

# **Brahmastra**

## **File to**

### **Crack CA**

#### **FINAL**

#### **AUDITING**

#### **MCQs &**

#### **Integrated Case**

#### **Scenarios**

## Key pointers to solve MCQs (SA)

Sr.no.	Topic	Detailed Points
1.	<b>SA 230 Audit Documentation</b>	<p>I. SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily <b>not more than 60 days after the date of the auditor's report.</b></p> <p>II. Engagement documentation to be retained for at least <b>7 years.</b></p> <p>III. Ownership of Audit Documentation - <b>Auditor</b></p>
2.	<b>SA 265</b> Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	<b>Time for Communication by the auditor</b> - For listed entities ,communicate ideally before approval date of financial statements and for unlisted entities in any case within 60 days from issue of audit report
3.	<b>SA 299 Joint Audit</b>	(Role of Joint auditor in case of difference of opinion) CA having different opinion can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in <b>the emphasis of matter paragraph.</b>
4.	<b>SA 505 External Confirmation</b>	<p>I. Rest of assertions may be conducted by auditor indirectly however to <b>confirm existence</b>, auditor is required to perform <b>direct confirmation procedure</b> &amp; cannot rely on indirect confirmations.</p> <p>II. As per SA 505 "External Confirmations": - Para 14- auditor shall investigate exceptions to determine whether or not they are indicative of misstatements. Para A21. Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in financial statements. When a misstatement is identified, auditor is required by SA 240 to evaluate whether such misstatement is indicative of fraud. Exceptions may provide a guide to quality of responses from similar confirming parties or for similar accounts. Exceptions also may indicate a deficiency, or deficiencies, in entity's internal control over financial reporting. A22. Some exceptions do not represent misstatements. For example, auditor may conclude that differences in responses to confirmation requests are due to timing, measurement, or clerical errors in external confirmation procedures.</p>

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5.	<b>SA 550 Related Parties</b>	SA 550=existence of following relationships may indicate presence of control or significant influence: (a) Direct or indirect equity holdings or other financial interests in entity. (b) entity's holdings of direct or indirect equity or other financial interests in other entities. (c) Being part of those charged with governance or key management (i.e., those members of mgt. who have authority & responsibility for planning, directing & controlling activities of entity). (d) Being a close family member of any person referred to in subparagraph (c)
6.	<b>SA 570 Going Concern</b>	As per SA 570 auditor shall evaluate Management's assessment of entity's ability to continue as a going concern If management assessment of entity's ability to continue as going concern cover less than 12 month From date of FS auditor shall request management to extend its assessment period to at least 12 month from date of FS. Therefore, auditor shall obtain Financial support letter for 12 months from year end date.
7.	<b>SA 701</b>	As per SA 701, SA 701 is mandatory in case of audit of listed entities, however, as there are no key audit matters other than matter to be described in Basis for Adverse Opinion section, The listed entity shall state, under 'KAM' para, that 'except for matter described in Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.
8.	<b>SA 700</b>	As per SA 700 para 13(b), If auditor concludes that possible effects on financial statements of undetected misstatements, if any, could be both material & pervasive so that a qualification of opinion would be inadequate to communicate gravity of situation, auditor shall withdraw from audit, where practicable & possible under applicable law or regulation. If withdrawal from audit before issuing auditor's report is not practicable or possible, report matter to Registrar of Companies.
9.	<b>SA 610</b>	Internal auditor can be expected to perform procedures in accordance with requirements of engagement. Further, as per SA 610, statutory auditor can review internal auditor function's work program & working papers (if internal auditor allows so). However, asking for detailed working paper from internal auditor is not allowed (if internal auditor denies providing access to his working paper). Further, as per SIA 330(Standard on Internal Audit) states that <b>ownership &amp; custody of internal audit work papers shall remain with Internal Auditor.</b>
10.	<b>SA 500</b>	There is no requirement in SA 500 that report of management expert is to be sent to the statutory auditor too along with

		entity. Further auditor is required to evaluate competence, capability & objectivity of management expert & obtain an understanding of work of that expert & evaluate appropriateness of expert's work as audit evidence for relevant assertion. This has to be done irrespective of Management Expert's report is received directly or indirectly.
11.	SA 210	SA 210 does not mandate to include a clause in engagement letter regarding audit fees. Hence engagement letter can be signed without including fees clause.  SA 210 requires auditor to sign new engagement letter for each audit.
12.	SA 220	As per SA 220, Technical reviewer should not currently be a member of quality review board or ICAI Central Council/ regional Council /branch level Management Committee.
13.	SA 250	As per SA 250, Auditor is required to check compliance of two types of laws - (a) provisions of those laws & regulations generally recognized to have a direct effect on determination of material amounts & disclosures in financial statements such as tax & labor laws. (see paragraph 13) (b) Other laws & regulations that do not have a direct effect on determination of amounts & disclosures in financial statements, but compliance with which may be fundamental to operating aspects of business, to an entity's ability to continue its business, or to avoid material penalties.
14.	SA 710	As per SA 710( revised ) comparative information- corresponding figures & comparative financial statement, if auditor obtain audit evidence with respect to existence of material statement in prior period financial statement on which unmodified opinion was issued then auditor should express <b>qualified/adverse opinion on current financial statement with respect to corresponding figure if misstatement has not been dealt.</b>
15.	SA 315	As per para A59 of SA 315 An entity's system of internal control contains manual elements & often contains automated elements. As per SA 315 characteristics of manual or automated elements are relevant to auditor's risk assessment & further audit procedures based thereon. Hence, view of audit team looks fine because without testing of internal control covering all types of control that is manual & automatic <b>those controls can't be said to be operating effectively.</b>

16.	SA 705	As per SA 705, Auditor shall express adverse opinion when auditor, having obtained Sufficient Appropriate Audit Evidence, concludes that misstatements, individually or in aggregate are both material & pervasive to financial statements. If misstatements not material = give qualified opinion.
17.	SA 315	Detection risk forms residual risk after taking into consideration inherent & control risks pertaining to audit engagement & overall audit risk that auditor is willing to accept. Where auditor's assessment of inherent & control risk is high, detection risk is set at a lower level to keep audit risk at an acceptable level. Conversely, where auditor believes inherent & control risks of an engagement to be low, detection risk is allowed to be set at a relatively higher level. Hence acceptable level of detection risk bears inverse relationship to assessed Risks of Material Misstatement at assertion level.
18.	SA 240	As per SA 240, if as a result of a misstatement resulting from fraud or suspected fraud, auditor encounters exceptional circumstances that bring into question auditor's ability to continue performing audit, auditor shall firstly: - (a) Determine professional & legal responsibilities applicable in circumstances, including whether there is a requirement for auditor to report to person or persons who made audit appointment or, in some cases, to regulatory authorities & (b) Consider whether it is appropriate to withdraw from engagement, where withdrawal from engagement is legally permitted. Therefore, auditor in such scenario can withdraw only when it is legally permitted.
19.	SA 620 (Auditor's expert) & SA 500 (Management Expert)	As per SA 620 auditor may involve his own expert for purpose of audit of fair valuation of forward contracts & property, plant & equipment. However as per SA 500 & SA <b>620 auditor cannot reduce his responsibility for audit opinion by referring to work of VALUER in his report.</b>
20.	SA 580	As per SA 580, auditor shall obtain an understanding of related party relationships & transaction sufficient to be able to recognize fraud risk factor arising from related party relationships & transaction that are relevant to identification & assessment of RMM due to fraud & to conclude whether financial statement in so far as they are affected by those relationship & transaction achieve true & fair presentation or are not misleading. Date of WR should be as near as to the date of auditor's report.

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21.	Section 7 ,  CA Act 1949	Chartered Accountant or firm of Chartered Accountants acting as Advisor or Consultant to the Issue could be indicated under the caption <b>“Advisor/Consultant to the Issue”</b> . However, the name and address of such Chartered Accountant/firm of Chartered Accountants should not appear prominently.
22.	First Schedule First Part Clause 3	<b>Referral fees amongst members:</b> It is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him.
23.	First Schedule First Part Clause 8	“sick unit” shall mean a unit registered <b>for not less than five years</b> , which has at the end of any financial year <b>accumulated losses equal to or exceeding its entire net worth</b> .
24.	Chapter VIII Specified number of audit assignments Council General Guidelines 2008	<b>30 Audit assignments</b> whether in respect of private Companies or other Companies, <b>with the exception of one person Companies and dormant companies</b> .
25.	Chapter X Appointment of an auditor when he is indebted to a concern. Council General Guidelines 2008	Limits fixed in the statute (₹ 5,00,000 in Section 141 Companies Act, 2013 ) and in other cases for amount <b>exceeding ₹ 100,000/-</b> Note: Earlier the limit was ₹ 10,000
26.	Chapter XIV Unique Document Identification Number (UDIN) Guidelines	UDIN applicable for: <ul style="list-style-type: none"> <li>For all Certificates w.e.f. 1st February, 2019.</li> <li>For all GST and Tax Audit Reports w.e.f. 1st April, 2019.</li> <li>For all other Audit, Assurance and Attestation functions w.e.f. 1st July, 2019.</li> </ul>
27.	Chapter XVII Guidelines for Corporate Form of Practice	On abundant caution, it may be clarified <b>that no audit practice can be done in Corporate Form</b> . The consultancy practice hitherto done in Individual or Firm Status alone is now intended to be permitted in Corporate Form also.
28.	Scope of Peer Review	<b>Preceding three years</b>
29.	Periodicity of Peer Review	The Periodicity of Peer Review will be: <ul style="list-style-type: none"> <li>(a) Level - I Practice Units – Once in 3 years.</li> <li>(b) Level - II Practice Units – Once in 4 years</li> </ul>

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30.	Peer Review Visits	Peer Review visits will be conducted at the Practice Unit's head office or /and branch(es) or any other locations. This on-site Review should <b>not extend beyond seven to fifteen working days</b> based on the size of the Practice Unit.
31.	Quality review exclusions	(i) Review of internal audit, tax audit, GST audit and other such special purpose audits conducted by the members of the Institute which may be covered by the Board at a later stage or unless otherwise specified; and  (ii) Review of services provided by the members of the Institute in employment.
32.	Quality Review Cycle	<ul style="list-style-type: none"> <li>• <b>Once in 3 years</b> for Audit firms having <b>20 or more Partners</b></li> <li>• <b>Once in 4 years</b> for Audit firms having <b>10 or more but less than 20 Partners</b></li> <li>• <b>Once in 5 years</b> for Audit firms having <b>less than 10 Partners.</b></li> </ul>
33.	Dividend Note	The dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. <b>Such dividends are disclosed in the notes.</b>
34.	AUDIT BY THE TAX AUTHORITIES UNDER SECTION 65 (Routine Audit)	<ol style="list-style-type: none"> <li>1. <b>Notice for audit by Tax Authorities</b>- Notice served to registered person for at least 15 working days.(Form GSTADT- 01)</li> <li>2. <b>Completion time of audit</b>- 3 months + extended by Commissioner for 6 months.</li> <li>3. Findings to be Communicated to Registered Person- <b>within 30 days</b> of conclusion of audit (<b>FORM GST ADT-02</b> )</li> </ol>
35.	GST Audit Limit	If aggregate turnover <b>exceeds 2 Crores</b>
36.	Tax Audit Section 44AB	Limit- if <b>total sales, turnover or gross receipts, exceeds ₹ 1 crore, however w.e.f. AY 2020-2021, limit is 5 crores</b> where case transactions doesn't exceed 5% of total receipt or payment.
37.	Internal Audit	Reporting to be done on <b>quarterly basis</b> to audit committee.
38.	Regulation 36 LODR	<p>All listed entities/material subsidiaries while appointing/re-appointing an auditor shall ensure compliance with:</p> <ol style="list-style-type: none"> <li>1. <b>If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.</b></li> <li>2. If the auditor resigns <b>after 45 days from the end of a quarter of a financial year</b>, then the auditor shall, before such resignation, <b>issue the limited review/ audit report for such quarter as well as the</b></li> </ol>



		<p>next quarter.</p> <p>3. if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, <b>issue the limited review/ audit report for the last quarter</b> of such financial year as well as the audit report for such financial year.</p>
39.	Bank Audit	<ol style="list-style-type: none"> <li>1. Section 9 Holding of immovable property – 7 years from date of acquisition.</li> <li>2. Long Form Audit Report (LFAR)- Due date is 30<sup>th</sup> June every year.</li> </ol>
40.	Audit of Insurance Company	<ol style="list-style-type: none"> <li>1. Minimum paid-up capital of Indian insurance company- ₹ 100 Crores</li> <li>2. Unexpired risk reserve- Fire and Miscellaneous Business (50 % of net premium) and Marine Insurance – 100% of net premium income</li> <li>3. Solvency Margin (Section 64VA) – 50 % of the Paid-up capital</li> </ol>
41.	NBFCs	<ol style="list-style-type: none"> <li>1. Company will be treated as NBFC if its financial assets is more than 50% of the total assets (netted off by the intangible assets) and income from financial assets is more than 50 % of gross income. Both criteria must be fulfilled.</li> <li>2. Minimum net owned Funds of NBFCs- ₹ 2 crores</li> <li>3. Minimum Capital Adequacy Ratio – 15%</li> <li>4. NPA norms- remains overdue for a period of <b>6 months or more</b> (in case lease rental ,hire purchase installment NBFC non-deposit taking -period is 12 months or more &amp; for deposit taking period is 3 months or more w.e.f. 31/03/2018)</li> </ol>
42.	PSU Audit	C&AG term- 6 years or up to age of 65 years whichever is earlier. Resignation submitted to President.
43.	Section 132	NRFA-2 Return due date- 30 <sup>th</sup> November every year
44.	Section 124 (Dividend)	Dividend unpaid/unclaimed must be transferred to Unpaid Dividend account within 7 days from expiry of 30 days if not paid within 30 days from date of declaration, Interest on late transfer 12%
45.	LLP Audit	<ol style="list-style-type: none"> <li>1. Limit- If Turnover exceeds ₹ 40 Lacs or whose contribution exceeds ₹ 25 Lacs.</li> <li>2. Annual Return in Form 11 – submitted to ROC within 60 days of closure of FY.</li> </ol>
46.	Cost Audit	<ol style="list-style-type: none"> <li>1. <b>Rule 3 -Cost Records</b> – having turnover equal to or more than <b>₹ 35 Crores</b> during immediately preceding</li> </ol>



		<p>FY</p> <p>2. Rule 4- Cost Audit</p> <p>If <b>overall annual turnover</b> from all products and services in immediately preceding FY in case of –</p> <p>Regulated sector – equal to or more than 50 cr. Non-regulated sector- equal to or more than 100 cr.</p> <p style="text-align: center;"><b>AND</b></p> <p style="text-align: center;"><b>Aggregate turnover of individual product or service-</b></p> <p>Regulated sector – equal to or more than 25 cr. Non-regulated sector- equal to or more than 35 cr.</p> <p>3. <b>Exemption Rule 4(3)</b>-whose revenue from exports in foreign exchange exceeds 75% of its total revenue. or which is operating in SEZ or engaged in generation of electricity for captive consumption.</p> <p>4. <b>Cost auditor appointment</b>- Statutory auditor can't be cost auditor. Cost Auditor shall be appointed <b>within 180 days of commencement of every FY.</b></p>
47.	<b>No. of tax audit assignments</b>	As per council general guidelines 2008, member of institute in practice cannot accept, in a FY more than 60 tax audit assignments u/s 44AB if IT Act 1961 & in case of firm of CA in practice specified number of tax audit assignment shall be constructed specified number of tax audit assignment for each partner of firm.
48.	<b>CARO 2016</b>	As per CARO, 2016 CARO is not applicable to a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital & reserves & surplus not more than rupees 1 crore as on balance sheet date & which does not have total borrowings exceeding rupees 1 crore from any bank or financial institution at any point of time during financial year & which does not have a total revenue as disclosed in Schedule III to Co Act, 2013 (including revenue from discontinuing operations) exceeding rupees 10 Crore during financial year as per financial statement.
49.	Section 141 (3)(g)	As per section 141(3)(g) following persons shall not be eligible for appointment as an auditor of a company - a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at date of such appointment or reappointment holding appointment as auditor of more than

		twenty companies other than one person companies, dormant companies, small companies & private companies having paid-up share capital less than one hundred crore rupee.
50.	<b>IND-AS 8</b>	As per Ind AS – 8, Method of Depreciation is an accounting estimate & not an Accounting Policy. In consolidation we are required to consolidate by harmonizing accounting policies not accounting estimates. <b>Hence, no adjustment is required as there can be different methods of calculation of depreciation for its assets for group companies.</b>
51.	Form 3CA ,3CB	As per Rule 6G of Income Tax Act, Form 3CA is required in case of a person who carries on business or profession & who is required by or under any other law to get his accounts audited. Form 3CB is required in case other than case covered by Form 3CA.

**\*\*\*ALL THE BEST FOR EXAMINATIONS\*\*\***