CA INTER AUDIT
May'24

QUESTION BANK

Chapter- 7

Completion and Review

PROF. VISHAL

Preface

Greetings students,

As the author of this question bank, I've taken a thoughtful approach to its construction, prioritizing a competitive spirit in your learning journey.

Correct / Incorrect Questions
The Correct and Incorrect questions/answers are intentionally not kept in sequential order. Why? To encourage analytical thinking without the comfort of knowing the topic heading in advance.

Dedication to Holistic Learning
My dedication to creating content knows no bounds. I've meticulously curated questions from over 20 years of ICAI materials, including Study Material Practice Questions, MTPs, RTPs, and Suggested Answers. The sequencing of chapter topics aligns seamlessly with the ICAI study material. For downloading Complete Question Bank click here

ADDITIONAL INFORMATION ABOUT COMPLETE QUESTION BANK

Insights from Examiner Comments
Moreover, the inclusion of examiner comments adds a unique dimension. Learning from the mistakes highlighted by ICAI examiners can significantly improve your understanding. This book is not just about questions and answers; it's a tool to help you comprehend common mistakes and guide you on how to avoid and rectify them.

Comprehensive Question Selection Strategy
I've gone a step further. Not only have I kept questions directly related to the current study material, but I've also included additional ones related to previous years with some relevance to the current context. These carry relevance, but I advise focusing on them only after thoroughly covering the main syllabus according to the current study material.

VIDEO LEARNING INITIATIVE
And here's an exciting initiative—I've started creating YouTube videos to help you understand any challenging question or topic. All you need to do is message us on WhatsApp or Telegram using the provided link at the bottom of the page , and I'll promptly create a video to address your request.

Closing Note: Embark on Your Learning Journey
So, dive into this question bank with enthusiasm, and remember, I'm here to support your learning journey every step of the way.

Best regards,
Prof. Vishal

If you require further assistance with your study techniques or any other aspect,
don't hesitate to contact us.

You can instantly reach out via WhatsApp by clicking this icon, or join our Telegram group to pose questions that could also benefit your peers.

Chapter 7	Completion And Review

Part A – Correct Incorrect

Q. 1 State with reasons (in short) whether the following statements are True or False:

1. Written representation by management as to the quality of inventory is substitute for verification.

Incorrect

Inspecting inventory when attending physical inventory counting assists the auditor in ascertaining the existence of the inventory (though not necessarily its ownership) and in identifying its quality for example, obsolete, damaged or ageing inventory. Written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available.

Alternative Reason for incorrect answer may be given as: One of the objectives of the written representation is to support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representation. So, it is clear that written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available.

Examiner Comment - Few candidates repeated only what was written in the question paper itself with a correct or incorrect opinion.

2. Written representation can be a substitute for other audit evidence.

(Nov. 2017)

OR

Written representation from management can be a substitute for other evidence that the auditor could expect to be reasonably available. (2 Marks each, Nov. 2017)

Incorrect

One of the objectives of the written representation is to support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representation. So, it is clear that written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available.

Examiner Comment - Examinees correctly explained the written representation but did not mention that it is to support other audit evidence.

3. One of the objectives of the written representation is to support other audit evidence relevant to the financial statements

(Inter Audit RTP/ New/ Old Nov. 2021)

Correct:

One of the objectives of the written representation is to support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representation. Written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available.

4. Written representation in itself is a sufficient and appropriate audit evidence about any of the matters with which they deal.

(Inter Audit MTP/ New/ Old. 2021) (7 x 2 =14 Marks)

Incorrect: Written representations provide necessary audit evidence; they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

5.	***Written representations are requested from those responsible for the preparation and presentation of the financial statements.*** (2 Marks, MTP Sep.2022) **Correct** Written representations are requested from those responsible for the preparation and presentation of the financial statements. Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation. However, management (rather than those charged with governance) is often the responsible party. Written representations may therefore be requested from the entity's chief executive officer and chief financial officer, or other equivalent persons in entities that do not use such titles. In some circumstances, however, other parties, such as those charged with governance, are also responsible for the preparation and presentation of the financial statements.
6.	***In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater.*** (Sugg. July 21, 2 Marks) **Correct** In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following: ▪ Management may be unaware of the existence of all related party relationships. ▪ Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.
7.	***If the auditor believes that the concern will not continue as going concern, he should issue disclaimer of opinion.*** (2 Marks each, May, 2007) **False** As per SA 570 "Going Concern", If the Financial Statements have been prepared on a GC basis but, in the Auditor's judgement, Management's use of the Going Concern assumption in the preparation of Financial Statements is inappropriate, the Auditor shall express an Adverse Opinion.
8.	***A Company which has been unable to negotiate borrowings from its bankers claims that it will be able to continue as a 'going concern*** (2 Marks each, November, 2009) **False** In the case of the company which has not been able to negotiate its borrowings with its bankers, there will be a substantial doubt in its ability to continue as a going concern without such financial support. **Alternative Answer – True** If the company is not able to negotiate borrowings from its bankers for reasons like delay/failure in the submission of adequate documents/information or for other reasons other than the company's financial status then the statement is true.
9.	***Copies of communication with other auditors, experts and other third parties are part of permanent audit file.*** (Old Course SM) (RTP IPCC Nov 15) **Incorrect** Copies of communication with other auditors, experts and other third parties are part of current audit file. Permanent audit file normally includes information concerning the legal and organizational structure of the entity, copies of audited financial statements for previous years, copies of management letters, etc.
10.	***Audit note book constitutes the basic record for the auditor in respect of audit carried out by him.*** (Old Course SM) (RTP IPCC May 16) **Incorrect:** Audit working papers constitute the basic record for the auditor in respect of the audit carried out by him.

Part B – Descriptive Questions

Auditor & The Subsequent Events – SA 560

Q. 1	**SA 560, "Subsequent Events" deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Explain those events and also define subsequent events.** (Inter MTP Nov 2023)
	SA 560, "Subsequent Events" deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events: a) Those that provide evidence of conditions that existed at the date of the financial statements; and b) Those that provide evidence of conditions that arose after the date of the financial statements. SA 700 explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date. Subsequent events refer to events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.
Q. 2	**Explain the meaning of term "Subsequent Events" as used in the SA 560.** (8 MARKS, MAY, 2012) (RTP IPCC MAY 12) (RTP IPCC NOV 13)
	Meaning of Subsequent Events: SA 560 on "Subsequent Events", defines the term 'subsequent events" as ▪ events occurring between the date of the financial statements and the date of the auditor's report, and ▪ facts that become known to the auditor after the date of the auditor's report. The objectives of the auditor are to: a. Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements as per the requirement of AS-4 "Events Occurring after the Balance Sheet Date" are appropriately reflected in those financial statements; and b. Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.
Q. 3	**The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. Explain.** (RTP INTER NEW MAY 19) **The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report, that requires adjustment of, or disclosure in, the financial statements have been identified. With reference to SA 560, what are the audit procedures included in the auditor's risk assessment?** (Sugg. July 21, 4 Marks)
	Audit Procedure Regarding Events Occurring Between the Date of The Financial Statements and The Date of The Auditor's Report. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. The auditor shall perform the procedures required above so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto.

The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

a. Obtaining an understanding of any procedure's management has established to ensure that subsequent events are identified.
b. Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.
c. Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
d. Reading the entity's latest subsequent interim financial statements, if any.

Q. 4 ***The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report. Explain the auditor's obligation in the above situation.***

(RTP INTER NEW MAY 2020) (MTP Nov 21, 3 Marks)

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.

However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

a. Discuss the matter with management and, where appropriate, those charged with governance.
b. Determine whether the financial statements need amendment and, if so, inquire how management intends to address the matter in the financial statements.

Q. 5 ***Discuss meaning of "Date the financial statements are issued" under SA 560.***

(TYK)

Meaning of Date, the financial statements are issued:

It reflects the date that the auditor's report and audited financial statements are made available to third parties. The date the financial statements are issued generally depends on the regulatory environment of the entity. In some circumstances, the date the financial statements are issued may be the date that they are filed with a regulatory authority. Since audited financial statements cannot be issued without an auditor's report, the date that the audited financial statements are issued must not only be at or later than the date of the auditor's report, but must also be at or later than the date the auditor's report is provided to the entity.

Q. 6 ***Explain the meaning of term "Subsequent Events" as used in the SA 560. Should all types of subsequent events be considered by the auditor in his attest functions?***

(8 MARKS, MAY, 2012) (RTP IPCC MAY 12) (RTP IPCC NOV 13)

Meaning: Refer Q 2. Consideration of Subsequent Events by the Auditor:

SA 560 requires that the auditor to:

a. Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements; and
b. Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

As per Ind AS -10, Events after Reporting Period are of two types, viz., adjusting events which provide further evidence of conditions that existed at the date of the balance sheet; and, non-adjusting events are those which are indicative of conditions that arose subsequent to the date of the balance sheet.

Therefore, an auditor is required to consider all subsequent events while discharging his duties and determine whether those shall have to be adjusted or simply required to be disclosed. However, the auditor should perform work as near as practicable to the date of the auditor's report.

Q. 7 ***"The auditors should consider the effect of subsequent events on the financial statement and on auditor's report" according to SA 560 – Comment.***

(MTP OCT 2019, 4 MARKS) (RTP IPCC NOV 17) (RTP IPCC MAY16)

OR

Indicate briefly the procedures to identify subsequent events requiring adjustment of or disclosure in the financial statements.

(RTP IPCC MAY 12) (RTP IPCC NOV 13)

Effect of Subsequent Events: SA 560 "Subsequent Events", establishes standards on the auditor's responsibility regarding subsequent events.

According to it, 'subsequent events' refer to those events which occur between the date of financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. It lays down the standard that the auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.

The auditor shall perform the procedures required above so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

The auditor should-

1. obtain an understanding of any procedures management has established to ensure that subsequent events are identified.
2. inquire of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.
3. Read minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
4. Read the entity's latest subsequent interim financial statements, if any.

Such information may also be obtained by auditor from accounting records pertaining to period after date of financial statements, reading entity's latest available budgets etc.

When the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

Q. 8 ***CA PK Jacob is conducting audit of a company for year 2021-22. The company is engaged in export of ethnic rugs to buyers in Europe. The audit is nearing completion in month of July 2022. However, it becomes known to the auditor that one of overseas buyers has made a legal claim against the company on 1st June 2022 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August, 2021.***

The management of company has decided to agree to an out of court settlement of Rs.5 crore to protect its reputation. The financial statements of the company are silent on this issue.

Discuss, how, CA PK Jacob should proceed to deal with above issue.

(TYU)

	▪ In the given case, the auditor has come to know of legal claim against the company before issue of audit report. It has also come to his knowledge that management of company has agreed to an out of court settlement of Rs.5 crore. ▪ It is an example of subsequent event between the date of the financial statements and the date of the auditor's report. It provides evidence of conditions that existed at the date of the financial statements and requires adjustment in financial statements. ▪ He should ask company management to make necessary adjustment to the financial statements. ▪ If adjustment is not made by management, he should consider impact on auditor's report
Q. 9	***CA Chandni Khanna is going to complete audit of a company within next few days. She has performed necessary audit procedures like inquiry of management personnel, reading minutes of meetings held after date of financial statements, going through books of accounts after date of financial statements to make sure that all subsequent events before signing audit report have been considered by her. Still, she wants to be certain that no such events have been left out. What she should do in such a situation? Also, discuss the rationale of doing so.*** (TYU)
	▪ Auditor has already performed necessary audit procedures like inquiry of management personnel, reading minutes of meetings after date of financial statements and going through books after date of financial statements. ▪ She has already performed necessary audit procedures like inquiry of management personnel, reading minutes of meetings after date of financial statements and going through books after date of financial statements. ▪ Now, she should request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580, "Written Representations" that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. ▪ The rationale of obtaining written representations is that even after performing abovesaid procedures, she may not come to know all subsequent events. Therefore, it is necessary from an auditor's point of view to obtain acknowledgment from management in the form of Written representations that all such events for which the applicable financial **reporting framework requires adjustment or disclosure have been adjusted or disclosed**

Going Concerns – SA 570

Q. 10	***Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. Explain. Also discuss the objectives of an auditor regarding Going concern as per relevant standard on auditing.*** **OR** ***On the basis of which assumption, the financial statements of a company are prepared. Explain. Also describe the objectives of the auditor regarding going concern.*** **OR** ***When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. Explain stating also the objective of the auditor regarding going concern.*** (RTP INTER NEW MAY 19) (RTP INTER NEW NOV 19)
	1. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either. i. intends to liquidate the entity or to cease operations, ii. or has no realistic alternative but to do so. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

	2. The objectives of the auditor regarding Going Concern are: a. To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; b. To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and c. To report in accordance with this SA.
Q. 11	***As described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. Explain stating the auditor's responsibilities with regard to going concern.*** (RTP May,2021) **OR** ***Discuss the Objectives of an auditor as stated in SA 570 'Going Concern'.*** (RTP IPCC MAY 14)
	Auditor's Responsibilities: Refer Qn. 10 Point. 2
Q. 12	***As an auditor how would you react to the following situations/comments?*** ***TT Ltd. has suffered recurring losses due to steep fall in production and has negative net worth. It's production head, an expert, have also left the company. Reply of the management is inadequate to these developments and there is no sound action plan to mitigate these situations*** (6 MARKS, MAY, 2008) (RTP IPCC NOV 12)
	As per SA 570 on "Going Concern", it is the responsibility of the Auditor ▪ to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and ▪ To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit. In the instant case, TT Ltd. has suffered continuous losses and having negative net worth also. Besides, its production head have also left the company resulting in steep fall in production. Thus, there are clear indications that there is danger to entity's ability to continue in future. Considering the fact that there is no sound plan of action from the management to mitigate these factors and to put the company back on the recovery, the going concern assumption does not hold appropriate. Therefore, When the Auditor concludes that the use of the Going Concern assumption is appropriate in the circumstances but a material uncertainty exists, the Auditor shall determine whether the Financial Statements - ▪ Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and ▪ Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. ▪ The auditor should ask the management for its adequate disclosure in the financial statement and include the same in his report. However, if adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: ▪ Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and ▪ In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

Q. 13 **Explain the meaning of term "Subsequent Events" as used in the SA 560.**

(8 MARKS, MAY, 2012) (RTP IPCC MAY 12) (RTP IPCC NOV 13)

Meaning of Subsequent Events:

SA 560 on "Subsequent Events", defines the term 'subsequent events" as

- events occurring between the date of the financial statements and the date of the auditor's report, and
- facts that become known to the auditor after the date of the auditor's report.

The objectives of the auditor are to:

a. Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements as per the requirement of AS-4 "Events Occurring after the Balance Sheet Date" are appropriately reflected in those financial statements; and

b. Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

Q. 14 **Write short notes on the following: Going Concern Concept.**

(4 MARKS EACH, NOVEMBER, 2005)

OR

Explain with reference to the relevant Standard on Auditing, appropriateness of going concern assumption?

(RTP IPCC MAY 13) (5 MARKS, MAY, 2005)

Going Concern Concept: Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.

General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. The Companies Act requires the Directors to make a specific assertion in their Responsibility Statement that they have prepared the annual accounts on a Going Concern basis. AS - 1 recognizes Going concern as one of the fundamental accounting assumptions. Disclosure is necessary if it is not followed.

Management's responsibility for the preparation and presentation of the Financial Statements includes a responsibility to assess the entity's ability to continue as a Going Concern, even if the financial reporting does not include an explicit requirement to do so.

Q. 15 ***Management's assessment of the entity's ability to continue as a going concern involves making a judgement about inherently uncertain future outcomes of events or conditions. What are relevant factors to that judgement?***

(Inter Audit Sugg, Jan. 2021) (4 Marks)

Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Q. 16	***M/s ANS & Associates has been appointed as the statutory auditors of MNO Ltd. The company has been suffering losses due to the emergence of highly successful competitor, thereby leading to negative net worth. Also, the sales head, key management personnel, of the company left the company due to health issues. When CA Amar, the engagement partner discussed the scenario with the management of the company, he did not get any satisfactory reply from the management. What is the responsibility of M/s ANS & Associates with regard to SA 570?*** (TYK)
	As per SA 570, one of the objectives of the auditor regarding going concern is to obtain sufficient and appropriate audit evidence regarding the same and to conclude on the appropriateness of the management's use of the going concern basis of accounting in the preparation of the financial statements. ▪ Further it also contains the list of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern which are: ✓ Financial indicator- Negative net worth ✓ Operating indicator- Loss of key management and emergence of highly successful competitor. ▪ In the present case, MNO Ltd. has negative net worth on account of emergence of highly successful competitor and the sales head of the company has also left the company. ▪ Also, CA Amar did not get any satisfactory reply when he discussed the going concern matter with the management. ▪ Thus, from the above facts, it appears that MNO Ltd. is not going concern. ✓ If the management of MNO Ltd. has used the going concern basis of accounting, the auditor should first ask the management to adjust the financial statements. ✓ If the management of MNO Ltd. does not agree with the same, CA Amar shall consider the impact on his audit report.
Q. 17	***When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor has determined that management of XYZ Ltd has already performed a preliminary assessment of the entity's ability to continue as a going concern. Explain how would auditor of XYZ Ltd proceed in the above case. Also explain how would the auditor proceed if such an assessment has not yet been performed by the management.*** (RTP May 2021)
	When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: 1. If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or 2. If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
Q. 18	***Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. Explain "Going Concern" assumption with reference to SA. State some financial events or conditions that may cast doubt about going concern assumption***. (8MARKS, MAY, 2012) (RTP IPCC NOV 15) (RTP IPCC NOV16) **OR** ***Financial indications to be considered for evaluating the assumption of going concern.*** (RTP IPCC NOV 12)

	Going Concern Assumption: **A.** SA 570, "Going Concern" deals with the auditor's responsibility in the audit of financial statements with respect to management's use of the going concern assumption in the preparation and presentation of the financial statements. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis is relevant. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. **B.** Financial events or conditions that may cast doubt about Going Concern assumption: Following are the examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption- 1. Net liability or net current liability position. 2. Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. 3. Indications of withdrawal of financial support by trade payables. 4. Negative operating cash flows indicated by historical or prospective financial statements. 5. Adverse key financial ratios. 6. Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. 7. Arrears or discontinuance of dividends. 8. Inability to pay creditors on due dates. 9. Inability to comply with the terms of loan agreements. 10. Change from credit to cash-on-delivery transactions with suppliers. 11. Inability to obtain financing for essential new product development or other essential investments.
Q. 19	***Give examples of financial events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.*** (Inter Audit RTP/ New/ Old Nov. 2021) (4 Marks)
	Refer Q. 18 Part. B.
Q. 20	**Write short notes on the following: Procedures to be performed by the auditor in expressing opinion on 'going concern' assumption**. (RTP IPCC NOV14) **OR** **Procedures to be performed by the auditor in expressing opinion on 'going concern' assumption**. (4 MARKS EACH, NOVEMBER, 2010) (RTP IPCC NOV 14)
	Procedures to be performed by the auditor in expressing opinion on 'going concern' assumption: As per SA 570, "Going Concern", the following are the relevant procedures that are relevant in this connection: ▪ Analyzing and discussing cash flow, profit, other relevant forecasts & ▪ Analyzing and discussing the entity's latest available interim Financial Statements with Management. ▪ Reading the terms of debentures and loan agreements and determining whether any have been breached. ▪ Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties. ▪ Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications. ▪ Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

- Evaluating the Entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

Q. 21 ***The auditor of a company is having concerns about following of going concern basis of accounting followed by management for preparation of financial statements. It asks the management to justify preparation of financial statements. However, management is not willing to make its assessment and share with auditor. What are implications for auditor's report in such a scenario?***

(TYK)

I. If use of Going concern basis of accounting is inappropriate

If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

II. If use of going concern basis of accounting is appropriate but a material uncertainty exists;

a. Adequate Disclosure of a Material Uncertainty is Made in the Financial Statements

If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: -

i. Draw attention to the note in the financial statements that discloses such matters.

ii. State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

b. Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements

If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

i. Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705.

ii. In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

III. Management unwilling to make or extend its assessment

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. In such a situation, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements

Q. 22 ***While doing audit of ABC Pvt Ltd, on the basis of sufficient and appropriate evidence, auditor comes to a conclusion that use of the Going Concern Basis of Accounting is appropriate, but a material uncertainty exists. Discuss the implications for auditor's report if:***

a. Adequate Disclosure of a Material Uncertainty is Made in the Financial Statements

b. Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements

(Inter Audit RTP/ New/ Old Nov. 2021 (4 Marks)

OR

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 the Financial Year 2022-23.

	From your primary observations of audit evidences, you feel that there is a material uncertainty exists about going concern. How will you deal in your audit report? **What will be the effect on your audit opinion the following situations?** **i. If adequate disclosure of such material uncertainty is already made in the financial statements.** **ii. If adequate disclosure of such material uncertainty is not made in the financial statements** (Inter Audit Suggested / New May. 2023) (4 Marks)
	Use of the Going Concern Basis of Accounting is Appropriate but a Material Uncertainty Exists: (Refer Point II from Above Q21)
Q. 23	**During course of audit of a company, CA. Varun Aggarwal notices that company is facing significant skilled labor shortages resulting in hampering of operations of company. The company's manufacturing is dependent upon skilled labor coming from villages in certain districts of Eastern UP. However, due to job opportunities available near villages now, many are not interested in going out from their native villages.** **Such a situation has led to company not being able to keep its commitments, losing out on orders and fall in its revenues. Fixed costs of the company remain at a high level. As a result, company is facing a liquidity crunch and is not able to pay its creditors on time.** **The bankers of company are also not willing to help the company to tide over liquidity crisis. The auditor is having doubts over going concern status of the company. How should management of the company try to address auditor's concerns? What audit procedures may be performed by auditor in such a situation?**
	▪ Significant shortage of skilled labor, inability to pay creditors on time and overall liquidity crisis faced by the company are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. ▪ In such a situation, management should try to address auditor's concerns by preparing its future plan of action including preparation of cash flow forecast showing inflow and outflow of cash. Such a cash flow forecast should address auditor's concerns regarding liquidity crisis being faced by the company. ▪ The auditor should perform audit procedures to evaluate the reliability of the underlying data to prepare the forecast and determining whether there is adequate support for the assumptions underlying the forecast. ▪ The auditor should also consider whether any additional facts or information have become available since the date on which management made its assessment.

SA 450 "Evaluation of Misstatements identified during the Audit"

Q. 24	**In audit plan for T Ltd / TELCO Ltd/ Shetrapal Ltd, as the audit partner/team you want to highlight/possible the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements.** (R.T.P. New, Nov2019) (R.T.P. Old, May, 2013) (4 Marks, May 2011) (MTP. New, April 2018) **OR** **In audit plan for T Ltd, as the audit partner you want to highlight the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements.** [May 13 (4 Marks), RTP-Nov.18]
	SA 450 "Evaluation of Misstatements identified during the Audit", defines the term misstatement as a difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, misstatement may cause due to following - 1. An inaccuracy in gathering or processing data from which the financial statements are prepared; 2. An omission of an amount or disclosure; 3. An incorrect accounting estimate arising from overlooking, or clear misinterpretation of facts; and 4. Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate. 5. the selection & application of accounting. policies that the auditor considers inappropriate

Examiner Comments - Candidates, in general, mentioned most of the important sources of misstatements arising from other than fraud but some also wrote about sources of misstatements arising from fraud, which was not required.

Q. 25 ***The auditor should take into account the aggregate of all uncorrected misstatements including those involving estimates in his assessment of materiality in audit.***

Consideration of uncorrected and unidentified misstatements:

- SA 320 "Materiality in Planning and Performing an Audit" deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.
- SA 450, "Evaluation of Misstatements identified during the Audit" explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.
- SA 450 requires that the auditor shall determine whether the overall audit strategy and audit plan need to be revised if the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or the aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320.
- If the aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320, there may be a greater risk that possible undetected misstatements, when taken with the aggregate of misstatements accumulated during the audit, could exceed the materiality. Undetected misstatements could exist because of the presence of sampling risk and non-sampling risk.
- In such a situation, auditor may request management to examine a class of transactions, account balance or disclosure in order for management to understand the cause of a misstatement identified by the auditor, perform procedures to determine the amount of the actual misstatement in the class of transactions, account balance or disclosure, and to make appropriate adjustments to the financial statements. Such a request may be made, for example, based on the auditor's projection of misstatements identified in an audit sample to the entire population from which it was drawn.

Q. 26 ***Discuss the impact of uncorrected misstatements identified during the audit and the auditor's response to the same.***

Or

The auditor of XY & Co. Ltd. has intimated the management that certain misstatements identified during the course of audit need to be corrected. As an auditor, discuss the impact of such misstatements in case the management does not carry out the said corrections.

(5 Marks) (Suggested, Nov, Old, 2017) (5 Marks, November, 2014)

Uncorrected Misstatements Identified During the Audit: In accordance with SA 450 "Evaluation of Misstatements identified during the Audit", the auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider –

1. The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
2. The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The auditor shall communicate this with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation.

The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results.

As per management, if effect of such uncorrected misstatement is immaterial then the auditor shall request for a written representation from management and, where appropriate, those charged with governance that whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

	If Management refuses to correct some or all of the mis-statements communicated by the Auditor, he shall obtain an understanding of Management's reasons for not making the corrections, and shall take that understanding into account when evaluating whether the Financial Statements as a whole are free from material mis-statement. **Uncorrected Misstatements identified during the Audit:** Few examinees failed to explain the audit considerations to determine whether the uncorrected misstatements are material in relation to classes of transaction, account balances or disclosures. Some of the examinees failed to discuss how the auditor shall assess materiality aspects as per SA 320 in evaluating the effect of uncorrected misstatements. They erred in referring to SA 315. **Examiner Comments - Most of the candidates answered the question in a general manner and failed to explain SA 450 and correlate with the same.**
Q. 27	***Discuss documentation requirements for an auditor regarding misstatements identified during audit under SA 450.*** (TYK)
	The audit documentation shall include: - a. The amount below which misstatements would be regarded as clearly trivial; b. All misstatements accumulated during the audit and whether they have been corrected; and c. The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion
Q. 28	***You are nearing completion of audit of a company. On going through your working papers, it is noticed that finished goods inventory was overvalued by Rs. 2 crore. It has also been noticed that freight of Rs.10 lacs paid on import of machinery was charged to statement of profit and loss.*** ***Discuss, how you should, proceed and communicate in above situation before signing audit report.*** (TYU)
	▪ The instances highlighted in above situation are examples of misstatements identified during the audit. Over valuation of inventory of finished goods by Rs. 2 crore and wrongly charging freight of Rs. 10 lacs paid on machinery to statement of profit and loss instead of capitalizing are examples of misstatements. ▪ The auditor should communicate above identified misstatements to those charged with governance and request for correction of these misstatements. In case, these are not corrected, understand the reasons for not making the corrections and reassess materiality. ▪ It should also be considered whether uncorrected statements are material individually or in aggregate. Effect of uncorrected misstatements on the opinion in auditor's report should be communicated to those charged with governance

Written Representations – SA 580

Q. 29	***Discuss with reference to SAs:*** ***What do you mean by "Written Representations"? As an auditor, how you will deal if management does not provide requested written representations?*** (5 MARKS, MAY, 2014) (5 MARKS, MAY, 2014) (RTP IPCC NOV 18) **OR** ***The Partner of Vansh and Vaibhav, Chartered Accountants, asked the management to provide statements from the creditors as part of audit evidence and also required written representation from the management but the management did not provide the requested written representations. Discuss how the auditor would proceed.*** (MTP OCT 2018, 4 MARKS) **OR** ***Written representations are to be provided by the management to the auditor when requested. Comment.*** (Inter RTP Nov 2023) (4 MARKS, NOV 2019)

OR

The Auditor of TM Ltd requested the Management to provide written representations on the three matters but the management did not provide any written representation to the auditors. How should the auditor deal with this situation?

(RTP IPCC MAY13)

A. Written Representations:

As per SA 580, "Written Representation", is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.

These representations are an important source of audit evidence.

Written representations are requested from those responsible for the preparation and presentation of the financial statements.

Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation; however, management (rather than those charged with governance) is often the responsible party.

Written representations may therefore be requested from the entity's chief executive officer and chief financial officer, or other equivalent persons in entities that do not use such titles.

In some circumstances, however, other parties, such as those charged with governance, are also responsible for the preparation and presentation of the financial statements.

If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

B. Requested Written Representations not provided by Management: If management does not provide one or more of the requested written representations, the auditor shall

a. Discuss the matter with management;
b. re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations and audit evidence in general; and
c. take appropriate actions, including determining the possible effect on the opinion in the auditor's report.
d. The auditor shall disclaim an opinion on the financial statements if management does not provide the written representations.

Q. 30 ***Akash/ M/s Suraj & Associates are the statutory auditors of Deluxe Ltd. for the FY 2020-21. During the course of audit, CA Akash/ Suraj, the engagement partner requested the management of the company to provide written representation with respect to valuation of a transaction. The management, however, does not provide the same to CA/ Suraj Akash. What course of action should CA/ Suraj Akash follow in such situation? (Refer Pt a to d)***

(RTP May 2023) (MTP March 2023)(3 Marks)

Refer Part. B in above question.

Q. 31 ***Write a Short note on - Management representation.***

(4 MARKS, NOV 2016)

OR

The management of Ankita Limited suggested for quick completion of the statutory audit that it would give its representation about the receivables in terms of their recoverability. The management also acknowledged to the auditors that the management would give their representation after scrutinizing all accounts diligently and they own responsibility for any errors in these respects.

It wanted auditors to complete the audit checking all other important areas except receivables. The auditor certified the account clearly indicating in his report the fact of reliance he placed on representation of the management. Comment.

(5 MARKS, MAY, 2007) (2 MARKS, NOVEMBER, 2005)

Management Representation: SA 580 "Written Representations" deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance.

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based.

Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.

Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

Written representations are an important source of audit evidence. If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations. However, it cannot be a substitute for other audit evidences expected to be available.

Examiner Comment - Most of the examinees mentioned irrelevant and general points.

Q. 32 ***The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of AB Industries Ltd. The auditor requests management to provide Banker's certificate in support of Fixed deposits whereas management provides only written representation on the matter. Analyse how would you deal as an auditor.***

(MTP-IPC APRIL 2019, 3 MARKS) (RTP INTER MAY 18) (RTP IPCC MAY 18)

Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

Applying the above to the given problem, the auditor would further request the management to provide him with the Banker's certificate in support of fixed deposits held by the company.

Q. 33 ***Explain clearly objective of the auditor regarding written representations.***

(RTP INTER NEW NOV 19) (MTP Nov 21, 3 Marks) (Inter Audit Sugg, Jan. 2021) (3 Marks)

The objectives of the auditor in accordance with SA 580:

a. To obtain written representations

To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;

b. To support other evidence

To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs; and

c. To respond appropriately

To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor.

Q. 34 ***Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. Explain stating clearly objectives of the auditor regarding written representation.***

(RTP IPCC MAY 2020) (RTP INTER NEW MAY 2020)

OR

"Although written representations provide necessary audit evidence yet they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal". Discuss.

(Refer Part A for answer) (TYK)

A. Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. Written representations are requested from those responsible for the preparation and presentation of the financial statements.

Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

B. The objectives of the auditor regarding written representation **(refer ques no. 33 for objectives)**

Q. 35 **CA K is re-appointed as the auditor of B Ltd. He wants to re-confirm certain matters and has asked the management to give written representations for the same. Under what circumstances can an auditor ask the management to reconfirm its acknowledgement and understanding of responsibilities in written representation.**

(Inter Audit Dec 2021)

Audit evidence obtained during the audit that management has fulfilled its responsibilities regarding preparation of financial statements and about information provided and completeness of transactions is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities.

This is because the auditor is not able to judge solely on other audit evidence whether management has prepared and presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities.

The written representations requiring fulfilment of management responsibilities draw on the agreed acknowledgement and understanding of management of its responsibilities by requesting confirmation that it has fulfilled them.

The auditor, CA K of B Ltd, may also ask management of B Ltd to reconfirm its acknowledgement and understanding of those responsibilities in written representations. This is particularly appropriate when:

I. Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities;

II. The terms of the audit engagement were prepared in a previous year;

III. There is any indication that management misunderstands those responsibilities; or

IV. Changes in circumstances make it appropriate to do so

Q. 36 **CA R Gurumurthy is about to complete audit of a company. Before completion, he asks management to provide him a written representation confirming that management has fulfilled its responsibilities regarding preparation of financial statements. He also wants management to confirm in writing about providing of all the necessary information and completeness of transactions to him. The management feels that auditor is seeking irrelevant documents near the completion of audit. Why view of management is not proper? What possible implications it may lead to?**

(TYU)

- The view of management is not proper. Audit evidence obtained during the audit that management has fulfilled its responsibilities regarding preparation of financial statements and about information provided and completeness of transactions is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities.
- This is because the auditor is not able to judge solely on other audit evidence whether management has prepared and presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities.
- In case of refusal of management to provide such a confirmation, it may lead to disclaimer of opinion by the auditor.

SA 260 "Communication with Those Charged With Governance"

Q. 37 **In what ways an effective two-way communication between auditor and those charged with governance is important?**

(TYK)

Communication from auditor is important with those charged with governance. An effective two-way communication is important in assisting: -

a. The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity.

b. The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and

c. Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.

Q. 38 ***"The auditors should communicate audit matters of governance interest arising from the audit of financial statements with those charged with the governance of an entity". Briefly state the matters to be included in such Communication.***

OR

Discuss with reference to SAs: The auditor shall communicate all significant findings with those charged with Governance.

(8 Marks, November, 2006)

Communications of Audit Matters with Those Charged with Governance: As per SA 260 "Communication with those Charged with Governance", the auditor shall communicate with those charged with governance, the responsibilities of the auditor in relation to the financial statement audit, including that -

a. The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and

b. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The auditor shall communicate with those charged with governance the following:

a. The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;

b. Significant difficulties, if any, encountered during the audit;

c. Unless all of those charged with governance are involved in managing the entity:
   1. Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and
   2. Written representations the auditor is requesting; and

d. Circumstances that affect the form and content of the auditor's report, if any; and

e. 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

Q. 39 ***Compare and explain the following:***

Reporting to Shareholders vs. Reporting to those Charged with Governance

(3 Marks each, November, 2014) (RTP, Old, May, 2017,18, Nov, 2018)

Reporting to Shareholders vs. Reporting to those Charged with Governance:

Reporting to Shareholders	Reporting to TCWG
SA 700, 701, 705 & 706 & Section 143 of the Companies Act, 2013 deals with the provisions relating to reporting to Shareholders. Thus, it is a statutory Audit Report which is addressed to the members.	SA 260 deals with the provisions relating to reporting to those Charged with Governance.
Reporting to shareholders (Statutory Audit Report) generally focuses on true and fair view of financial statements.	Reporting to TCWG generally includes auditor's responsibilities, planned scope and timing of audit, significant fin dings from the audit and independence.
Reporting to shareholders is an external report and issued in public domain.	Reporting to TCWG is an internal report and not issued in public domain.

Examiner Comments - Most of the candidates discussed only meanings of the topic in general.

Q. 40 ***SA 260 requires the auditor to communicate with those charged with governance on a timely basis. The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance. Explain in detail why it is important to communicate key audit matters to those charged with governance.***

(R.T.P. Old, Nov, 2018)

OR

SA 260 (Revised) requires the auditor to communicate with those charged with governance on a timely basis.

The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance.

Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion.

Communication with those charged with governance recognizes their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report.

It also enables those charged with governance 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.

Q. 41 ***State the Significant Difficulties encountered during audit with reference to SA 260.***

OR

M/s Manidhari & Associates have been appointed as an auditor of JIN Limited, a multinational company dealing in spare parts. During the course of audit, CA Manidhari is facing many problems including the problem of not getting the desired information from the management. Accordingly, he decided to communicate with those charged with the governance about significant difficulties encountered during the audit. CA Manidhari seeks your guidance on matters which can be considered as significant difficulties as per SA 260.

(Final Audit RTP/ New/ Old May. 2022)

	Significant Difficulties encountered during audit: SA 260 "Communication with Those charged with Governance" deals with auditor's responsibilities to communicate with TCWG in an audit of financial statements. As per SA 260 among other things auditor should communicate significant difficulties to the TCWG. Examples of significant difficulties to be communicated are: 1. Significant delays in management providing required information. 2. An unnecessarily brief time within which to complete the audit. 3. Extensive unexpected effort required to obtain SAAE. 4. Unavailability of expected information. 5. Restrictions imposed on the auditor by management. 6. Management's unwillingness to make or extend its assessment of the Entity's ability to continue as a going concern when requested **Note**: In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the Auditor's opinion.
Q. 42	**Write short note on: Factors governing modes of communication of auditor with those charged with governance.**
	Factors affecting mode of Communication: SA 260 "Communication with Those charged with Governance" deals with auditor's responsibilities to communicate with TCWG in an audit of financial statements. As per SA 260 the various factors affecting mode of communication are: 1. Whether a discussion of the matter will be included in the auditor's report e.g. Key Audit matters. 2. Whether the matter has been satisfactorily resolved 3. Whether management has previously communicated the matter. 4. The size, operating structure, control environment, and legal structure of the entity. 5. In the case of an audit of special purpose F.S., whether the auditor also audits the entity's general purpose F.S. 6. Legal requirements. In some jurisdictions, a written communication with TCWG is required in a prescribed form by local law. 7. The expectations of TCWG, including arrangements made for periodic meetings or communications with the auditor. 8. The amount of ongoing contact and dialogue the auditor has with TCWG. 9. Whether there have been significant changes in the membership of a governing body.

SA 265 "Communicating Deficiencies is Internal Control to TCWG"

Q. 43	**On reviewing internal control over inventories as part of statutory audit of a company, auditor finds that physical verification is not being conducted at regular intervals as stipulated by the management. The auditor finds it to be significant deficiency in internal control over inventories. He points it out to the management in a one-liner as under: -** **"Physical verification of inventories is not being conducted at regular intervals as stipulated by management."** **Is above communication by auditor proper? Ignore statutory reporting requirements, if any in this regard.** (TYU)
	▪ While pointing out significant deficiencies in internal control, auditor has not only to communicate significant deficiencies giving their description but also explain the potential effects and sufficient information to those charged with governance and management to understand context of communication. Therefore, the above communication is not proper. ▪ Not only significant deficiency has to be communicated, it should also be explained to management the potential effects of not carrying out physical verification of inventories at regular intervals as stipulated by management. It should explain that such a significant deficiency can lead to misstatement of inventories impacting profits of the company. ▪ Highlighting importance of such a control, it should be stated that responsibility be fixed for concerned persons for adhering to such an important control

Q. 44 **During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system.**

OR

Write short note on: Written communication in respect of deficiencies of internal control.

(MTP New Oct 2018) (4 Marks) (Suggested, Nov, Old, 2015) (MTP. Old / New, May 2020)

Important Points to be kept In Mind While Drafting Letter of Weakness: As per SA 265, "Communicating Deficiencies in Internal Control to Those who Charged with Governance and Management", the auditor shall include in the written communication of significant deficiencies in internal control -

1. A description of the deficiencies and an explanation of their potential effects; and
2. Sufficient information to enable those charged with governance and management to understand the context of the communication.

In other words, the auditor should communicate material weaknesses to the management or the audit committee, if any, on a timely basis. This communication should be, preferably, in writing through a letter of weakness or management letter.

Important points with regard to such a letter are as follows-

1. The letter lists down the area of weaknesses in the system and offers suggestions for improvement.
2. It should clearly indicate that it discusses only weaknesses which have come to the attention of the auditor as a result of his audit and that his examination has not been designed to determine the adequacy of internal control for management.
3. This letter serves as a valuable reference document for management for the purpose of revising the system and insisting on its strict implementation.
4. The letter may also serve to minimize legal liability in the event of a major defalcation or other loss resulting from a weakness in internal control.

Examiner comment - Important Points to be kept in Mind While Drafting Letter of Weakness: Examinees failed to point out the important points to be included in letter of weakness.

Q. 45 **What do you mean by deficiencies in Internal Control? Explain various indicators of Significant deficiencies.**

OR

Auditors are required to obtain an understanding of internal control relevant · to the audit when identifying and assessing its effectiveness and risk of material misstatement. During the course of audit of ABC Ltd., you observed that significant deficiency exists in the internal control system and you want to ascertain the same. Elucidate the various indicators of significant deficiencies which will help you in assessing the efficiency of internal control system of the organization.

(Jan. 21 - New Syllabus,) (Final Audit Sugg, Jan. 2021)

Deficiencies in Internal Control:

SA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management" states that deficiency in internal control exists when:

a. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
b. A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

In the given case of ABC Ltd, Auditors, while conducting audit has come across significant deficiency existing in the internal control system and also auditors wanted to ascertain that deficiency.

As per SA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management ",

Indicators of significant deficiencies in internal control include, for example:

1. Evidence of ineffective aspects of the control environment, such as:
   a. Indications that significant transactions in which management is financially interested are not being appropriately scrutinized by those charged with governance.
   b. Identification of management fraud, whether or not material, that was not prevented by the entity's internal control.
   c. Management's failure to implement appropriate remedial action on significant deficiencies previously communicated.

2. Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
3. Evidence of an ineffective entity risk assessment process, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified.
4. Evidence of an ineffective response to identified significant risks (e.g., absence of controls over such a risk).
5. Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
6. Disclosure of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss.
7. Evidence of management's inability to oversee the preparation of the financial statements.

Q. 46 ***CA N has been appointed as an auditor of TRP Ltd. While conducting the audit he has identified some deficiencies in the Internal control. He needs to determine whether a deficiency or combination of deficiencies in internal control constitutes a "significant deficiency" and has to communicate them in writing to those charged with Governance and management on a timely basis. Guide CA. N with some examples of matters to be considered while determining 'significant deficiency' in internal control with reference to relevant SA.***

(Final Audit Suggested / New Nov. 2020)

OR

List out some matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a "significant deficiency".

(TYK)

As per SA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management", significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance.

Examples of matters that CA N, auditor of TRP Ltd may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

1. The likelihood of the deficiencies leading to material misstatements in the financial statements in the future.
2. The susceptibility to loss or fraud of the related asset or liability.
3. The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
4. The financial statement amounts exposed to the deficiencies.
5. The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
6. The importance of the controls to the financial reporting process; for example:
   - General monitoring controls (such as oversight of management).
   - Controls over the prevention and detection of fraud.
   - Controls over the selection and application of significant accounting policies.
   - Controls over significant transactions with related parties.
   - Controls over significant transactions outside the entity's normal course of business.
   - Controls over the period-end financial reporting process (such as controls over non-recurring journal entries).
7. The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
8. The interaction of the deficiency with other deficiencies in internal control

Misc from old

Q. 47 **What is audit working papers? Discuss various contents of Permanent Audit File and Current File.**

(4 Marks, November, 2005) (8 Marks, November, 2012) (RTP IPCC NOV 13)

Audit Working Papers: Audit Working refer to the documents prepared or obtained by the auditor and retained by him, in connection with the performance of his audit. Working papers should record the audit plan, the nature, timing and extent of auditing procedures performed, and the conclusions drawn from the evidence obtained.

Audit Documentation is the property of the auditor. As per SA 230 "Audit Documentation" refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "work papers" are also sometimes used).

In case of recurring audits, auditors generally prepare **two types of audit files**.

1. **Permanent Audit file:** It includes-
   a. Information concerning the legal and organizational structure of the entity. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions.
   b. Extracts or copies of important legal documents, agreements and minutes relevant to the audit.
   c. A record of the study and evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.
   d. Copies of audited financial statements for previous years.
   e. Analysis of significant ratios and trends.
   f. Copies of management letters issued by the auditor, if any.
   g. Record of communication with the retiring auditor, if any, before acceptance of the appointment as auditor.
   h. Notes regarding significant accounting policies.
   i. Significant audit observations of earlier years.
2. **Current Audit file:** The current file normally includes-
   a. Correspondence relating to acceptance of annual reappointment.
   b. Extracts of important matters in the minutes of Board Meetings and General Meetings, as are relevant to the audit.
   c. Evidence of the planning process of the audit and audit programme.
   d. Analysis of transactions and balances.
   e. A record of the nature, timing and extent of auditing procedures performed and the results of such procedures
   f. Evidence that the work performed by assistants was supervised and reviewed.
   g. Copies of communications with other auditors, experts and other third parties.
   h. Copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in relevant internal controls.
   i. Letters of representation or confirmation received from the client.
   j. Conclusions reached by the auditor concerning significant aspects of the audit.
   k. Copies of the financial information being reported on and the related audit reports.

Q. 48 **Write short notes on the following: Contents of Audit Note-book.**

(5 Marks, May, 2008) (4 Marks, Nov 2018)

Contents of Audit Note Book: Audit note book contains variety of matters observed during the course of audit. Significant matters observed during audit which should be recorded in audit note book are normally the following -

1. Audit queries not cleared immediately.
2. Mistakes or irregularities observed during the course of audit.
3. Unsatisfactory book-keeping arrangements, costing method, internal or financial administration on organization.
4. Important information about the company which is not apparent from the accounts.
5. Special points requiring consideration at the time of verification of final accounts.
6. Important matters for future reference.

Q. 49 ***What are the significant matters observed during the course of audit, a record of which should be kept in the Audit Note Book?***

(6 Marks, May 2016)

Significant matters to be recorded in Audit Note Book:

Significant matters observed during the course of audit, a record of which should be kept in the Audit Note Book are as follows:

1. Audit queries not cleared immediately e.g., missing receipts, vouchers, etc.
2. The mistakes or irregularities observed during the course of audit e.g., cases of failure to comply with the requirements of the Companies Act, 2013 or the provisions contained in the Memorandum or articles, a chance in the basis of valuation of finished inventory and work-in-progress or in computation of depreciation; failure to provide adequate depreciation, etc.
3. Unsatisfactory book-keeping arrangements, costing method, internal or financial administration or organization.
4. Important information about the company which is not apparent from the accounts.
5. Special points requiring consideration at the time of verification of final accounts.
6. Important matters for future reference.

Examiner Comment - Many examinees mentioned few general points only. Some examinees wrongly mentioned about permanent audit file and current audit file.

Q. 50 ***Write short notes on the following: Audit Note-book***

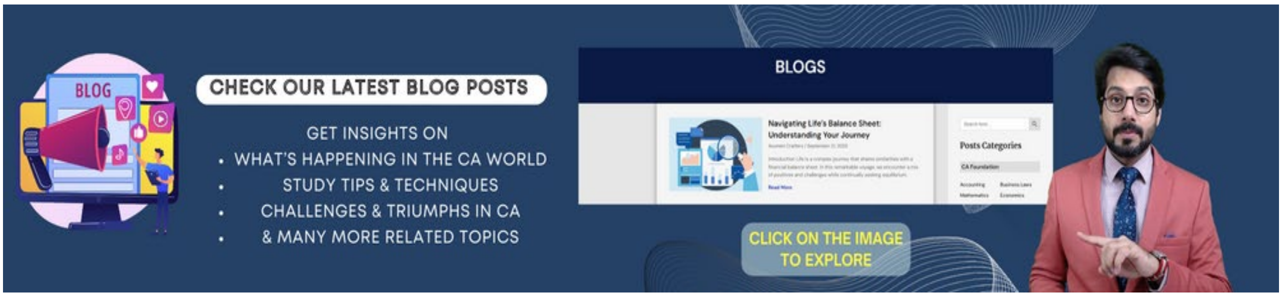
(RTP IPCC MAY 12) (RTP Old May 12) (RTP IPSS Old May 12)

Audit Note Book: An audit note book is usually a bound book in which a large variety of matters observed during the course of audit are recorded. Audit note books form part of audit working papers and for each year a fresh audit note book is maintained. In case an auditor classifies his working paper into permanent and current, then audit note book shall form part of the current file. It is in any case a part of the permanent record of the auditor available for reference later on, if required. The audit note book also provides a valuable help to the auditor in picking up the links of work when the concerned assistant is away or the work is stopped temporarily. It is also used for recording the various queries raised in the course of the work and their state of disposal. In respect of disposed queries, explanation obtained and evidence seen would be recorded in the said book, while queries remaining undisposed of would be noted for follow up.

An Audit Notebook is a bound notebook in which a variety of matters observed during the course of audit are recorded. It is a notebook containing points or queries that require clarification, explanation and investigation and the manner in which they are finally settled.

The Audit Notebook is generally divided into two parts for keeping a record of general information as regards the audit as a whole, and for recording special points which have been observed during the course of audit of the accounts of particular years.s

- The audit note book constitutes important evidence of work done and points considered in the course of an audit and also show the extent and coverage of work done when the assistants are shifted or work is stopped temporarily.
- It provides new thrusts and direction in the manner, extent and timing of audit checking's. show the extent and coverage of work done when the assistants are shifted or when there is a temporary stoppage of work
- Audit notebook being a comprehensive record of work done and audit observations, is extremely valuable to the Auditors as a document of defense when a charge is brought against the Auditor for negligence and other shortcomings in the audit work.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