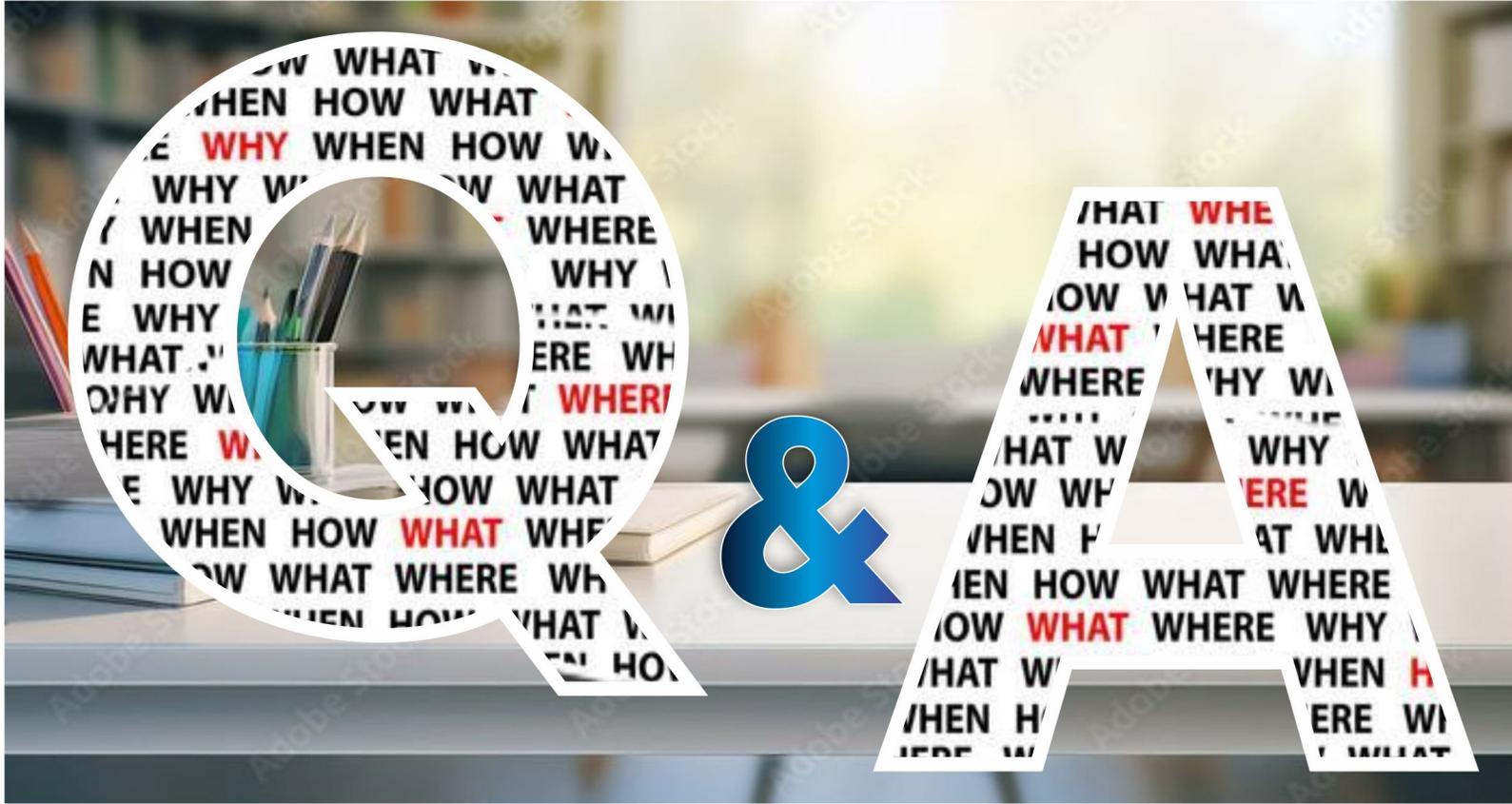


CA FINAL

AUDIT

Q & A - SCANNER



**ADVANCED AUDITING, ASSURANCE
AND PROFESSIONAL ETHICS**

5TH EDITION

By India's Most Dynamic Faculty For Audit

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Right Concept. Right Practice. Right Result. — this simple philosophy forms the foundation of everything you will learn in this book.

Dear Students,

*It gives me immense pleasure to present **Module II – Q & A Scanner of Auditing for CA Final**, the second component of a comprehensive three-module preparation framework comprising -*

Module I – Theory Notes,

Module II – Q & A Scanner, and

Module III – MCQ Compiler.

At the CA Final level, success in Auditing depends on the ability to apply concepts, structure answers logically and present professional reasoning in line with ICAI expectations. This module has been designed to help you convert conceptual knowledge into clear, well-structured and exam-ready answers.

The questions included cover important and application-oriented areas of the syllabus, and the answers have been drafted with emphasis on language, structure and depth appropriate for CA Final examinations.

*For effective preparation, this module should be used alongside **Module I – Theory Notes** for conceptual clarity and **Module III – MCQ Compiler** for strengthening accuracy and application.*

Consistent writing practice from this module will significantly improve your confidence and examination performance.

*I had the privilege of securing **All India Rank 24** in the CA Final Examination held in November 2008.*

Auditing defines your identity as a Chartered Accountant, yet it is often feared as one of the most theoretical subjects at the CA Final level. With a structured approach to concepts, writing and revision, countless students have transformed Audit from a feared paper into their most favourite subject. These books, along with Regular, Fast Track and Marathon video lectures and continuous revision support on the Aarti Lahoti YouTube channel, are designed to help you approach Audit with clarity, confidence and a scoring mindset.

“Much like SA 200 sets out the overall objective of the independent auditor, the overarching objective of Aarti Lahoti’s notes and classes has always been to make Audit logical, relatable and scoring, not intimidating.”

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Happy Auditing!

Warm Regards,

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CA Aarti Lahoti Classes



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1. XYZ & Co., a mid-sized audit firm, has recently expanded its operations & taken on several large clients. To manage the growing workload, the firm's CEO has delegated operational responsibilities for the firm's quality control system to two senior partners. However, certain concerns have been raised :
- 1) One of the partners, though commercially successful in bringing in new clients, has limited experience in audit quality oversight.
 - 2) The firm's new incentive system heavily rewards partners & staff based on revenue generation & client acquisition, with little emphasis on audit quality or compliance with professional standards,
 - 3) Due to rapid expansion, the firm has allocated most of its resources towards marketing & client development.
 - 4) The aforesaid concerns reflect on which element of quality control within the firm as per SQC1 ? What are the considerations one should exercise to achieve quality in all the engagements that the firm performs ?

(4 Marks Jan 2026)

Leadership Responsibilities for Quality within the Firm

- SQC 1 requires firms to establish policies & procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies & procedures should require the firm's CEO or the firm's managing partners to assume ultimate responsibility for the firm's system of quality control.
- Further, persons assigned operational responsibilities for the firm's quality control system should have sufficient & appropriate experience, ability, & the necessary authority to assume that responsibility.

Commitment to achieve Quality

It has been laid down clearly that firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Essentially, it implies that audit quality is paramount in all engagements. It is non-negotiable. In this regard, it should be ensured that: -

- The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed.
- The firm's policies & procedures addressing performance evaluation, compensation, & promotion (including incentive systems) with regard to its personnel are designed to demonstrate the firm's overriding commitment to quality &
- The firm devotes sufficient resources for the development, documentation & support of its quality control policies & procedures.

2. MN & Associates, a partnership firm having CA M & CA N as Partners, started to offer professional services with effect from 01-04-2030. Discuss the requirements with respect to "Independence" which MN & Associates has to consider in relation to establishment & maintenance of system of a quality control in line with SQC 1.

(4 Marks Nov 2020)

- Observance of "Independence" in all engagements is the founding requirement. The firm should establish policies & procedures designed to provide it with reasonable assurance that the firm, its personnel & (including experts contracted by the firm & network firm personnel) maintain independence where required by the Code. Such policies & procedures should enable the firm to: -
 - (a) Communicate its independence requirements to its personnel
 - (b) Identify & evaluate circumstances & relationships that create threats to independence, & to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.
- There should exist a mechanism in the firm by which engagement partners provide the firm with relevant information about client engagements & personnel of firm promptly notify firm of circumstances & relationships that create a threat to independence. All breaches of independence should be promptly

	<p>notified to firm for appropriate action. Its objective is to ensure that independence requirements are satisfied.</p> <ul style="list-style-type: none"> At least annually, obtain written confirmation of compliance with its policies & procedures on independence from all firm personnel required to be independent as per the Code.
3.	<p>Rajni Ltd., a listed company, has appointed M/s Amit & Co. as its statutory auditor. CA Sunil, who recently joined the firm, has been appointed as EP for the first time. While preparing for the audit, he realises the importance of ensuring the audit team's independence, as required by standard audit practices. However, when reviewing the firm's framework, he is unable to find any documented policies or procedures addressing independence compliance. What steps should CA Sunil take to ensure compliance with independence requirements for the audit engagement? Why is it necessary for an audit firm to have well-documented policies & procedures to maintain independence? Discuss with reference to the relevant SA. OR</p> <p>RST Ltd. is a company listed in India. The Company has appointed M/s R & Co. as auditors. CA. R has recently joined the firm & has been appointed as the engagement partner for the first time. During the audit planning, the engagement partner discovers that a relative of a team member holds a significant financial interest in RST Ltd. The team member had not reported this relationship earlier. He understands that it is necessary to ensure compliance of independence for the audit team as per standard audit practices. But he could not find as such any policies & procedures available with the firm in documented form. Why do you think that the firm should have policies & procedures to ensure the independence of the firm in every assignment? How does an engagement partner ensure the compliance of independence? Discuss with reference to relevant SAs. (5 Marks Nov 2023)</p>
	<ul style="list-style-type: none"> Refer answer above Further, as per SA 220, EP shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, EP shall: <ul style="list-style-type: none"> Obtain relevant information from the firm &, where applicable, network firms, to identify & evaluate circumstances & relationships that create threats to independence; Evaluate information on identified breaches, if any, of the firm's independence policies & procedures to determine whether they create a threat to independence for the audit engagement; & Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. EP shall promptly report to firm any inability to resolve the matter for appropriate action.
4.	<p>During audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews & also ensured compliance with independence requirements that apply to audit engagement. Engagement files were also reviewed by Engagement Quality Control Reviewer (EQCR) except independence assessment documentation. EP was of view that matters related to independence assessment are responsibility of EP & not EQCR. EQCR objected to this & refused to sign off documentation. Please advise as per SA 220. (RTP May 2022/19)</p>
	<ul style="list-style-type: none"> Refer answer above EP shall take responsibility for reviews being performed in accordance with firm's review policies & procedures. As per SA 220, for audits of FS of listed entities, EQCR, on performing an EQCR, shall also consider engagement team's evaluation of firm's independence in relation to audit engagement. In the given case, EP is not right. The independence assessment documentation should also be given to EQCR for his review.
5.	<p>XYZ & Associates, CAs, is an audit firm, giving services to the various types of clients in the field of auditing, taxation & management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been EP for the company since beginning has a complete idea about the strengths & weaknesses of the internal controls of the company. He maintains good relations with the management & those charged with the governance. Every year audit is completed in a cordial & healthy manner. During current year the quality control reviewer insisted to change EP for the company saying that continuation of same EP poses certain audit risk & threats to the organization & advises to review the firm's policies & procedures in relation to EP. The management of the company does not wish to change EP. How do you view the above situation from the view point of quality control system in audit firm in terms of requirements of SQC 1 ? Guide the firm in establishing the policies & procedures in respect of an EP. (5 Marks May 2025)</p>

	<ul style="list-style-type: none"> ▶ Quality control system in an audit firm: SQC 1, lays special emphasis on familiarity threat. Using the same senior personnel on assurance engagements over a prolonged period may impair the quality of performance of the engagement. ▶ Therefore, the firm should establish criteria for determining the need for safeguards to address this threat. In determining appropriate criteria, the firm considers such matters as <ul style="list-style-type: none"> (i) The nature of the engagement, including the extent to which it involves a matter of public interest, & (ii) The length of service of the senior personnel on the engagement. <ul style="list-style-type: none"> ▪ The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the engagement partner should be rotated after a pre-defined period, normally not more than seven years (except in cases where audit of listed entities is conducted by a sole practitioner). However, to ensure quality control exists in such firms & appropriate reports are issued, there is a process for mandatory peer review of such firms. ▶ In the given situation, XYZ & Associates, Chartered Accountants, has been conducting the statutory audit of B Ltd., a listed company, for the past seven years. CA X served as the engagement partner throughout this period. CA X has developed an in-depth understanding of the company's internal controls & maintains a strong, cordial relationship with the management & TCWG. However, during the current year, the firm's quality control reviewer raised concerns about the continued involvement of CA X, citing the continuation of the same engagement partner poses certain audit risk & threats to the organisation, & advised reviewing the firm's policies regarding engagement partner rotation. ▶ In view of SQC 1, the continued involvement of the same engagement partner, CA. X with a listed entity for an extended period, i.e., more than 7 years, poses a familiarity threat, potentially impairing audit quality & independence. Therefore, the firm should implement a policy of mandatory partner rotation & review its quality control procedures to ensure compliance with professional standards & maintain the integrity of the audit process. ▶ The firm should establish policies & procedures requiring that: <ul style="list-style-type: none"> (i) The identity & role of the engagement partner are communicated to key members of the client's management & TCWG; (ii) The engagement partner has the appropriate capabilities, competence, authority, & time to perform the role; & (iii) The responsibilities of the engagement partner are clearly defined & communicated to that partner.
6.	<p>PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to reappointment of auditors in AGM, the Company shared the appointment letter with PQR Associates, seeking acknowledgement & acceptance letter. CA R is EP & is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, & certain accounting records were seized for verification. Based on the information available on social media, CA R noted that the promoters' brother is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates & is planning to provide some accounting services to one of the associate companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in the automotive sector. Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationships considering the above issues.</p> <p style="text-align: right; color: red;">(5 Marks May 2024)</p>
	<p><u>Acceptance &/or Continuance of Client Relationship/ Engagement</u></p> <ul style="list-style-type: none"> ▶ A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about: - <ul style="list-style-type: none"> ➔ Integrity of Client, promoters & key managerial personnel. ➔ Competence (including capabilities, time & resources) to perform engagement. ➔ Compliance with ethical requirements. ▶ The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, & when considering acceptance of a new engagement with an existing client. Where issues have been identified, & the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved. <p><u>Independence Requirements</u></p>

	<ul style="list-style-type: none"> ➤ Further, as per SA 220, the EP shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the EP shall obtain relevant information from the firm &, where applicable, network firms, to identify & evaluate circumstances & relationships that create threats to independence. In view of the above, PQR Associates should: <ul style="list-style-type: none"> ➤ Follow their firm's policies & procedures for client acceptance & continuance. This includes evaluating the integrity of the client, assessing potential risks associated with the engagement, & ensuring the firm has the necessary resources & expertise to perform the engagement effectively. The engagement team, should assess, whether the company is involved in any funding activities, to the political parties, & if so enquire & assess the risks related to such transactions. ➤ Communicate clearly with the client regarding the scope of the engagement, the responsibilities of both parties, & any limitations on the services to be provided. This helps manage expectations & ensures alignment between the firm & the client. ➤ Independence & objectivity throughout the engagement. Any potential threats to independence, such as relationships with the client's affiliates or involvement in political activities by related parties, should be evaluated & mitigated appropriately. Since the senior manager who was on this engagement is providing certain accounting services, to one of the group companies, EP, should assess, whether it would have any impact on the audit & examine the relevant ethical/independence requirements. ➤ Continually monitor the client relationship for any changes or developments that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, EP should evaluate the risks of material misstatements, & non-disclosure of tax disputes & liabilities. ➤ Ensure that their engagement team possesses the necessary competence & capabilities to perform the audit effectively. The departure of a senior manager & the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left PQR Associates, EP should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.
7.	<p>Ace Ltd. (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2020. But there was shortage of machinery & manpower to accomplish the ordered requirement of PPE kits. Ace Ltd. approached another manufacturing unit Jack Ltd. for purchase of the unit. Jack Ltd. was interested in the sale of unit; so the deal went through & Ace Ltd. acquired 95% shares of Jack Ltd. The new mgmt. of Jack Ltd. proposed & appointed NKB Associates, CAs, (already auditors of Ace Ltd.) as new auditors of Jack Ltd. NKB Associates accepted the assignment without considering information whether the conclusions reached regarding the acceptance & continuance of client relationships & audit engagements are appropriate. Comment with respect to appropriate SA what type of information assists EP in determining whether the conclusions reached regarding the acceptance & continuance of client relationships & audit engagements are appropriate or not? (5 Marks Nov 2021)</p>
	<p>➤ Refer - Acceptance &/or Continuance of Client Relationship/ Engagement – in answer above</p>
8.	<p>MB & Associates is a partnership firm of CAs which was established 7 years back. The firm is getting new clients & has also been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client & acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per requirements of SQC 1. (4 Marks Nov 2019) (RTP May 2019)</p>
	<ul style="list-style-type: none"> ➤ As per SQC 1, the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, & when considering acceptance of a new engagement with an existing client. Where issues have been identified, & the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved. ➤ With regard to the integrity of a client, matters that the firm considers include, for example: <ul style="list-style-type: none"> ➤ Identity & business reputation of client's principal owners, key management, related parties & TCWG. ➤ Nature of the client's operations, including its business practices.

	<ul style="list-style-type: none"> ➤ Information concerning the attitude of client's principal owners, key management & TCWG towards such matters as aggressive interpretation of AS & internal control environment. ➤ Whether client is aggressively concerned with maintaining firm's fees as low as possible. ➤ Indications of an inappropriate limitation in the scope of work. ➤ Indications that client might be involved in money laundering or other criminal activities. ➤ Reasons for proposed appointment of the firm & non-reappointment of previous firm. ➤ Extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.
9.	<p>SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D & associated regulatory frameworks. The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit & advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery. In light of SQC 1 & SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality & professional standards? (RTP Sep 2025)</p>
	<ul style="list-style-type: none"> ➤ As per SQC 1, "Quality Control for firms that perform audits & reviews of historical financial information, & other assurance & related services engagements", CA Rashi, as the engagement partner, is required to evaluate whether the firm has the capabilities, competence, time & resources to undertake an engagement, following matters have to be taken into consideration: - <ul style="list-style-type: none"> ➤ Firm personnel have knowledge of relevant industries or subject matters; ➤ Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills & knowledge effectively; ➤ The firm has sufficient personnel with the necessary capabilities & competence; ➤ Experts are available, if needed; ➤ Individuals meeting the criteria & eligibility requirements to perform engagement quality control review are available, where applicable; & ➤ The firm would be able to complete the engagement within the reporting deadline. ➤ Under SA 220, "Quality Control for an audit of financial statements", the responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1 which requires the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, & when considering acceptance of a new engagement with an existing client. ➤ Information like integrity of principal owners, competence of engagement team & consideration of necessary capabilities including time & resources, compliance with relevant ethical requirements & significant matters arisen during current or previous audit engagement & their implications assist the engagement partner in determining whether the conclusions reached regarding the acceptance & continuance of client relationships & audit engagements are appropriate. ➤ In the given case: <ul style="list-style-type: none"> ➤ SDC & Associates lacks experience in pharmaceutical R&D audits, a highly regulated & technical field. ➤ The previous auditor's withdrawal citing scope limitations is a warning sign that must be evaluated. ➤ The engagement team lacks relevant expertise, & there is pressure from the managing partner to proceed regardless. ➤ Proceeding without addressing these issues would violate the requirements of SQC 1 & SA 220. ➤ CA Rashi must not proceed with the engagement unless satisfied that all conditions under SQC 1 & SA 220 are met. She should: <ul style="list-style-type: none"> ➤ Assess the firm's capability & consider engaging external experts. ➤ Understand the reason for previous auditor's withdrawal. ➤ Ensure that a qualified EQCR reviewer is appointed & review is completed before issuing the audit report. ➤ This will help maintain audit quality, ensure compliance with professional standards, & protect the firm from regulatory repercussions.