

Jan 2026 & Onwards



CA **FINAL**

ADVANCED AUDITING, ASSURANCE, AND PROFESSIONAL ETHICS

**Concepts +
Question Bank**

TOGETHER (AUDIT ALL IN ONE)

- ▶ Questions placed right below concepts for seamless learning.
- ▶ Covers ICAI SM, MTPs, RTPs & past papers.
- ▶ Summarized in charts, tables, and key highlights.
- ▶ Includes memory tricks to remember the concepts.

CA Hemant Somani

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*It's completely as per **ICAI Language & Coverage**, you can do cross check from **ICAI module** to get Comfort*

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SQC-1	Quality control for firms that perform Audits & Review of Historical F.Info. & Other Assurance and related service engagements	Chapter 1

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CHAPTER 2- General Auditing Principles & Auditor's Responsibilities

(SA 200, 210, 230, 240, 250, 260, 299, 402)

SA 240 – AUDITOR'S RESPONSIBILITY RELATING TO FRAUD IN AN AUDIT OF FS

Fraud:	An Intentional act by one or more individuals in an organisation with an intention to obtain unjust or illegal advantage
Misstatement:	Misstatements in the financial statements can arise from either fraud or error
Error:	Misstatement of the financial statements is unintentional .
Primary Responsibility:	<ul style="list-style-type: none"> Primary responsibility for the prevention and detection of fraud rests with both TCWG and Mngt (Not with Auditor, provided he applied professional skepticism). Mngt & TCWG should place a strong emphasis on fraud prevention & fraud deterrence (punishment for fraud), creating a culture of honesty and ethical behaviour
Objective of auditor:	<ol style="list-style-type: none"> To identify & assess the ROMM in FS due to fraud To obtain SAAE about the assessed ROMM due to fraud, implement response To respond appropriately to identified or suspected fraud
No Legal determination:	Although the auditor may suspect or, in rare cases, identify the occurrence of fraud , the auditor does not make legal determinations of whether fraud has actually occurred .

Two types of intentional misstatement:

Fraudulent Financial reporting:	Misappropriation of assets:
<ul style="list-style-type: none"> Fraudulent FR involves intentional misstatements including omissions of amounts or disclosures in FS to deceive FS users. It can be caused by the efforts of management to manage earnings in order to deceive FS users by influencing their perceptions as to the entity's performance and profitability Inappropriate adjustment of assumptions & changes in judgments by mngt Pressures and incentives to meet market expectations <p>Trick: [Manipulate kara by > Omit, Advance, delay or Alter the JV > Because of Wrong Accounting / Assumption] Ya fir, Complex transaction Conceal kara]</p>	<p>Misappropriation of assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.</p>
Fraudulent FRF may be accomplished by: (Man, Mis Mis)	It can be accomplished in a variety of ways including:
<ol style="list-style-type: none"> Manipulation, falsification (including forgery), or alteration of A/cing records or supporting documentation from which the FS are prepared Misrepresentation in or intentional omission from, the FS of events, transactions or other significant information. Intentional misapplication of a/cing principles relating to amounts, classification, manner of presentation, or disclosure. 	<ol style="list-style-type: none"> Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts). Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment). Causing an entity to pay for goods
It can be committed by management overriding controls using such techniques as: - (Alter, Omit, Conceal + FICtitious)	
<ol style="list-style-type: none"> Altering records & terms related to significant & unusual transaction Omitting, advancing or delaying recognition in the FS of events and transactions that have occurred during the reporting period. Concealing, or not disclosing, facts that could affect the amounts 	



recorded in the FS. (i.e., Hiding Legal case)

- iv. Recording **Fictitious JV**, particularly close to end of an A/cing period, to manipulate operating results or achieve other objectives.
- v. **Inappropriately adjusting assumptions** and changing judgments used to estimate a/c balances. (i.e., Provision for warranty)
- vi. Engaging in **Complex transactions** that are structured to misrepresent the financial position or financial performance. (i.e., Sale of M/c to R.P at high price to increase profit, then again taken on lease back)

and services not received (Eg, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees).

- 4) Using an entity's **assets for personal use** (Eg, using the entity's assets as collateral for a personal loan).

Q1. Source of such **fraudulent FR**. Or, how **fraudulent FR** may be accomplished and discuss the **techniques of committing fraud by management overriding controls**: [Refer Above Notes : "Fraudulent FRF may be accomplished by" & "It can be committed by management overriding controls using such techniques as"]

Fraud, involves **incentive or pressure** to commit fraud, a **perceived opportunity** to do so and **some rationalization** of the act. **For example**:-

- 1) **Incentive or pressure** to commit fraudulent FR may exist when **mngt is under pressure**, from sources outside or inside the entity, to **achieve an expected (and perhaps unrealistic) earnings target** or financial outcome - particularly since the consequences to mngt for failing to meet financial goals can be significant.
- 2) Individuals have an **incentive** to misappropriate assets, Eg, **individuals are living beyond their means**
- 3) A **perceived opportunity** to commit fraud may exist when an **individual believes internal control can be overridden**, for Eg, individual is in a position of trust or has knowledge of specific deficiencies in IC.
- 4) Individuals may be able to **rationalize committing a fraudulent** act. Some individuals **possess an attitude**, character or set of ethical values that allow them knowingly & **intentionally to commit a dishonest act**. However, even honest person can commit fraud in an environment that imposes sufficient pressure on them.

➤ **Fraud Risk Factors:**

Fraud risk factors are events or conditions that indicate an **incentive or pressure** to commit fraud or provide an **opportunity** to commit fraud. For example:-

Relates to: Fraudulent Financial Reporting :	Relates: Misappropriation of Assets :
<p>A) Incentives/Pressure: Excessive pressure exists for management to meet the requirements or expectations of 3rd parties due to the following:</p> <ul style="list-style-type: none"> 1) Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or external parties (<i>Investor already hai ...</i>) 2) Need to obtain additional debt or equity financing to stay competitive (<i>Ya laana hai ...</i>) 3) Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements 4) Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards. <p>Information available indicates that the personal financial situation of management or TCWG is threatened by the entity's financial performance arising from the following:- <i>Trick: mngt ka personal interest hai company me ...ESOP/Bonus /Gurantee etc. y sab tab hi milega jab profit accha hoga.. yaa usse Maar rhe hai</i></p> <ul style="list-style-type: none"> 1) Significant financial interests in entity. 	<p>A) Incentives/Pressures: Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.</p> <p>Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:</p> <p><i>[Trick: Employee ko tum Nikaal rahe ho, Binaa Paise diye]</i></p> <ul style="list-style-type: none"> 1. Known or anticipated future employee layoffs. 2. Recent or anticipated changes to employee compensation or benefit plans. 3. Promotions, compensation or other rewards inconsistent with expectations.



<ol style="list-style-type: none"> 2) Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow. 3) Personal guarantees of debts of the entity. 4) There is excessive pressure on management or operating personnel to meet financial targets established by TCWG, including sales or profitability incentive goals 	
<p>B) Opportunities: The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following: -</p> <p><i>RP ke saath Complex Transaction karna .. dusri jurisdiction wali ... to save tax</i></p> <ol style="list-style-type: none"> 1. Significant RPT not in the ordinary course of business or with <u>related entities not audited</u> / audited by another firm. 2. A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions. 3. <u>Assets, liabilities, revenues, or expenses</u> based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate. 4. Significant, unusual, or highly complex transactions, especially those <u>close to period end</u> that pose difficult "substance over form" questions. 5. Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist. 6. Use of business intermediaries for which there appears to be no clear business justification 7. Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification 	<p>B) Opportunities: Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:</p> <p><i>[Trick: Chote chote SMALL items pe INTERNAL CONTROL accha nahi rakhte]</i></p> <ol style="list-style-type: none"> 1. Large amounts of <u>cash on hand</u> 2. <u>Inventory items that are small in size</u>, of high value, or in high demand 3. <u>Easily convertible assets</u>, such as bearer bonds, diamonds, or computer chips. 4. <u>Fixed assets which are small in size</u>, marketable, or lacking observable identification of ownership. <p><u>Inadequate I.C over assets may increase susceptibility of Missappropriation of those assets:</u></p> <ol style="list-style-type: none"> 1) Lack of <u>SOD</u> 2) Inadequate <u>records of assets</u> 3) Inadequate <u>physical safeguard</u> over cash, investment, inventory 4) Lack of <u>timely Reco. Of assets</u> 5) Lack of <u>mandatory vacation</u> of employees
<p>C) Attitudes/Rationalizations:</p> <p><i>Bekaar entity hai .. koi values nii.. koi morale nii ... Non-Finance ke bande hai... wo gadhe kese Law & IC banaenge ...</i></p> <p><i>Bas fraud karwa lo unse .. stock price manipulationtax fraud</i></p> <ol style="list-style-type: none"> 1) Communication, enforcement of the entity's values or ethical standards by mngt, or communication of inappropriate values/ethics, that are <u>not effective</u> 2) Low morale among senior management. 3) Non-financial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates 4) Known history of violations of securities laws or other laws and regulations, or claims against the entity 5) Management failing to remedy known significant 	<p>C) Attitudes/Rationalizations:</p> <p><i>[Trick: naa to company wale ASSETS ka dyaan rkhte h, naa EMPLOYEES ka]</i></p> <ol style="list-style-type: none"> 1. <u>Disregard for the need for monitoring or reducing risks</u> related to <u>misappropriations of assets</u>. 2. <u>Disregard for internal control over misappropriation of assets</u> by overriding existing controls or by failing to take appropriate remedial action on <u>known deficiencies in internal control</u>. 3. Behavior indicating displeasure or dissatisfaction with the entity or its treatment of the employee. 4. Changes in behavior or lifestyle that may



deficiencies in **internal control** on a timely basis.

- 6) Excessive **interest by management in maintaining** or increasing the entity's **stock price** or earnings trend.
- 7) An interest by mngt in employing inappropriate means to **minimize reported earnings for tax-motivated reasons**.
- 8) The owner-manager makes no distinction between **personal and business transactions**
- 9) The **relationship between management** and the current or predecessor **auditor** is **strained**,

indicate assets have been misappropriated.
5. Tolerance of **petty theft**.

The **relationship between Mngt and the current or predecessor auditor is strained**, as exhibited by the following: - *[trick: aae deen lad raha h .. data dera ni h .. restriction lagara h ... fir bolra h jldi audit karo]*

- 1) **Frequent disputes** with the current or predecessor auditor on accounting, auditing, or reporting matters
- 2) **Restrictions on the auditor** that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.
- 3) **Domineering management behaviour** in dealing with the auditor, **especially involving attempts to influence the scope of the auditor's work** or the selection or continuance of personnel assigned on audit engagement.
- 4) Unreasonable demands on the auditor, such as unrealistic **time constraints regarding the completion** of the audit or the issuance of the auditor's report

Why evaluation of fraud risk factors by auditor is necessary?

- Evaluate whether 1 or more FRF are present → **not necessarily indicate the existence of fraud**
- The fact that fraud is usually concealed can make it very difficult to detect.
- Fraud risk factors **cannot easily be ranked in order of importance**. significance of Fraud RF varies widely
- Accordingly, the **determination of whether a fraud risk factor is present and whether it is to be considered in assessing the ROMM of the FS due to fraud** requires the **exercise of professional judgment**.

Q2. Risk Factor related to misstatement arising from Misappropriation of Assets: Refer above notes "Fraud Risk factor - Relates to misappropriation of Assets"

Q3. Manufacturer of Fabrics, want to install new plant (need huge capital) → auditor finds that revenue increase from Rs. 750 Crore to 1000 Cr this year (no change in plant capacity) → any ROMM due to Fraudulent FR ?

Hint: Given case, Excessive pressure exist for mngt for Fraudulent FR (tempted to inflate revenue → it's Fraud risk factor) → audit procedure to assess ROMM due to fraudulent FR → Substantive analytical procedure (For revenue), CAAT's to identify Unusual revenue, testing control relating to revenue transaction

Q4. Stat. auditor found → I.Auditor report pointed out Following deficiencies in I.C., But Mngt didn't corrected:
(a) Receivable Not reconciled on periodical basis (b) Customer Credit limit not reviewed.

Hint: Its **Fraud Risk Factor of Fraudulent FR** (as mngt failure to correct KNOWN Sig. Deficiency in I.C on timely, it reflects Attitude/Character/ethical values Intentionally allow to allow commit Dishonest Act)

→ Failure to rectify known control deficiency as given above (a) & (b) : **Its' a Intentional Misstatement**

→ Further, non-review of Limit may cause grant of credit beyond creditworthiness:

➤ Auditor's Duty/Responsibility i.r.t Fraud in an Audit of FS:

Responsibilities of the Auditor:

[Read only]

- Obtain as **reasonable assurance that the FS** taken as a whole are free from MMS, whether caused by fraud or error.
- Owing to the **inherent limitations** of an audit, there is an **unavoidable risk that some MMS of the FS may not be detected**, even though audit is properly planned as per SA
- **Fraud > Error:** The risk of not detecting a MMS resulting from fraud is higher than the risk of not detecting one resulting from error (as Fraud organised & Sophisticated)
- Risk of not detecting MMS due to **Mngt Fraud is higher than Employee fraud** (as mngt is at position to directly manipulate accounts)

	<ul style="list-style-type: none"> auditor is responsible for maintaining professional skepticism
<p>Some Common Points to Quote in answer:</p> <p>[Read only]</p>	<ul style="list-style-type: none"> Obtain Reasonable Assurance that FS as a whole are free from MMS due to fraud. Maintaining Professional Skepticism throughout Audit. Not Expect to detect fraud unless suspicion arises. Whether the FS is materially misstated due to fraud Consider Impact of fraud on financial statements. Consider Reliability of Written Representation if mgt. fraud found Obtain Written Representation Communicate to Chairman & BODs if conditions are like documents not authentic/modified then Investigate. Investigate if Inconsistent Responses of Mgt./ TCWG. Section 143(12)- Fraud reporting: Auditor has reason to believe that an offence involving fraud is being or has been committed against company by officers /employees of company - Immediately report matter to Audit Committee in 2 days of knowledge (as amount < ₹1Crore) mentioning <ul style="list-style-type: none"> Nature of Fraud & Description Approximate amount involved Parties involved -Immediately report matter to CG in time & manner prescribed in Rule 13 if amount > ₹1 Crore. Reporting responsibility in CARO & Section 447 person committing fraud liable.
<p>Maintain Professional Skepticism:</p> <p>[Read only]</p>	<ul style="list-style-type: none"> Shall maintain professional skepticism throughout the audit for MMS due to fraud (Notwithstanding auditor's past experience of honesty & integrity of mngt & TCWG) <u>Unless auditor has reason to believe contrary</u>→Auditor may accept record & docs as genuine. <u>If conditions identified</u> during audit cause auditor to believe <u>that docs not authentic</u> or that terms in a document have been modified but not disclosed→auditor shall investigate further Where <u>responses to inquiries</u> of mngt / TCWG is <u>inconsistent</u> → investigate inconsistencies.
<p>If auditor is unable to continue performing:</p> <p>(Special Trick :-)</p>	<p>Then auditor shall:</p> <ol style="list-style-type: none"> Determine professional and legal responsibilities including whether there is requirement to report to person who made appointment or regulatory authority [Section 143(12)] Consider appropriateness of withdrawal, where legally permitted If Auditor withdraw: <ul style="list-style-type: none"> Discuss with the appropriate level of Mngt & TCWG, the auditor's withdrawal from the engagement and the reasons for the withdrawal and Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. <ul style="list-style-type: none"> Where withdraw is not appropriate, auditor needs to express modified opinion (also mention the reasons for same) Where withdraw is legally permitted, communicate with TCWG and other regulatory authorities required u/s 140 - Resignation
<p>Communicate to TCWG:</p>	<ul style="list-style-type: none"> Appropriate Mngt: If identified /suspect Fraud → communicate to appropriate level of mngt (Whose primary responsibility to prevent detect fraud) → on Timely basis TCWG: <u>Unless all TCWG involved in managing entity</u> → identified or suspects Fraud done by mngt, employees have significant role in IC →communicate matters to TCWG on timely basis If suspects that fraud involving mngt: <u>Communicate suspicion to TCWG & Discuss NTE</u> of audit procedures necessary to complete the audit. Also communicate other matters to TCWG relevant in the auditor's judgment



Communicate to Regulatory & Enforcement Authorities:

- **Report to Outside Party:** If auditor identified or suspects fraud → determine whether there is responsibility to report the occurrence or suspicion to a party outside the entity.
- **L&R override Confidentiality:** Although auditor's professional duty is to maintain confidentiality of client information → auditor's legal responsibilities may override the duty of confidentiality in some circumstances. Eg., in case of audit of banks, the auditor has a statutory duty to report the occurrence of fraud to the supervisory authorities, i.e. RBI.
 - ✓ Also, in some entities the auditor may have a duty to report misstatements to authorities in those cases where mngt and TCWG fail to take corrective action.
 - ✓ In some clients, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of audit mandate or related L&R

Q5. Company entered into transaction on 25/02/2028 (near yr end), to pay 60 lacs to engineer consultant → No amount was paid actually, but expense booked in Books (No docs/evidence) → what should auditor approach ?

Hint: SA 240 → Fraud can be done by Mngt overriding controls (like Fictitious JV), mainly near Year End. → If misstatement is result of fraud/suspected fraud, (Withdraw) → Refer Above Notes "If auditor is unable to continue performing" + Mention Sec 143(12) Fraud report to CG if ≥ 1 Crore + Clause 11 of CARO

Q6. Misstatement resulting from fraud or suspected fraud during the audit → not possible to continue audit.

Hint: SA 240 → [Explain the Withdraw Process + Sec 143(12) reporting, CARO 2020 reporting]

Q7. A special audit was conducted on company related to Fraud → but mngt is not giving report copy to Stat Auditor (neither providing W.R i.r.t Fraud)

Hint: "SA 240" (auditor to obtain reasonable assurance the FS free from MMS due to fraud/error & "SA 580" → Not provide W.R, alert for significant issue may exist (Re- evaluate Integrity of Mngt & effect on reliability of representation/evidence & Effect on A.Report. → Now explain Withdraw Process + Sec 143(12) + CARO 2020

➤ **ROMM & Fraud:**

Discussion among E.Team:	Discussion among the engmnt team shall place <u>particular emphasis on how and where the entity's FS may be susceptible to MMS due to fraud</u> , including <u>how fraud might occur.</u> [<u>Discussion Points are mentioned in "Additional PDF in addition to Main book</u>]
Risk of Non-Detection of MMS:	Obtain <u>reasonable assurance</u> that FS is free from MMS whether due to fraud or error: <ul style="list-style-type: none"> • Due to <u>inherent limitation</u> of audit (SA 200) → Some MMS of FS not detected • Risk of not detecting MMS due to <u>Fraud is higher than Error</u> (as Fraud organised & Sophisticated) • Risk of not detecting MMS due to <u>Mngt Fraud is higher than Employee fraud</u> (as mngt is at position to directly manipulate accounts)
Risk Assessment Procedures to obtain info for use in identifying ROMM due to fraud:	When performing RAP and related activities to <u>obtain an understanding of the entity & its environment, including the entity's IC</u> or shall perform the procedures to obtain information for use in <u>identifying the ROMMs due to fraud like:</u> <ol style="list-style-type: none"> 1) <u>Inquiries of management & others within the entity,</u> 2) Obtaining understanding as to how <u>TCWG exercise oversight of mngt's processes</u> for identifying and responding to the risks of fraud in the entity & the IC that mngt has established to mitigate these risks and 3) Evaluation of <u>unexpected relationships</u> identified in performing <u>analytical procedures</u> which may indicate ROMM due to fraud. <p>Evaluate whether the info obtained from the other RAP and related activities performed indicates that one or more fraud risk factors are present.</p>
SA 315: Identifying &	SA 315, Auditor shall identify & assess ROMM due to fraud at FS level, & assertion level: When identifying and assessing the ROMM due to fraud, based on below assumption.



Assessing ROMM due to Fraud [Presumed/ Deemed Risk]	<p><u>Following area are presumed to be high risk:</u></p> <ol style="list-style-type: none"> Revenue Recognition Mgt Override Control <p>The auditor shall treat those assessed ROMM due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Pre-assumption of Fraud risk may be Rebutted (ignored) i.e., No ROMM due to Fraud:</u> → If only Single type of Simple revenue structure (eg., Single Rental property)</p> <p><u>Pre-assumption of Fraud MUST be Considered i.e., High chances of ROMM due to Fraud:</u> → Complex revenue structure or Lack of Control</p> </div>
Document:	When auditor has concluded that the presumption that there is a ROMM due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion

➤ **Responses to the Assessed Risks of Material Misstatement Due to Fraud:**

Overall Responses (At FS Level)	Response of assessed ROMM due to Fraud at Assertion Level	Response to Risks Related to Management Override of Control
<p>[Trick: "PAU"]</p> <ul style="list-style-type: none"> Person: Assign & supervise <u>personnel of Skill knowledge</u>, and Individuals ability to assess the ROMM due to fraud for engmnt A/cing Policies: Evaluate selection & application of <u>a/cing policies relates to subjective measurement</u> may be fraudulent FR from mngt Unpredictability: Incorporate unpredictability in selection of NTE of audit procedures 	<ul style="list-style-type: none"> Auditor shall design & perform further audit procedures (FAP) whose NTE are responsive to the assessed ROMM due to fraud at the assertion level. Auditor may change NTE of audit procedures to obtain <u>audit evidence that is more reliable</u> & relevant or to obtain additional corroborative Info. Example: if <u>mngt under pressure to meet earning target</u> → mngt may enter sales agreement (prepone) or invoicing sales before delivery: <ul style="list-style-type: none"> ✓ So AUDITOR shall <u>Not only use E.confirmation to Confirm O/s amt but Also confirm the details of the sales agreements</u> (including date, any rights of return, delivery terms) ✓ Further auditor might do <u>Inquiry of Non-financial Personnel</u> (i.e., sales) reg. any changes in sales agreement. 	<p>Mngt is in unique position to perpetrate fraud because of mngt's ability to manipulate A/cing records & fraudulent FS by overriding controls that otherwise appear to be operating effectively.</p> <p>This risk is present in all entities. Mngt is Unpredictable in how override could occur so it is a significant fraud risk.</p> <p><u>Irrespective of the auditor's assessment of the risks of mgt override of controls, the auditor shall design and perform audit procedures to:</u></p> <ul style="list-style-type: none"> Test <u>appropriateness</u> of journal entries recorded & Yr end adjustment in FS Review A/cing estimates, Bias if any. Significant transactions that are outside normal course of business, appear Unusual → <u>evaluate whether the business rationale</u> or it's fraudulent FR / Misappropriation ins asset

➤ **Some Other Topics (Based on Question Asked)**

DEEMED/PRE-ASSUMED RISK:

Q8. Hotel Audit → risk of Improper revenue recognition (not treated as Fraud Risk), IC not designed to mitigate risk of revenue recognition, Not account revenue of 35 Cr, & some amt receive in CFO personal A/C.

- Auditor Responsibility is w.r.t Fraud is → **SA 240 & 315** (identify & assess ROMM due to fraud FS & assertion)
- SA 240 & 330** → **determine overall responses** to address the assessed ROMM due to fraud
- Presumption** → that there are **risk of fraud in revenue recognition** (Eg. Where single type of simple revenue

transaction → Auditor May conclude that there is No ROMM, However, For complex revenue structure Or Lack of control on revenue recognition → High Probability of fraud risk in revenue recognition)
Now Explain Given Case Issues (same as Qns) → So while performing **RAP** → Consider complexity & nature of revenue for determining fraud risk, Further **Deficiency in I.C / IC Not exist** → as Risk if improper revenue recognition is **significant risk**, + fraud reporting to CG as per **Sec 143(12)** if fraud amount exceed Rs. 1 Crore.

MANAGEMENT FRAUD:

Q9. Explain Duties & Responsibilities of Auditor for MMS resulting from Management Fraud

- Misstatement in FS can arise from Fraud/Error, "**Fraud**" means → 'Intentional Act' by one or more individuals among mngt, TCWG, employees, or 3rd parties, involving use of deception to obtain an unjust or illegal advantage.
- **SA 240** → **Primary responsibility for prevention** & detection of fraud rests with both **TWCG & Mngt** → Auditor is responsible for obtaining reasonable assurance that FS as whole free from MMS, whether by fraud or error.
- **SA 200** → **Inherent Limitation** is significant in case of misstatement from Fraud → **Risk of not detecting MMS from fraud** is higher than not detecting Error (Fraud is Sophisticated than Error). Further, risk of the auditor not detecting a MMS resulting from Mngt fraud is greater than for employee fraud. → Further, to obtain reasonable assurance, auditor to Maintain **Professional Skepticism** throughout the audit
- **Sec 143(12)** → Explain Fraud Reporting (if amount is Less than 1 Crore & Exceed 1 Crore)
- **Clause 11 of CARO 2020** → Explain this clause

Q10. Director has committed **Teeming & Lading** fraud (subsequently deposited) → Responsibilities of Auditor

- **Firstly**, SA 240 → auditor needs to perform procedures whether FS are materially misstated.
- **Secondly**, the auditor needs to consider the impact of fraud on F.S. and its disclosure in the audit report.
- **Thirdly**, the auditor should communicate the matter to the Chairman and Board of Directors.
- **Finally**, in view of the fact that the fraud has been committed at the highest level of mngt, it affects reliability of audit evidence previously obtained since there is a genuine doubt about W.R. [**now Explain** → **section 143(12)**]

➤ Other Integrated Qns & Specific Frauds

Q11. During Audit you found → cash balance in books ₹ 2.10 crores. But only, small amounts of ₹ 50K withdrawn to meet day-to-day expenses: = SA 240 → If circumstances indicate misstatement from Fraud → consider **Impact of Fraud on FS**. (For Cash & Bank → carry out **surprise verification** of cash more frequently, If Cash not agreed with Book, Seek Explanation, otherwise state fact in A.Report)

Q12. During Audit → Found Error in Inventory Valuation (Affect FS materially): = SA 240

- If Circumstances indicate Possible Fraud → (a) Consider Effect of Suspected Fraud/Error on Financial Info. (b) If Have material effect on Financial Info → Perform **Modified/Additional procedure**
- If Auditor Identified Misstatement, **EVALUATE** → (a) Whether misstatement is indicative of Fraud (b) evaluate it's implication on Other aspects of Audit (like W.R)
- Further **SA 320** → Request mngt to Adjust Financial Info → if Refused (express **Qualified / Adverse**)

SA 250 – CONSIDERATION OF LAWS AND REGULATIONS AN AUDIT OF FS

Introduction:	Auditor should check whether client has followed all the applicable laws & regulation or not because non-Compliance of them may attract penalties & disclosure [AUDIT of FS]
Not apply:	not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific L&R .
Effect of L&R on FS:	Effect on the FS of L&R varies considerably → some have direct effect on FS (reported amounts and disclosures) → Other L&R not have a direct effect Some entities operate in heavily regulated industries (such as banks and chemical) → non-compliance have result in fines, litigation → material effect on FS

Responsibility of the Auditor

Consider L&R in audit:	Auditor is responsible for obtaining reasonable assurance that the FS, taken as a whole, are free from MMS, whether caused by fraud or error. In conducting an audit of FS, the auditor takes into account the applicable legal and regulatory framework.		
Auditor NOT responsible:	The auditor is not responsible for preventing non-compliance and cannot be expected to detect noncompliance with all L&R. [It's primary responsibility of Mngt]		
Inherent Limitation: [Trick: Fraud "deliberately chupaya" ... "FS ko affect" kar ra h to bhi ,mgt bolra h ki nhi .. "court" wala bolega to hi mangenge]	Q13. Why effects of inherent limitations as in SA 200, are greater i.r.o non-compliance of L&R? Due to inherent limitations, there is unavoidable risk that some MMS in FS may not be detected, even though the audit is properly planned and performed as per SA's, due to: a) Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor. b) Many L&R, principally to the operating aspects of an entity that typically do not affect FS and are not captured by the entity's info. systems relevant to financial reporting. c) Whether a act is non-compliance is ultimately a matter for legal determination by court of law.		
Documentation:	Auditor shall document identified or suspected non-compliance with L&R and results of discussion with mngt and, where applicable, TCWG and other parties outside the entity.		
Responsibility of the Auditor : [2 different category of Law] [Auditor consideration of compliance with L&R]	a)	Laws which have Direct Effect on F.S Amount or Disclosure:	<u>[Eg. Tax (i.e., GST Payable, Income tax)]</u> Auditor should obtain SAAE w.r.t compliance of L&R
	b)	Law which does not have direct effect on F.S Amount or Presentation:	But compliance is fundamental effect on the operations of the entity → may Going concern issue → to Avoid Penalties or Continue the business <i>(Eg., Labour laws, Environmental Laws, non-comply operating license, regulatory solvency requirements, For Bank capital or investment requirements, NBFC not get certificate if net owned fund is less):</i> Such Non-compliance may have material effect on the FS Auditor should perform <u>limited specified procedure</u> on other L&R that may have material effect on FS: <ul style="list-style-type: none"> • Inquire with management, whether entity comply such L&R • Inspecting correspondence with regulatory authorities

Q14. Roles and responsibilities of statutory auditors i.r.t compliance with L&R by the entity? [OLD]

- Obtain General Understanding of:
 - a) legal and regulatory framework applicable to entity & Industry or Sector in which entity operates
 - b) How the entity is complying with that framework.
- Obtain SAAE regarding compliance of L&R having for Direct effect FS (Material amount or Disclosure)
- To identify non-compliance of other L&R, that may have material effect on FS,
 - a) Inquire of management &
 - b) Inspecting Correspondence
- Auditor shall remain Alert possibility of non-compliance of L&R → Professional skepticism
- Obtain written representations (That known /suspected Non-compliance are disclosed)

Q15. Management is Saying that Child Labour Employed (Compliance with other L&R) is outside Scope of Auditor

Hint: SA 250 → Auditor not responsible for preventing Non-Compliance (But he have to obtain reasonable



assurance that FS is Free from Material FS, so take into account applicable L&R)

(a) For L&R have direct effect on FS → Obtain SAAE, (b) other L&R having material effect on FS → Specified Procedure. (as Other L&R Non compliance lead to fines, litigation or other consequences → may need to be provided for in the FS, Like Child Labour Employed can have Material effect on FS)

→ Ensure that disclosure of above fact & provision for the cost of fines, litigation → if Non-Compliance have material effect on FS & not been adequately reflected in FS → Express qualified or adverse opinion (SA-705)

➤ Indicator of Non-Compliance & Management responsibility to Comply L&R:

<p>Indicators of Non-Compliance of L&R :</p> <p>(Special Trick:-)</p>	<p>Q16. Indications of non-compliance with L&R Or for non-compliance Indicate possible areas</p> <ul style="list-style-type: none"> • Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. • Unusual payments towards legal and retainership fees. • Payments for unspecified services or loans to consultants, related parties, employees or government employees. • Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid entity or in its industry or to the services actually received. • Purchasing at prices significantly above or below market price • Payments without proper exchange control documentation • Unusual transactions with companies registered in tax havens. • Investigations by regulatory organisations & Govt departments or payment of fines, penalty. • Payments for G&S made other than to the country from which the G&S originated. • Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. • Unauthorised transactions or improperly recorded transactions. • Adverse media comment.
<p>Responsibility of Mngt for Compliance of L&R:</p> <p>[Policies & Procedures to Prevent/Detect Non-Compliance]</p>	<p>It is the responsibility of mngt, with the oversight of TCWG, to ensure that the entity's operations are conducted as per provisions of L&R, including compliance with the L&R.</p> <p>Q17. Example of Policies & procedure for prevention & detection of Non-Compliance <i>[Trick: "IC" & "COC" > "Employee" ko samjao > "Monitor" karo > in case of Non-compliance, "Disciplinary action" lo]</i></p> <ul style="list-style-type: none"> • Instituting and operating appropriate systems of internal control. • Developing, publicising and following a code of conduct. • Ensuring employees are properly trained and understand the code of conduct. • Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. • Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it. • Engaging legal advisors to assist in monitoring legal requirements. • Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. <p>[In larger entities, these policies & procedures may be supplemented by assigning appropriate responsibilities to internal audit f(x), audit committee, compliance function]</p>

Q18. Social media company → Govt bringing new Strict Laws for them: =

So Verify whether has System & Procedures (to meet new Laws requirement) Like Policies & procedure (I.C, Sensitizing Employees reg. new L&R, Engage Legal advisor). → Further, Financial stability of company may be threatened due to New Regulatory requirement (Mngt is under Pressure → so evaluate Fraud risk Factor)

➤ Audit procedure when Non-Compliance is Identified:

1. Auditor shall obtain an understanding of nature & Circumstances in which it occurs
2. Evaluate possible effect on FS. (Fines, Going concern, True & Fair view, Disclosure)
3. Discuss with Mngt/TCWG
4. If Mngt/TCWG not give info & have material effect on FS → take legal advice
5. If sufficient info about Non-compliance cannot be obtained i.e., Lack of SAAE → Affect auditor's opinion
6. Evaluate non-Compliance implication i.r.t Other aspect → i.e., Auditor Risk Assessment & Reliability of W.R, Appropriate action
7. Reporting of non-compliance
 - (a) Reporting to management/TCWG
 - (b) Reporting to users of auditor's report of FS
 - (c) Reporting to regulations

Q19. For Insurance Company → Following are Indication of Non-Compliance of L&R: (SM Qn)

- (1) GST Dept issued notice for creating Fictitious invoices of sales (Involve penalty, have Direct effect on FS)
 - (2) IRDAI was also informed by GST dept → IRDAI may also levy Fine & Litigation (Material effect on FS)
- (Now refer Above procedure "Audit Procedure when Non-Compliance is Identified") (Answer Ends)

➤ REPORTING RESPONSIBILITY of Auditor i.r.t Non-Compliance of L&R:

Q20. State Auditor's responsibility for Non-Compliance of L&R i.r.t audit of FS

- 1) Reporting Non-Compliance to TCWG: (Unless all TCWG involved in mngt, and mngt aware of this matter)

If non-compliance is believed to be intentional & material:	communicate matter → as soon as practicable.
If suspects that management or TCWG are involved in non-compliance:	communicate to → next higher level of authority (like audit committee or supervisory board)
Where no higher authority exists, or if auditor believes that the communication may not be acted upon or is unsure about person to whom to report:	consider the need to obtain legal advice.

- 2) Reporting Non-Compliance in the Auditor's Report on the FS:

If concludes that non-compliance has material effect on FS, & has not been adequately reflected in FS:	As per SA 705 express a qualified or adverse opinion
If auditor is precluded by mngt or TCWG from obtaining SAAE to evaluate whether non-compliance that may be material:	express a qualified opinion or disclaim as per SA 705.
If auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by mngt or TCWG:	evaluate the effect on the auditor's opinion as per SA 705.

- 3) Reporting Non-Compliance to Regulatory & Enforcement Authorities: If auditor identified or suspects non-compliance → determine whether auditor has a responsibility to report to parties outside the entity.

SA 260 – Communication with Those Charged with Governance

TCWG means:

[Read only]

- TCWG denotes the person(s) or organization(s) (e.g., a corporate trustee) responsibility for overseeing the strategic direction of the entity and includes those overseeing the FR process.
 - For some entities, TCWG may include management personnel,
 - for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
- Governance structures vary by entities.

	<ul style="list-style-type: none"> ➤ In some cases, some, or all of TCWG are involved in managing the entity. In others, TCWG and management comprise different persons. (it can be collective responsibility of BOD, Supervisor board, partners, etc) ➤ In smaller entities, however, one person may be charged with governance (owner/mngr) ➤ Appropriate TCWG: Due to diversity → auditor <u>can-not determine specific person to communicate</u> particular matters → Not be clearly identifiable from the applicable legal framework → not formally defined, such as some family-owned entities & NPO, <ul style="list-style-type: none"> • In Such case, auditor may need to discuss and agree with the engaging party the relevant persons with whom to communicate. • In deciding with whom to communicate, auditor's understanding of an entity's governance structure & processes obtained in accordance with SA 315 is relevant. • The appropriate persons with whom to communicate → may vary depending on matter to be communicated.
The Auditor's Responsibilities:	The auditor shall communicate his responsibilities & some other matters to TCWG i.e., e auditor is responsible for forming and expressing an opinion on the FS.
Appropriate Person:	The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate Sub Group of TCWG (Eg. Audit Committee) : If the auditor communicates with a subgroup of TCWG, for example, an audit committee, or an individual, <u>auditor shall determine whether the auditor also needs to communicate with the governing body.</u>
When All of TCWG Are Managing Entity:	Eg. small business where a single owner manages, matters need not be communicated again with those same people(s) in their governance role
Form/ Process of Communication: [Depend: Oral/Writing]	<ul style="list-style-type: none"> • In writing with TCWG for significant findings of audit, if in auditor's judgement, oral communication would not be adequate • Written communications need not include all matters arose during the course of audit. • The auditor shall communicate in writing to TCWG regarding auditor independence. In case of Listed entities
Timing	The auditor shall communicate with TCWG on a timely basis.
Adequacy of Communication:	evaluate whether the two-way communication (between Auditor & TCWG) is adequate for audit → if not adequate → auditor shall evaluate auditors assessment of ROMM & ability to obtain SAAE

➤ Matters to be included in Communication

Matters to be included in Communication:	<p>Q21. Auditor should communicate audit matters arising from FS audit with TCWG". state the matters to be included in such Communication. [Significant Findings from audit]</p> <p>As per SA 260 "Communication with TCWG", the auditor shall communicate with TCWG,</p> <p>I] Responsibilities of the auditor in relation to the FS audit, including that:</p> <p>(a) The auditor is responsible for forming and expressing an opinion on the FS that have been prepared by management with the oversight of TCWG; &</p> <p>(b) The audit of the FS does not relieve management or TCWG of their responsibilities. [Generally above is included in engmnt letter or other suitable form of written agreement]</p> <p>II] Planned scope & timing of audit:</p> <ul style="list-style-type: none"> • Assist TCWG to understand better consequences of auditor work, discuss risk & materiality & identify areas where auditor should undertake additional procedure • Assist auditor in understanding better the entity and its environment
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	<ul style="list-style-type: none"> communicate OVERVIEW of scope/ timing of audit (including significant risk identified) Care is necessary when communicating with TCWG about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all TCWG are involved in managing the entity. may reduce the effectiveness of those procedures by making them too predictable. <p>III] Auditor shall communicate with TCWG, following <u>Significant Findings from Audit</u>:</p> <p>(a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and FS disclosures. When applicable, → explain to TCWG → why auditor considers, that a significant a/cing practice as per applicable FRF → is not to be most appropriate to the particular circumstances of the entity;</p> <p>(b) Significant difficulties, if any, encountered during the audit;</p> <p>(c) Unless all of TCWG are involved in managing the entity:</p> <ol style="list-style-type: none"> Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and Written representations the auditor is requesting; and <p>(d) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.</p> <p>(e) Circumstances that affect the form and content of the auditor's report, if any and</p> <p>The communication of findings from the audit may include requesting further information from TCWG in order to complete the audit evidence obtained.</p>
Significant Difficulties: <i>(Special Trick :-)</i>	<p>Q22. which matters can be considered as significant difficulties as per SA 260. [OLD]</p> <p>SA 260, significant difficulties encountered during the audit may include such matters as:</p> <ol style="list-style-type: none"> An unreasonably brief time within which to complete the audit. The unavailability of expected information Significant delays by mngt, the unavailability of entity personnel, or an unwillingness by mngt to provide info necessary for the auditor to perform the auditor's procedures. Extensive unexpected effort required to obtain SAAE audit evidence. Restrictions imposed on the auditor by management. Mngt's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested. <p>In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion, as per SA 705 (Revised), Modifications to the Opinion</p>
Communication to TCWG, When Additional Info is included in Auditor's report:	<ul style="list-style-type: none"> The auditor expects to modify the opinion in auditor's report in accordance with SA 705 A material uncertainty related to going concern is reported in accordance with SA 570 Key audit matters are communicated in accordance with SA 701 The auditor considers necessary to include EOM or OM para as per SA 706 or other SAs The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720. <p>In such circumstances, Auditor may provide TCWG with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.</p>
Auditor Independence (Listed Entities): <i>(bhai dekho)</i>	<p>Q23. CA. Shelly Goel is offered a listed company audit. The audit committee of company wants her to justify independence i.r.t company through proper communication?</p> <p>In the case of listed entities, the auditor shall communicate with TCWG:</p> <ul style="list-style-type: none"> ➤ All relationships and other matters between the firm, network firms, and the entity that may reasonably be Impact independence. This shall include total fees charged by firm /

..Apni ye ye
Relationship hai
.. uspe mene ye-
ye Safeguard
laga diye .. to Me
independent hu)

- network firm during the period for audit and non-audit services
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.
 - A statement that the ET and others in the firm as appropriate, network firms have complied with relevant ethical requirements regarding independence; and
- Further, as per Co. Act, 13 requires audit committee to review and monitor auditor's independence. Therefore, audit committee requiring auditor to justify her independence

Q24. Auditor communicated Following matters to TCWG (a) Auditor's responsibility for FS Audit (b) Planned Scope & Timing of Audit (c) Auditor's independence → which Matters Not Included ?
Hint: Refer above Notes & explain "Significant Findings from the Audit" (under Matter's to communicate TCWG)

➤ Why it is Important to Communicate KAM to TCWG [Old Qn - Not in SM]

Q25. When to communicate "KAM"? What are relevant considerations in this regard and their usefulness?

- SA 260 (Revised) requires the auditor to communicate with TCWG on a timely basis.
- SA 701 The appropriate timing for communications about KAM will vary with the circumstances of engmnt.

However, the auditor may communicate preliminary views about KAM when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings.

Communicating to TCWG enables them to be made aware of the KAM that the auditor intends to communicate in the auditor's report, & provides them with an opportunity to obtain further clarification where necessary.

Auditor may consider it useful to provide TCWG with a draft of auditor's report to facilitate this discussion.

Communication with TCWG recognizes their important role in overseeing the FR process, and provides the opportunity for TCWG to understand the basis for the auditor's decisions i.r.t KAM & how these matters will be described in the auditor's report.

It also enables TCWG to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.

SA 299 – JOINT AUDIT OF FINANCIAL STATEMENTS

Meaning:	A joint audit is an audit of FS of an entity by 2 or more auditors appointed with the objective of issuing the audit report. [Generally, for larger entities, sometime requires by Law]
Not applicable:	Relationship between Principal audit & Subsidiary/branch/JV/Ass/other Auditor (SA-600)
Audit planning, Risk Assessment and Allocation of Work:	<ul style="list-style-type: none"> • The engagement partner and other key members of the engagement team from each of the joint auditors shall be involved in planning the audit. • The joint auditors shall jointly establish an overall audit strategy that sets the scope, timing and direction of the audit. <p>[In Developing Audit Plan Joint Audit Shall Consider → "Refer Additional PDF"]</p> <ul style="list-style-type: none"> • ROMM need to be considered and assessed by each of the joint auditors and shall be communicated to other joint auditors • Discuss & document the NTE of audit procedures for common and specific allotted areas, same shall be discuss & Communicated to TCWG • Joint auditors shall obtain common engagement letter & common Mngt representation letter. • Work allocation & Specific Allotted areas shall be Documented & shall be signed by all the joint auditors & same shall be communicated to TCWG. [Documentation of allocation of work helps in avoiding any dispute or confusion among the joint auditors regarding scope of work]

Each JA is entitled to Assume:	<p>a) The other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the SA's issued by ICAI. It is not necessary for a joint auditor to review the work performed by other joint auditors.</p> <p>b) The other joint auditors have brought to said joint auditor's notice any departure from applicable FRF or significant observations that are relevant to their responsibilities noticed in the course of the audit.</p> <p><u>Where FS of a division/branch are audited by one of JA's</u> → the other JA are entitled to proceed on the basis that such FS comply with all L&R requirements and present a true & fair view of the state of affairs and of the results of operations of the division/branch concerned.</p>
➤ Feature of SA's	
Division of Work	<p>Where joint auditors are appointed, by mutual discussion, Divide audit of</p> <p>(i) Identifiable units or specified areas.</p> <p>(ii) Where above division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure.</p> <p>➤ Not divided: Certain areas of work, owing to their importance or owing to the nature of work involved would not be divided and would be covered by all the joint auditors.</p> <p>➤ Documented: Such a division affected by the joint auditors should be adequately documented and preferably communicated to TCWG.</p> <p>(Mention in other matter para, SA 706 → Specific responsibility of JA)</p>
Coordination	<p>Where in the course of his work, a joint auditor comes across matters which are relevant to the areas of other joint auditors and which require joint discussion, he should communicate the same to all the other joint auditors in writing before the finalization of audit and preparation of audit report.</p>
➤ RESPONSIBILITY:	
Join Auditors are Specifically responsible for:	Joint Responsibilities , All the joint auditors shall be jointly and severally responsible:
<p>(a) Audit work divided among the JA's; each JA shall be responsible only for the work allocated to such JA including proper execution of the audit procedures.</p> <p>(b) It shall be the responsibility of each auditor separately to determine the:</p> <ul style="list-style-type: none"> • NTE of audit procedures to applied i.r.t areas of work allocated to JA. • to study and evaluate the prevailing system of internal control relating to work allocated to him • Assessment of risk relating to areas of work allocated to said joint auditor <p>(c) each JA is entitled to assure that the other joint auditors have <u>carried out their part of work in accordance with the generally accepted audit procedures</u> and therefore it would not be necessary for joint auditor to review the work</p> <p>(d) specific responsibility of each JA to <u>obtain info & explanations from the mngt i.r.t. such divisions /zones/units</u> and <u>to evaluate</u> the info & explanations</p>	<p>(a) Audit work which is not divided among the joint auditors & is carried out by all JA's;</p> <p>(b) Decisions taken by all the joint auditors under audit planning phase concerning the NTE of the audit procedure to be performed by each of the auditor;</p> <p>(c) Matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;</p> <p>(d) examining that the FS comply with requirements of relevant statutes;</p> <p>(e) Presentation and disclosure of the FS as required by the applicable FRF.</p> <p>(f) Ensuring that the audit report complies with requirements of relevant statutes.</p> <p>(g) the responsibility of <u>obtaining and evaluating information and explanation from the mngt</u> is generally a joint responsibility of all the auditors, <u>Unless agreed on specific pattern</u> of distribution of this responsibility</p>
Reporting	Q26. A, B and C are joint auditors of a company. A&C are agreed on some matter, But B is not.



Responsibility:	<p>Is B required to go by majority opinion of 2-1 <u>B is not required to go by majority opinion of 2-1.</u></p> <ul style="list-style-type: none"> ➤ Usually, Joint auditor is required to issue common audit report (unanimous opinion) ➤ If, however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, → express opinion in separate audit report ➤ If Joint Auditor Disagree to Majority Joint Auditors such Joint Auditor is not bound by the views of majority & can issue Separate Report in case of disagreement ➤ Further such separate audit reports shall also make reference to the audit report issued by <u>other Joint Auditors</u> under heading "Other Matter Paragraph" (SA 706) ➤ Before finalizing their audit report, the joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report.
Communication with TCWG:	<ul style="list-style-type: none"> ➤ When JA expect to modify opinion in report → communicate with TCWG the circumstances that led to the <u>expected modification and proposed wording</u> of modification. (SA 705) ➤ If the JA expect to include an EOM or OM para report → communicate to TCWG reg. this <u>expectation & the proposed wording</u> of this paragraph to ensure compliance with SA 706
Point to Note:	Even Though the Area is planned by all J.A commonly, planning was correct → but performed by Specific Auditor not professionally (mistake in execution) → then He will only be responsible

Q27. (SM) Joint Auditors (X,Y,Z) → IT System Control was **PLANNED** as **Common Area**. → However **ACTUAL audit procedure** was performed by "**CA Y**" only (**Not Performed Professionally**) :: → **So "CA Y" would be Only Responsible** for It (As J.A was responsible for Appropriateness of NTE of Planning, However Execution Lies with Concerned auditor, so that individual concerned Auditor will be responsible)

Q28. 2 joint auditor's → Divided activities into 4 geographics region → Explain the JA's responsibilities.
Hint: SA 299: i.r.o audit work divided among the joint auditors, each joint auditor shall be responsible **ONLY** for the work allocated to such joint auditor including proper execution. (also reg. Obtaining Information & explanation i.r.t to Such Division allotted to him) → [Refer & Explain Above Notes (1) Responsibility → Joint Responsibility" (2) Coordination (3) Join Auditors are Specifically responsible for]

Q29. Write Short Note on "Responsibility of JA's" Or Relationship among J.A's. (Old)
Hint: Refer Above Notes → "**Division of work**" & "**Coordination**", "**Responsibility**" "**Reporting responsibility**"

Q30. (MTP Nov'24) → Joint auditor → **Major Understatement** in Value of Inventory (Inventory was checked by MN&Co), But No documentation for division of work.

Hint: Refer Above Notes: "Division of work", "Joint Responsibility"

(Further **Document** the NTE of Audit procedure/ Work allocation for Common & Specific divided area → should be signed by all JA's → **communicate** to TCWG) →

(a) MN& Co is only responsible for Inventory **(b) there is violation of SA 299** (As work division not documented)

Q31. (Old) → Joint auditor → **Whether or not a Separate Report is require** in case of Disagreement?

Hint: → require to issue common report (However, If disagreement → issue separate report) → **Make reference** in Separate A.report "SA 706 → Other matter para) → Refer Above Notes "Each JA is Entitled to Assume"

Q32. (Old) → Mr. X, Y, Z are J.A → **Mr. X & Y are agreed** on same actuary report, However Z did not. Explain (a) Joint & Several responsibilities of Auditor (b) Responsibility of J.A, if Mr. Y Actuary report found faulty.

Hint: (a) Refer Notes "Joint Responsibility" & "Reporting Responsibility" i.e., Mr. Z can issue separate report, not bound by Majority & OM para

(b) SA 620 → Auditor responsibility not reduced by use of A.expert's work.

- Evaluate **Expert Work Adequacy** (relevance and reasonableness of expert Finding & Conclusion, it's consistency)
- **relevance & reasonableness of assumptions & methods**, → relevance, completeness, & accuracy of source data
- (Now Explain Qn Info.) → X & Y held responsible for Gross negligence, Not Mr. Z (As separate report issued)



SA 402 – Audit Considerations Relating to an Entity Using a Service Organization

Brief about this SA	<ul style="list-style-type: none"> PwC (User auditor) is an auditor of XYZ Ltd (User entity), XYZ Ltd outsourced its any part of business, which affect FS (Let's say Accounting is outsourced) to ABC Ltd (Service organization) (SO) So PwC also need to check controls of ABC Ltd, Because if ABC Ltd control is weak, then it will impact XYZ Ltd FS also. If ABC also outsourced its some part to CC Ltd, Then PwC also need to Check control of CC Ltd (Sub-service organization) PwC have many methods to test control of ABC & CC Ltd, one of them is, they request ABC Ltd auditor's (KPMG- Service Auditor), to provide report on ABC Ltd controls. If above report does not contain any info regarding CC Ltd control, then it will be known as CARVE OUT METHOD, If that report contains info about CC Ltd control also, then known as INCLUSIVE METHOD Further this report have 2 type. TYPE 1 & TYPE 2 (<i>will Discuss later</i>)
Scope of SA	User auditor's responsibility to obtain SAAE when a user entity uses the services of one or more service organisation (S.O) [Expand → how user auditor applies SA 315 and SA 330 in obtaining an understanding of the user entity, including IC relevant to audit, assess ROMM]
User entity:	is an entity that uses a S.O. & whose FS are being audited.
User auditor	is an auditor who audits and reports on the FS of a user entity
Service Organisation:	S.O. is a 3rd party organisation (or segment of a 3 rd party organisation) that provides services to user entities that are part of <u>those entities' info. systems relevant to financial reporting.</u>
Service auditor	auditor who, at the request of the S.O, provides an assurance report on the controls of a SO.

➤ When services provided by a S.O. are relevant to the audit of a user entity's FS?

Not relevant:	All outsource Service are not relevant for audit i.e., Outsource tax compliance function
Relevant Services for audit:	when those services which are provide by SO, and the controls over them, are part of the user entity's information system , including related business processes, relevant to financial reporting → Some other control are also relevant i.e., controls over safeguarding of assets.

➤ **Relevant to financial reporting if these services affect any of:**

A SO's services are part of a user entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following:

- The **classes of transactions** in the user entity's operations that are **significant to the user entity's FS**;
- How the user entity's **information system** captures **events and conditions**, **other than transactions**, that are **significant to the financial statements**;
- Controls surrounding journal entries**, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.
- The procedures, within both **info technology (IT) & manual systems**, by which the user entity's transactions are initiated, recorded, processed, corrected as necessary, **transferred to general ledger & reported in FS**;
- The related **accounting records, either in electronic or manual form**, supporting information and specific accounts in the user entity's FS that are **used to initiate, record, process and report the user entity's transactions**; this includes the correction of incorrect info & how info is transferred to the general ledger;
- The **financial reporting process** used to prepare the user entity's FS, including significant accounting estimates and disclosures

Q33. Outsourced Accounting Function → As an Auditor Enumerate Factors to be consider related to it F.R.

Hint: Refer notes : "Not relevant", "Relevant Services for audit", "Relevant to FR if these services affect any of"

➤ Obtain Understanding of services provided by S.O:

Obtain Understanding of services provided by S.O: <i>(Special Trick :-)</i>	<p>The user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:</p> <ul style="list-style-type: none"> (i) The nature of the services provided by the SO and the significance of those services to the user entity, including the effect thereof on the user entity's internal control; [Available sources: user manuals, contract between user entity and SO etc.] (ii) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation; [sometimes transactions processed by SO, not appear to be material to FS, but nature of transaction process can be significant → so auditor should understand that control] (iii) The degree of interaction between the activities of the SO & of the UE; [It means, extent to which a user entity is able to and elects to implement effective controls over the processing performed by the SO. For example, a high degree of interaction exists between the activities of the U.E & those at the S.O when the U.E authorizes transactions and the S.O. processes and does the accounting for those transactions] (iv) The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the S.O.
Understand IC & Significance of service: <u>[Read Only]</u>	<ul style="list-style-type: none"> • When obtaining understating of IC as per SA 315 → auditor also evaluate relevant controls at user entity that relate to services provided by S.O. • Determine whether a sufficient understanding of the nature and significance of the services provided by SO and their effect on the user entity's IC has been obtained
Further procedures if Sufficient understanding not obtained	<p><u>Further procedures if Sufficient understanding of UE not obtained by above methods:</u></p> <ul style="list-style-type: none"> • Obtaining Type 1 or Type 2 report (if available) • Contacting Service Organization, through user entity to obtain specific info. • Visiting Service organization & performing procedures to get info about controls at SO. • Use another auditor to perform procedures to get info on relevant control at SO.

Q34. G Ltd outsourced Payroll, Accounting → how auditor can obtain understanding of Services, Or
As auditor, what would be your considerations regarding the nature & extent of activities undertaken by S.O.
Hint: SA 402 & 315 → Refer above notes "Obtain Understanding of services provided by S.O"

➤ About Type 1 & Type 2 Report:

Obtaining Type 1 or Type 2 Report	Type 1 Report: [DD - Description & Design of Control]	<ul style="list-style-type: none"> • A description, prepared by mgt of the SO, → of the SO system, control objectives and related controls that have been designed and implemented as at a specified date; and • A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the SO system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.
	Type 2 Report [DDO- Description, Design & Operating effectiveness of Control]	<ul style="list-style-type: none"> • A description, prepared by mgt of the SO, of the SO system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and • A report by the service auditor with the objective of conveying reasonable assurance that includes: <ul style="list-style-type: none"> ✓ The service auditor's opinion on the description of SO system, control objectives & related controls, suitability of the design of controls to achieve the specified control objectives, and operating effectiveness of controls; &



	<p>✓ A description of service auditor's tests of controls & results thereof.</p>
	<p>Q35. How does an auditor report on the description, design and operating effectiveness of controls at a S.O? =: Explain about "Type 2 Report" (as it's asking about DD"O")</p>
Using Type 1 & Type 2 Report:	<p>When user auditor is using type 1 or 2 report to understand I.C. and SO:</p> <p>In determining the SAAE provided by Type 1 or 2 report, user auditor shall satisfied as to:</p> <ol style="list-style-type: none"> The service auditor's professional competence (except where service auditor is a member of ICAI) and independence from the service organisation; and Adequacy of the standards under which the Type 1 or Type 2 report was issued. <p>If user auditor plans to use Type 1 or 2 report as audit evidence to support user auditor's understanding about design & implementation of controls at SO, the user auditor shall:</p> <ol style="list-style-type: none"> Evaluate whether the Description and Design of controls [DD] at the SO is at a date or for a period that is appropriate for the user auditor's purposes; Evaluate Sufficiency & appropriateness provided by the report for the understanding of the user entity's I.C relevant to the audit; (i.e, in general User entity ke kya control hai uss work pe) Determine whether complementary user entity controls identified by SO are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls. (i.e, SO ye soch ke kaam kar rha hai ki, U.E ne kuch specific control to lagaae hi honge uss kaam k liye, to as an Auditor apan ko y dkhna h ki Wo Control UE me shii hai yaa nii) <p>[Complementary user entity controls refer to controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.]</p>
Test of Control:	<p>When User auditor's initial risk assessment includes an expectation that controls at SO are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures: -</p> <ol style="list-style-type: none"> Obtaining a Type 2 report, if available Performing appropriate TOC at the S.O Using another auditor to perform TOC at the SO on behalf of the user auditor <p>Q36. U.E. Auditor demanded from S.O. → description of SO & effectiveness of the control. Which type of report? What aspects to be considered by U.E. Auditor in using such assurance report as audit evidence that controls at S.O are operating effectively? (MAY'24)</p> <p>Answer: SA 402: Using Type 2 report as A.evidence that controls at SO are operating effectively</p> <p>Using a Type 2 report as audit evidence that controls at SO are operating effectively, user auditor shall determine whether the service auditor's report provides SAAE about the effectiveness of the controls to support the user auditor's risk assessment by:</p> <ol style="list-style-type: none"> Evaluating whether the Description, Design & Operating effectiveness [DDO] of controls at the S.O is at a date or for period that is appropriate for the user auditor's purposes Determine whether complementary user entity controls identified by SO are relevant to the user entity &, if so, obtain an understanding of whether the user entity has designed and implemented such controls., if so, testing their operating effectiveness; Evaluating the adequacy of the time period covered by the TOC and the time elapsed since the performance of the tests of controls; and Evaluating whether the TOC performed by the service auditor and the results thereof, as described in the service auditor's report, are relevant to the assertions in the user entity's FS and provide SAAE to support the user auditor's risk assessment

➤ Sub-Service Organisation (Inclusive & Carve Out Method)

Q37. When S.O. uses Sub-S.O. → what 2 alternative method of presenting controls description. As a user auditor what information would you obtain about controls at a sub-service organization? (Old)

SA 402 → a U.E may use S.O → S.O uses Sub-S.O., that service affect part of U.E info system relevant to FR.

- A user auditor may need to consider controls at the sub-service organisation.:
 - ✓ **interaction between** the **user entity**, the **SO** and **Sub-SO**
 - ✓ The **degree of this interaction**, as well as the **nature and materiality of the transactions** processed by S.O & Sub-S.O → determining the significance of the **S.O & sub-S.O controls to the user entity's controls**.
- User auditor shall determine whether a sufficient understanding of the **nature & significance of services provided** by the S.O & their effect on the U.E. internal control relevant to the audit.
- If the user auditor is unable to obtain a sufficient understanding from the UE, the user auditor shall obtain that understanding by application of the following 2 methods of presenting description of I.C i.e.

(i) Type 1 report; or (ii) Type 2 report.

- If a S.O uses a Sub- S.O, the **service auditor's report** may **either include** or **exclude** the **subservice organisation's relevant control** objectives and related controls in the S.O description of its system and in the scope of the service auditor's engagement. → These two methods of reporting are known as the **inclusive method** and the **carve-out method** respectively.
- But Either method, S.O includes → **description of functions** & nature of **processing performed by the Sub-S.O**
- If Report (Type-1 / Type-2) Excludes Control of Sub-S.O → & if Sub-SO are relevant to User Entity FS → **User Auditor is required to apply requirement of SA 402 i.r.t. Sub-SO also**
- How much Work to be Performed by User Auditor Reg. Sub-SO ? → **Nature & extent of work** (to be performed BY the "User Auditor" regarding the Sub-SO), **depend on** → **nature & significance of those services** to the U.E **and relevance of those services to the audit**.

(Above Answer Ends)

Fraud / non-comply L&R at SO:	User auditor shall inquire user entity mngt → whether he is aware of any fraud / non-compliance of L&R or uncorrected misstatement affecting FS of user entity → if Yes → evaluate how such matters affect the NTE of the user auditor's FAP , including the effect on the user auditor's conclusions and user auditor's report.
--	--

➤ Reporting by User Auditor (Reference in User Auditor's Report)

- **If user auditor is unable to obtain SAAE** regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements → **MODIFY** the Opinion
- **Unmodified Opinion:** The **user auditor** shall **NOT refer to the work of a service auditor** in the user 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 user auditor's report shall **indicate that the reference does not diminish the user auditor's responsibility for the audit opinion**.
- **Modified Opinion:** If reference to the work of a service auditor is **relevant to an understanding of a modification to the user auditor's opinion**, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion.

Q38. CA Raman → issued Unmodified A.report → his assistant made reference of work done by Service Auditor.

Hint: Refer & Explain Above Notes → "Reporting by User Auditor" → so CA Raman should remove the reference

ADDITIONAL SA's

(ICAI has NOT given them in MODULE, But Mentioned that these are discussed in CA Inter, So



About Faculty

By- CA Hemant Somani | AIR 46

Academics

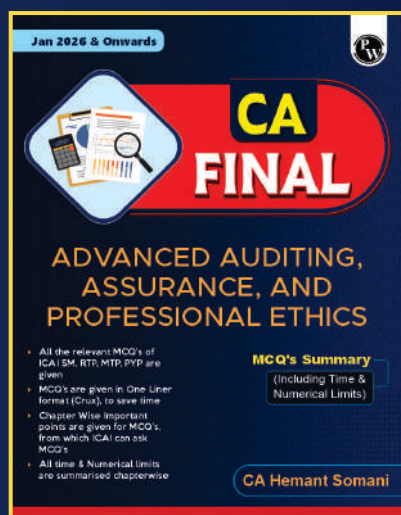
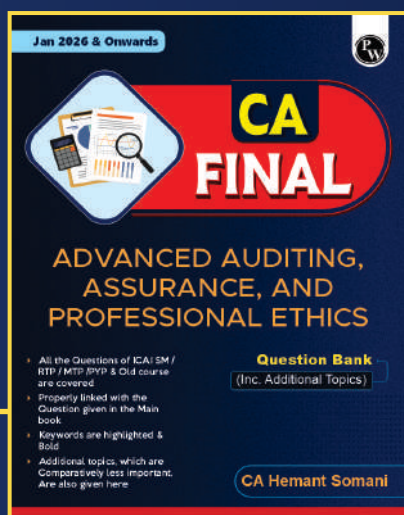
- Secured All India Rank (AIR)- 46 in CA Final Examination
- Top 15 rank in India in CPT
- Exemption in 7 Papers out of 8 Papers (Including Audit)
- All India Ranks in Many Exams (ICAI Wizard, IIT Guwanati talent search etc.)

Professional

- Worked in PwC in the Field of Statutory Audit for 3 Years
- Served at Many MNC's in the field of Finance & Audit
- Served in UAE & Africa in the field of Finance & Audit
- Having exposure of doing Audit in India, Dubai & Africa.

Some of My Students achievements are– AIR4, AIR 6, AIR 10, AIR 14, AIR 14, AIR 15, AIR 16, AIR 18, AIR 20, AIR 27, AIR 29, AIR 29, AIR 41, AIR 47, AIR 48, AIR 50

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