP: The planning of risk assessment procedures occurs early in the audit process. However, the nature, timing, and extent of specific further audit procedures depend on the outcome of the risk assessment procedures.

4. FAP may or may not be simultaneously: The auditor may begin executing further audit procedures for some classes of transactions, account balances, and disclosures before planning all remaining further audit procedures.

QNO 30.160 **Sample Size not decided While making audit Plan** **New Course – (SM23)**

TITANIUM CNO-- APSE.140

CA. Pradyuman is planning for audit of a listed company headquartered in NOIDA. While doing this exercise, he has made a list of various procedures intended to be performed by him during the course of audit. He has further made up his mind to decide about sample size at time of performing various planned procedures. Is above approach proper?

Answer

SA 300 states that audit plan shall include description about nature, timing and extent of audit procedures. The extent of audit procedures also includes deciding about sample sizes to be tested for performing audit procedures. Therefore, the said approach is not proper. Various procedures planned to be undertaken should also include considerations relating to sample sizes to be tested.

1. **SA 300:** Reference to SA 300, its full name & its applicable in the given scenario.
2. **Concept:** As per SA 300
Audit Plan: Should include the nature, timing, and extent of audit procedures.

Extent of Audit procedure: The extent of audit procedures encompasses decisions about sample sizes for audit procedures.

3. **Case Discussion:** Discuss Point 3 & 4.
Conclusion: Auditor is not following SA 300 properly. Deciding sample sizes during the execution is not proper. Procedures should include considerations about sample sizes in advance.

QNO 30.300 | **Audit Strategy & Audit Plan Relationship** | **Old Course – (N16E, M22R)**

TITANIUM CNO—APSE.260

Discuss the relationship between overall audit strategy and audit plan.

Answer

1a. Preparation: Generally, Audit strategy is prepared before the audit plan. Audit plan is more detailed than the audit strategy.

1B. Interrelation: Audit strategy and audit plan are inter-related. Change in one lead to a change in the other.

2A. Example of Modification **(Case: CA. Sam for Hitesh Ltd.):** Materiality levels adjusted due to weaknesses.
in internal controls. Deviation from audit strategy necessary, leading to a change in audit plan.

2B. Consideration: Overall audit strategy & plan should consider materiality. Must relate materiality to Risks & procedures to be adopted.

- General Relation ✓
- Exception ✓
- Closely Related ✓
- Excmple ✓
- materiality ✓

QNO 30.310 | **Documentation of Audit Strategy & Audit Plan** | ✓ **Old Course – (N18R)** **New course – (SM23)**

TITANIUM CNO—APSE.240

CA. Nikita is conducting audit of a leading society engaged in promoting awareness regarding usefulness of internet among the disadvantaged sections of society through easily understandable means and methods. The society is also registered under FCRA, 2010 for receipt of foreign contributions. During the course of audit, she embarked upon extensive procedures relating to verification of receipt of foreign contributions to rule out "round-tripping" in comparison to procedures originally thought of. She is documenting various procedures performed by her including relevant audit findings.

However, she doesn't not feel need for putting into writing about how she planned the whole exercise. Does she require refreshening of her knowledge?

OR

The auditor shall document:-
(i) The overall audit strategy; (ii) The audit plan; and (iii) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes." Explain.

Answer

➢ **Documenting the Audit Plan**

The auditor shall document-**The overall audit strategy; The audit plan;** and Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes as under –

- **Documentation of the overall audit strategy** ✓
  The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

- **Documentation of the audit plan** ✓
  The **documentation of the audit plan** is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

- **Record of the significant changes** ✓
  A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

Conclusion: ✓
Not documenting the audit plan will lead to non-compliance with SA 300 and affect audit quality. Changes to the audit plan, especially those related to foreign contributions verification, should be documented with reasons.

QNO 30.315 | **Understanding nature of business** | **New Course – (SM23)**

TITANIUM CNO-- APSE.280

XWL Limited was engaged in dealing in commodity futures trading based in Surat. CA P, based at Delhi, was auditor of the company. The auditor did not even once visit office of the company and failed to understand the nature of business of the company. All the papers and account books were received on emails and audit was concluded.

There were also included in his working papers checklists which had a requirement of test checking of cost of raw material consumed & cost of stores and spares. There was nothing in his working papers showing understanding of nature of business of company. What does it reflect upon planning of audit by CA P?

Answer

SA 300 requires the auditor to plan the audit in such a manner that it is performed effectively. It also requires auditor to establish overall audit strategy including identifying the characteristics of the engagement facilitating him to define its scope and planning of nature, timing and extent of audit procedures required to be performed to achieve the objective of audit. } Characteristics of Engagement for Scope

SA 300 further requires the auditor to document the overall audit strategy, the audit plan and any significant changes made during the audit engagement to such plans. } Documentation

In the given situation, auditor didn't even once visit the company and failed to understand about business of the company. Therefore, he has flouted requirement of SA 300 to plan the audit in such a manner that it is performed effectively. The auditor has to plan the audit commensurate to the nature and complexity of the business of the entity and identify and assess the risk of material misstatement. } Not understanding Business

Further, working papers of auditor also do not show his understanding of nature of business which is again a blatant violation of requirement of SA 300 which requires the auditor to document the overall audit strategy, the audit plan and any significant changes made during the audit engagement to such plans. } Not Documenting

Inclusion of a checklist in working papers having requirement of test checking of cost of raw material consumed & cost of stores and spares shows that it was a general checklist and specifics of business were never understood and audit was not planned to be conducted in an effective manner in accordance with requirements of SA 300. } General checklist Not Tailored

(i) Reference of SA300 ✓
(ii) - SA300 ✓
✓ • Factors → Overall audit strategy ✓
↓
Characteristics of Engagement for Scope
✓ • Documentation → Strategy
↳ Plan
↳ Changes
- Formulating Audit Programme ✓
• Nature of Business → Understand Business ✓
↳ Visit Factory ✓
↳ Formulate Audit Programme ✓
(iii) Case Discussion
• No Understanding Business ✓
• No Documentation ✓
• General checklist, not tailored ✓
(iv) Conclusion → Non Compliance of SA300 ✓
→ Not Developing Proper audit Programme ✓

QNO 30.320 | **Benefits of Planning** | **Old Course –(N18R, M21E)**

TITANIUM CNO—APSE.040

BSA & Company, Chartered Accountants are duly appointed auditors of ASB LTD engaged in manufacturing of various FMCG products and having its manufacturing facilities spread across India. Senior partner CA B has called meeting of audit staff to plan the conduct of audit for the year 2017-18 and at the meeting he addresses as under:

"SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing", states that to achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SAs in planning and performing the audit. Without a careful plan, the overall objective of an audit may not be achieved. The audit planning is necessary to conduct an effective audit in an efficient and timely manner".

In view of above, you are required to analyse and explain the benefits of Planning in an Audit of Financial Statements.

OR

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. Briefly discuss the usefulness of careful and adequate audit planning.

Answer SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing" states that to achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SAs in planning and performing the audit. Without a careful plan, the overall objective of an audit may not be achieved. The audit planning is necessary to conduct an effective audit in an efficient and timely manner.

➢ **Benefits/Advantages of Planning in an Audit of Financial Statements**

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways described hereunder-

- **Attention to Important Areas** - Planning would help the auditor to devote appropriate attention to important areas of the audit.
- **Timely resolution of Potential Problems** - It would also help the auditor identify and resolve potential problems on a timely basis.

- **Proper Organisation and Management of Audit Engagement** – Adequate planning would help the auditor in properly organizing and managing the audit engagement so that it is performed in an effective and efficient manner.
- **Proper Selection of Engagement Team** - Planning would assist the auditor in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- **Direction and Supervision of Engagement Team** - It would further facilitate the direction and supervision of engagement team members and the review of their work.
- **Easy Coordination** - Also, planning would be helpful to the auditor in coordination of work done by auditors of components and experts.

Advantages: -
Appropriate selection & assignment of work / responsibility & accountability of work delegated improves / clear set of instructions to juniors / systematic plan with proper emphasis on important areas / less chances of overlooking.

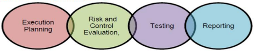
e.g. EPS checking omitted / identify & resolve potential problems.

e.g. need of expert in inventory determination & valuation / helps in co-ordination with other auditors / helps in controlling / supervising audit work / serves as guide in succeeding years / serves as evidence in case of charge against negligence.

QNO	Key phases of audit execution	Old Course – (N18R)
149.010	TITANIUM CNO—APSE.320	
	Key phases in the audit execution stage are Execution Planning, Risk and Control Evaluation, Testing and Reporting. Explain.	

Answer

➢ **Key phases in the audit execution stage are Execution Planning, Risk and Control Evaluation, Testing and Reporting.**



- **Execution Planning:**
  Prior to commencement of an audit engagement, it is important to lay down the **roadmap for audit execution** to ensure **timely and quality audit results**. The auditors need to plan their work in order to carry out the audit in an effective, efficient and timely manner. A detailed audit program is prepared laying down the **audit objectives, scope and audit approach**. The **manpower requirement, audit team qualifications, and the time element, etc.** are some of the important considerations during execution planning. In order to plan effectively, the auditor may need some more information about the audit area. A **preliminary survey** would help in gathering the required information.

- **Risk and Control Evaluation:**
  For each segment of audit, the auditors should conduct a detailed risk and control assessment i.e. list the risks that must be reviewed in that segment, capture for each risk the controls that exist or those that are needed to protect against the risk and show for each control, the work steps required to test the effectiveness of the controls. While **making Risk &Control assessment it is necessary to borne in mind Materiality levels as the same is linked with Audit Risks.**

- **Testing:**
  Once a comprehensive understanding is gained of the key risks and the controls to be evaluated in a given audit area, the auditors should test the operating effectiveness of the controls to determine whether controls are operating as designed. There are multiple test methods which can be used to arrive at the conclusions on the effectiveness of the controls.

- **Reporting:**
  SA 700, "Forming an Opinion and Reporting on Financial Statements" establishes standards on the form and content of the auditor's report issued as a result of an audit performed by an auditor of the financial statements of an entity. **The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements**. This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework applicable to the entity under audit. It is also necessary to consider whether the financial statements comply with the **relevant statutory requirements such as compliance of Provisions & Enactments of the Company Law, Accounting Standards framed by ICAI, latest Guidelines etc.**

  The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole. A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding of the auditor's report and to identify unusual circumstances when they occur. A statute governing the entity or a regulator may require the auditor to include certain matters in the audit report or prescribe the form in which the auditor should issue his report.

- **Other Important Considerations:**
  In addition to above, there are certain other consideration which auditor is required to take care while executing the audit such as using the work of other auditor, using the work of an auditor's expert etc.

Author's Note
These are phases in audit. Flow is similar to core audit process that we teach before starting SA's

QNO 149.020	Formulating Audit Programme - Involves Evaluation of System of Internal Control & Accounting TITANIUM CNO— APSE.280	Old Course – (M21E)
	Audit planning is necessary to conduct an effective audit in an efficient and timely manner for which purpose formulating an audit programme becomes an essential part of audit plan. Study and evaluation of system of Internal control and accounting procedures are important part of it. As auditor, discuss the features of examination of the system of Internal control.	

Answer

System of internal control and accounting procedures: The study and evaluation of internal control helps the auditor to establish the reliance he can place on the internal control in determining the nature, timing and extent of his substantive auditing procedures.

The auditor also obtains an understanding of the accounting system to identify points in processing of transaction and handling of assets where errors or fraud may occur.

When the auditor relies on internal control, it is at these points that he must be satisfied that internal control procedures applied by the entity are effective for his purpose.

The auditor's examination of the system of internal control should have three features - review and preliminary evaluation, testing of compliance and evaluation.

(i) Review and preliminary evaluation - The auditor should review the accounting system and related internal control to gain an understanding of the flow of transactions and the specific control procedures to be able to make a preliminary evaluation and identification of these aspects of internal control on which it might be efficient and effective to rely in conducting his audit.

(ii) Test of compliance - Compliance tests should be conducted by the auditor to gain evidence that those internal controls on which he intends to rely operate generally as identified by him and that they function effectively throughout the period of intended reliance. Based on the results of his

compliance procedure including observed deviations, the auditor should evaluate whether the internal controls are adequate for his purposes.

(iii) Evaluation - It is essentially an objective process of application of auditor's judgement to determine whether all or any of the internal controls in the client's organisation can be relied upon in carrying out the audit. Based on the degree of reliance which may be full, partial or none, the auditor will programme for the substantive verification of transactions for expression of audit opinion. The results of compliance procedure directly provide the basis for this evaluation and, in turn, basis to determine the nature, timing and extent of the substantive audit procedure. In evaluating the auditor recognises that some deviations from compliance may have occurred.

QNO 149.030	Nature and extent of Planning & Changes to Planning decisions TITANIUM CNO— APSE.160	Old Course – (N21M)
	Mr. S & Mr. J are a senior and junior articled assistant respectively, in a renowned audit firm. Both were assigned statutory audit of a manufacturing company. Mr. S instructed his junior to draft an audit plan by taking reference from a similar client (a partnership firm) who was engaged in the same business. Mr. J was confused as to how that reference could suit in this case, since the nature and extent of planning would vary for both clients. After few days, the audit work commenced. During the course of the audit, certain events took place, which made Mr. J to rethink about the audit plan initially designed. He approached Mr. S and enquired about when would an audit plan require a change. Comment about both the situations face by Mr. J in the above situation.	

Answer

1. Change:

1. Update and change: The auditor should update and change the overall audit strategy and plan during the audit. The nature, timing, and extent of further audit procedures may need to be modified based on reassessed risks.

2. Reasons:

2. Broad Reasons: The auditor needs to modify the overall audit strategy and plan due to below mention factors:
- Changes in **conditions**
- Result of **unexpected events**,
- The **Audit evidence** obtained from the result of audit procedures.

3. Examples:

3A. Legal Changes: Changes in laws, notifications, or government policies may require updates to the overall audit strategy.

3B. Information Discrepancy: Modifications may be required if information obtained during the audit differs significantly from the planned procedures.

3C. Evidence Contradiction: Audit evidence from substantive procedures may contradict evidence from tests of controls.

QNO 149.040	Changes to Audit Programme TITANIUM CNO— APSE.300	Old Course – (N22E)
	CA. Raj is the auditor of a multiplex cinema house. He has observed during the course of the audit, that the existing venue has undergone renovation. The auditorium was split into smaller ones and additional auditoriums were constructed. CA. Raj, who finalised the audit plan and audit programme wanted to reconsider the same during the course of the audit. Discuss a few circumstances where the audit programme would have to be suitably altered by the auditor.	

In the given case of multiplex cinema house, CA Raj observed that existing venue undergone renovation, being split into smaller ones and additional auditoriums were constructed. Since CA Raj developed the audit program keeping in view a multiplex cinema house but during the audit, circumstances have changed significantly and hence CA Raj should suitably alter the audit program.

Given below are a few circumstances where in the audit programme would have to be suitably altered:

1) If the audit procedures were designed for a certain volume of turnover and sub-sequently the volume have substantially increased. Also, when there have been significant changes in the accounting organisation, procedures, and personnel sub-sequent to the audit procedures.
2) Where during the course of an audit, it has been discovered that internal control procedures were not as effective as assumed at the time the audit programme was framed.
3) Where there has been an extraordinary increase in the amount of book debts or that in the value of stocks as compared to that in the previous year.
4) When a suspicion has aroused during the course of audit or information has been received that assets of the company have been misappropriated.

It may be noted that the audit plan and related programme should be reconsidered as the audit progresses. Such re-consideration is based on the auditor's review of internal control, his preliminary evaluation thereof and the result of his compliance and substantive procedures.

QNO 153.000	Audit Programme for Multiplex, Sale of tickets TITANIUM CNO— Unique	Old Course – (N09E, M12R, N15R, M18R, N19E, M21M, SM21, M22M) New Course – (SM23)

You have been appointed as the auditor of a Multiplex Cinema House Draw an audit programme in respect of its Revenue and Expenditure.

OR

XLoud, a movie theatre complex, is the foremost theatre located in Delhi Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe shops, pubs etc located in the complex Its 'other income' includes advertisements exhibited within/outside the premises such as hoarding, banners, slides, short films etc The facility for parking of vehicles is also provided in the basement of the premises.

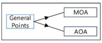
XLoud appointed your firm as the auditor of the entity Being the head of the audit team, you are therefore required to draw an audit programme initially in respect of its revenue and expenditure considering the above-mentioned facts along with other relevant points related to a complex.

Answer

➢ Audit Programme of Multiplex

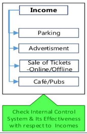
~~Just Think About Going For A Movie – Imagine the Events that take place~~.

✓ ➢ General points



- Peruse the **Memorandum of Association** and **Articles of Association** of the entity.
- Ensure the **object clause permits** the entity to engage in this type of business.

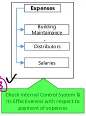
✓ ➢ Incomes


Income
Parking
Advertisment
Sale of Tickets -Online/Offline
Café/Pubs
Check Internal Control System & Its Effectiveness with respect to Incomes

In the case of income from sale of tickets:

- ④ Verify the system of **collection from the parking** areas in respect of the vehicles parked by the customers.
- ② Verify the system of control exercised relating to the **income receivable from advertisements exhibited** within the premises and inside the hall such as hoarding, banners, slides, short films etc.
- ① Verify the control system as to how it is ensured that the collections on sale of tickets of various shows are properly accounted.
- Verify the system of relating to online booking of various shows and the system of realization of money.
- Check that there is overall system of reconciliation of collections with the number of seats available for different shows on a day.
- ③ Verify the internal control system and its effectiveness relating to **the income from cafe shops, pubs** etc., located within the multiplex.

➢ Expenses


Expenses
Building Maintainance
Distributors
Salaries
Check Internal Control System & Its Effectiveness with respect to payment of expenses

- ✓ ② Verify the payments effected in respect of **the maintenance of the building** and ensure the same is in order.
- ① ✓ In the case **of payment to the distributors** verify the system of payment which may be either through out right payment or percentage of collection or a combination of both. Ensure at the time of settlement any payment of advance made to the distributor is also adjusted against the amount due. ③ ✓ Verify the system of **payment of salaries** and other benefits to the employees and ensure that statutory requirements are complied with.

QNO 159.000	Audit Programme for Wastage UNIQUE	Old Course – (M22M)

Darshan Ltd. is a manufacturing company, provided following details of wastages of raw materials in percentage, for various months. You have been asked to enquire into causes of abnormal wastage of raw materials. Draw out an audit plan.

Wastage percentage are

July 2021	**1.3%**
Aug 2021	**1.6%**
Sep 2021	**1.5%**
Oct 2021	**3.9%**

Answer

Audit Plan to locate the Abnormal Wastage of Raw Material: To locate the reasons for the abnormal wastage, the auditor of Darshan Ltd. should first assess the general requirements as under:

(i) Procure a list of raw materials, showing the names and detailed characteristics of each raw material. RM
(ii) Obtain the standard consumption figures, and ascertain the basis according to which normal wastage figures have been worked out. Examine the break-up of a normal wastage into that in process, storage and handling stages. Also obtain control reports, if any, in respect of manufacturing costs with reference to predetermined standards. Prod
(iii) Examine the various records maintained for recording separately the various lots purchased and identification of each lot with actual material consumption and for ascertaining actual wastage figures therein. RM
(iv) Obtain reports of Preventive Maintenance Programme of machinery to ensure that the quality of goods manufacture is not of sub-standard nature or leads to high scrappage work. Prod
(v) Assess whether personnel employed are properly trained and working efficiently.
(vi) See whether quality control techniques have been consistent or have undergone any change. wastage
(vii) Examine inventory plans and procedures in report of transportation storage efficiency, deterioration, pilferage and whether the same are audited regularly. RM
(viii) Examine whether the basis adopted for calculating wastage for September is the same as was adopted for the other three months. wastage
(ix) Obtain a statement showing break up of wastage figures in storage, handling and process for the four months under reference and compare the results of the analysis for each of the four months. wastage

In addition, some specific reasons for abnormal wastage in process may be considered by the auditor are as under:

(i) Examine laboratory reports and inspection reports to find out if raw materials purchased were of a poor quality or were of sub-standard quality. This will be most useful if it is possible to identify the wastage out of each lot that has been purchased. RM

RM → List
→ Inventory Plans
→ Lot wise Records

Prod → Std Consumption Figures
→ Preventive Maintenance Programme

Wastage → Basis of calculation
→ Break up
→ Change in Quality control

(ii) Machine breakdown, power failure, etc. may also result into loss of materials in process. Check the machine utilisation statements. Prod
(iii) A high rate of rejections in the finished lots may also be responsible for abnormal wastage; therefore, examine the inspectors' reports in respect of inspection carried out on the completion of each stage of work or process. Wastage
(iv) It is possible that the wastage may have occurred because the particular lot out of which issues were made was lying in the store for a long time, leading to deterioration in quality or because of a change in the weather which may have led to the deterioration. Compare the wastage figures. FG
(v) Abnormal wastage in storage and handling may arise due to the following reasons:
  (1) Write offs on account of reconciliation of physical and book inventories: In case of periodical physical inventory taking, such write offs will be reflected only in the month such reconciliation takes place. Reco
  (2) Accidental, theft or fire losses in storage: The auditor should examine the possibility of these for the purpose. Accidental
(vi) Examine whether any new production line was taken up during the month in respect of which standard input-output ratio is yet to be set-up. Prod

RM → Poor Quality
Prod → Breakdown
→ Power Failure
→ New Prodline

FG → lying in gowdown for long time

Special → Reconciliation
→ Accidental/Theft

QNO 160.000	Audit Strategy For Online Business TITANIUM CNO— APSE.180	Old Course – (M15E, N16M, SM17, PM17, N17R, N17M, SM21) New Course – (SM23)
//	As an auditor of garment manufacturing company for the last five years you have observed that new venture of online shopping has been added by the company during current year As an auditor what factors would be considered by you in formulating the audit strategy of the company?	

Answer

1. **SA 300:** Reference to SA 300, its full name & its applicable in the given scenario.
2. **Concept:** CNO-APSE.180 Overall Audit Strategy → ROSE²

   Specific Factors for Online Shopping:

   Due to the new online shopping venture, the auditor should understand the information system and related business processes. This includes:

   Transaction Related

   1A. Understand significant class of transactions: Understand the classes of transactions significant to the financial statements.

   1B. Understand business & accounting Procedures: Grasp the procedures, both IT and manual, for initiating, recording, processing, correcting, transferring to the general ledger, and reporting transactions.

   1C. Understand specific accounts & Accounting Records Understand the related accounting records and specific accounts used for transactions, including corrections and ledger transfers.

   Events & conditions

   2. Understand system to capture Events & conditions: Determine how the system captures events and conditions significant to the financial statements other than transactions.

   JV

   3. Understand Journal Entry Controls: Understand controls around journal entries, especially non-standard entries for non-recurring or unusual transactions.

3. **Conclusion:** Auditor should draft overall Audit strategy as per above points.

Part 2- SA 600

QNO 100.400	Aspects to be considered while accepting position of principal auditor TITANIUM CNO—SA600.040	Old Course –(M21E) New Course –(SM23)
	PQ Limited, a listed entity, headquartered in Mumbai and is having 15 branches all over India. The Company is in the business of buying paddy grown by farmer directly and processing to produce final products for selling in domestic as well as international markets. PQ Limited appointed four firms of Chartered Accountants for audit of its head office and branches. Your firm is one of those firms. It was agreed that your firm will act as Principal auditor. What factors will be considered by you while accepting the position of Principal auditor?	

Answer **Factors to be considered while accepting the position of Principal auditor -**

SA 600 – Using the work of Another Auditor –

While accepting the position of Principal Auditor, the auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor.For this purpose, the auditor would consider:

The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose the auditor would consider:

(a) the materiality of the portion of the financial information which the principal auditor audits;
(b) the principal auditor's degree of knowledge regarding the business of the components;
(c) the risk of material misstatements in the financial information of the components audited by the other auditor; and
(d) the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

QNO 100.600	Examining work of Other Auditor & sharing of working papers TITANIUM CNO-- SA600.060	New Course – (SM23)
//	"Kukreja & Associates is the principal auditor of MN Ltd. The company is engaged in the manufacture of sports items and operates through its 14 branches all over India. With respect to the audit of branches, the company has appointed seven Chartered Accountant firms, each firm conducting the audit of two branches. The audit reports in respect of accounts of branches have already been sent to the principal auditor. While analysing the work of the branch auditors, CA Kukreja, the engagement partner, asked the branch auditors to share with him a summary of the audit procedures and findings in respect of the accounts of the branches examined by them. CA Kukreja also asked one of the branch auditors to share his working paper with respect to the two branches examined by that branch auditor for his review and return. Is the principal auditor correct in asking the branch auditors for sharing the summary and the working papers for his review."	

Answer

In terms of SA 600 "Using the Work of Another auditor", where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component. When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.

The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or checklist.

Principle Auditor Procedures

Accordingly, CA Kukreja is correct in asking the branch auditors to share with him the summary of their audit procedures and findings in respect of the accounts of the branches examined by them.

Further, CA Kukreja has asked one of the branch auditors to share with him the working papers with respect to the branches examined by such branch auditor for the former's review and return.

SA 230 issued by ICAI on Audit Documentation, and "Standard on Quality Control (SQC) 1, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

Accordingly, it is the discretion of the branch auditor as the working papers with respect to the branches examined by the branch auditor are the property of the branch auditor.

So, CA Kukreja is not correct in asking the branch auditor to share with him the working papers with respect to the branches examined by the branch auditor.

Sharing of working Papers

SA 600

① Imp Principle → Reliance on work of another auditor
→ Evaluating adequacy of work of another auditor (SAAE)

② Basic Audit Procedure → Co-ordination
→ Communicate → Significant Requirements · Accting · Auditing · Reporting
→ Special Audit consideration · Sp. Attention
→ Time Table

③ Additional Audit Procedure (As Required) → Discussion
→ Review written summary (Form of completed questionnaire or checklist)
→ Visit

④ Factors affecting NTE → Specific Circumstances
→ Prof. Competence (If not member of ICAI)

⑤ Significant Findings of other auditor → Consider & Discuss
→ Supplementary Procedures

SA230

- Ownership
- Discretion
- Br. Auditor

QNO 101.000 **Branch Audit (Co-Ordination)** **Old Course – (M08R, N16E, PM17, N20M, M23M)**
TITANIUM CNO—SA600.080

“There should be sufficient liaison between a principal auditor and other auditors” Discuss the above statement and state in this context the reporting considerations, when the auditor uses the work performed by other auditor.

B Ltd is the Subsidiary company of A Ltd ABC & Associates has been appointed as auditor of A Ltd for the Financial Year 2014-15 and XYZ & Associates has been appointed as auditor of B Ltd for the year 2014-15 Explain the role of ABC & Associates and XYZ & Associates as auditors of the parent company and subsidiary respectively

Answer **Role of Auditor in case of Parent Company and Subsidiary Company: As per SA 600 “Using the Work of Another Auditor”,** there should be sufficient liaison between the principal auditor (hereinafter referred as auditor of Parent Company and the other auditor (hereinafter referred as auditor of Subsidiary Company).

Role of Principal Auditor (Ram & Associates- Auditor of Parent Company):
(i) It is necessary to issue written communication(s) as a principal auditor to the other auditor.
(ii) The principal auditor should advise the other auditor of any matters that come to his attention that he thinks may have an important bearing on the other auditor’s work.
(iii) When considered necessary by him, the principal auditor may require the other auditor to answer a detailed questionnaire regarding matters on which the principal auditor requires information for discharging his duties.

Role of Other Auditor (Hanuman & Associates- Auditor of Subsidiary Company):

(i) The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor. For example, by bringing to the principal auditor’s immediate attention to any significant findings requiring to be dealt with at entity level, adhering to the time-table for audit of the component, etc.
(ii) He should ensure compliance with the relevant statutory requirements.
(iii) The other auditor should respond to the questionnaire sent by Principal Auditor on a timely basis.

QNO 103.050 **Access to Working Papers of Branch Auditor** **Old Course – (M18E)**
TITANIUM CNO—Unique [Same as 100.600]

B is the Principal Auditor of ABC Co. Ltd., with 8 branches audited by 8 Branch Auditors. B wanted to ensure that the works of Branch Auditors were adequate for the purpose of his audit. Hence he insisted on Branch Auditors to get familiar with a check list he prepared for branches and, besides, required them to share the working papers compiled by them for his review and return. Is Principal Auditor within his right in asking for such sharing of working papers?

Answer

- Clear understanding of the role of such auditor and the company’s auditor/ Proper rapport between these two auditors

  When the accounts of the branch are audited by a person other than the company’s auditor, there is **need for a clear understanding of the role** of such auditor and the company’s auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a **proper rapport between these two auditors** for the purpose of an effective audit. In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in **SA 600, “Using the Work of another Auditor**”.

- Special circumstances
  - Visit – law may give right to visit & examine books of account / Principal auditor would normally be entitled to rely upon the work of other auditor unless there are special circumstances requiring visit & examination of books

    In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component

  - Mandatory Procedures – arrangement for co-ordination / use of work of other auditor / areas requiring special consideration / intercomponent transactions / timetable --- advise & obtain representation as to compliance to accounting, auditing and reporting requirements

    When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:
    - advise the other auditor of the **use that is to be made of the other auditor's work and report** and make sufficient arrangements for **coordination of their efforts at the planning stage of the audit.** The principal auditor would inform the other auditor of matters such as **areas requiring special consideration**, procedures for the **identification of intercomponent transactions** that may require disclosure and the **time-table** for completion of audit; and
    - advise the other auditor of the **significant accounting, auditing and reporting requirements** and **obtain representation** as to compliance with them.

  - Discretionary Procedures --- Discussion / Summary / Check List / Visit

    The principal auditor might **discuss with the other auditor the audit procedures** applied or **review a written summary** of the other auditor’s procedures and findings which may be in the form of a **completed questionnaire or check-list.** The principal auditor may also wish to **visit the other auditor.**

  - Need not apply above 4 procedures – S&A evidence that acceptable quality

    The principal auditor may conclude that it is **not necessary to apply procedures** such as those described in above paragraph because **sufficient appropriate audit evidence previously obtained that acceptable quality control policies and procedures are complied** with in the conduct of other auditor's practice.

  - (NTE – Circumstances / Principal Auditor’s Knowledge / Professional Competence of Other Auditor)

    The **nature, timing and extent of procedures** will depend on the **circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor.** This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

  - SA 230 and SQC 1

    Further, SA 230 issued by ICAI on Audit Documentation, and “Standard on Quality Control (SQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial

Information, and Other Assurance and Related Services Engagements", issued by the Institute, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel."

- *Conclusion*
  In the light of aforesaid, principal auditor was not within his right for asking for such sharing of working papers. It depends upon the **discretion of auditor**.

Author's Note

- **It must to noted that documents of branch auditor are his own property, but he can share this with principal auditor after taking permission from client such thing is common, being owner doesn't mean he cannot share, in fact it means, sharing can be done at discretion of branch auditor.**
- **So final conclusion as per SA 600 , Principle Auditor can review working papers of branch auditor but branch auditor will decide whether he wants to share documents or not.**

QNO 103.500	Division of Responsibility TITANIUM CNO-- SA600.120	New Course – (SM23)

CA. Sourabh is engagement partner conducting statutory audit of BBI Bank for SBT & Associates. The bank has 1034 branches spread all over the country which are audited by branch auditors. In respect of one large branch audited by a branch auditor, there were errors in NPA classification of many advances which were not pointed out by branch auditor in his report through memorandum of changes and NIL memorandum of changes was reported electronically.

During overall review of financial statements of bank by statutory auditor, the above said errors did not come into light. The statutory auditor had also called soft copies of internal inspection report and concurrent audit reports of above branch as part of overall review procedures. However, these reports did not point towards any irregularities in such accounts.

Would statutory auditor of bank be liable for above lapses? What precautions have to be taken by him while expressing opinion considering possibilities of such situations?

Answer

SA 600 states that the principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors. When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.

In the given situation, nothing has come to light of statutory auditor which would arouse his suspicion about reliability of work performed by branch auditor. Therefore, he would not be responsible for work performed by branch auditor.

Further, it should be clearly stated in the report that 1034 branches of bank have been audited by branch auditors.

(N23M)

QNO 103.800	Accepting appointment of Principle auditor & determination of Materiality TITANIUM CNO-- "SA600.040 / GA.120"	New Course – ~~(SM23)~~

CA Tushar is engagement partner conducting audit of consolidated financial statements of a group which includes parent entity and its 3 subsidiaries. The standalone financial statements of its subsidiaries are audited by component auditors. He is considering accepting such appointment. What specific considerations have to be kept in mind by him before accepting appointment as principal auditor of the group? After acceptance, he is in quandary with regard to determination of materiality during audit of consolidated financial statements. What specific considerations have to be kept in mind while determining materiality during audit of above group?

Answer

SA 600 requires auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose, the auditor would consider: -

(i) the materiality of the portion of the financial information which the principal auditor audits
(ii) the principal auditor's degree of knowledge regarding the business of the components
(iii) the risk of material misstatements in the financial information of the components audited by the other auditor and
(iv) the performance of additional procedures as set out in SA 600 regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

600.040

With regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following: -

- The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e., permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- The parent auditor can also use materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components and consider using the work of other auditors as applicable.
- While considering the observations (for instance, modification and /or emphasis of matter/other matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600 "Using the Work of Another Auditor".

GA.120

Part 3- SA 610

QNO 103.100	**Evaluation of Internal Audit Function** **TITANIUM CNO—SA610.080**	**Old Course -(M05E, N08E, M09E, M12R, N12M, N13R, M13M, N14R, M15E, PM17, SM17, SM21)**

State the important aspects to be considered by the External auditor in the evaluation of the Internal Audit Function.

OR

You are appointed statutory auditor of X Ltd X Ltd has an internal audit system and reports for the same are given to you Mention the factors you will consider to ensure that the said system of internal audit of X Ltd is commensurate with the size of the company and nature of its business

Answer

Part I -- Relevant Standards & Laws

- SA 610 – " Using Work Of the Internal Auditor"

Part II -- Requirements of Relevant Standards & Laws

STEP-1

- **Before relying on work of internal auditor evaluate:**
  - **Competence : Qualification/Training/Knowledge of the internal auditor/Objectivity: Status of the I.A within the organisation/access of TCWG/Systematic &Disciplined Approach: Audit was properly planned, directed & reviewed or not.**

Using the Work of Internal Auditor: As per SA 610 "Using the Work of Internal Auditors", while determining whether the work of the internal auditors is likely to be adequate for the purpose of the audit, **the external auditor shall evaluate-**

- the **objectivity** of the internal audit function;
- **technical competence** of the internal auditors;
- whether the work of the internal auditors is likely **to be carried out with due professional care**; and
- whether there is likely **to be effective communication** between the internal auditors and the external auditor.

QNO 103.150	**Which work of Internal Auditor can be used** **TITANIUM CNO-- SA610.100**	**New Course – (SM23)**

CA. Keshavraj is conducting statutory audit of a listed company "Live with Nature Limited". The company is engaged in producing environment-friendly niche products for new-born babies. There is also a well-functioning internal audit department in the company. On perusal of internal audit reports, he finds that not only verification of inventories was attended by internal auditor at regular intervals during the year, workings were also made in respect of inventory valuation as at year end.

He has also attended inventory count at end of financial year and no prima facie adverse inferences were drawn by him. However, on going through inventory reports, he gathers that inventories are being held for considerably long period before being sold. The internal audit reports have not taken this aspect into consideration. Should he choose to rely upon inventory valuation work performed by internal auditor?

Answer

For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, the external auditor will need to perform more procedures directly and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in SA 200, the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be, and, therefore, the external auditor will need to perform more of the work directly.

Concepts of SA 610

In the given situation, inventories are being held for considerably long period before being sold. As company is dealing in niche products for new-born babies, there is a risk of inventory obsolescence due to changes in customer preferences. It carries a significant risk of material misstatement and requires more judgment on part of statutory auditor in planning and performing procedures.

Case Discussion

In such circumstances, statutory auditor needs to perform procedures directly like comparing net realizable value of products with costs to verify completeness of provisions, recomputing of provisions for obsolete stocks etc.

Therefore, in the given situation, he should perform procedures directly in accordance with SA 610.

QNO 103.250	**How to use/rely on work/report of internal auditor-** **TITANIUM CNO—SA610.120**	**Old Course (M12E, N15R, N15E, N16M, PM17, N18M)** **New Course – (SM23)**

CA Amboj, a practicing-chartered accountant has been appointed as an internal auditor of Textile Ltd He conducted the physical verification of the inventory at the year-end and handed over the report of such verification to CA Kishor, the statutory auditor of the Company, for his view and reporting Can CA Kishor rely on such report?

OR

In the course of the statutory audit of Z Ltd, its statutory auditors, having determined that the work of internal auditor is likely to be adequate for the purpose of statutory audit, wanted to use the work of internal auditor in respect of physical verification of fixed assets How an evaluation of this specific work done by the internal auditor can be done

Answer

Steps

1A. Discuss and coordinate: External auditors should discuss and coordinate with the internal audit function if they plan to use its work.

1B. Read internal audit Report: External auditors should read internal audit reports to understand the nature, extent, and findings of the audit procedures performed.

1C. Perform Sufficient Audit Procedures: External auditors should assess the adequacy of the internal audit function, including the planning, performance, supervision, review, documentation, evidence obtained, and the appropriateness of conclusions.

Principles

2A. Responsiveness of Audit Procedures: The external auditor's procedures should respond to their evaluation of the judgment involved, risk of material misstatement, support for internal auditor objectivity, and the competence level of the internal audit function.

2B. Re-evaluation & Reperformances: External auditors should regularly reassess their conclusions about the internal audit function and the extent of its work used for the audit. (At least some work should be reperformed)

QNO 103.300	**Direct Assistance** **TITANIUM CNO—SA610.140**	**Old Course – (M17R, N17M, M18R, M19R, M19M, N19M, M20R, SM21, M21M, M21E)**

Mr Anand is appointed as statutory auditor of Xerox Ltd Xerox Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr Bhanu as its internal auditor The external auditor Mr Anand asked internal auditor to provide direct assistance **to him regarding** evaluating significant accounting estimates **by the management and** assessing the risk of material misstatements **Discuss whether Mr Anand, statutory auditor, can ask direct assistance from Mr Bhanu, internal auditor as stated above in view of auditing standards.**

OR

OPQ Ltd is in the software consultancy business. The company had large balance of accounts receivables in the past years which have been assessed as area of high risk. For the year ended 31 March 2019, in respect of the valuation of accounts receivable, the statutory auditor was assigned with the checking of accuracy of the aging of the accounts receivables and provision based on ageing, **to the internal auditor** providing direct assistance to him. Comment.

OR

Smart Ltd is a manufacturing unit and you are External Auditor of the company. Internal auditors are also appointed as per the provisions of the Companies Act, 2013. As an external auditor you want to use the internal auditors to provide direct assistance for the purposes of audit. State the circumstances where the internal auditors cannot be used to provide direct assistance. **What would you include in the audit documentation?**

Answer

Part I -- Relevant Standards & Laws

- SA 610 – "Using Work Of the Internal Auditor"

Part II -- Requirements of Relevant Standards & Laws

- **Auditor Shall Not Take Direct Assistance: -**
  - **Higher RMM / Significant Judgments in Audit / Areas Where Internal Auditors are Involved & it Includes Reporting to TCWG or Management / Decisions Under SA 610 regarding Internal Audit**

    The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:
    - Relate to **higher assessed risks of material misstatement** where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
    - Involve making **significant judgments in the audit;**
    - Relate to work with which **the internal auditors have been involved** and which has already been, or will be, **reported to management or those charged with governance by the internal audit function; or**
    - Relate to **decisions the external auditor makes in accordance with SA 610** regarding the internal audit function and the use of its work or direct assistance.
- **Significant Judgement Includes:**
  - **Assessing RMM / Evaluation of-Adequacy of Test Performed Significant Acc. Estimates / Disclosure Requirement / Going Concern Assumption**

    Significant judgments include the following: (**GRADES**)
    - **Assessing the risks of material misstatement**
    - Evaluating the **sufficiency of tests performed;**
    - Evaluating **significant accounting estimates**; and
    - Evaluating the adequacy of **disclosures** in the financial statements, and other matters affecting the auditor's report.
    - Evaluating **the appropriateness** of management's use of the **going concern assumption;**
- **External auditor should make significant judgments as External auditor has sole responsibility for the audit opinion expressed.**

  Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement.

Part III –Facts

- Mr Anand(E.A) asked I.A to provide direct assistance on evaluating significant Acc. estimates & assessing the RMM.

Part IV –Conclusion

- **External Auditor cannot take direct assistance from internal auditors.**

  In view of above, Mr. Anand cannot ask direct assistance from internal auditors regarding evaluating significant accounting estimates and assessing the risk of material misstatements.

Author's Note: include the following audit documentation points in the answer.

If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:
(1) The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
(2) The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
(3) Who reviewed the work performed and the date and extent of that review in accordance with SA 230, Audit Documentation;
(4) The written agreements obtained from an authorized representative of the entity and the internal auditors; and
(5) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

QNO 103.400	Nature of Work to be Assigned to Internal Auditor TITANIUM CNO—SA610.140	Old Course – (M18E, SM21,N22E)

ABC Ltd. is engaged in the business of trading and manufacturing of readymade garments. The company has large balances of accounts receivables as on March 31, 2022, which has been assessed as the area of high risk in the audit planning stage. For the year ended March 31, 2022, in respect of the valuation of accounts receivables, the Statutory Auditor has assigned the checking of the accuracy of the ageing of the accounts receivables and provision made towards doubtful receivables, to the internal auditor. Please advise the statutory auditor, the areas in which direct assistance from internal auditor cannot be taken . Also, comment in this scenario, whether statutory auditor can take internal auditor's assistance

OR

Moon Ltd. of which you are the Statutory Auditor, have an internal audit being conducted by an outside agency. State the factors that weigh considerations in opting to make use of direct assistance of the internal auditors for the purpose of statutory audit.

Answer

- **Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance:**

  SA 610 'Using the work of Internal Auditor' Deals about the concept of direct assistance of internal auditor. In determining the nature and extent of work that may be assigned to internal auditors and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider:
  - The amount of judgment involved in:
    - Planning and performing relevant audit procedures; and
    - Evaluating the audit evidence gathered.
  - The assessed risk of material misstatement; and
  - The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance.

  If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance.

  The external auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity shall include inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity.

QNO 103.800	Internal Auditor identifies deficiency in internal control system. TITANIUM CNO-- SA610.060	New Course – (SM23)

N

RK Living Limited is engaged in manufacturing and processing of textile fabrics. It purchases its raw material from a company based in Silvassa taxable @ 12%. It takes about 3-4 days for raw materials to reach the company's plant. Recently, the company has revamped its internal control system for recording its transactions. You have also assumed charge as head of internal audit department of the company few days before.

It is noticed that information system requires booking of purchases in purchase ledger and stock records from date of purchase invoice only. How you would deal with above matter as internal auditor of the company?

Answer Internal audit involves continuous and critical appraisal of functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity including its strategic risk management and internal control system. Internal audit also involves evaluation of internal control to provide assurance to management regarding design, implementation and operating effectiveness of control.

Scope of Internal Audit
→ Governance
→ Risk management
→ Control Activities

In the given situation, information system requires booking of purchases in purchase ledger and stock records from date of invoice. Such a control system is likely to present a distorted picture of stocks of the company. It would show stocks of raw material as received whereas these goods could be in transit. Therefore, design of the control itself is faulty which allows booking from date of purchase invoice only. Further, such a system can have implications with respect to GST laws. } Case Discussion

The internal auditor should report above matter asking management for corrective action. } Conclusion

Part 4 - SA 620

QNO 105.000	Agreement (Need for Detailed agreement) TITANIUM CNO—Unique	Old Course -- (N16E, M21M, M23R) New Course -- (SM23)

Suvrat Ltd had a net worth of INR 2100 crore and Ind AS are applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e., they were working for the first time together but developed a good bonding during the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise.

OR

Mr Mohan, an auditor of KTEN Limited wants to use the work of an expert with reference to the Standard on Auditing state the factors, which suggest the need for detailed and written agreement between the auditor and the auditor's expert.

Answer

Part I -- Relevant Standards & Laws

- SA 620 – "Using Work Of an auditors Expert"

Part II -- Requirements of Relevant Standards & Laws

- ➢ **Factors which suggest the need for detailed and written agreement:**
  - ▼ As per SA 620, "Using the work of an Auditor's Expert**", some of the matters may affect** the level of detail and formality of the **agreement between the auditor and the auditor's expert,** including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for a more detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:
    - **N**uclear-**DEAL** should have detailed agreement as they are **C**-omplex
      - **N**- The auditor has **Not previously used work performed by that expert.**
      - **D**- The **respective roles or responsibilities of the auditor and the auditor's expert are Different from those normally expected.**
      - **E**- The greater the **Extent of the auditor's expert's work,** and its significance in the context of the audit.
      - **A** - The auditor's expert will have **Access to sensitive or confidential entity information.**
      - **L** -**Multi-jurisdictional Legal or regulatory requirements** apply.
      - **C**-The matter to which the **auditor's expert's work relates is highly Complex.**

Author's Note

Nuclear-**DEAL** should have detailed agreement as they are **C**-omplex

QNO 105.100	Agreement With Expert (Matters Covered) TITANIUM CNO—SA620.120	Old Course – (N18M, M19R, M19M, SM21, M23R)

X Ltd had a net worth of INR 1300 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit . The auditor did not enter into any formal agreement with the auditor's expert. Please advise.

Answer

- ➢ **Matters to be considered in Agreement**

  The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:
  - ▼ The nature, scope and objectives of that expert's work.

- The respective roles and responsibilities of the auditor and that expert.
- The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and

When the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, both a formal written report at the conclusion of that expert's work, and oral reports as the work progresses, may be appropriate. Identification of specific partners or staff who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

- The need for the auditor's expert to observe **confidentiality requirements.**
  It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert. Additional requirements may be imposed by law or regulation. The entity may also have requested that specific confidentiality provisions be agreed with auditor's external experts.

3. Objective
-Width
-Depth
-Quality
-Valuation

4. Role of Expert
-To arrange equipment
-To arrange team
-To follow time limits

5. Role of Auditor
-To get permissions to access & use oil well from management
-Request Management to send drilling data (source data)
-To arrange satellite images

2. Scope
-Only oil wells in Orissa
-Without considering climate change

6.Communication
Status report every 15 days
Mid term report after 3 months
Final Report after 6 months

1. Nature of work
-Analysing company drilling data of past 2 years
-Satellite Images Evaluation
-10 Samples from different spots for lab testing
-Drilling 5000 ft

7.Confidentiality
Declaration from each team member of expert
Penalty of Rs 25 lakhs if there is a breach + damages

Facts and Conclusion

- In the instant case X Ltd. had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Considering the complexity involved in the valuation and volume of derivatives and also due to the fact that the auditor and auditor's expert were new to each other, auditor should have signed a formal agreement/ engagement letter with the auditor's expert in respect of the work assigned to him in accordance with SA 220.

QNO 106.000	Evaluating work of Expert TITANIUM CNO—SA620.140	Old Course – (M08R, PM17, SM17, N18R, N18E, M19E, SM21,M23M)

State what may be the evaluative or review procedures that the Statutory Auditor may do before concluding as to relevance and reasonableness of Auditor's Expert work for using it for his audit purposes.

OR

KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for the financial year 2017-18. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known actuaries. Due to difference of opinion, all the joint auditors consulted their respective actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr. Y's actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y's actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma. Explain the responsibility of auditors, in case, report made by Mr. Y's actuary, later on, found faulty.

OR

Briefly explain how an auditor can use the work of an expert.

OR

CA Dabu has been appointed as an auditor of M/s MAP Techno craft Ltd. to conduct statutory audit. While conducting audit, he came across some difficulties which the management could not explain to him

properly and, therefore, he decided to take services of Mr. Jay , an engineering consultant . Mr. Jay performed his work and submitted details to CA Dabu. State the specific procedure which CA Dabu should follow to evaluate the adequacy of work performed by Mr. Jay.

Answer

Part I -- Relevant Standards & Laws

- SA 620 – "Using Work Of an auditors Expert"

Part II -- Requirements of Relevant Standards & Laws

- **Evaluating the Adequacy of the Auditor's Expert's Work:**
  As per SA 620 Using the work of an Auditor's Expert, the auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence, etc.

- **Specific Procedures**
  - Enquiries of the auditor's expert.
  - Reviewing the auditor's expert's working papers and reports
  - Corroborative procedure such as-
    - Observing the auditor's expert's work
    - Examining the published data, such as statistical reports from reputed source
    - Confirming the relevant matters with third parties
    - Performing detailed analytical procedure to see whether principles of materiality aspects considered.
    - Re performing calculations
  - Discussions with another expert with relevant expertise when, for example, the findings or the conclusion of the auditor's expert are not consistent with other audit evidence.
  - Discussing the expert's report with the management.

Similar to methods of Collecting audit evidence

Different

- **Evaluation of the adequacy of the auditor's expert's work**
  Therefore, as per SA 620 on "Using the Work of an Auditor's Expert", the auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:
  - The relevance and reasonableness of that expert's findings or conclusions and their consistency with other audit evidence; ③
  - If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and ②
  - If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data. ①

- **Inadequate Work**
  If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall:
  - Agree with that expert on the nature and extent of further work to be performed by that expert; or
  - Perform further audit procedures appropriate to the circumstances.

Not Adequate

QNO 106.100	Reference to Work of Expert in auditors report TITANIUM CNO—SA620.160	Old Course – (M19M,M23E)

O Ltd. is in the business of manufacturing of steel. The manufacturing process requires raw material as iron ore for which large stock was maintained by the company at year end – 31 March 2019. The nature of raw material is such that its physical verification requires involvement of an expert. Management hired their expert for stock take and auditors also involved auditor's expert for the stock take.

The auditor observed that the work of the auditor's expert was not adequate for auditor's purposes and the auditor could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.

Basis above, the auditor concluded that it would be necessary to express a modified opinion in the auditor's report because the auditor has not obtained sufficient appropriate audit evidence. However, the auditor issued a clean report and included the name of the expert in his report to reduce his responsibility for the audit opinion. Comment.

Answer

Part I -- Relevant Standards & Laws

- SA 620 – "Using Work Of an auditor Expert"

Part II -- Requirements of Relevant Standards & Laws

- **Work of Expert not adequate**
  As per SA 620, Using the work of an Auditor's Expert, if the auditor concludes that the **work of the auditor's expert is not adequate** for the auditor's purposes and the auditor cannot resolve the matter through the additional audit, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified opinion in the auditor's report in accordance with SA 705 because the auditor has not obtained sufficient appropriate audit evidence

- **Unmodified Opinion**
  In addition, the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

- **Modified Opinion**
  If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Facts and Conclusion

- In the given case, the auditor cannot reduce his responsibility by referring the name of auditor's expert and thereby issuing a clean report. Auditor should have issued a modified report and could have given reference to the work of an auditor's expert in that report if such reference was relevant to understanding of a modification to the auditor's opinion but even in that case the auditor should have indicated in his report that such reference of auditor's expert does not reduce his responsibility for that opinion.

QNO 106.500	**Areas where Experts reports can be used & evaluation of work of expert** **TITANIUM CNO-- SA620.040 / SA620.140**	**New Course – (SM23)**

While doing audit, Ram, the Auditor requires reports from experts for the purpose of Audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same?

Answer

Using the Work of an Auditor's Expert: As per SA 620, "Using the Work of an Auditor's Expert", during the audit, the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert.

While doing audit, Ram, the auditor can obtain the following types of reports, or options or statements of an expert for the purpose of audit evidence:

(i) The valuation of complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
(ii) The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
(iii) The estimation of oil and gas reserves.
(iv) The valuation of environmental liabilities, and site clean-up costs.
(v) The interpretation of contracts, laws and regulations.
(vi) The analysis of complex or unusual tax compliance issues.

When the auditor intends to use the work of an expert, he shall evaluate the adequacy of the auditor's expert's work, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence; if that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and if that expert's work involves the use of source data that is significant to his work, the relevance, completeness, and accuracy of that source data.

Part 5 - SA 540

QNO 80.000	Estimates (Estimates High Uncertainty) TITANIUM CNO—SA540.040	Old Course – (N16E)
	With reference to the Standards on Auditing state the examples of accounting estimates that may have a high estimation uncertainty	

Answer

Part I -- Relevant Standards & Laws

- SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

Part II -- Requirements of Relevant Standards & Laws

- ➢ High Estimation Uncertainty: -
  If there is high estimation uncertainty in any estimate, then there is significant risk
  As per SA 540, the auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risks.

  High uncertainty in JR HR department

- ➢ Examples
  - Judgement Dependent / Review of Prior Period Estimates / Not Calculated using Recognised Measurement Techniques / Highly Specialised Entity Developed Model
    Examples of accounting estimates that may have high estimation uncertainty include the following:
    - Accounting estimates that are **highly dependent upon judgment,** for example, judgments about the outcome of pending litigation or the amount and timing of future cash flows dependent on uncertain events many years in the future.
    - Accounting estimates where the results of the auditor's **review of similar accounting estimates made in the prior period financial statements indicate a substantial difference between the original accounting estimate and the actual outcome.**
    - Accounting estimates that are **not calculated using recognised measurement techniques.**
    - Fair value accounting estimates for which **a highly specialised entity-developed model is** used or for which there are no observable inputs.

QNO 80.050	Estimates (Estimates low Uncertainty) TITANIUM CNO—SA540.040	Old Course – (N19E)
	During the audit of Data Solutions Ltd., a listed company, your audit manager observed that several estimates are made by the Company. He seeks your guidance to know areas of accounting estimates that may give rise to lower level of risk of material misstatement. Guide him with examples.	

Answer

Part I -- Relevant Standards & Laws

- SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

Part II -- Requirements of Relevant Standards & Laws

- ➢ **Examples of Low Estimation Uncertainty**

FMCG ki Report mine bahut kam uncertainty hai	
Accounting estimates that are **Frequently made and updated because they relate to routine Transactions**	*(Inventory Valuation)*
Fair value accounting estimates where the **Method of measurement prescribed by the applicable financial reporting framework is simple and applied easily** to the asset or liability requiring measurement at fair value.	***(E.g.,** Ind AS 113 gives method of computing fair value, if this is used then it is reliable)*
Accounting estimates arising in entities that **engage in business activities that are not Complex**	***(E.g.,** Depreciation of furniture in trading entity) (Fixed Asset)*

Fair **value accounting estimates** where the model used to measure the accounting estimate is **well known or Generally accepted,** provided that the assumptions or inputs to the model are observable.	***(E.g.,** Equity share valuation through net asset method is very simple and well-known method)*
Accounting estimates **derived from data that is Readily available,** such as published interest rate data or exchange-traded prices of securities. Such data may be referred to as "observable" in the context of a fair value accounting estimate.	***(E.g.,** Average PE ratio was computed for retail industry from share prices and earnings of listed companies and same was used to value a private company shares in retail industry) (Investment)*

Authors Note

- **Shortcut to remember - FMCG** ki **R**eport mine bahut kam uncertainty hai
- **Examples are provided for better understanding of the points.**

QNO 81.000	Estimates (Risk Assessment) TITANIUM CNO—SA540.120	Old Course – (M11E, M12M, N12R, M16M, SM17, PM17, M18M, SM21, M21M, M22E) New Course – (SM23)

While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements?

OR

CA Harry is appointed as a Statutory Auditor of Delist Limited for the financial year 2021-22. M/s Delist Limited is a listed entity at National Stock Exchange and the financial statements are to be drawn up in compliance with Ind AS. M/s Delist Limited made certain fair value accounting estimates on complex financial instruments which are not traded in an active and open market. CA Harry is concerned with identification and assessment of the risks of material misstatement for accounting estimates. Guide him with regard to the estimation making process adopted by management with reference to the relevant Standard on Auditing.

Answer

Part I -- Relevant Standards & Laws

- SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

Part II -- Requirements of Relevant Standards & Laws

- ➢ Risk Assessment Procedures: - *In risk assessment procedure we obtain understanding which will become basis of identifying and assessing risk*
  As per SA 540, the auditor shall obtain an **understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatements** for accounting estimates:
- ➢ Important Overall Understandings: -
  - How Mgt Identifies TEC which need accounting estimates to be recognised, disclosed or need to revise existing estimates / Requirements of applicable FRF
    - The **requirements of the applicable financial reporting framework relevant to the accounting estimates, including related disclosures.**
    - How Management **identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed, in the financial statements.** In obtaining this understanding, the auditor shall make **inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.**
- ➢ Estimation Process Including: -
  - Relevant Controls / Expert / Methods Including Model / Assumptions
- ➢ Additional Information: -
  - Changes from Prior Period / Management's Assessment of Estimation Uncertainty

The **estimation making process** adopted by the management including-
Relevant controls.

- Whether **management has used an expert?**
- The **method, including where applicable the model**, used in making the accounting estimates.
- The **assumption underlying the accounting estimates**.
- Whether there has been or ought to have been a **change from the prior period in the methods for making the accounting estimates**, and if so, why; and
- Whether and, if so, how the **management has assessed the effect of estimation uncertainty**.

QNO 81.020 **Obtaining Understanding of Assumptions Used for Determining Estimates** **Old Course – (M21E)**
TITANIUM CNO—Unique

Assumptions are integral components of accounting estimates. State the matters that the auditor may consider in obtaining an understanding of the assumptions underlying the accounting estimates with reference to relevant SA's.

Answer **As per SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures,** how management makes the accounting estimates, and an understanding of the data on which they are based, including assumptions underlying the accounting estimates.

Assumptions are integral components of accounting estimates. Matters that the auditor may consider in obtaining an understanding of the assumptions underlying the accounting estimates include, for example:

- The nature of the assumptions, including which of the assumptions are likely to be significant assumptions.
- How management assesses whether the assumptions are relevant and complete (that is, that all relevant variables have been taken into account).
- Where applicable, how management determines that the assumptions used are internally consistent.
- Whether the assumptions relate to matters within the control of management (for example, assumptions about the maintenance programs that may affect the estimation of an asset's useful life), and how they conform to the entity's business plans and the external environment, or to matters that are outside its control (for example, assumptions about interest rates, mortality rates, potential judicial or regulatory actions, or the variability and the timing of future cash flows).
- The nature and extent of documentation, if any, supporting the assumptions.

Assumptions may be made or identified by an expert to assist management in making the accounting estimates. Such assumptions, when used by management, become management's assumptions.

QNO 81.050 **Further Audit Procedures Where Significant Risk is Identified.** **Old Course – (N20E, M22M, M23M)**
TITANIUM CNO—SA540.120

M/s. HK & Co. was appointed as an auditor of GSB Limited, a company operating its business in telecom sector. As per spectrum allocation agreement with Government, GSB Limited is required to pay certain percentage of its annual revenue as license fee. GSB Limited paid the license fee on its core business for last two years. At the end of third year, the communication was received from Government that it needs to pay agreed percentage on its total revenues and not only on core business revenues. Matter was disputed and went to court of law. On prudence basis, GSB Limited made a provision on estimated business in its books of accounts of agreed percentage on non-core business receipts also. The amount of provision was of such huge amount that the GSB Limited's profit and loss account for that quarter reflected loss due to that provision. How you as an auditor can evaluate this accounting estimate which involves significant risk and what if Management has not addressed the effects of estimation uncertainty on provision made?

Answer In the given case, HK & Co. was appointed as an auditor of GSB Ltd., operating in Telecom sector. GSB Ltd paid the license fee on its core business revenue whereas Govt required it to pay on non-core business receipts as well. Consequently, the amount of provision was of such a huge amount that GSB Ltd.'s profit and loss account reflected a lo ss due to that provision. As an auditor evaluation would be done as under:

For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of SA 330, the auditor shall evaluate the following:

(i) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.

(ii) Whether the significant assumptions used by management are reasonable.

(iii) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

(iv) (iv) If, in the auditor's judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor shall, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate.

QNO 81.050 **Inquiries of management about changes in circumstances** **Old Course – (M23E)**
TITANIUM CNO-- SA 540.120

M/s ABC Limited is engaged in the business of construction of infrastructure and housing projects. While preparing the financial statements for the year ended 31.03.2023, management has made various accounting estimates and confirmed to the auditor that all necessary accounting estimates have been recognised, measured and disclosed in the financial statements are in accordance with the applicable financial reporting framework. The auditor during the course of audit observed some changed circumstances giving rise to the need for an accounting estimate. Inquiries of same were sought from the management. Can you list down some circumstances, change of which will result in inquiries from the management?

Answer **As per SA 540,** "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes to the requirements of the applicable financial reporting framework or otherwise.
- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

During the audit, the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify. SA 315 deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including determining whether there is a significant deficiency in internal control with regard to the entity's risk assessment processes.

QNO 81.100	Content of WR, in case of estimates and consequences of refusal TITANIUM CNO—SA540.220	Old Course – (M19M, N19E, SM21)

Statutory auditor of O Ltd requested the management for a written representation in respect of obsolescence of inventory and warranty obligations recognized by the company in its financial statements. The management denied the representation on the ground that during the course of audit, all the required procedures were performed by the auditor and after obtaining sufficient appropriate audit evidence, auditor has issued a clean report. Please comment.

OR

Mr. L while conducting the observed that inventory and warranty obligation in the financial statements, Mr. L wants to obtain written representation from the management to determine whether the assumptions and estimates used are reasonable.

Guide Mr. L with reference to the relevant Standard on Auditing,

Answer

- *As per SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures:*

  The auditor shall obtain written representations from the management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

  Depending on the nature, materiality and extent of estimation uncertainty, written representations about accounting estimates recognised or disclosed in the financial statements may include representations:

  - About the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework, and the consistency in application of the processes.
  - That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - That disclosure related to accounting estimates are complete and appropriate under the applicable financial reporting framework.
  - That no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

- For those accounting estimates not recognised or disclosed in the financial statements, written representations may also include representations about:

  - The appropriateness of the basis used by management for determining that the recognition or disclosure criteria of the applicable financial reporting framework have not been met.
  - The appropriateness of the basis used by management to overcome the presumption relating to the use of fair value set forth under the entity's applicable financial reporting framework, for those accounting estimates not measured or disclosed at fair value.

- Thus, management's contention on the ground that during the course of audit, all the required procedures were performed by the auditor and after obtaining sufficient appropriate audit evidence, auditor has issued a clean report, for not providing written representation is not correct. The management should provide written representations to the auditor.

  Further as per SA 580 Written Representation, if management does not provide one or more of the requested written representations, the auditor shall:-

  - Discuss the matter with management.
  - Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
  - Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705.

QNO 81.200	Review of Prior period estimates TITANIUM CNO—SA540.120	Old Course – (M19R, SM21, N21M, M23E) New Course--(SM23)

BETA Ltd is engaged in the Construction business since year 2001. The auditor understands that a thorough construction estimate is vital to the viability of any construction business and requested the information related to financing and operating estimated costs from the management to review the outcome of accounting estimates included in the prior period financial statements and their subsequent re-estimation for the purpose of current period.

The management refused to provide the information to the auditor as it believed that the judgments and estimates made in the prior periods were based on the information available at that time, and the review of the prior period information should not be done by the auditor in the current financial year. With reference to the relevant SA, comment on whether the contention of management is correct or not.

OR

A Pvt Ltd is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.

Answer

- *Mandatory to review outcome of prior period estimates*

  As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor **shall review the outcome of accounting estimates** included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. **The nature and extent of the auditor's review** takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

- *Benefits of Reviewing outcome of Prior Period Estimates*

  The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

  - Information regarding the **effectiveness of management's prior period estimation process,** from which the auditor can judge the likely effectiveness of management's current process.
  - **Audit evidence that is pertinent to the re-estimation**, in the current period, of prior period accounting estimates.
  - **Audit evidence of matters, such as estimation uncertainty,** that may be required to be disclosed in the financial statements.
  - The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or **indicate the presence of, possible management bias.** The auditor's professional scepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

- *Not Intended to question or doubt prior period estimates*

  However, the review is **not intended to call into question the judgments made in the prior periods that were based on information available at that time.**

- *Conclusion*

  In the given case, the management is not correct in refusing the relevant information to the auditor.

Part 6- SA 520

QNO 71.000	Analytical Procedures (Considerations) TITANIUM CNO--SA520.040	Old Course – (M09E, N13R, PM17)
	What are the considerations to be kept in mind while performing substantive analytical procedures on data prepared by the client?	

Answer

Part I -- Relevant Standards & Laws

- SA 520, "Analytical Procedures"

Part II -- Requirements of Relevant Standards & Laws

- ➢ *Factors to be kept in mind while performing analytical procedures*
  - *Suitability of particular substantive analytical procedures for given assertions / Reliability of data to be used to develop expectations / Develop expectations sufficiently precise /Determine differences from recorded values and evaluate whether investigations are required. Inquiry & Other Audit procedures can be used for investigations*

    As per "SA 520 (Revised) Analytical Procedure", when the auditor intends to perform analytical procedures on data prepared by the client, he should consider the following:
    - Determine the suitability **of particular substantive analytical procedures** for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;
    - Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;
    - Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and
    - **Determine the amount of** any difference of recorded amounts from expected **values** that is acceptable without further investigation and if analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:
      - Inquiring **of management** and **obtaining appropriate audit evidence relevant to management's responses**; and
      - Performing other audit procedures **as necessary in the circumstances.**

QNO 73.100	Analytical Procedures (Investigating Inconsistencies) TITANIUM CNO--SA520.060	Old Course – (N18E)
	In audit of DEF Limited, the Auditor had made use of certain analytical procedures with regard to certain key data in the Statement of Profit and Loss. The results obtained showed inconsistencies **with other relevant information.** State the course of action **that the Auditor** should take to ensure that the risk of material misstatement would be contained to a low level fixed as per materiality level.	

Answer

Part I -- Relevant Standards & Laws

- SA 520, "Analytical Procedures"

Part II -- Requirements of Relevant Standards & Laws

- ➢ *Investigating Results of Analytical Procedures:*
  - *Analytical Procedures will help identify fluctuations.*

    As per SA 520, "Analytical Procedures", if analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:
  - *2 Ways of investigating.*

    - Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
    - Performing other audit procedures as necessary in the circumstances.
  - *Evaluate responses of inquiry.*

    Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.
  - *Situations where other audit procedures may be required.*

    The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.