



*Practical Learning Series*

# STANDARDS ON AUDITING

**For CA Final New Syllabus 2023**

**Applicable for May 2024 and onwards Examination**

## Highlights of this Book:

- All Standards, as applicable for CA Exams updated.
- Each Standard comes with a pleasing and student-friendly layout of –  
(a) Preliminaries, (b) Definitions, (c) Requirements of the Standard,  
(d) Additional Matters wherever applicable, (e) Important Revision Questions and Past Exam Questions.
- Contents of the Standard organized in separate Sections, Paragraphs, Diagrams, and Tables, wherever applicable, to suit ease of reading and understanding.
- Illustrative Formats: Wherever applicable, Illustrative Formats given.
- Past Exam Questions: Past Exam Questions and Revision Test Paper (RTP) Questions have been appended in each Standard, along with Hint Answers for effective exam preparation.

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**Updated with  
Latest Standards**  
**Including  
SRE's, SAE's & SRS**

**CA G. Sekar**

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**Note:**

- Past Exam Questions in each Topic have been marked as “I” for CA Inter and “F” for CA Final respectively. For example, I – N 22 means a question from CA Inter November 2022 Exams, and F – N 22 means a question from CA Final November 2022 Exams.
- Questions from the Revision Test Papers of the ICAI are marked as RTP.

## Gurukripa's Guideline Answers to May 2023 Exam Questions CA Final – Advanced Auditing, Assurance & Professional Ethics

Page References given are from **Padhuka's Practical Learning Series – Standards on Auditing**

Q	Questions	Reference and Hint Answer	M
1 (a)	<p>Joy Ltd is an Entertainment Company which runs a circus and travels around the country to entertain the masses. The circus began losing its popularity over the past few years and attendance has reportedly dropped by as much as 75% in the current financial year. Animal rights activists continuously targeted the circus for its use of animal creatures like elephants in the show. The CEO noted that the audience seemed to be abandoning the circus due to their expanding entertainment options. The high cost of moving the show from city to city eventually made the business model untenable. As a result, many key managerial personnel of the company left the company, there were delays in the payment of wages and salaries, and the bank from whom the Company had taken funds also decided not to extend further finance or to fund further working capital requirements of the company. When discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances (Use of going concern assumption is inappropriate). Further, all such circumstances were not reflected in the Financial Statements of Joy Ltd. What course of action should the statutory auditor of the company take in the auditor's report in such situation?</p>	<p style="text-align: center;"><b>Pg. No. 159, Q. No. 4</b> <b>[N 15, M 08]</b> <b>Answer Pg. No. 158, Point 8(a)</b></p> <p><b>Hint:</b> If the Financial Statements have been prepared on a Going Concern basis but, in the Auditor's judgement, Management's use of the Going Concern basis of accounting in the preparation of Financial Statements is <b>inappropriate</b>, the Auditor shall express an <b>Adverse Opinion</b> regardless of whether or not the Financial Statements include disclosure of the inappropriateness of Management's use of the going concern basis of accounting.</p>	5
1 (b)	<p>HAM Ltd is engaged in the business of manufacturing of medicines. The manufacturing process requires raw materials such as Hydrochloric Acid, Caustic Soda and other chemicals for the manufacturing of various drugs. The Company has maintained large stock of raw materials of all types of chemicals being used. The nature of raw material is such that its physical verification requires the involvement of an expert. Management hired their expert for the stock taking and auditors also involved their expert for the same purpose. The auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor. Based on above, the auditor knows that it would be right to express a modified opinion in the auditor's report because he has not obtained sufficient appropriate audit evidence. But he was reluctant in doing so and issued a clean audit report and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment with respect to relevant Standard of Auditing relating to the action of the auditor of issuing clean audit report.</p>	<p style="text-align: center;"><b>Pg. No. 181, Q. No. 5</b> <b>[N 06, N 02, N 01, M 10, M 11]</b> <b>Answer Pg. No. 178 Para 14 &amp; 15</b></p> <p><b>Hint Answer: Refer SA 620, 705, Clause 8 of Part I of Second Schedule to CA Act.</b></p> <p><b>Unmodified Opinion:</b> The Auditor shall <b>not</b> refer to the work of an Auditor's Expert in an Auditor's Report containing an unmodified opinion.</p> <p><b>Modified Opinion:</b> 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 <b>not</b> reduce the Auditor's responsibility for that opinion.</p>	5

Q	Questions	Reference and Hint Answer	M
1 (c)	<p>M/s ABC Ltd 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 recognized, 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?</p>	<p><b>Pg. No. 140, Q. No. 10, 11</b>  <b>[N 90, M 11]</b>  <b>Answer Pg. No. 135 Para 8, A19, 27, 28</b>  <b>Hint Answer: Refer SA 540</b></p> <ol style="list-style-type: none"> <li>1. Entity has engaged in new types of transactions that may give rise to Accounting Estimates.</li> <li>2. Terms of transactions that gave rise to Accounting Estimates have changed.</li> <li>3. A/c policies relating to A/c Estimates have changed, as a result of changes to requirements of applicable Financial Reporting Framework.</li> <li>4. Regulatory or other changes outside the control of Management have occurred that may require Management to revise, or make new Estimates.</li> <li>5. New conditions or events have occurred that may give rise to need for new revised estimate.</li> </ol>	4
2 (a)	<p>While conducting audit of PC Ltd, CA T decided to use sampling technique to test the trade receivables at the planning stage. He directed his team members to divide the whole population of trade receivables balances to be tested in a few separate groups called 'strata'. He directed to treat each stratum as if it was a separate population and divided the trade receivables balances of PC Ltd for the Financial Year 2022-23 into groups on the basis of personal Judgment as follows:</p> <ol style="list-style-type: none"> <li>(a) Balances in excess of ₹ 50,00,000;</li> <li>(b) Balances in the range of ₹ 40,00,001 to ₹ 50,00,000;</li> <li>(c) Balances in the range of ₹ 30,00,001 to ₹ 40,00,000;</li> <li>(d) Balances in the range of ₹ 20,00,001 to ₹ 30,00,000;</li> <li>(e) Balances in the range of ₹ 10,00,001 to ₹ 20,00,000;</li> <li>(f) Balances ₹ 10,00,000 and below</li> </ol> <p>From the above mentioned groups, CA T directed to pick up different percentage of items for examination from each of the group. One of the team members, Mr. Neel, wants to use some other technique of sampling for the above purpose as the concept of stratification is not clear to him. You are required to explain the concept of stratification and its uses to Mr. Neel.</p>	<p><b>Pg. No. 131, Q. No. 12 [RTP, N 00, M 11]</b>  <b>Answer Pg. No. 128, Point 1</b></p> <p>The population is divided into different classes or strata. Each stratum is treated as if it were a separate population and a sample is taken from each such class or stratum. The number of groups into which the whole population has to be divided is determined on the basis of Auditor's judgment. e.g. in Debtors Confirmation, Auditor may classify customers based on –</p> <ol style="list-style-type: none"> <li>(a) geographic locations, or</li> <li>(b) amount receivable, or</li> <li>(c) volume of transactions etc.</li> </ol> <p>In each class or stratum, he may choose different sample sizes for verification. It is appropriate for a highly diversified population. Weights are allocated to reflect these differences and different sample sizes are drawn from each class.</p>	5
2 (b)	<p>SPM Ltd, about to complete fifty years of age since its incorporation in the FY 2023-2024, decided during FY ear 2022-23 to upgrade its registered office at an important location in Mumbai city. As part of planned package, it decided to acquire a land very adjacent to the site of registered office, which had been owned by Mr. Parry who is a director of the Company. Since he was reluctant to part with the ownership, he had been persuaded to convey the property in favour of the company in exchange of a site owned by the company located at the next street to the street where the registered office is situated, which is 1.50 times larger in area than that of the site owned by the director adjacent to the Registered office.</p>	<p><b>Pg. No. 147, Q. No. 14</b>  <b>Answer Pg. No. 145, Para 23, Pg. No. 146, Point D</b></p> <p><b>Hint Answer: Reporting Requirements under –</b></p> <ol style="list-style-type: none"> <li>1. SA 550, Page 146, Para 25, A47</li> <li>2. 143(1) Reporting</li> <li>3. CARO Reporting under clause 3(xv)</li> </ol>	5

Q	Questions	Reference and Hint Answer	M
	<p>Happier with what he was offered in negotiation, Mr. Parry agreed for transferring the property in favour of the company in a deed of exchange duly executed by authorized persons of the Board, and Mr. Parry. The registration formalities were completed by 31.12.2022. Assuming that you are the engagement partner for the audit of the accounts of the company for the financial year ended on 31st March, 2023, give a list of additional audit procedures and reporting requirements, if any, that this transaction might trigger in your audit.</p>		
4 (a)	<p>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.</p>	<p><b>Pg. No. 140, Q. No. 11 [M 11]</b>  <b>Answer Pg. No. 135 Para 9</b>  <b>Hint Answer:</b> As per SA 540, 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. Hence, the contention of the Management is not correct.</p>	5

## Gurukripa's Guideline Answers to Nov - 2022 Exam Questions CA Final – Advanced Auditing, Assurance & Professional Ethics

Q	Questions	M
1 (a)	AP & Associates, Chartered Accountants are Statutory Auditors of XP Ltd for the last four years. XP Ltd is engaged in the manufacture and marketing of FMCG goods in India. During 2021-22, the Company has diversified and commenced providing software solutions in the area of "e-commerce" in India as well as in certain European Countries. AP & Associates, while carrying out the audit for the current Financial Year, came to know that the Company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise and infrastructure to carry out the audit of this diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw.	5
1 (b)	During the audit of Star Ltd, a Company engaged in the production of paper, the auditor received certain confirmation for the balances of Trade Payables outstanding in the Balance Sheet through external confirmation by "Negative Confirmation Request". In the list of Trade Payables, there are number of small balances except one which is an old outstanding of ₹ 20 Lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation.	5
2 (a)	CA. B was appointed as the Auditor of SRTLtd for the Financial Year 2021-22. During the course of planning for the audit, CA. B intends to apply the concept of materiality for the Financial Statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose. What benchmark should be adopted by CA. B, if SRTLtd is engaged in: (a) the manufacture and sale of Air Conditioners, and is having regular profits (b) construction of Large Infrastructure Projects and incurred losses in the previous two Financial Years, due to Pandemic.	5
3 (a)	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 Receivable, 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.	5
4 (b)	The Professional Accountants need to observe certain fundamental principles, which are covered in the Code of Ethics of the Institute of Chartered Accountants of India. Briefly explain each of the five principles which needs to be complied by the Chartered Accountants?	5

Q	Questions		M
5 (a)	CA. Uma is the Statutory Auditor of RJ Ltd, for the Financial Year 2021-22. The Company is engaged in the production of Electronic Products. During the course of the audit, CA. Uma obtained certain audit evidence of incorrect disclosure of Related Party Transactions and Structured Finance Deals which was not considered with the affirmation leading to misstatement in the Financial Statements. Discuss how CA. Uma should deal with the situation in the Auditor's Report and the different options which can be considered?	<b>Refer SA 705</b> <b>Answer See Page 216,</b> <b>Para 2&amp;A.1</b> <b>Hint Answer:</b> Auditor to Issue Qualified or Adverse Report based on Pervasiveness of the Material Misstatement.	5

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## Gurukripa's Guideline Answers to May 2022 Exam Questions CA Final – Advanced Auditing, Assurance & Professional Ethics

Q	Questions	M	
1 (a)	<p>PQR &amp; Associates, Chartered Accountants, is a partnership firm having 3 partners CA P, CA Q and CA R. PQR &amp; Associates are appointed as Statutory Auditors of ABC Limited listed entity for the financial year 2021-22 and CA P is appointed as Engagement Partner for the audit of ABC Limited. Before issuing the Audit Report of ABC Limited, CA P asked CA R to perform Engagement Quality Control Review and is of the view that his responsibility will be reduced after review by CA R. Whether the contention of CA P is correct? What are the aspects that need to be considered by CA R while performing Engagement Quality Control Review for audit of financial statements of ABC Limited?</p>	<p>Refer SA 220 Pg. No.21, Q. No. 4 [N 19] Ans. Pg. No.20, Para 13-18</p>	5
1 (b)	<p>JKL Limited is engaged in the business of Construction and real estate having various projects across states. M/s. YT &amp; Co., Chartered Accountants have been appointed as Statutory Auditors. Audit Team from M/s. YT &amp; Co for audit of JKL Limited comprises of CA Z – Engagement Partner, CA Q, a paid assistant and 3 Articled Assistants. During preliminary verification, CA Z observed that huge amount of sub-contract payments were made to M/s. JB Associates, a partnership firm in which Director of JKL Limited is a managing partner. The engagement team discussed that SA 315 and SA 240 shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the JKL Limited's related party relationships and transaction. Highlight the matters that are to be addressed in the discussion by CA Z with engagement team members with reference to the relevant standard on Auditing.</p>	<p>Refer SA 350 Pg. No.147, Q. No. 6 [RTP] Ans. Pg. No.142, Para 12</p>	5
2 (c)	<p>CA Ravi, a practicing Chartered Accountant, was proprietor of M/s. Ravi &amp; Associates. CA Ravi died on 15<sup>th</sup> September, 2020 due to cardiac arrest. Only family member left behind CA Ravi was his wife, Roohi. On 30<sup>th</sup> September, 2021, Roohi sold the practice of her husband to CA Balwan for ₹25 Lacs along with right to use the firm name i.e. M/s. Ravi &amp; Associates and requested the Institute to consider the effect of such sale. Give your comments on the following issues with reference to the Chartered Accountants Act, 1949 and schedules thereto:</p> <p>(i) Whether Roohi can sell the practice to CA Balwan? (ii) Can CA Balwan continue to practice as proprietor in name of M/s. Ravi &amp; Associates?</p>	<p>Clause 2 Part I First Schedule Same as Pg. No. 20-21 Illustration [RTP, N 02,N 04,N 12]</p>	4

Q	Questions	M	
4 (c)	XYZ Limited is manufacturer of soaps and cosmetics having business operations in Delhi, XYZ Limited is planning to expand its operations across India. Before, expansion, the top management of XYZ Limited is willing to appoint CA T for conducting Management Audit of XYZ Limited. However, the top management of XYZ Limited is afraid that Management Audit may lead to the breeding of antagonism on the part of the Company. The top management of XYZ Limited approached CA T and requested to explain them the causes of antagonism. Help CA T.	Pg. No. 15.20 Q. No.16 [N 98, N 04] Ans. Pg. No. 15.8 Para 15.3.2	4
5 (c)	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.	Refer SA 540 Pg. No. 140, Q. No. 11 [M11] Ans. Pg. No.135 Para. 8	4
6 (a)	CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. And also 15 branches across India. Auditors are duly appointed for the subsidiaries and branches as well. With regard to the determination of materiality during the audit of consolidated financial statements what should be the considerations of CA H? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter in accordance with SA 705/706) made by component auditors?	Refer SA 600 Pg. No. 169, Q. No. 6 [N 08, N 98, N 02] Ans. Pg. No.169, Para. 22, 23	5
6 (b)	You are the team leader of 10 members for an audit of a Multinational company. All the team members are concerned about Audit documentation in order to provide evidence that the audit complies with SAs. Hence, the team members wish to document every matter concerned. In your opinion it is neither necessary nor practicable for the auditor to document every matter considered or professional judgement made in an audit. Further you feel that it is unnecessary for the auditor to document separately compliance with matters for which compliance is demonstrated by documents included within the audit file. Illustrate by giving examples with reference to relevant Standard on Auditing.	Refer SA 230 Pg. No.24, Para 8, A.8	5

## Gurukripa's Guideline Answers to Dec 2021 Exam Questions CA Final – Advanced Auditing, Assurance & Professional Ethics

Q	Questions	Reference and Hint Answer	M
1 (a)	<p>M/s Kumar &amp; Co., Chartered Accountants were appointed as statutory auditors of PC limited for the financial year 2020–21. During the course of audit, one of the partners CA. Kumar observed that there is misappropriation of assets in the form of theft of entity's inventory and is perpetrated by employees in relatively small and immaterial amounts. CA. Kumar is concerned with the existence of certain circumstances for increasing the susceptibility of assets to misappropriation.</p> <p>Guide CA. Kumar with respect to Risk factors related to misstatements arising from misappropriation of assets with reference to relevant Standard on Auditing.</p>	<p style="text-align: center;">SA – 240 Same as Page 39, Q. No. 24 [N 15, N 19] Answer: Page , Para</p>	5
1 (b)	<p>In the course of audit of Tech limited you observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Tech Limited used a service organisation to record transactions and process related data. As an auditor, what would be your considerations regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk.</p> <p>Discuss with reference to relevant Standard on Auditing.</p>	<p style="text-align: center;">SA – 402 Same as Page 98, Q. No. 8 [RTP, M 11, N 13] Answer: Page 95, Para 9, A.7</p>	5
1 (c)	<p>CA Madhu is the statutory auditor of Lakshmi Ltd. for the Financial year 2020–21. In respect of loans and advances of ₹ 75 Lakh given to Sriman Pvt. Ltd., the Company has not furnished any agreement to CA Madhu and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.</p> <p>Justify the type of opinion which CA Madhu should give in such situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph.</p>	<p style="text-align: center;">SA – 705 Answer: Page 218, Para 16–19, Pt.2</p>	4
2 (a)	<p>During the course of audit of Fortune Ltd, CA Prasad is concerned with the quality and effectiveness of internal control. Towards achieving his objective he wants to assess and evaluate the control environment: Guide CA Prasad with well-defined as of the Standard Operating Procedures in the assessment and evaluation of control.</p>	<p style="text-align: center;">SA – 315 Same as Page 80, Q. No. 21, Para 14 [M 19] Answer: Page 75, Para A.65 to A.66</p>	5
5 (a)	<p>Mr. Agarwal, in the course of audit of PQ Limited, wants to perform external confirmation procedures to obtain audit evidence. Guide Mr. Agarwal, listing out the factors that may assist him in determining whether external confirmation procedures are to be performed as substantive audit procedures.</p>	<p style="text-align: center;">SA – 505 Same as Page 115, Q. No. 9, [M 19] Answer: Page 114, Para 15</p>	5

## Gurukripa's Guideline Answers to May 2023 Exam Questions CA Inter – Auditing and Ethics

Page References given are from **Padhuka's Practical Learning Series – Standards on Auditing**

Q	Questions	Reference and Hint Answer	M
2 (a)	While designing an audit sample, the auditor shall determine a sample size sufficient to reduce the sampling risk to an acceptably low level. In this context, explain Sampling Risk and non Sampling Risk.	SA 530 Page 131, Qn. 3 to 5 [M 14, M 06, N 10, M 07, M 10] Answer Page 125, Para 5	4
2 (b)	You are appointed as an auditor of Gama Ltd. Your audit assistant wants to understand the meaning of Audit Risk. Explain him the meaning of Audit Risk with example. Also guide him as to what is not included in Audit Risk.	SA 320 Page 86, Qn. 7 [RTP, M 03, M 07, N 08] Answer Page 83 <b>Hint Answer:</b> Audit risk does not include – <ul style="list-style-type: none"> <li>• Risk that he might express an opinion that the F/s are materially misstated when they are not. This risk is ordinarily insignificant.</li> <li>• Auditor's Business Risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of F/s.</li> </ul>	4
2 (c)	An auditor has to exercise professional judgement in determining materiality. Explain the factors that may affect the identification of an appropriate benchmark in determining Materiality for the Financial Statements as whole.	SA 320 Pg. No. 114, Q. No. 7 [RTP, M 03, M 07, N 08] Answer Page 84, Para B, Point 2	3
3 (a)	CA P is the auditor of MN Ltd. While scrutinising the accounts of MN Ltd he observed that the Company had large volume of Trade Payable outstanding in the Balance Sheet as on 31.03.2023 for which External Confirmations are not available. CA P wants to send External Confirmation request to selected Trade Payables but management of MN Ltd refused for the same. Discuss how CA P should deal in this regard as per relevant SA.	SA 505 Pg. No. 114, Q. No. 5 [RTP, M 05, M 11, M 13] Answer Page 113, Para 8, 9 Hint Answer: SA 505	4
4 (a)	CA D has been appointed as an auditor of LMP Ltd. Before developing an Overall Audit Plan, CA D wants to get an understanding and knowledge of the Client's business including applicable Financial Reporting Framework. Guide CA D in understanding of the same with reference to the relevant SA.	Pg. No. 79, Q. No. 8 [M 09, M 10, N 07] Answer Pg. No. 73 Para 11 Hint Answer: SA 315	4
4 (c)	The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Explain the factors that are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures.	Pg. No. 106, Q. No. 7 [N 13] Answer Page 104, Para 7 Pt II	3
4 (d)	As a part of Risk assessment, the auditor shall determine whether any of the risks identified are in the auditor's judgement a significant risk. Mention any three guiding factors to judge as to which risks are significant risks?	Pg. No. 81, Q. No. 38 Answer Page 78, Para 27.SA 315	3
5 (a)	S Ltd, a large Textile Manufacturing Company, due to heavy recession in the market was unable to collect amount of huge Receivables in time and also holding large amounts of Stock of Raw Materials and Finished Goods since last 9 months of FY 2022–23. From your primary observations of audit evidences, you feel that there is a material uncertainty exists about going concern.	Pg. No. 160, Q. No. 11 Answer Page 157, Para 19, 20. SA 570 <ul style="list-style-type: none"> <li>• <b>Disclosed:</b> Auditor shall express an Unmodified Opinion, and include a separate Section under the Heading "Material Uncertainty Related to Going Concern" in the Auditor's Report.</li> <li>• <b>Not Disclosed:</b> Auditor shall express a</li> </ul>	4

Q	Questions	Reference and Hint Answer	M
	<ul style="list-style-type: none"> <li>• How will you deal in your audit report?</li> <li>• What will be the effect on your audit opinion, if adequate disclosure of such material uncertainty is –                             <ul style="list-style-type: none"> <li>(i) already made in the Financial Statements.</li> <li>(ii) not made in the Financial Statements.</li> </ul> </li> </ul>	Qualified or Adverse Opinion, as appropriate, and state in his Report that there is a material uncertainty.	M
5 (c)	Elucidate the circumstances when a modification to the Auditor's Opinion is required. Also state the factors for making the decision regarding which type of Modified Opinion is appropriate.	<b>Pg. No. 226, Q. No. 10 [N 12, M 13, N 15] Answer Page 216, Para 2, 7–10, A.1.SA 705</b>	3
5 (d)	Management is often in the best position to perpetrate fraud. As an auditor you are suspecting existence or suspicion of fraud from management. Give any three examples of "others within the entity" to whom direct inquiries can be made.	<b>Answer Pg. No. 32, Para 17</b> <b>Hint Answer:</b> <ol style="list-style-type: none"> <li>1. Operating personnel not directly involved in the Financial Reporting process.</li> <li>2. Employees with different levels of authority.</li> <li>3. Employees involved in initiating, processing or recording complex or unusual transactions and those who supervise or monitor such employees.</li> <li>4. In-house legal counsel.</li> <li>5. Chief ethics officer or equivalent person.</li> <li>6. The person or persons charged with dealing with allegations of fraud.</li> </ol>	3

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## Gurukripa's Guideline Answers to Nov 2022 Exam Questions CA Inter – Auditing and Ethics

Q	Questions	Reference and Hint Answer	M
2 (b)	CAP is appointed as an Auditor of XYZ Limited for the FY 2021–22. The management of XYZ Limited has requested the Auditor to change the terms of original engagement as the company has diversified its business and few new products have been introduced by the company. Can CA Agree to the request made by the management? Under which circumstances can the client make a request to the auditor for a change in the terms of engagement?	SA 210 Refer Page 15, Point 7	4
2 (c)	What are the matters that the auditor shall consider while designing an audit sample?	SA 530 Refer Page 126, Para 6–8, A10	3
4(a)	Z Ltd is a manufacturer of ready-made garments. During the year 2021–22, they have opened two new branches and there is a substantial increase in their sales. The management has appointed CAR to review the internal control system of the company as they feel that there are lapses in the control environment of the Company. What is included in the control environment and what will the auditor evaluate in order to obtain an understanding of the control environment?	SA 315 Refer Page 75, Para 14, A.65–A.66	4
4 (b)	HMB Ltd's business has grown from one state of India to various countries of the world. Since the business has increased manifold, the management decided to appoint joint auditors for conducting the Statutory Audit of the Company. They appointed three CA firms for it. For which audit work the joint auditors will be jointly & severally responsible?	SA 299 Refer Page 66, Qn. 8	4
4 (c)	ABC Ltd has many divisions and branches across the country. They have an internal control system which is well established and maintained by the Management on a regular basis. Explain the meaning of Internal Control as per SA315 and also state the benefits of understanding the Internal Controls of a Company.	SA 315 Refer Page 71, Para 4 Refer Page 72, Para A.12	3
4(d)	As per the Standard on Auditing (SA) 520 "Analytical Procedures", what are the examples of analytical procedures having consideration of relationships?	SA 520 Refer Page 121, Para A.2	3
5 (a)	NG Ltd appointed CAN as the statutory auditor for the F.Y. 2021–2022. Previous year's auditor gave a qualified opinion on the Comparative Financial Statements for the year ended 31.03.2021. What will be the reporting responsibility casted on CAN when he forms an opinion and prepares Audit Report on the Comparative Financial Statements for the F.Y. 2021–2022?	SA 710 Refer Page 238, Point C	4
5 (c)	CAM is the engagement partner of S Ltd. He has instructed his audit team to maintain proper audit documentation. The audit team members are not sure about the purpose for which the documentation should be made. Explain the various purposes of Audit Documentation with reference to SA 230.	SA 230 Refer Page 23, Para 2 & 3	3

Q	Questions	Reference and Hint Answer	M
5 (d)	You notice a misstatement resulting from fraud or suspected fraud during the audit and conclude that is not possible to continue the performance of audit. As a Statutory Auditor, how you will deal with this station?	<b>Requirements under SA 240</b> <b>Refer Page 34, Point G</b>	3

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