

# Interview **PREPARATIONS** BOOKLET (For classroom Discussion)

## Statutory Audit Interview Question Booklet for CA Freshers

*This is a comprehensive Interview Preparations Booklet by CAMPREP. This Booklet covers multiple frequently asked questions in Interviews in the past. This Booklet should be used along with Class Lectures.*

# Audit Firms

## About Statutory Audit Interviews

# Important Topics

- Audit Assertions
- CARO (6-8 points) and CARO 2020
- Various Audit Opinion-
- Materiality- SA 320-
- Going Concern –
- Fraud Reporting-
- CSR –
- Section 185-186 –
- Audit Procedures –
- Sampling technique
- Type of risk-
- Key Audit Matters –
- Internal Financial Controls –

# How to Plan / start an audit?

- Refer previous Audit report
- Internal audit report
- Board Meeting Minutes
- Trend analysis through Trial Balance scrutiny
- Checking Opening Balances
- Setting materiality level
- Understanding Business & Industry

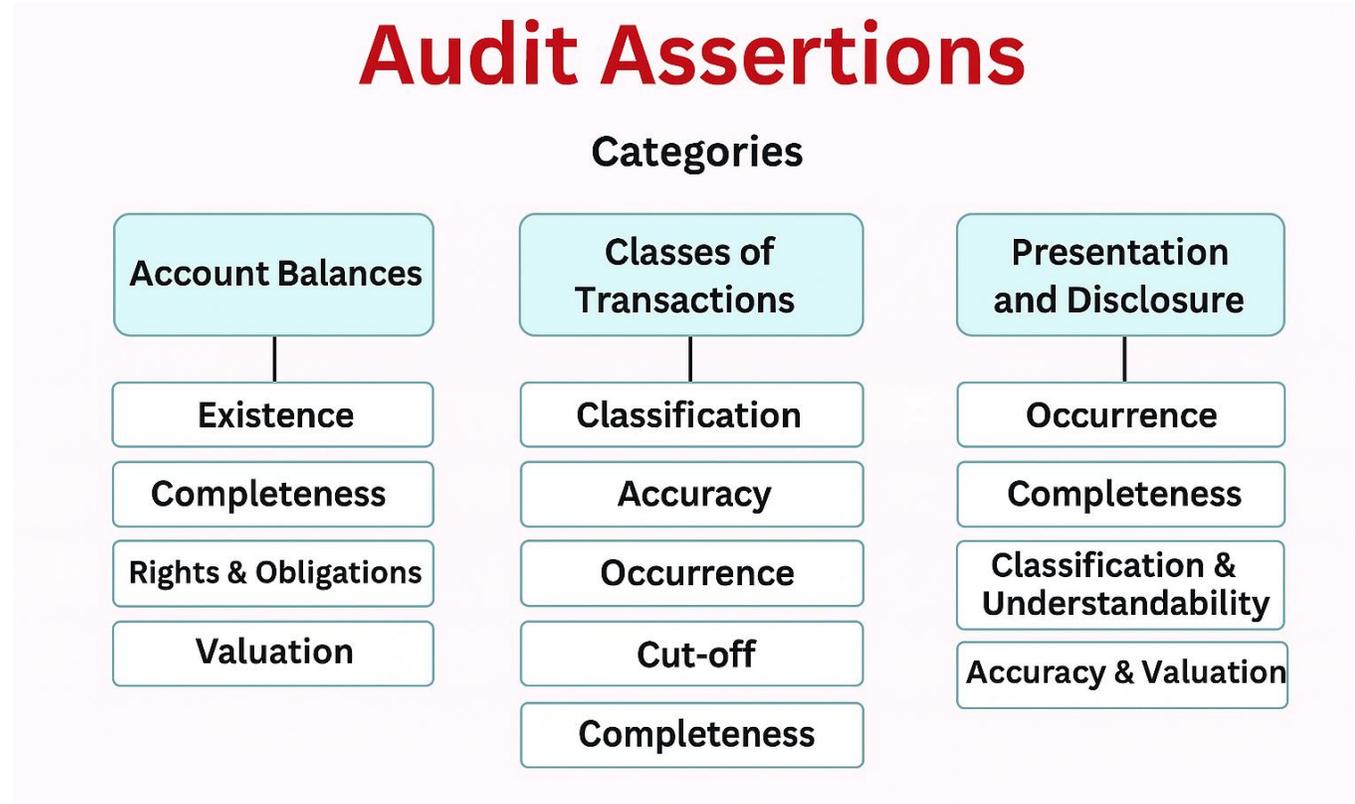


# Walkthrough of the Audit lifecycle.

Step No.	Audit Stage	Key Activities / Description
1	Engagement Acceptance & Planning	Evaluate client integrity, independence, and competence; define audit objectives, scope, and timelines.
2	Understanding Business & Internal Controls	Study the entity's operations, accounting systems, and internal control environment.
3	Risk Assessment & Materiality	Identify areas of high risk; determine performance and overall materiality thresholds.
4	Audit Plan & Strategy	Design overall audit approach, nature, timing, and extent of audit procedures.
5	Execution / Fieldwork	Perform tests of controls and substantive procedures to collect sufficient and appropriate evidence.
6	Evaluation of Results & Management Representations	Analyze findings, discuss with management, and obtain management representation letter.
7	Forming Audit Opinion & Reporting	Conclude on financial statement fairness, issue audit report, and communicate key audit findings to management.

# What are Audit assertions?

Assertion is a claim made by someone about something. In this case audit assertion means a claim made by the company, verified by the auditor.



# Revenue Audit assertions

# Revenue Audit Assertions Table



Audit Assertion	Meaning (Definition)	Example (Audit Focus)	Possible Misstatement	Audit Evidence Procedures
<b>Occurrence / Existence</b>	Revenue transactions recorded actually occurred and pertain to the entity.	Sales invoices recorded during the year represent genuine sales made to real customers.	Recording fictitious sales or inflating revenue.	<ul style="list-style-type: none"> <li>- Verify invoices with dispatch documents and customer purchase orders.</li> <li>- Confirm balances with customers (debtors' confirmation).</li> <li>- Review credit notes issued post year-end.</li> </ul>
<b>Completeness</b>	All revenue transactions that occurred have been recorded.	Ensuring all shipments or services performed have been billed and recorded.	Unrecorded sales or omitted invoices to understate revenue.	<ul style="list-style-type: none"> <li>- Reconcile sales invoices with dispatch logs and shipping documents.</li> <li>- Trace delivery notes to sales invoices.</li> <li>- Review cut-off transactions around year-end.</li> </ul>
<b>Accuracy</b>	Amounts recorded for revenue are accurate and correctly calculated.	Sales recorded at correct prices and quantities.	Incorrect invoicing due to pricing or quantity errors.	<ul style="list-style-type: none"> <li>- Re-calculate invoice totals.</li> <li>- Agree unit prices with approved price lists or contracts.</li> <li>- Check arithmetic accuracy of sales entries.</li> </ul>

# Revenue Audit Assertions

Audit Assertion	Meaning (Definition)	Example (Audit Focus)	Possible Misstatement	Audit Evidence / Procedures
<b>Cut-off</b>	Revenue is recorded in the correct accounting period.	Sales made before year-end should be recorded in the same period.	Recording sales in wrong period (either premature or delayed).	- Review invoices and shipping documents near year-end.- Match dispatch and invoice dates.- Test post-year-end sales for proper timing.
<b>Classification</b>	Revenue is recorded in the proper accounts and categories.	Distinguishing between product sales, service income, and other income.	Misclassification of revenue types or incorrect GL postings.	- Review chart of accounts and account coding.- Check sample invoices for proper classification.- Review adjusting journal entries.
<b>Presentation &amp; Disclosure</b>	Revenue is properly presented in financial statements with adequate disclosures.	Disclosure of revenue recognition policy in notes to accounts.	Incomplete or misleading disclosure of revenue policies or significant contracts.	- Verify compliance with Ind AS 115 / IFRS 15.- Review notes to accounts and accounting policies.- Check for segmental disclosure consistency.

Among these assertions, the occurrence may be the most important assertion as material misstatement of revenue usually because of overstatement rather than understatement.



# Audit

# Revenue Audit

# FA Audit assertions

# Fixed Assets Audit Assertions

Audit Assertion	Meaning (Definition)	Example (Audit Focus)	Possible Misstatement	Audit Evidence / Audit Procedures
Existence	Fixed assets recorded in the books physically exist as of the balance sheet date.	Verifying machinery, buildings, vehicles, etc. are physically present.	Assets recorded but do not exist (e.g., scrapped or sold assets not removed).	- Conduct physical verification of assets.- Inspect asset tags and compare with fixed asset register.- Review disposal records for sold/scrapped assets.
Completeness	All assets owned by the entity are recorded in the books.	Ensuring newly acquired or internally developed assets are included.	Unrecorded assets (e.g., constructed assets not capitalized).	- Review purchase invoices and capital work-in-progress (CWIP) records.- Inspect site for unrecorded installations.- Verify capitalization of expenses post completion.
Rights & Obligations	The entity has ownership rights or control over the recorded assets.	Verifying ownership of land, building, or leased equipment.	Assets recorded that are not owned (e.g., leased or on hire).	- Examine title deeds, registration documents, or lease agreements.- Review insurance policies showing ownership.- Verify loan hypothecation schedules.
Valuation / Measurement	Assets are recorded at correct cost and depreciation is appropriately calculated.	Ensuring capitalization at cost and applying correct depreciation rates.	Incorrect capitalization, wrong useful life, or over/under depreciation.	- Review invoices and supporting documents for acquisition cost.- Check depreciation calculations and useful life as per schedule.- Test revaluation entries or impairment calculations.

# Fixed Assets Audit Assertions Table



Audit Assertion	Meaning (Definition)	Example (Audit Focus)	Possible Misstatement	Audit Evidence / Audit Procedures
<b>Cut-off</b>	Fixed asset transactions are recorded in the correct accounting period.	Ensuring acquisitions and disposals are recognized in the correct year.	Capitalization or disposal recorded in wrong period.	- Verify dates on purchase invoices and disposal documents.- Review year-end CWIP to ensure correct transfer.- Inspect GRNs and capitalization memos near year-end.
<b>Classification</b>	Assets are recorded in appropriate categories (e.g., plant, building, furniture).	Segregation between fixed assets, CWIP, and repairs.	Misclassification between fixed assets and expenses or between categories.	- Review nature of expenditure and capitalization policy.- Examine large repairs to see if capital in nature.- Check GL account mapping for fixed asset classes.
<b>Presentation &amp; Disclosure</b>	Fixed assets are properly presented and disclosed in financial statements as per applicable standards.  <a href="https://camprep.com/CA/comprehensive.php">https://camprep.com/CA/comprehensive.php</a>	Ensuring proper disclosure of gross block, accumulated depreciation, and CWIP.	Incomplete or incorrect disclosure of asset movements or revaluation.	- Verify fixed asset schedule as per Ind AS 16 / AS 10.- Review note disclosures (useful life, depreciation methods, revaluation reserve).- Reconcile asset register with financial statements.

# CARO

# Applicability

Category	Applicability of CARO 2020	Key Conditions / Thresholds	Remarks / Examples
All Companies (default rule)	<input checked="" type="checkbox"/> Applicable	Applies to all companies registered under the Companies Act 2013 or earlier Acts	Every company unless specifically exempted below
Small Companies	<input checked="" type="checkbox"/> Not Applicable	Paid-up capital $\leq$ ₹4 crore and Turnover $\leq$ ₹40 crore (as per latest amendment)	Both conditions must be satisfied
Private Companies	<input checked="" type="checkbox"/> Applicable unless exempt	Exempt if all below are satisfied: ① Not a subsidiary/associate/holding of a public company ② Paid-up capital + reserves & surplus $\leq$ ₹1 crore ③ Total borrowings $\leq$ ₹1 crore at any point during FY ④ Total revenue $\leq$ ₹10 crore during FY	If any one of the above limits is breached $\rightarrow$ CARO applies
Foreign Companies	<input checked="" type="checkbox"/> Applicable (if registered in India)	Section 2(42) — foreign company having place of business in India	CARO applies to its Indian operations
Government Companies	<input checked="" type="checkbox"/> Applicable	Except those engaged in defense production (as per MCA notification)	e.g., ONGC – Yes; Hindustan Aeronautics – No (Defense)

# Summary of all 21 clauses

Clause No.	Particulars	Key Points to be Reported by Auditor
<b>1. Property, Plant &amp; Equipment (PPE) and Intangible Assets</b>	Verify proper maintenance of records, physical verification, title deeds, revaluation, and Benami properties	Auditor reports on ownership, verification, and any Benami proceedings
<b>2. Inventory &amp; Working Capital</b>	Physical verification of inventory and working capital limits sanctioned from banks	Report material discrepancies and consistency with books
<b>3. Investments, Guarantees, Loans &amp; Advances</b>	Whether loans, guarantees, or advances given to companies, firms, LLPs, or others are proper	Terms of loans, repayment schedule, overdue amounts, and renewed loans
<b>4. Compliance with Section 185 &amp; 186</b>	Loans, investments, guarantees, and securities made in compliance with the Act	Confirm compliance with legal limits and board approvals
<b>5. Deposits</b>	Whether company accepted deposits under sections 73 to 76	Compliance with provisions and any contraventions
<b>6. Cost Records</b>	Maintenance of cost records under Section 148(1)	Verify whether prescribed cost records are maintained properly
<b>7. Statutory Dues</b>	Regular deposit of statutory dues (GST, PF, ESI, Income Tax, etc.)	Report arrears, disputes, and delays exceeding 6 months
<b>8. Unrecorded Income</b>	Disclosure of unrecorded income in tax assessments	Whether such income has been recorded in books later
<b>9. Borrowings</b>	Default in repayment of loans or borrowings	Nature of default, lender name, period, and amount
<b>10. Utilisation of Funds &amp; Pledge of Securities</b>	End use of loans and funds raised	Loans used for purpose obtained, and whether subsidiaries used borrowed funds
<b>11. Public Offer / Preferential Allotment</b>	Use of money from IPO, FPO, or private placement <a href="https://camprep.com/CA/comprehensive-pla">https://camprep.com/CA/comprehensive-pla</a>	Whether applied for stated purpose and compliance with Section 42 & 62

# Summary of all 21 clauses

Clause No.	Particulars	Key Points to be Reported by Auditor
<b>11. Public Offer / Preferential Allotment</b>	Use of money from IPO, FPO, or private placement	Whether applied for stated purpose and compliance with Section 42 & 62
<b>12. Fraud Reporting</b>	Whether any fraud noticed or reported	Nature, amount, and involvement of management or employees
<b>13. Nidhi Companies</b>	Compliance by Nidhi company with deposit rules	Check net owned funds, ratio, and default in repayment
<b>14. Related Party Transactions</b>	Compliance with Sections 177 and 188	Whether properly disclosed and approved by audit committee
<b>15. Internal Audit System</b>	Whether an internal audit system exists and reports considered	Check adequacy and whether findings were considered
<b>16. Non-Cash Transactions with Directors</b>	Prohibition under Section 192	Whether any non-cash transactions with directors occurred
<b>17. Registration under RBI Act</b>	Whether company is NBFC or required to register under Section 45-IA	Also whether it conducts housing finance or CIC business
<b>18. Cash Losses</b>	Whether company incurred cash losses in current or previous year	Specify the amount and period
<b>19. Auditor Resignation</b>	Whether auditor resigned and issues raised	Check if reasons were properly considered by management
<b>20. Financial Position &amp; Liquidity</b>	Company's ability to meet liabilities	Comment if indicators suggest doubt on going concern
<b>21. Corporate Social Responsibility (CSR)</b>	Compliance with Section 135 (CSR obligations) <a href="https://camprep.com/CA/comprehensive.php">https://camprep.com/CA/comprehensive.php</a>	Unspent amount transfer to fund or separate account within due time

# 6 important clauses frequently asked



Clause No.	Topic	What Auditor Needs to Check	Explanation	Example / Illustration
1	<b>Property, Plant &amp; Equipment (PPE) &amp; Intangible Assets</b>	<ul style="list-style-type: none"> <li>- Proper maintenance of fixed asset register</li> <li>- Physical verification done and frequency</li> <li>- Ownership documents (title deeds)</li> <li>- Revaluation done properly</li> <li>- Any Benami property held</li> </ul>	This clause ensures that the company actually owns and maintains records of its fixed assets and doesn't hide illegal (Benami) properties.	If a company shows ₹10 crore of machinery, auditor checks the register, invoices, and physically verifies it at site.
2	<b>Inventory &amp; Working Capital</b>	<ul style="list-style-type: none"> <li>- Inventory physically verified by management</li> <li>- Frequency and method of verification</li> <li>- Material discrepancies reported</li> <li>- If working capital limits &gt; ₹5 crore, verify whether statements to banks agree with books</li> </ul>	The auditor checks if stock records match reality and that banks are not misled by inflated stock statements.	A company showing ₹2 crore stock to bank must match its accounting records — else auditor reports discrepancy.
3	<b>Loans, Investments, Guarantees &amp; Advances</b>	<ul style="list-style-type: none"> <li>- Whether loans or guarantees are given to any party</li> <li>- Terms are not prejudicial to company</li> <li>- Repayment schedule and overdue loans</li> <li>- Loans renewed or rolled over</li> <li>- Whether loans repayable on demand given</li> </ul>	This clause checks if the company lends money responsibly and doesn't misuse funds through related or risky loans.	If a company lends ₹50 lakh to a sister concern without interest — auditor questions its fairness.
4	<b>Compliance with Sections 185 &amp; 186 (Companies Act)</b>	<ul style="list-style-type: none"> <li>- Loans to directors and related parties (Sec 185)</li> <li>- Loans/investments beyond limits need approval (Sec 186)</li> <li>- Auditor reports non-compliance if any</li> </ul>	This ensures that directors don't misuse company funds for personal benefit and investment limits are legally followed.	If a director takes loan from company for personal use — auditor reports non-compliance.
12	<b>Fraud Reporting</b>	<ul style="list-style-type: none"> <li>- Any fraud noticed or reported during the year</li> <li>- Amount involved and who was involved</li> <li>- Whether any report under Sec 143(12) was filed</li> <li>- Whistleblower complaints considered</li> </ul>	Auditor must report frauds honestly, even if done by employees or management. Transparency builds trust.	If cashier embezzles ₹10 lakh and management hides it — auditor must report under this clause.
14	<b>Related Party Transactions</b>	<ul style="list-style-type: none"> <li>- Compliance with Sec 177 &amp; 188</li> <li>- Proper approval by Audit Committee / Board</li> <li>- Proper disclosure in financial statements</li> </ul>	This clause ensures fair dealings between company and related parties — no undue advantage to relatives or directors.	If company buys goods from director's firm — auditor checks if it was approved and at market price.
21	<b>Corporate Social Responsibility (CSR)</b>	<ul style="list-style-type: none"> <li>- Whether company spent prescribed CSR amount</li> <li>- Unspent CSR (Ongoing project → separate account; Others → transfer to fund within 6 months)</li> <li>- Check Sec 135 compliance</li> </ul>	Ensures that eligible companies actually spend on CSR and unspent funds are transferred as per law.	

# Types of Audit Reports

## A) Unmodified Reports

Reports issued when auditor concludes that financial statements are prepared, in all material respects, in accordance with applicable financial reporting framework.

## B) Modified Reports

### a) Unmodified opinion

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### b) Modified opinion

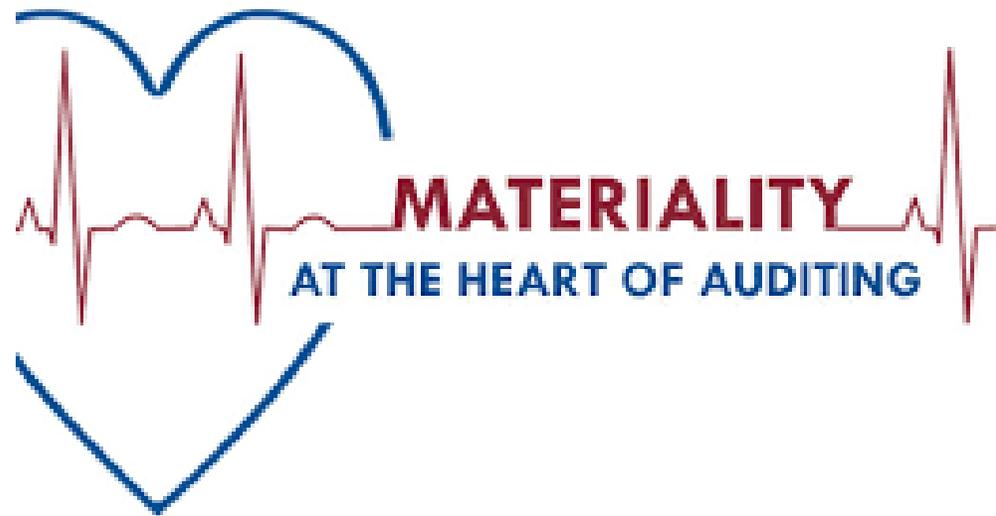
Qualified

Adverse

Disclaimer

# Application Matrix for a modified Audit Report

Nature of matter giving rise to modification	Auditor's judgment about the Materiality and Pervasiveness of the Effects or Possible Effects on the financial statements	
	Material but Not Pervasive	Material and Pervasive
Financial Statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion



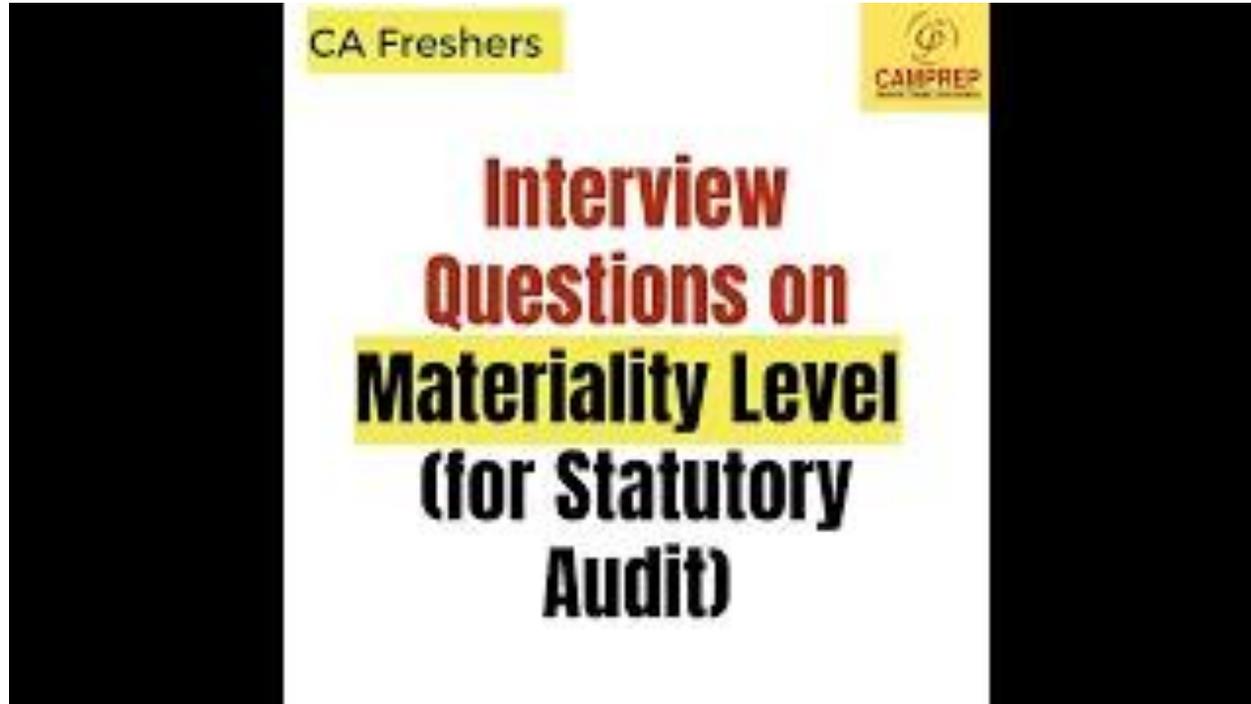
- **1** Question: What is “Materiality” in auditing?
- **Answer:**  
Materiality refers to the **magnitude of an omission or misstatement** in the financial statements that could **influence the economic decisions** of users taken on the basis of those statements.
- It’s both **quantitative and qualitative** in nature.
- The auditor uses materiality to plan the audit, determine the nature, timing, and extent of audit procedures, and evaluate the effect of misstatements.  
▣ *SA 320 – Materiality in Planning and Performing an Audit* defines and governs this concept.
- **Example:**  
If total assets are ₹100 crore, and a misstatement of ₹5 lakh won’t impact user decisions, it’s immaterial. But a ₹5 lakh director fraud could still be *material* qualitatively.



# Factors Determining Materiality Level

Category	Specific Factors	Explanation / Practical Example
1) Nature & Size of Entity	- Turnover, Total Assets, Net Worth, Profitability	Large listed company → higher benchmark base (e.g., % of PBT). Small firm → smaller threshold.
2) Nature of Business / Industry Risk	- Stable vs. volatile industries- Regulated industries (e.g., banking, insurance)	In highly regulated sectors, even small deviations (like compliance lapses) are material. For stable businesses, tolerance level can be slightly higher.
3) Users of Financial Statements	- Type of stakeholders (investors, lenders, govt.)- Purpose of financials	For listed entities (public reliance high) → lower materiality. For private owner-managed firms → higher threshold may be acceptable.
4) Special transactions like Merger, acquisition etc.		
5) Presence of Internal Auditor and its report		
6) Volatility of Financial Results	- Consistency of earnings year to year	If earnings fluctuate, profit-based benchmarks are unreliable → may shift to turnover or total assets as base.
7) Financial Health / Risk of Misstatement	- Presence of losses, weak internal control, prior qualifications	In risky audits, auditor sets lower materiality (tightens testing).
8) Legal / Regulatory Sensitivity	- Statutory compliance, SEBI, RBI, FEMA, Companies Act	Even small non-compliances (like CSR disclosure or related party errors) can be qualitatively material.
9) Stage of Company's Lifecycle	- Startup vs. established company	For startups, even small errors can distort user view → lower materiality. Mature companies → higher threshold possible.
10) Qualitative Considerations	- Misstatements turning profit into loss- Non-disclosure of fraud or director-related issues	These are material by nature, not size — even ₹1 lakh fraud may demand disclosure.

# Practical ques on Materiality



<https://youtu.be/ukl6ndCxWS4>

WATCH THE VIDEO HERE



<https://camprep.com/CA/comprehensive.php>

# Relationship Between Audit Risk and Materiality

**Materiality** is about *“how big an error matters.”*

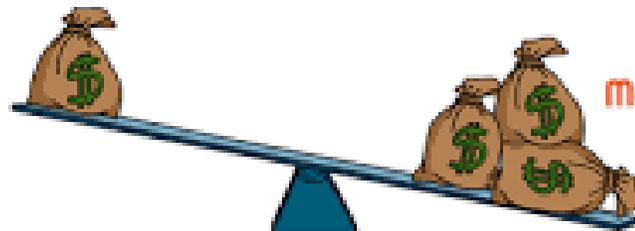
**Audit Risk** is about *“how likely we are to miss that error.”*

So, when an auditor sets a **lower materiality** (small errors matter), the **audit risk tolerance must also be low**, meaning the auditor performs **more detailed procedures** to detect smaller misstatements.

## Audit Risk & Materiality: Inverse Relationship

Audit risk will have an inverse relationship with materiality. The more material certain components of a company's financial statements are, the lesser the amount of audit risk the auditor will be willing to accept.

**Audit Risk**



**Materiality**

# Performance Materiality

“Performance materiality is a cushion set below overall materiality — it ensures that even if several small misstatements remain undetected, the financial statements as a whole will still not be materially misstated.”

Think of:

**Overall Materiality** = “Ceiling”

**Performance Materiality** = “Safety Net” below the ceiling

**Overall Materiality** → set at the **financial statements**  
(aggregate) level

**Performance Materiality** → applied to **individual account**  
balances, classes of transactions, and disclosures

## Use of Benchmark in determining materiality for the financial statement as a whole

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- Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining for the financial statement as a whole.
- Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value.

# Going Concern- SA 570

Risk Assessment Procedures and Related Activities Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern



# Going concern contd. - Indicators

## **Financial**

Net liability or net current liability position.

☒ Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. Indications of withdrawal of financial support by creditors.

☒ Negative operating cash flows indicated by historical or prospective financial statements. ☒ Adverse key financial ratios.

☒ Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. ☒ Arrears or discontinuance of dividends. ☒ Inability to pay creditors on due dates.

☒ Inability to comply with the terms of loan agreements.

☒ Change from credit to cash-on-delivery transactions with suppliers. ☒ Inability to obtain financing for essential new product development or other essential investments.

## **Operating**

☒ Management intentions to liquidate the entity or to cease operations.

☒ Loss of key management without replacement.

☒ Loss of a major market, key customer(s), franchise, license, or principal supplier(s).

☒ Labor difficulties.

☒ Shortages of important supplies.

☒ Emergence of a highly successful competitor. <https://camprep.com/CA/comprehensive.php>

# Going concern contd. - Indicators

## Other

- ❑ Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- ❑ Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- ❑ Changes in law or regulation or government policy expected to adversely affect the entity.
- ❑ Uninsured or underinsured catastrophes when they occur.

# Fraud reporting – (Keep in mind 143(12), CARO & SA240)

## Overview of reporting obligations

The auditor must report a fraudulent act committed by the company's officers or employees based on the amount of fraud involved.

### Frauds of ₹1 crore or more

For fraud involving one crore rupees or more, the auditor must inform the Board or Audit Committee within two days. The auditor must request a response from them within 45 days. Subsequently, the auditor must forward their report, along with the Board/Committee's response and their comments, to the Central Government within 15 days of receiving the response. If no response is received within 45 days, the auditor must still submit their report to the Central Government, noting the lack of reply.

### Frauds involving less than ₹1 crore

For frauds involving less than one crore rupees, the auditor must report the matter to the Board or Audit Committee within two days. The Board of Directors must then disclose the details of the fraud in its report.

# Fraud reporting contd. - CARO

The auditor is required to report **whether any fraud by the company or on the company** has been noticed or reported during the year.

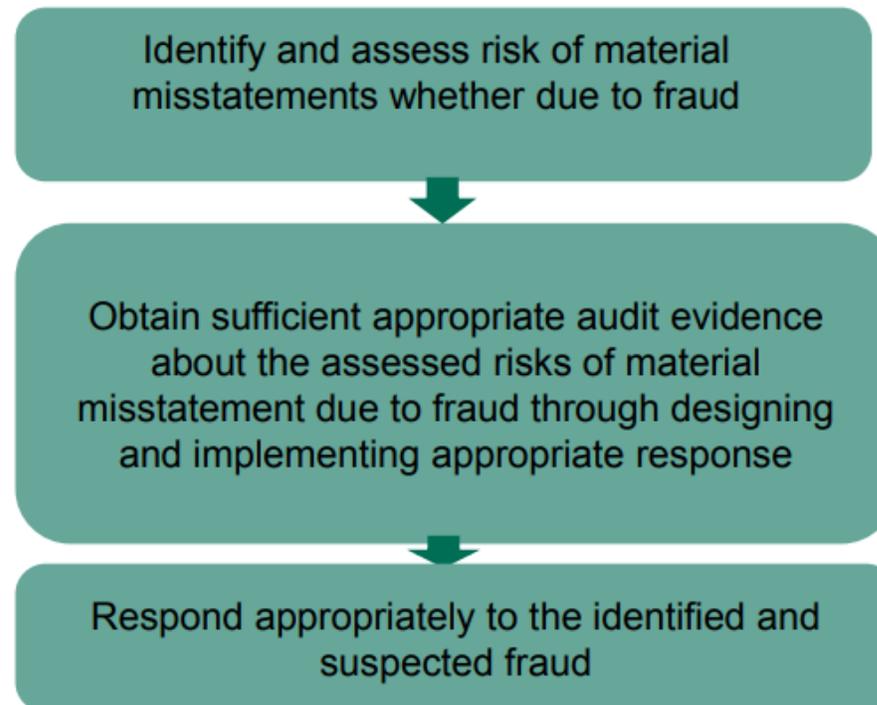
If yes, the **nature and amount** involved in such fraud must be indicated.

Requirement	Explanation	Example for Understanding
① Fraud “by the company”	Fraud committed by employees or management against others.	Example: Manipulating sales to inflate revenue.
② Fraud “on the company”	Fraud committed by outsiders or employees against the company.	Example: Cash embezzlement or fake vendor payments.
③ Reporting requirement	Auditor must state: <ul style="list-style-type: none"> <li>– Whether any fraud was noticed or reported</li> <li>– The nature of the fraud</li> <li>– The amount involved</li> </ul>	Example: “Fraud of ₹25 lakh by an employee through fake invoices was reported.”

□ Rule 13 — Prescribes Reporting Procedure

# Fraud Reporting – SA 240

## Overview – Objective (SA 240)



# CSR

- **Section 135(1)** The constitution of CSR committee is mandatory in company having:
  - Net Worth of Rs. 500 Crore
  - Turnover of Rs. 1000 Crore
  - Net Profit of Rs. 5 Croreduring *any financial year*.

## 1 What Interviewers Want to Test

They are checking whether you understand:

- The **basic provisions of CSR under Section 135 of the Companies Act, 2013**
- The **auditor's role** regarding CSR expenditure and disclosure
- The **CARO reporting clause** related to CSR (Clause 20 of CARO 2020)

So your answer should show both **law awareness + audit perspective**.

## 2 Suggested Interview Answer (Simple & Impressive)

The company is required to spend at least 2% of its average net profits of the last three financial years on CSR activities and disclose details in the Board's report.

From an auditor's point of view, our responsibility is not to express an opinion on whether CSR activities were appropriate, but to **verify whether the company has complied with the disclosure and transfer requirements.**

Under **Clause 20 of CARO 2020**, we need to report whether the company has:

- Transferred any unspent CSR amount related to *ongoing projects* to a special bank account within 30 days of the financial year end, and
- Transferred any unspent amount *not relating to ongoing projects* to the **PM National Relief Fund or specified fund** within 6 months.

If the company has not done so, we must report the fact and the amount involved.”

Provision	Key Point
Section 135(5)	Mandatory 2% CSR spending
Section 135(6)	Unspent CSR amount (other than ongoing projects) → transfer to fund specified in Schedule VII within 6 months
Rule 10 of CSR Rules	Reporting and disclosure in Board's report
CARO 2020 – Clause 20	Auditor must report compliance with Section 135(5) & (6) and transfer of unspent amount

# Section 185 and 186 ( Loan to Director and to Body Corporate)



# 1 What Interviewers Want

They're checking if you know:

- The **difference between Section 185 and 186**,
- When loans/investments/guarantees** are allowed or restricted, and
- Auditor's reporting responsibility under CARO Clause 4.**

## 2 Step-by-Step Interview Answer

**Section 185** specifically restricts giving loans or guarantees **to directors or entities in which directors are interested**, to avoid misuse of company funds.

Direct loans to directors are **generally prohibited**, except for certain exemptions such as loans to:

- Managing or Whole-time Director as part of service conditions, or
- Company providing loan in the **ordinary course of business** like NBFCs, where interest is charged at a rate not less than government security yield.

**Section 186**, on the other hand, allows a company to **give loans, guarantees, or make investments** in other body corporates, but **subject to limits** — generally up to **60% of paid-up share capital, free reserves, and securities premium**, or **100% of free reserves and securities premium**, whichever is higher.

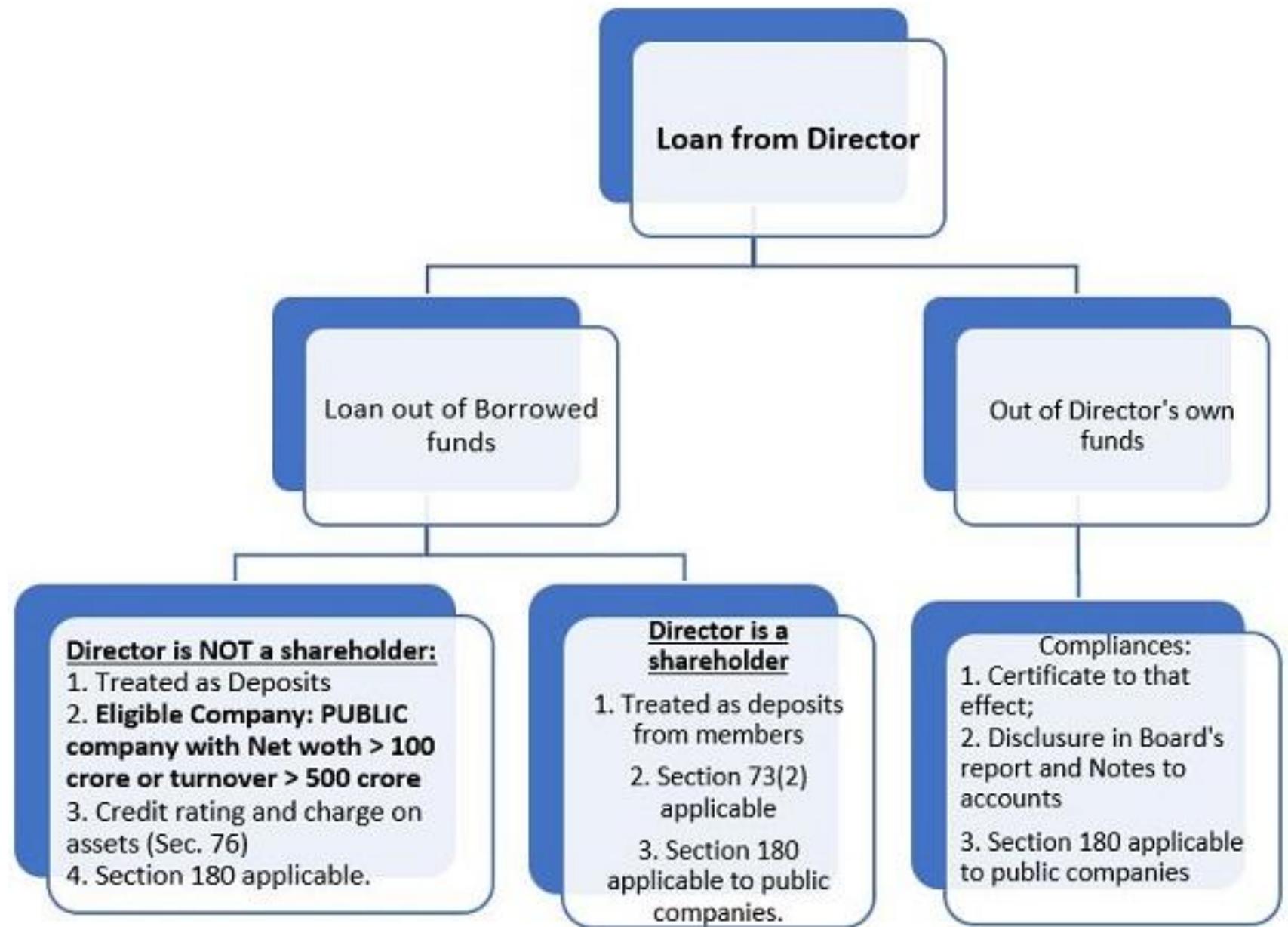
If the company wants to exceed this limit, it needs **prior approval by special resolution** in general meeting.

As an auditor, under **Clause 4 of CARO 2020**, we have to report:

- Whether the company has complied with Sections 185 and 186,
- Whether any loan, guarantee, or investment has been made in violation of these sections, and
- The details and amount involved, if any non-compliance exists.”

Provision	Key Point
Section 185	Restricts loans/guarantees/securities to directors or entities connected with them
Section 186	Governs inter-corporate loans, guarantees, and investments (with limits and approvals)
CARO 2020 – Clause 4	Auditor must report compliance with 185 & 186

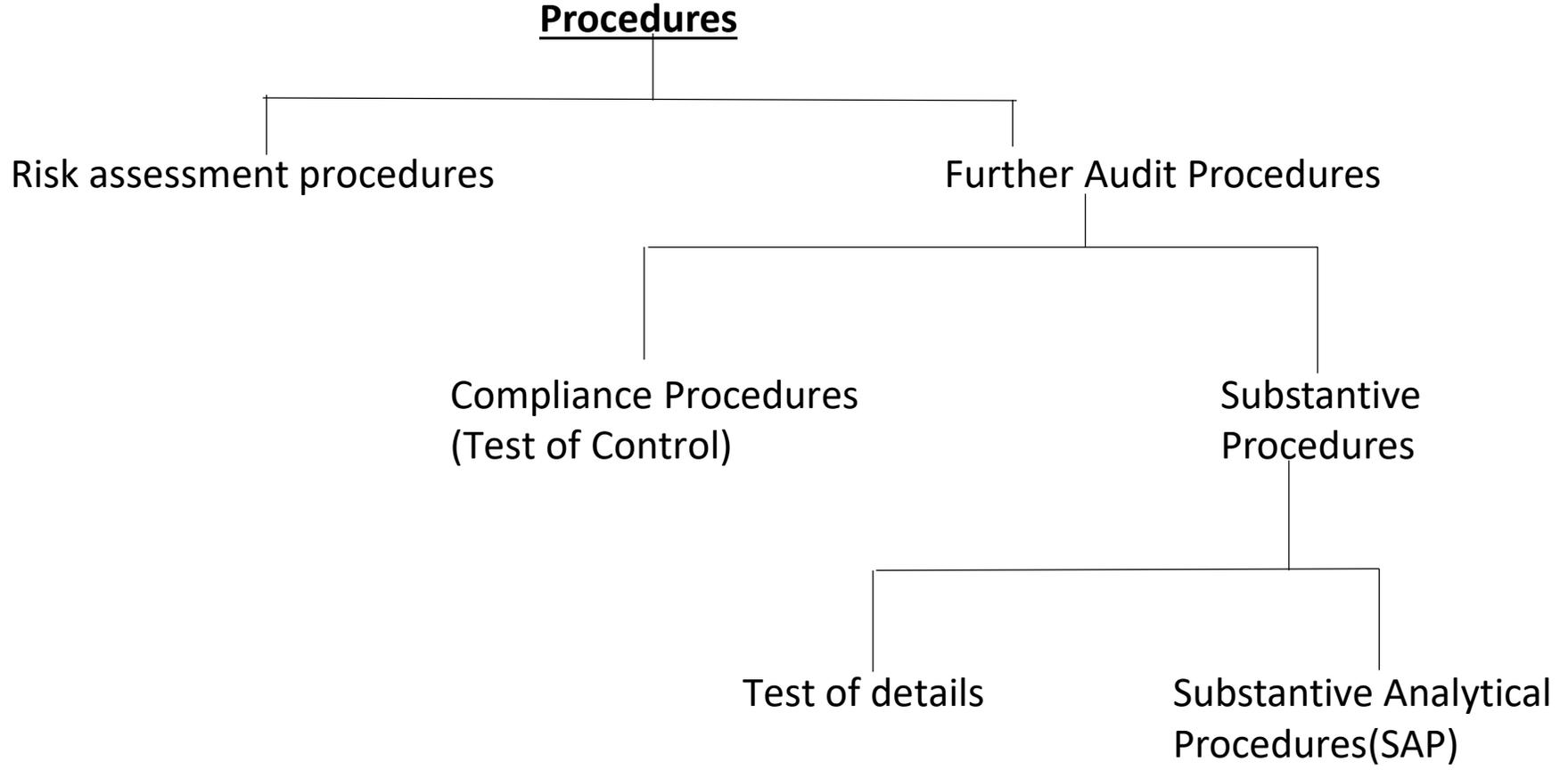
Question	How to Answer
“How will you verify compliance during audit?”	“I’d check board minutes, loan agreements, related party disclosures, and ensure approvals and interest terms comply with Sections 185/186.”
“Is loan to a subsidiary covered under 185?”	“Generally no, provided it’s in ordinary course or approved as per 186 — but we should still review for indirect interest of directors.”
“What if there is violation?”	“We mention it under CARO Clause 4 and also in our main audit report under Section 143(3)(f) & (h) regarding observations or qualifications.”



# Loan from Director Contd.

**Section 180 of Companies Act, 2013** provides for the board to take consent of the company by a special resolution (and file such SR in Form MGT-14) to borrow money, where the money to be borrowed, together with the money already borrowed by the company will exceed aggregate of its paid-up share capital, free reserves and securities premium, apart from temporary loans obtained from the company's bankers in the ordinary course of business. However pursuant to notification dated 05.06.2015, **section 180 is not applicable to private companies**. Hence private companies can borrow or accept deposits, wherever eligible, without the need to pass a special resolution under section 180. However, all the public companies will have to comply with section 180 along with requirements discussed above.

# Procedures through which audit evidences are collected



# Audit procedures may include **both test of control and substantive test.**

- **Test of controls** procedures may include:
  - Inquire the client's staff related to the internal controls processes
  - Observe the clients' staff performing the controls
  - Inspect the supporting documents to ensure that the controls have been properly performed
  - Re-perform the controls that have been performed by clients' staff
  - It is useful to notice that the inquiry procedure is usually performed together with other procedures, such as inspecting the supporting documents or observing the client's staff performing the controls, in order to ensure that the explanation given by the client's staff or management is true.
- **Test of control example in the audit of revenue:**
  - We test the control of **authorization** of the sales recording by obtaining supporting documents to verify whether the sales order and dispatching document have been approved before sales are recorded.
  - We test the control of **segregation of duties** by verifying whether the persons who take order and person who records sales and the person who receives payment are different personnel.
  - We test the **completeness of revenues** by verifying the numerical sequences of invoices

# Substantive Audit Procedures for Revenue

- We usually perform substantive analytical procedures by looking at the trends from the previous months or years and the relationship between sale revenue and other independent items such as cost of sales, selling expenses and the growth of sales in the sectors.
- If the client's record is significantly different from our expectation after looking at the trends or the relationship of other items, we will need to follow up with sufficient appropriate tests of details. On the other hand, if our expectation is not significantly different from what the client has recorded, we might be able to reduce tests of details.
- It is useful to note that in the audit of revenue, it is unlikely that the audit evidence obtained from substantive analytical procedures alone will be sufficient; hence the test of details will usually be required, more or less.

- **Test of Details for Revenue**

- In the audit of revenue, test of details usually focuses on the occurrence of revenue, completeness of revenue transactions, the accuracy of the revenue record and the cut-off of the accounting period.

- **Occurrence**

- Occurrence tests whether the revenue transactions that have been recorded in the client's accounts actually exist. Under the accrual basis of accounting, all revenues should be recognized and recorded when they occurred regardless of whether the payment have been received or not. In most cases, it happens when the goods are delivered.

- **Example:** the test of occurrence assertion

- Select a sample of recorded sale revenue transactions

- Vouch the selected transactions to sale invoice to ensure transactions recorded are based on sale invoices

- Trace sale invoice to customer order and bill of lading to ensure sales have actually happened and goods have been shipped to customers

- Scan sale journal for duplicate journal entries

- **Completeness**

- In the audit of revenue, completeness tests whether all revenues that actually happened have been recorded in the accounts. The completeness assertion here is the opposite of the occurrence assertion above. While occurrence tests the revenues that had been recorded to ensure they actually exist, the completeness tests the revenues that occurred to ensure they have been recorded.

- **Example:** the test of completeness assertion

- Select a sample of bills of lading

- Trace the selected bills of lading to sales invoice and sales journal to ensure they have been recorded as sales revenue

- Scan the sequential number of sales invoices in the sales journal; ensure that the missing numbers are not unrecorded sales and have an appropriate explanation for.

<https://camprep.com/CA/comprehensive.php>

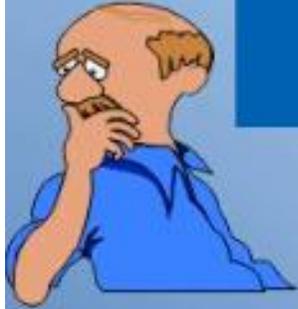
# Test of details – contd.

- **Accuracy**

- Accuracy tests to see whether the revenue transactions recorded are free from error. We usually review to see whether the sale invoices prepared are mathematically corrected and there is no misstated amount recorded.
- **Example:** the test of accuracy assertion
- Select a sample of sale invoices
- Verify the selected sale invoices with supporting documents to make sure they are accurately prepared
- Trace sale invoices to sale journal and accounting record to make sure they are recorded in the correct amount

- **Cut-off**

- Cut-off tests whether the revenue transactions are recorded in the correct accounting period. Sale revenues may be recognized in the wrong accounting period due to the complicated process of the sale order, shipment and sale invoice or the client may intend to move accounting transactions from one year to another in order to increase the bottom line.
- **Example:** the test of cut-off assertion
- Select a sample of sales invoices around the year-end
- Inspect the dates on the invoices and compare them with the dates of dispatch of goods and trace to the dates recorded in the sale journal and accounting record to ensure the correct accounting period entries.
- Select a sample of return documents (for sale returns) around the year-end and trace to the related credit entries



# Audit Risk



- **Inherent Risk**--Risk of a material misstatement occurring in an assertion assuming no related internal controls.
- **Control Risk**--Risk that a material misstatement in an assertion will not be prevented or detected on a timely basis by the company's internal control.
- **Detection Risk**--Risk that the auditors' procedures will lead them to conclude that a material misstatement does not exist in an assertion when in fact such misstatement does exist.



**Inherent Risk** is the risk of a material misstatement in the financial statements arising due to error or omission as a result of factors other than the failure of controls (factors that may cause a misstatement due to absence or lapse of controls are considered separately in the assessment of control risk).

- Inherent risk is generally considered to be higher where a high degree of judgment and estimation is involved or where transactions of the entity are highly complex.
- *For example, the inherent risk in the audit of a newly formed financial institution which has a significant trade and exposure in complex derivative instruments may be considered to be significantly higher as compared to the audit of a well established manufacturing concern operating in a relatively stable competitive environment*

**Control Risk** is the risk of a material misstatement in the financial statements arising due to absence or failure in the operation of relevant controls of the entity.

Organizations must have adequate internal controls in place to prevent and detect instances of fraud and error. Control risk is considered to be high where the audit entity does not have adequate internal controls to prevent and detect instances of fraud and error in the financial statements.

Assessment of control risk may be higher for example in case of a small sized entity in which segregation of duties is not well defined and the financial statements are prepared by individuals who do not have the necessary technical knowledge of accounting and finance.

- **Detection Risk** is the risk that the auditors fail to detect a material misstatement in the financial statements.
- An auditor must apply audit procedures to detect material misstatements in the financial statements whether due to fraud or error. Misapplication or omission of critical audit procedures may result in a material misstatement remaining undetected by the auditor. Some detection risk is always present due to the inherent limitations of the audit such as the use of sampling for the selection of transactions.
- Detection risk can be reduced by auditors by increasing the number of sampled transactions for detailed testing.

# Standard on Auditing (SA) 701, Communicating Key Audit Matters

Standard on Auditing (SA) 701, Communicating Key Audit Matters in the Independent Auditor's Report defines Key audit matters as 'Those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Matters that may be reported as KAM

KAM may be related to complex matters that are disclosed in the financial statements. **Examples may include impairment, provision for losses, valuation of financial instruments, revenue recognition, taxation matters, etc**

Read more at: <https://www.caclubindia.com/articles/all-you-need-to-know-about-kam-key-audit-matters-36152.asp>

# EMPHASIS OF MATTER v. KEY AUDIT MATTER v. OTHER MATTER

Emphasis of Matter	Key Audit Matter	Other Matter
<p>A <u>matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.</u></p> <p>Eg- Significant subsequent events, uncertain situation as to future outcome of pending exceptional litigations.</p>	<p>Those matters that, in the auditor's professional judgment, were of <b><u>most significance in the audit</u></b> of the financial statements of the current period</p> <p>Eg- Determination of provisions and fair values, selection of accounting policies, accounting estimates.</p>	<p>A matter <b><u>other than those presented or disclosed in the financial statements</u></b> that, in the auditor's judgment, is <b>relevant to users' understanding</b> of the audit, the auditor's responsibilities or the auditor's report.</p> <p>Eg- Auditor rely on work of branch auditor, auditor of subsidiary company etc...</p> <p>or</p> <p>If prior period financial statements not audited or audited by predecessor auditor.</p>

## Example of a KAM

From IndiaBulls Enterprises Ltd. (“IndiaBulls”) standalone audit report for year ended 31 March 2025:

•**KAM:** Property, Plant & Equipment (PPE) — “The Company’s net written-down value of PPE is ₹ 70.04 crs as at 31 March 2025 ... the majority of value attributed to plant & machinery ... due to their materiality ... and significant judgement & subjectivity in the estimates and key assumptions used, this is considered an area of most significance.”

[indiabullsentprises.com](http://indiabullsentprises.com)

•**Why it’s a KAM:** Big balance, high estimation/judgement (impairment, residual value, useful lives), so auditor focused special procedures.

Why the PPE example (from IndiaBulls) is a KAM, not an EOM

1 Nature of the matter:

The PPE balance involved *significant management judgment* — useful life estimates, residual values, impairment testing, etc.

Auditors had to perform *extensive procedures* and *exercise significant professional judgment*.

That’s exactly what **SA 701 (para 8)** defines as a *Key Audit Matter* —

“Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements.”

## Disclosure already adequate:

There was **no specific uncertainty** or **fundamental issue** threatening the user’s understanding — the financial statements already reflected correct treatment and disclosures.

So, the auditor did **not need to draw special attention** as in an EOM.

<https://camprep.com/CA/comprehensive.php>

### 3 Objective differs:

In a KAM paragraph, the auditor *explains why the matter was significant and how it was addressed* (audit approach).

In an EOM, the auditor *merely highlights* a disclosure but doesn't discuss procedures.

☞ In this case, the audit report likely contained wording such as:

“We determined this matter to be of most significance because of significant judgments involved ...”  
(and then described the audit response).

That language shows the *focus is on auditor judgment*, not on alerting users to something unusual or fundamental.

#### 🎯 In short (perfect for interview answer)

“The PPE valuation was classified as a KAM because it involved high estimation and required significant auditor judgment — that's an audit-focus issue under SA 701. It wasn't an EOM because there was no uncertainty or unusual disclosure that users needed to be alerted to. The auditor simply highlighted how they addressed that complex area.”

#### ☐ Quick Memory Hook

| When auditor **did a lot of work** → It's **KAM** ☐ |

| When auditor **wants users to note something** → It's **EOM** ⚠ |

## ⚠ Example of an EOM

From Systematix Corporation Ltd. Annual Report for year ended 31 March 2025:

•**EOM:** “Non–compliance with laws and regulations. We draw attention to Note 46 to the accompanying standalone financial statements, which describes the delay in remittance of import payments, delay in repatriation of export proceeds ... and delay in other receipts, beyond the timelines stipulated under the Foreign Exchange Management Act, 1999...” [Systematix Group](#)

•**Why it’s EOM (not KAM):** The matter is appropriately disclosed in the financial statements; the auditor’s opinion is *not modified*. The disclosure is fundamental to understanding but doesn’t by itself require a modified opinion.

From Supreme Industries Ltd. Annual Report for year ended 31 March 2025:

•**OM:** “We did not audit the financial statements of branches included in the standalone financial statements of the Company whose financial statements reflect the total assets of ₹ 2,873.94 crores as at 31 March 2025 ... and total revenue of ₹ 6,511.07 crores for the year ended on that date ...” [supreme.co.in](#)

•**Why OM:** This is a disclosure about the audit scope (audit of branches) affecting user’s understanding of audit coverage — it relates to matters *other than those in the financial statements themselves*.

# Examples - KAM- Vodafone Idea Ltd.

- **Reporting**

- Accounting for business combination and integration cost Effective August 31, 2018, Vodafone India limited and Vodafone Mobile Services Limited, merged into the Company. The Company accounted for the merger under pooling of interest method. We have determined this to be a key audit matter in view of magnitude of the transaction, complexity involved in selection of accounting policy for merger, significant management judgment involved with respect to alignment of accounting policies, estimates and accounting for integration costs post-merger.

## **How Was the Key Audit Matter Addressed in the Audit**

Our audit procedures included the following:

- We evaluated the appropriateness of 'Pooling of interest' method of accounting adopted by the management to account for the merger.
- We corroborated management's alignment of accounting policies and estimates by comparing the significant accounting policies and estimates of erstwhile Vodafone India Limited and comparing with the Company's accounting policies and estimates.
- We read the merger arrangements/scheme and focused on accounting for no routine transaction, estimates and judgments in respect of the recognition and measurement of guarantees, indemnities etc.
- We performed specific procedures to validate the carrying amount of assets and liabilities merged on August 31, 2018.
- We validated the appropriateness of estimates used in recognition and measurement of integration cost through enquiries and testing of supporting documents.
- We inspected the disclosures in respect of this transaction including those disclosures related to significant accounting

# Example : EoM – Adani Enterprises

- The fact that investment in some of the subsidiaries and jointly controlled entities (refer note 38 and 43(b)) were disposed off/ demerged during the year. Financials in respect of these subsidiaries and jointly controlled entities are considered till the date of disposal/ demerger.

## IDFC Ltd.

We draw your attention to Note 45(c) to the consolidated financial statements regarding payment of interim dividend by IDFC Financial Holding Company (a wholly owned subsidiary) to the Holding Company to the extent of INR 120.99 crore during the year, which is not in accordance with the provisions of section 123 of the Act.

## Example: Other matters – TATA motors

- We did not audit the financial statements of one joint operation included in the standalone financial statements, whose annual financial statements reflect total assets of `6,345.87 crores as at 31 March 2019, total revenue of `6,782.43 crores and net cash flows amounting to `75.02 crores for the year ended 31 March 2019, as considered on a proportionate basis in the standalone financial statements. **These annual financial statements have been audited by other auditor whose report has been furnished to us by the management and our opinion on the standalone financial statements, to the extent they have been derived from such annual financial statements, is based solely on the report of the other auditor.** Our opinion on the standalone financial statements is not modified in respect of the above matter with respect to our reliance on the work done and the report of the other auditor.

# Other information

- **5. Other Information (where applicable)**
- A new section on Other Information (where applicable) in accordance with requirements of SA 720(Revised), The Auditor's Responsibilities relating to other Information. Other information is referred as Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.
- Examples of amounts and other items that may be included in other information:
- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Capital expenditures by segment or division
- Explanations of critical accounting estimates and related assumptions
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies
- Identification of related parties and descriptions of transactions with them.
- Explanations of critical accounting estimates and related assumptions.
- General descriptions of the business environment and outlook.

# What is Internal Financial Control (IFC) ? (Sec 134)

## Components



## Example

Sales realization is correctly recorded in the Financials

Discount on sale is offered as per DOA and adherence to DOA is monitored

Unauthorised change in price master (access controls)

## Definition

As per Section 134 of the Companies Act 2013, the term 'Internal Financial Controls' means the policies and procedures adopted by the company for ensuring:

- ▶ orderly and efficient conduct of its business, including adherence to company's policies,
- ▶ safeguarding of its assets,
- ▶ prevention and detection of frauds and errors,
- ▶ accuracy and completeness of the accounting records, and
- ▶ timely preparation of reliable financial information.

## The Companies Act 2013 – Who All Are Responsible?

IFC	Section 134	Director's Responsibility Statement	<ul style="list-style-type: none"> <li>In the case of a listed company, the Directors' Responsibility states that directors, <b>have laid down IFC</b> to be followed by the company and that such <b>controls are adequate and operating effectively</b>.</li> </ul>
ICFR	Section 143	Auditor Report	<ul style="list-style-type: none"> <li>The auditor's report should also state whether the company has <b>adequate IFC system in place</b> and the <b>operating effectiveness of such controls</b></li> </ul>
ICFR	Section 177	Audit Committee	<ul style="list-style-type: none"> <li>Audit committee <b>may call for comments of auditors about internal control systems</b> before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company</li> </ul>
ICFR	Sch IV	Independent Directors	<ul style="list-style-type: none"> <li>The independent directors should satisfy themselves on the integrity of financial information and <b>ensure that financial controls</b> and systems of risk management <b>are robust and defensible</b>.</li> </ul>

# The Companies Act 2013 – Who All Are Responsible? (contd.)

Requirement (as per previous slide)	Public Listed	Public un-listed			Pvt Cos pd up share capital >= INR 20 Cr
		Paid-up share capital >= INR 10 Cr	Turnover >= INR 100 Cr	Loans, Borrowing in aggregate >= INR 50 Cr	
1 Director's Responsibility Statement (134) ICFR					
2 Auditor Report (143) ICFR					
3 Audit Committee (177) ICFR					
4 Independent Directors (Schedule IV) ICFR					
5 Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 - BOD report - Financial Statements only (ICFR only) ICFR					

# What is Internal financial controls over financial reporting (ICFR) ? (Sec 143 - as per ICAI Nov 2014 guidelines)

## Components

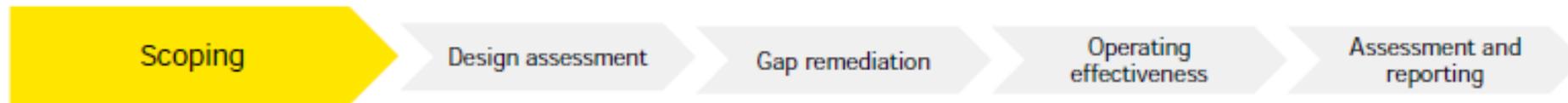


## Definition

"A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles". A company's internal financial control over financial reporting includes those policies and procedures :

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements."

# COSO - Committee of Sponsoring Organizations of the Treadway Commission (COSO)



## COSO 2013 framework

*Codification of 17 principles embedded in the original framework*



COSO 2013 Framework

1. Control Environment	1. Demonstrates commitment to integrity and ethical values 2. Board of directors demonstrates independence from management and exercises oversight responsibility 3. Management, with board oversight, establishes structure, authority and responsibility 4. The organization demonstrates commitment to competence 5. The organization establishes accountability
2. Risk Assessment	6. Specifies relevant objectives with sufficient clarity to enable identification of risks 7. Identifies and assesses risk 8. Considers the potential for fraud in assessing risk 9. Identifies and assesses significant change that could impact system of internal control
3. Control Activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
4. Information & Communication	13. Obtains or generates relevant, quality information 14. Communicates internally 15. Communicates externally
5. Monitoring	16. Selects, develops and performs ongoing and separate evaluations 17. Evaluates and communicates deficiencies

## Audit of line items

Fixed Assets, stock, revenue, purchase, loans, payroll - same is already covered in class

### 1. Audit of trade receivables –

Audit of trade receivables involves verifying the **existence, accuracy, and valuation** of outstanding customer balances.

- a) Obtain a list of all trade receivables and reconcile it with the general ledger.
- b) Verify the **existence** of the receivables by sending confirmation requests to customers.
- c) Assess the **accuracy** of the balances by reviewing supporting documentation such as invoices and sales contracts.
- d) Evaluate the **valuation** of the receivables by assessing the creditworthiness of customers and the likelihood of collection.
- e) Perform analytical procedures to identify any unusual trends or fluctuations in the balances.
- f) Document all findings and conclusions in the audit working papers.

(Modify the above answer for **Trade Payables** also through your understanding)

## **2. How to do audit of Balance Sheet and Profit & Loss A/c**

Audit of Balance Sheet and Profit & Loss A/c involves verifying the **accuracy** of financial statements.

- a) Verify the accuracy of account balances and transactions
- b) Check for proper classification and presentation of financial data
- c) Ensure compliance with accounting standards and regulations
- d) Perform analytical procedures to identify unusual transactions or trends
- e) Confirm balances with third-party sources
- f) Review supporting documentation for transactions
- g) Assess the adequacy of disclosures in financial statements

## **3. What are the audit procedures for Cash and Cash Equivalents testing?**

- List of all bank accounts should be obtained from client
- Independent Bank Confirmations are sent to all banks (with whom the client holds an account) to ensure the existence & valuation of the balance at year end.
- Reconciling of balance as per books with the Bank confirmation and bank statement to ensure the accuracy of books of account.
- Reconciling that all accounts confirmed by the bank are adequately shown in books of accounts to ensure the completeness.
- Audit of the items standing in bank reconciliation statements.
- Management certificate for cash in hand

#### **4. What are the audit procedures for verification of investments ?**

- Examination of Internal Control system w.r.t to investments
- Review the investment policy and examination of documents
- Physical verification like verify investment scrips physically
- Examination of reconciliation of investment account based on opening balance, purchased during the year, sold during the year and then closing balance
- Examine classification & valuation of investments & recording of income from investments.
- Examine the disclosures made, if any.

#### **5. What are the audit procedures for verification of contingent liabilities?**

Auditor is concerned with seeking reasonable assurance that all contingent liabilities are identified and properly valued, i.e

- All contingent liabilities have been disclosed
- Estimated amounts of financial effect of contingent liabilities are based on best estimates including consideration of possibility of any reimbursements
- all these are supported by the underlying documents

#### **6. What are the audit procedures for verification of completeness of litigation and claims ?**

- Inquire the mgt. & others within the entity including the in-house legal counsel
- Review the minutes of meetings of TCWG and external legal counsel
- Review of legal expenses account

## Audit Observations

### 1. Short term borrowings was used to purchase fixed assets (long term purpose)

#### **Reporting areas –**

- a) Para3(ix) of caro2020- whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature & amount to be indicated
- b) As per IND AS as per amendment from 1/4/2021 – we need to disclose in Notes – “Borrowings not utilised for specified purpose of borrowings.”

#### **Whether modification to audit report due to this?**

**Ans-** No, as due to urgent business requirement short term borrowings(STB) was used for purchase and on the very next day the same (i.e STB) was brought back to its original position and the same was not material after considering the evidences as there was sufficient liquidity available with the company so the same was not material and was done due to urgent requirement and the same was not very often so **no modification**

### 2. Assets depreciated over useful life different than those indicated by schedule II –

Since management believes it as realistic and reflecting fair approximation of the period over which assets are likely to be used, so there is nothing wrong in it and also life indicated by Schedule II is indicative life & need not be compulsorily followed.

### 3. Found a default in payment of interest on loan in last year report through-

- a) Notes to account as late payment charges were mentioned
- b) Accrued interest was coming in Balance sheet
- c) Clause(ix) of CARO,2020 – “whether the company.....payment of interest.....”

# Other audit questions which can be asked

## 1. What should you do after an internal audit?

I would discuss nonconformances with the departments audited and make sure that managers understand which corrective actions they should take. I would make sure the deadlines for corrective actions are reasonable and keep detailed records of the changes that managers make.”

## 2. If debtors' confirmations are not received, then how would you deal with this kind of situation?

A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with SA 315. Also if non confirmations are material in nature and auditor could not apply other audit procedures then he may modify the audit opinion also. For checking accounts receivable balances auditor can also – examine specific subsequent cash receipts, shipping documentation, and sales near the period-end.

## 3. What is MRL and why is it used and who takes it?

Management Representation Letter is issued by the client (Auditee) to the auditor in writing as a part of Audit Evidence. This document during the audit clarifies the separation of responsibilities of the auditor and auditee (management). In essence, the letter states that all of the information submitted by the management during the course of audit is accurate, and that all material information has been disclosed to the auditors.

#### **4.Can Financial Statements or board’s report be voluntary revised?**

Yes after complying with Sec131 –

If it appears to the directors of a company that -

- a) the financial statement of the company or
- b) the report of board

do not comply with Sec129 or Sec134, they may prepare revised financial statement or a revised report, in respect of any of the 3 preceding financial years, after obtaining approval of the tribunal on an application made by the company in such form & manner as may be prescribed and a copy of the order passed by the tribunal shall be filed with the registrar.

#### **5. Prepare 1-1 example of each of the opinion i.e in which case you will issue qualified, adverse, disclaimer of opinion(asked in kpmg final round)**

#### **6. Limitation imposed after auditor has accepted the engagement**

If after accepting the engagement mgt. imposed a limitation on scope of audit - auditor shall request mgt to remove it – if mgt refuses then communicate to TCWG & determine alternative procedures – if limitation not removed & also evidences not collected by other procedures – modify the opinion or withdraw from audit(if very material & pervasive effect & modification would be inadequate so withdraw where possible under law, otherwise disclaim the opinion - as here evidences not got)

## **8. Sampling Risk as per SA530**

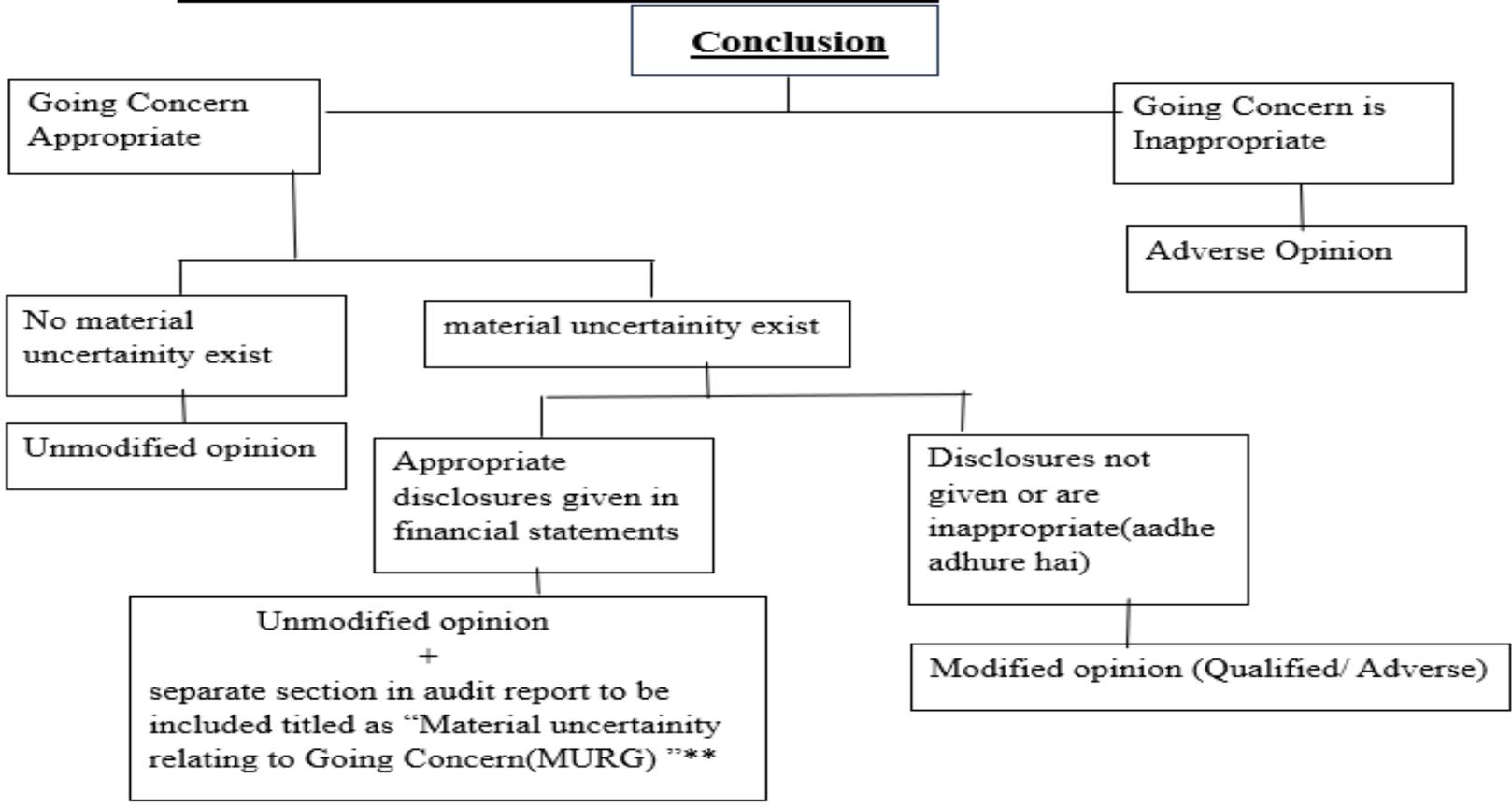
Risk that opinion expressed by the auditor on the basis of samples may differ from the opinion, if the entire population was subject to audit procedures.

## **9. Is written representation(WR) a sufficient & appropriate audit evidence**

WR is considered as an audit evidence being a response to inquiry by auditor. However WR's cannot be considered as sufficient & appropriate audit evidence in relation to matters covered by WR. If auditor draws his conclusion on any matter, solely on the basis of WR, issued by mgt./TCWG, such approach cannot be considered as correct



### 10. Related with Going Concern & MURG-



\*\* Note- Though it is a KAM but to be covered under separate section i.e "MURG"

# Additional Ques

# Some more ques

- preventive and detective controls.
- A: Preventive controls aim to prevent errors or fraud before they occur, such as segregation
- of duties. Detective controls identify issues after they occur, like reconciliations and audits.
  
- Q. What key representations are included in the Management Representation Letter?
- A: Representations include confirmation of provided information, completeness of transactions, compliance with laws, and disclosure of contingent liabilities.

# Some more ques

Q. How will you Audit Account Payables?

A: Link the audit procedures with assertions as follows:

- Verifying existence through supplier confirmations and reconciliations.
- For completeness, review subsequent payments after year-end and unmatched Good Received Notes to detect unrecorded liabilities.
- Check accuracy by agreeing balances to invoices and contracts.
- For cut-off, test purchases around year-end. For example if year end date is 31st December, check purchases for 7 days before and after that date i.e. 24th December to 7th January.
- Finally, ensure related party and contingent liabilities are properly disclosed.

## Some more ques

Q. What are the alternative audit procedures if you are unable to obtain external confirmations?

A: For Accounts Receivable:

- Check subsequent cash collections from customers.
- Review underlying documents such as sales invoices, dispatch notes, and customer orders.
- Verify correspondence with debtors regarding balances.

# Some more ques

Q. What is the difference between change in accounting estimates and change in accounting policy?

A: A change in accounting policy is a change in accounting principles, like moving from FIFO to Weighted Average, and it is applied retrospectively. A change in accounting estimate, like revising useful life of machinery, arises from new information and is applied prospectively. Simply put, policies affect the rules, while estimates affect the judgments.