

## 1. NATURE OF AUDITING

**Q.No.1. Define the term "AUDITING" and Write short notes on General Purpose Financial Statements. (B) (PM)**

### A. AUDITING:

**Definition:** "An audit is an independent examination of financial information of any entity, whether profits oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon.

The word auditing is derived from the latin word "audire" which means to hear.

### B. GENERAL PURPOSE FINANCIAL STATEMENTS:

According to SA 700 "Forming an Opinion and Reporting on Financial Statements",

Financial statements which are prepared in accordance with the general purpose framework are called **General Purpose Financial Statements**. A financial reporting framework (FRF) which is designed to meet the common financial information needs of a wide range of users is called "**General purpose framework**".

#### 1. Components of Financial statements:

The term "General Purpose Financial Statements" normally include

- a) A Balance Sheet
  - b) A statement of profit and loss (also known as 'income statement')
  - c) A cash flow statement and
  - d) Notes and explanatory material which forms as an integral part of the financial statements.
2. **Inclusions:** They may also include supplementary schedules and information based on such statements for example, information about business and geographical segments etc.
  3. **Exclusions:** Financial statements do not include items such as Board's Report, statements by the chairman and other similar items that may be included in annual report.
  4. **Periodicity:** Usually financial statements are prepared and presented for every financial year.
  5. **Usage of Financial statements:** Many users rely on the financial statements as their major source of financial information and therefore they should be prepared and presented by keeping in view of common information needs of wide range of users.
  6. **Accounting standards:** Accounting standards are applicable to all General Purpose Financial Statements.

### SIMILAR QUESTIONS:

1. Write short note on general purpose financial statements? (M17 – 4M)
- A. Refer point B in above.

**Q.No.2. Explain the objectives of audit? (B) (SM)**

### OBJECTIVES OF AUDIT:

#### 1. Primary objective:

As per SA-200 "Overall Objectives of the Independent Auditor and conduct of an audit in accordance with the standards on auditing",

The primary objective of the auditor is to express an opinion on the financial statements,

- Whether they are prepared, in all material respects, in accordance with an Applicable Financial Reporting Framework and

- Whether they are showing true and fair view.

## 2. Secondary objective:

The secondary objective of an audit is prevention and detection of material misstatements due to frauds and errors.

- Discovery of all frauds and errors cannot be made as the main objective of audit
- Because even though the audit is properly planned and performed in accordance with SAs, there is an unavoidable risk that some material misstatements may not be detected due to the inherent limitations of an audit. (Refer SA 200)
- Further, the primary responsibility for prevention and detection of frauds and errors is that of management.

**Q.No.3. What are the Principal aspects to be covered in an audit. (A) (SM, N15 - 5M, N15 RTP)**

### ASPECTS TO BE COVERED IN AN AUDIT:

- 1. Examination of internal control system:** To ascertain whether it is appropriate for the business and helps in properly recording of all the transactions.
- 2. Reviewing the systems and procedures:** To ascertain whether material inadequacies and weaknesses exist to allow frauds and errors going unnoticed.
- 3. Vouching of Transactions:**
  - a) Checking the arithmetical accuracy of the books of account by the verification of postings, balances, etc.
  - b) Verification of the authenticity and validity of transaction entered into by making an examination of the entries in the books of account with the relevant supporting documents.
  - c) Ascertaining whether a proper distinction has been made between items of capital and of revenue nature and whether all the transactions have been recorded in the correct accounting period.
- 4. Verification of Assets and liabilities:**
  - a) Verifying whether the balance sheet and profit and loss account or other statements are in agreement with the books of accounts.
  - b) Verification of assets with respect to its title, existence and value.
  - c) Verification of the liabilities stated in the balance sheet.
  - d) Checking the result shown by the profit and loss and to see whether the results shown are true and fair.
- 5. Verifying statutory compliances:** In case of audit of a corporate body, confirm that whether the statutory requirements have been complied with.
- 6. Expression of opinion:** Reporting to the appropriate person/body whether the statements of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organisation.

### SIMILAR QUESTIONS:

- 1. Explain Overall audit approach. (PM)**
- 2. State the principle aspects to be covered in an audit concerning financial statements of accounts? (N15 - 5M)**
- 3. State the matters which the statutory Auditor should look into before framing an opinion on accounts on finalization of audit of accounts. (PM)**

4. An audit is an independent examination of Financial Information of an entity, whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon.

What the auditor is supposed to do to satisfy himself that nothing contained in the statements will mislead anybody? (N15 RTP)

- A. Refer above answer for all these questions.

**Q.No.4. Discuss various types of Audits. (A)**

**(PM, N14, M15 - RTP, N11 - 5M)**

Audit is not legally obligatory for all types of business organisations or institutions. On this basis audits may be of two broad categories i.e., audit required under law and voluntary audits.

1. **AUDIT REQUIRED UNDER LAW (OR) STATUTORY AUDIT:** (PM, N14 RTP, N11 - 5M)

- An audit which is mandatorily required to be done as per law is called as **Statutory Audit**.
- The objective and scope of audit are determined by the respective statute itself.
- Examples:** The following are the examples where auditing is required as per law.
  - Companies governed by the Companies Act, 2013
  - Banking companies governed by the Banking Regulation Act, 1949
  - Electricity supply companies governed by the Electricity Supply Act, 1948
  - Co-operative societies registered under the Co-operative Societies Act, 1912
  - Corporations set up under an Act of Parliament or State Legislature such as the Life Insurance Corporation of India.
  - Specified entities under various sections of the Income-tax Act, 1961. E.g. 44AB Tax audit.

2. **VOLUNTARY AUDIT (OR) NON-STATUTORY AUDIT:**

- This is also known as **Non-statutory audit** because there is no any legal requirement to conduct this type of audit.
- It is not mandatory and is required to be undertaken only at the desire of the client.  
E.g. Proprietary entities, Partnership firms, Hindu undivided families etc.
- Many of such enterprises may be required to get their accounts audited in order to derive some advantages that will accrue from audited financial statements. For example, getting grants, loans etc.
- Here, the objective and scope of audit are determined by the respective appointing authorities. It is purely a matter of contractual arrangement.

**SIMILAR QUESTIONS:**

1. "Audit is not legally obligatory for all types of business organizations or institutions"  
Discuss. (M15 RTP)

- A. Refer above answer.

2. Discuss various types of audits required under law. (PM, N14 RTP, N11-5M)

- A. Write "Audit required under law" in above

**Q.No.5. What are the advantages of an Independent audit? (A) (PM, M15, N16 – RTP, M15 - 5M)**

**ADVANTAGES OF AN INDEPENDENT AUDIT:**

The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Apart from this obvious utility, there are other advantages of audit as given below

- 1) It safeguards the financial interest of persons who are not associated with the management of the entity, whether they are partners or shareholders.
- 2) It acts as a moral check on the employees from committing frauds or errors.
- 3) Audited statements of account are helpful in settlement of
  - Insurance claims in respect of damage suffered by property by fire or some other calamity.
  - Liability for taxes,
  - Trade disputes for higher wages or bonus
- 4) For negotiating loans from lenders.
- 5) For determining the purchase consideration for a business in case of amalgamations.
- 6) For detection of weakness in internal controls those are leading to wastages and losses.
- 7) To help in the settlement of accounts at the time of admission or death of partner.
- 8) Government may require audited and certified statement before it gives assistance or issues a license for a particular trade.
- 9) To ascertain whether the necessary books of account and allied records have been properly kept.

#### SIMILAR QUESTIONS:

1. What is the importance of having the accounts audited by independent professional auditors? (PM)
  2. "Having accounts audited by independent auditor, among other advantages, act as a moral check on the employees from committed frauds." Explain stating the advantages of independent audit. (M15, N16 – RTP)
- A. Refer above answer for the two questions.

**Q.No.6. Define the terms fraud and error. (SM)**

Standard on Auditing-240 defines the terms fraud and error as follows.

**Fraud:** An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

#### Fraud may involve:

1. fraudulent financial reporting process which can be done through manipulation of books, records and documents, omission of certain transactions, misapplication of accounting principles (Of course when these are done intentionally) (RTP N17, N15 MTP1 - 4M)
2. Misappropriation of assets. (E.g.: fictitious purchases shown to misappropriate cash)

#### AUDITOR'S ABILITY TO DETECT FRAUD DEPENDS UP ON:

1. The skillfulness of the perpetrator (the person who is committing fraud) (the more skillful the perpetrator, the more it is difficult to detect fraud).
2. The frequency of fraud (the more frequently the fraud is committed, more will be the chances of detection).
3. The extent of manipulation (if extent of manipulation is small, it is difficult to detect fraud).
4. The degree of collusion involved (Collusion makes detection difficult).
5. The relative size of individual amounts manipulated (the smaller the individual amounts, the more difficult to detect as it is likely to be neglected).
6. The seniority of the persons involved. (The more senior the persons involved, the more difficult to detect).

**Note:** Relevant Standard on auditing is SA - 240.

**ERROR:** On the other hand the term “error” refers to unintentional mistakes in financial statements such as:

1. Clerical errors, like errors of omission, errors of commission, errors of duplication and compensating errors.
2. Misapplication of accounting policies (Called errors of principle).

**Q.No.7. Write a short note on Fraudulent Financial Reporting (FFR). (B)**

**(PM, MTP N17, N15 – 4M)**

**MEANING:** It involves intentional misstatements of books of account and financial statements by the management to deceive users of financial statements w.r.t the entity’s performance and profitability in the following manner:

- a) Increasing earnings in order to attract more investors or to secure bank financing etc.
- b) Reducing earnings by a material amount to minimize tax or for any other reason.

**METHODS OF DOING FFR:** Fraudulent financial reporting may be accomplished by the following:

1. Manipulation, falsification (including forgery) of accounting records or supporting documentation from which the financial statements are prepared.
2. Misrepresentation in or intentional omission from, the financial statements of events, transactions or other significant information.
3. Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

Fraudulent financial reporting is often done by management through overriding control procedures designed to prevent similar frauds by other employees.

Pressures and incentives (i.e., fraud risk factors) may lead these actions to increase to the extent that they result in fraudulent financial reporting.

**Q.No.8. How do you verify Misappropriation of Assets? (C)**

Misappropriation of assets involves the theft of an entity’s assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect. Misappropriation of assets can be accomplished in a variety of ways including:

- a) Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).
- b) Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment).
- c) Causing an entity to pay for goods and services not received (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity’s purchasing agents in return for inflating prices, payments to fictitious employees).
- d) Using an entity’s assets for personal use (for example, using the entity’s assets as collateral for a personal loan or a loan to a related party). Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

Q.No.9. Explain the objective and scope of audit as per SA 200. (B)

(M17 RTP)

The following are the objective and scope of auditor as per SA 200.

**A. OVERALL OBJECTIVES OF AUDITOR:**

While auditing the financial statements, the auditor has following objectives:

- To obtain reasonable assurance about whether the financial statements are free from material misstatements.
- To express an opinion on whether they are prepared as per applicable Financial Reporting Framework and
- To report on financial statements and communicate as per SAs.

**B. SCOPE OF AUDIT:**

**1. Purpose of an audit:**

- a) To enhance the degree of confidence of intended users in the financial statements.
- b) This is achieved by the expression of opinion that financial statements are presented in all material respects in accordance with applicable financial reporting framework.

**2. Implications of auditor's opinion:** The auditor's opinion does not give assurance about the

- a) Future viability of the entity or
- b) Efficiency or effectiveness with which management has conducted the affairs of the entity.

**3. Determination of scope:** The auditor decides the scope of his audit having regard to

- a) The requirement of the relevant regulation such as Companies Act, 2013 etc.
- b) The pronouncements of the Institute (ICAI) such as SA's and related guidance notes etc.
- c) Terms of engagement.
- d) However the terms of engagement cannot supercede the pronouncement of the institute or the provisions of the relevant legislation.

**SIMILAR QUESTIONS:**

1. "The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements". Explain stating the objectives of audit as per SA 200.

A. Refer above answer.

(M17 RTP)

**NOTE:**

**LONDON & GENERAL BANK CASE:**

According to judgment given by Lord Justice Lindley in the famous London & General Bank Case,

1. "An auditor must be honest that is, he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes that what he certifies is true".
2. For the first time, the duties of the company auditor were spelled out in specific terms.
  - a) His business is to ascertain and state the true financial position of the company at the time of the audit and to express opinion on financial statements. His duty is confined to that."
  - b) "It is not the auditor's duty to give advice either to directors or shareholders as to what they ought to do.

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Q.No.10. What are the responsibilities of auditor as per SA - 200 [revised]? (C)

1. **Ethical Requirements:** The auditor shall comply with the relevant ethical requirements as prescribed below:
  - i) **Integrity & Objectivity:** He should be straight-forward and sincere in his approach to the professional work. He should be fair without any bias or prejudice.
  - ii) **Independence:** The term independence means that the judgement of a person is not subordinate to the wishes and directions of other person who have engaged him i.e. the audit decisions should be taken without giving importance to his personal wishes.
  - iii) **Confidentiality:** The auditor should not disclose the information collected by him, during the course of his professional work, to any third party without specific authority from the client (or) there is a legal duty to disclose
  - iv) **Professional competence & due care:** The auditor requires specialised skill and competence which are acquired through a combination of general education, technical knowledge obtained through study and practical experience.
  - v) **Professional behavior:** Auditor supposed to maintain Professional behavior.
2. **Professional skepticism:** The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.
3. **Professional Judgment:** The auditor shall exercise professional judgment in planning and performing an audit of financial statements.
4. **Audit evidence and audit risk:** To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
5. **Conduct of an Audit in accordance with SAs:**
  - a) The auditor shall comply with all SAs relevant to the audit.
  - b) The auditor shall not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit.

**SIMILAR QUESTIONS:**

1. **Discuss prerequisites and fundamental principles to be possessed by an auditor.**

A: Refer point no. 1 in above answer.

(M11 - 8M)

Q.No.11. What are the inherent Limitations of an Audit? (A)

(N14, M15, M16, RTP N17,N16 – RTP, M11 - 8M)

**Reasonable assurance:** It is a high level of assurance but not an absolute assurance.

However absolute assurance is a type of assurance which ensures that there are no frauds and errors. The auditor cannot obtain an absolute level of assurance, because there are inherent limitations of an audit.

Even though the audit is properly planned and performed in accordance with SAs, there is an unavoidable risk that some material misstatements of the financial statements may not be detected due to the following limitations of an audit.

1. **The Nature of Financial Reporting:**

- a) The preparation of financial statements involves judgments and subjective decisions made by management in the preparation and presentation of financial statements.
- b) Consequently, Audit evidence that can be obtained with respect to such items can only persuasive but not conclusive (i.e., not 100% accurate and authentic). This cannot be eliminated by the application of additional auditing procedures.

**2. The Nature of Audit Procedures:**

There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:

- a) There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to audit.
- b) In case of frauds, it is much more difficult to obtain audit evidence since fraud involves sophisticated and carefully organised schemes designed to conceal it.

**3. Time and Cost considerations:** Need for auditor to form an opinion on the financial statements within a reasonable time and cost makes him to resorts for test checking (i.e., not 100% checking).

**4. Inherent limitations of internal control system:** The extent of audit procedures to be performed depends upon the effective working of the internal control system. But even the internal controls system is suffering from some inherent limitations such as collusion, abuse of authority by the persons having authority.

**SIMILAR QUESTIONS:**

1. "The process of auditing is such that it suffers from certain limitations which cannot be overcome irrespective of the nature and extent of audit procedures." Explain.
  2. "Doing statutory audit is full of risk". Narrate the factors which cause such risks.
  3. Distinguish between absolute and reasonable assurance. Identify the type of assurance that is expected in an audit of the financial statements, clearly outlining the reasons to justify your point of view?
- A. Refer above answer for all these questions.

**Q.No.12. After the statutory audit has been completed a fraud has been detected at the office of the Auditee. What is your defence as an auditor? (A) (PM, M15 RTP, M15 - 5M)**

**1. MANAGEMENT RESPONSIBILITY:**

As per SA 240, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

However management can only reduce but cannot eliminate the possibility of fraud and error.

**2. AUDITOR'S RESPONSIBILITY:** An auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

- a) Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.
- b) The risk of not detecting fraud is higher than the risk of not detecting error because fraud may involve sophisticated and carefully organized schemes designed to conceal it.
- c) Furthermore, the risk of not detecting management fraud is greater than employee fraud because management is in a better position to do manipulation of books of account than employees.

**3. AUDITOR'S LIABILITY FOR SUBSEQUENT DISCOVERY OF FRAUDS AND ERRORS:**

- a) The subsequent discovery of material misstatement does not, in itself, indicate that the auditor didn't perform his duties properly.
- b) Whether the auditor has performed an audit in accordance with standards on auditing India is determined by the
  - adequacy of the audit procedures performed in the circumstances and



- the suitability of the auditor's opinion based on the result of these procedures.
- c) The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill.
- d) If the auditor
  - can prove with the help of his papers (documentation) that he has followed adequate procedures necessary for the proper conduct of an audit, he cannot be held responsible for the same.
  - cannot be prove, then he would be held responsible.

**KINGSTON COTTON MILLS CO.'s CASE:** In spite of good efforts put by auditor in identifying the frauds, if he fails in doing so, it will not be construed as audit failure.

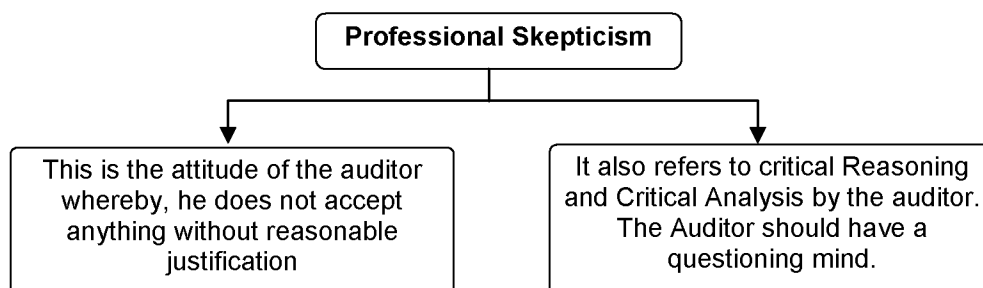
**SIMILAR QUESTIONS:**

1. Is detection of fraud and error duty of an auditor? (MTP N17, N17 – 6M, M 15 - 5M)
  2. What are the auditor responsibilities for detection of fraud and errors?
  3. "The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill." Explain.
  4. "The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error." Explain.
  5. What are the auditor's responsibilities for Non-Detection of Frauds and Errors?
- A. Refer above answer for all these questions.

**Q.No.13. The auditor is responsible for maintaining an attitude of professional skepticism throughout the audit. Do you agree with the statement? (A)**

(PM, N16 RTP, M14 - 6M)

1. **MEANING:** Professional skepticism is an attitude that includes a questioning mind, and a critical assessment of audit evidence.



2. **PROFESSIONAL SKEPTICISM REFERS BEING ALERT TO:**

- a) Audit evidence contradicts other audit evidence obtained.
- b) Conditions that may indicate possible frauds.
- c) Information that brings into question the reliability of documents and responses to inquiries and other information obtained from management.
- d) Circumstances that may indicate need for more audit procedures.
- e) Possibility there is potential for management to override the controls
- f) Recognize the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud

3. MAINTENANCE OF PROFESSIONAL SKEPTICISM IS NECESSARY IF THE AUDITOR HAS TO REDUCE THE RISK OF:

- a) Overlooking unusual Circumstances
- b) Over generalizing while drawing conclusion from audit observations
- c) Using inappropriate assumptions in evaluating nature, timing and extent of audit procedures.

**Q.No.14. "Professional judgment is essential to the proper conduct of an audit". Discuss this statement as per SA 200. (B) (SM, N15 RTP)**

- a) Professional judgment is essential to the proper conduct of an audit.
- b) This is because the auditor is required to take some decisions during the course of his audit. And those decisions cannot be made without the application of relevant knowledge and experience to the facts and circumstances.
- c) **Circumstances where exercising of professional judgment is required:** Professional judgment is necessary in particular regarding decisions about –
  - i) Materiality and audit risk
  - ii) Nature, timing and extent of audit procedures.
  - iii) Evaluating whether sufficient appropriate audit evidence has been obtained, and whether some more needs to be obtained.
  - iv) Drawing of conclusions based on the audit evidence obtained.

**Q.No.15. Difference between Audit & Investigation (B) (PM, N12 - 8M)**

Basis	Audit	Investigation
Requirement	It is compulsory in the case of companies.	It is not compulsory, unless it is required by the management (Non statutory investigation) or it is required by C.G. under any Act (Statutory Investigation).
By whom	Should be a qualified C.A.	No specific qualification is required.
Appointment and remuneration	Appointment is made, and remuneration is fixed by shareholders.	<b>Management</b> - In case of non statutory investigation and <b>Central government</b> - In case of statutory investigation.
Objective	To give an opinion whether financial statements are showing true and fair view.	To establish a specific fact.
Scope	Determined by the Act.	Determined by the appointing authority.
Approach	Questioning mind. Auditor is watch dog but not a blood hound.	Negative mind. Investigator is a blood hound but not a watch dog.
Nature of examination	Involves test checks to collect evidences.	Requires detailed study and examination of facts and figures.
Nature of evidence	Auditor can only obtain prima-facie evidence.	Investigator can obtain conclusive evidence.
Submission of report	Report Shall be submitted to the shareholders.	Report shall be submitted to the persons on whose behalf investigation is carried out.
Period	Yearly.	It depends on the requirement.

Q.No.16. What are the qualities of an ideal auditor? (B)

(PM, N17 RTP, N 15 RTP)

**QUALITIES OF AN AUDITOR:****1. Technical qualities:**

The auditor should possess specific knowledge of the following:

- a) Accountancy – Its principles, procedures and standards (AS).
- b) Auditing – Its principles, procedures and standards (SA)
- c) Direct and Indirect taxation laws.
- d) General principles of law of contracts, partnership;
- e) Specific statutes and provisions applicable, E.g. Companies Act, 2013, Cooperative Societies Act, etc.
- f) Client's nature of business and its peculiar features.

**2. Personal qualities:**

- a) Apart from the knowledge acquired by the auditor in the formal manner, the auditor should also possess certain personal qualities such as, tact; caution; firmness; good temper; judgement; patience; clear headedness and commonsense; reliability and trust, etc.

All those personal qualities that go to make a good person contribute to the making of a good auditor.

- b) In addition, the auditor must have the highest degree of integrity, objectivity backed by adequate independence as prescribed in SA 200.

**3. Auditing is a profession, calling for wide variety of knowledge to which no one has yet set a limit.**

**How to obtain such knowledge:** The most part of such knowledge is probably that which cannot be learnt from books because its acquisition depends on the common sense and alertness of the mind according to the circumstances.

**SIMILAR QUESTIONS:**

1. "Apart from the knowledge acquired by the auditor in the formal manner, the auditor should also possess certain personal qualities." Explain briefly stating the qualities of Auditors.
2. "All those personal qualities that go to make a good person contribute to the making of a good auditor." Explain. (N 15 RTP)

A: Refer above answer for both the questions.

**Q.No.17. Write about the following:**

1) Self-revealing errors. 2) Non self-revealing error. 3) Procedural errors. (A)

(PM)

**1. SELF-REVEALING ERRORS:**

(N14 - 4M, M17 RTP)

- a) **Meaning:** The errors the existence of which becomes apparent in the process of compilation of accounts are known as **self-revealing errors**.
- b) **Illustrations:** A few illustrations of such errors are given hereunder, showing how they become apparent.

i)	Omission to post a part of a journal Entry to the ledger.	Trial balance will not agree
ii)	Wrong totaling of the Purchase Register.	Control Account (e.g., the Sundry Trade payables Account) balances and the aggregate of the balances in the personal ledger will disagree

iii)	A failure to record in the cash book amounts paid into or withdrawn from the bank	Bank reconciliation statement will show up error.
iv)	A mistake in recording amount received from X in the account of Y.	Statements of account of parties will reveal mistake.

## 2. NON SELF - REVEALING ERRORS:

- a) **Meaning:** Errors that do not reveal themselves during the course of account preparation are called as **Non self-revealing errors**. Their existence can be known only by detailed and specific analysis.
- b) **Illustrations:** Error of principle, compensating errors etc. If an item of expense which should have been charged to repairs account has been charged by mistake to the building account or if the amount of depreciation is calculated incorrectly.

## 3. PROCEDURAL ERROR:

- a) **Meaning:** The errors that occur in the implementation of procedures may be termed as **procedural errors**. These errors there will not have any impact on the trail balance.
- b) **Illustrations:** Approving of a transaction by a person other than the authorized person to do so. Also evaluating the credit worthiness of a customer after making credit sales.

## SIMILAR QUESTION:

1. Self revealing errors and four illustrations there of (N 14 - 4M)
2. "Self - revealing Errors are such errors the existence of which becomes apparent in the process of compilation of accounts". Explain giving examples. (M17 RTP)
- A. Refer point no. 1 in above answer for both these questions.

Q.No.18. Explain the Types of errors as per Accounting aspect. (C)  
(SM) (FOR STUDENTS SELF STUDY)

## 1. ERRORS OF OMISSION:

- a) **Partial Omission:** One aspect of transaction, either debit or credit, is omitted to be recorded. In this case trial balance will not agree.
- b) **Complete Omission:** Both aspects of the transaction i.e. debit and credit are omitted to be recorded. Trial Balance will still agree.

## 2. ERRORS OF COMMISSION:

(PM)

When a transaction has been mis-recorded either wholly or partially it is called as an error of commission.

Error of commission can happen in the following ways-

- a) **Errors in posting:** Posting errors may be of a wrong account, wrong amount or wrong file. This error may or may not affect the trial balance.
- b) **Errors in Casting:** Casting errors are the errors committed while making the totals. This error affects the trial balance
- c) **Errors in carrying forward:** These are the errors committed while carry forwarding the totals from trial balance to financial statements or from one year to another year. These errors affect the trail balance.
3. **ERROR OF DUPLICATION:** Such an error occurs if the same transaction is recorded twice in the books of account. These errors will not affect the trail balance.

**4. COMPENSATING ERROR:**

- a) Compensating errors are those errors which offset against each other. For example, a cash purchase of Rs.100 may be wrongly entered in the cash book as Rs.1,000 whereas another purchase of Rs 1,000 may be wrongly entered as Rs.100.
- b) These errors will not affect the trail balance.

**5. ERROR OF PRINCIPLE:**

- a) Normally such errors occur due to misapplication of accounting principles. For example, wages paid for installation of a machine are debited to wages a/c instead of machinery a/c.
- b) These errors will not affect the agreement of trial balance. But these errors affect the Profit and loss a/c and the Balance sheet materially.

**Q.No.19. Write short notes on relationship of auditing with Economics and Behavioral science? (B)**  
**(FOR STUDENTS SELF STUDY)**

**1. AUDITING AND ECONOMICS:****(N 16, M 15 - RTP)**

- a) As, it is well known, accounting is concerned with the accumulation and presentation of data relating to economic activity.
- b) The auditors are more concerned with Micro economics rather than with the Macro economics.
- c) The knowledge of Macro economics should include the nature of economic force that affect the firm, relationship of price and the role of Government and Government regulations.
- d) Auditor is expected to be familiar with the overall economic environment in which his client is operating.

**2. AUDITING AND BEHAVIORAL SCIENCE:****(N13 - 5M)**

- a) The discipline of behavioral science is closely linked with the subject of auditing.
- b) While it may be said that an auditor deals basically with the figures contained in the financial statements but he shall be required to interact with a lot of people in the organization.
- c) As against the financial auditor, the internal auditor is expected to deal with human beings rather than financial figures.
- d) One of the basic elements in designing the internal control system is personnel. However, if a sound internal control structure is designed, it cannot work until and unless the people who are working in the organization are competent and honest.
- e) The knowledge of human behavior is indeed very essential for an auditor so as to effectively discharge his duties.

**SIMILAR QUESTIONS:**

1. "Auditor is expected to be familiar with the overall economic environment in which his client is operating." Discuss. **(N16 RTP)**
  - A. Refer "Auditing and Economics" in above.
2. The discipline of behavioral science is closely linked with the subject of auditing. Clearly explain the statement. **(N 13 - 5M)**
  - A. Refer "Auditing and behavioral science" in above.

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**QUESTIONS FOR ACADEMIC INTEREST – FOR STUDENT SELF STUDY**

**Q.No.20. Write about users of Financial statements or Entities interested in financial information? (C)**

Users	Purpose
Management	For <u>day – to - day decision - making</u> and <u>performance evaluation</u> .
Owners / Shareholders	To analyze <u>Performance</u> , <u>Profitability</u> and <u>Financial Position</u> . <b>Note:</b> Prospective investors are interested in the track record of the Company.
Lenders - Banks & Financial institutions	To determine the <u>Financial position</u> and <u>Credit worthiness</u> of the Company.
Customers	To know the <u>general business viability</u> before entering into long -term contracts and arrangements.
Government	<ul style="list-style-type: none"> <li>• To ensure prompt collection of Direct and Indirect Tax revenues.</li> <li>• To evaluate performance and contribution to social objectives.</li> </ul>
Research analysts	For evaluating <u>trends</u> and <u>for advising</u> prospective investors.
Employees	For Job security, Bonus.

**Q.No.21. Discuss the basic principles governing an audit (C)**

**(N09 - 6M, M13 - 8M)**

**Basic Principles Governing an Audit:** The basic principles which govern the auditor's professional responsibilities and which should be complied with wherever an audit is carried are described below-

1. Integrity, objectivity and independence
2. Confidentiality
3. Skills and Competence
4. Work performed by others
5. Documentation
6. Planning
7. Audit evidence
8. Accounting system and Internal Control
9. Audit Conclusions and Reporting

The audit report should contain a clear written opinion on the financial information and should comply the legal requirements. When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefore.

**SIMILAR QUESTIONS:**

1. "Auditor's professional responsibilities are governed by basic principles which should be complied with whenever an audit is carried out". Comment. (PM)

A. Refer above answer.

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**Q.No.22. Explain the relationship of auditing with remaining disciplines (C)**

- a) Statistics and Mathematics      b) Data processing      c) Financial management  
 d) Production.      e) Accounting      f) Law      (SM, M14 – 5M)

**a) Auditing and Statistics & Mathematics:**

(M16 - RTP)

- i) With the passage of time, test check procedures in auditing have become part of generally accepted auditing procedures.
- ii) With the emergence of test check procedure, discipline of statistics has come quite close to auditing as the auditor is also expected to have the knowledge of statistical sampling so as to arrive at meaningful conclusions.
- iii) The knowledge of mathematics is also required on the part of auditor particularly at the time of verification of inventories

**b) Auditing and Data Processing:**

- i) Today, organisations are witnessing revolution in the field of data processing of accounts.
- ii) Many organisations are carrying out their financial accounting activities with the help of computers which can document, record, collate, allocate and value accounting data and information in very large quantity at very high speed.
- iii) Dependence on the accuracy of the programmed instructions given today, the computer is able to carry out each of these activities with complete accuracy.
- iv) With such a phenomenal growth in the field of computer sciences, the auditor should have good knowledge of the components, general capability of the system and the related terms. In fact, EDP auditing in itself is developing as a discipline in itself.

**c) Auditing and Financial Management:**

- i) Auditing is also closely related with other functional fields of business such as finance, production, marketing, personnel and other general areas of business management.
- ii) With the overgrowing field of auditing, the financial services sector occupies a dominant place in our system.
- iii) While in general terms, the auditor is expected to have knowledge about various financial techniques such as working capital management, funds flow, ratio analysis, capital budgeting etc.
- iv) The auditor is also expected to have a fair knowledge of the institutions that comprise the market place
- v) The knowledge of various institutions and Government activities that influence the operations of the financial market are also required to be understood by an auditor.

**d) Auditing and Production:**

- i) Regarding production function, it may be stated that a good auditor is one who understands the client and his business.
- ii) While carrying out the audit activity, the auditor is required to evaluate transactions from the accounting aspect in relation to the process through which it has passed through as accounting for by-products; joint products may also require to be done.
- iii) The knowledge of production process shall become more essential in case of an internal auditor.
- iv) The auditor shall also require understanding the cost system in operation in the factory and assessing whether the same is adequate for the particular company.
- v) The understanding of the terminology of the production shall enable an auditor to communicate with production employees in connection with his work.

vi) On the similar pattern the auditor is also expected to have good understanding about the marketing, personnel and other general business management areas

e) **Auditing and Accounting:**

- i) It has been pointed out earlier that both accounting and auditing are closely related with each other as auditing reviews the financial statements which are nothing but a result of the overall accounting process.
- ii) It naturally calls on the part of the auditor to have a thorough and sound knowledge of generally accepted principles of accounting before he can review the financial statements.
- iii) To begin with, it may be noted that the discipline of auditing itself is a logical construct and everything done in auditing must be bound by the rules of logic. Ethical principles are the foundations on which the foundation of the entire accounting profession rests.

**SIMILAR QUESTIONS:-**

1. The field of auditing is a field of discipline in simple words involves review of various assertions; both in financial as well as in non-financial terms, with a view to prove the veracity of such assertions and expression of opinion by auditor on the same. In this context, you are required to explain the relationship between auditing and accounting.

f) **Auditing and Law:**

- i) The relationship between auditing and law is very close one. Auditing involves examination of various transactions from the view point of whether or not these have been properly entered into.
- ii) It necessitates that an auditor should have a good knowledge of business laws affecting the entity.
- iii) He should be familiar with the law of contracts, negotiable instruments, etc. The knowledge of taxation laws is also inevitable as entity is required to prepare their financial statements taking into account various provisions affected by various tax laws.
- iv) In analysing the impact of various transactions particularly from the accounting aspect, an auditor ought to have a good knowledge about the direct as well as indirect tax laws.

**INTRODUCTION TO STANDARDS ON AUDITING**

**Q.No.23. PRONOUNCEMENTS ISSUED BY ICAI AND THEIR COMPLIANCE. (A)**

The pronouncements of the ICAI and the duties of Members in relation thereto are summarized as under:

1. **STATEMENTS ON ACCOUNTING MATTERS:**

a) **Compliance:**

- i) Compliance with accounting standards is mandatory.
- ii) Therefore members should examine whether 'Statements' relating to accounting matters are complied by the management in the presentation of Financial Statements covered by their audit.

b) **Non-compliance:** In the event of any deviation from the 'Statements', it will be their duty to make adequate disclosures in their Audit Reports so that the users of Financial Statements may be aware of such deviations.

2. **STATEMENT ON AUDITING MATTERS:**

a) **Compliance:**

- i) Compliance with Statements on auditing is mandatory.



ii) Therefore members should comply with the 'statements' relating to auditing matters in the audit of financial information covered by their Audit Reports.

b) **Non-compliance:** If, for any reason, a Member has not been able to perform an audit in accordance with such 'Statements', his report should draw attention to the material departures there from.

### 3. GUIDANCE NOTES:

a) **Purpose of issue:** These are designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues that may pose difficulty.

b) **Compliance:**

i) They are recommendatory in nature.

ii) A Member should ordinarily follow an Auditing related Guidance Note except where he is satisfied that in the circumstances of the case, it may not be necessary to do so.

iii) Similarly while discharging his attest function, a Member should examine whether an accounting related Guidance Note has been followed or not.

iv) There are, however a few guidance notes in case of which the Council has specifically stated that they should be considered as mandatory on members while discharging their attest function.

c) **Non-compliance:** If any guidance note is not followed, then the member should consider whether a disclosure in his report is necessary keeping in view the circumstances of the case.

### 4. TECHNICAL GUIDES, PRACTICE MANUALS, STUDIES AND OTHER PAPERS PUBLISHED BY THE AASB:

a) These are published by Auditing and Assurance standards board (AASB). They do not establish any basic principles or essential procedures to be followed in Audit and accordingly no authority of the Council is required to issue them.

b) **Technical Guides** provides broad knowledge about a particular aspect or of an industry to the members.

c) **Practice Manuals** provides additional guidance to Professional Accountants in performing audit and other related assignments.

d) **Studies and other papers** are aimed at promoting discussion or debate or creating awareness on any issue affecting the profession.

### 5. GENERAL CLARIFICATION:

a) **Purpose:** General Clarifications are issued by AASB under the authority of the Council of the Institute with a view to clarify any issues from the Standards.

b) **Compliance:** General Clarifications are mandatory in nature.

### SIMILAR QUESTIONS:

1. "Statements" and "Guidance Notes" of ICAI - whether mandatory or recommendatory?

A. Refer point no. 1, 2, 3 in above answer.

(PM, M14 – 5M)

### Q.No.24. STANDARDS ISSUED BY AASB UNDER THE AUTHORITY OF COUNCIL. (A)

A. ENGAGEMENT STANDARDS:

(M12 – 5M, N15 - 4M)

The following standards issued by the Auditing and Assurance Standards Board under the authority of the Council are collectively known as the "Engagement Standards".

1. **Standards on Auditing (SAs)**, to be applied in the audit of historical financial information.

2. **Standards on Review Engagements (SREs)**, to be applied in the review of historical financial information.
  3. **Standards on Assurance Engagements (SAEs)**, to be applied in assurance engagements, dealing with subject matters other than historical financial information.
  4. **Standards on Related Services (SRSs)**, to be applied to engagements involving Application of agreed-upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.
- B. QUALITY CONTROL STANDARDS:** Standards on Quality Control (SQC), issued by the AASB under the authority of the Council, are to be applied for all services covered by the Engagement Standards as described in above.

**SIMILAR QUESTIONS:**

1. **Standards collectively known as the Engagements Standards issued by AASB under the authority of the council of ICAI – Discuss.** (PM, M12 – 5M, N15 - 4M)
- A. Refer above “Engagement Standards”

**Q.No.25. OBJECTIVES AND FUNCTIONS OF AASB. (A) (M15 - 6M)**

1. To review the existing and emerging auditing practices worldwide and identify areas in which Standards on Quality Control, Engagement Standards and Statements on Auditing need to be developed.
2. **To formulate**
  - a) Engagement Standards, Standards on Quality Control so that these may be issued under the authority of the Council of the Institute.
  - b) Guidance Notes on issues arising out of any Standard, auditing issues pertaining to any specific industry or on generic issues, so that those may be issued under the authority of the Council of the Institute
  - c) General Clarifications, where necessary, on issues arising from Standards.
  - d) Technical Guides, Practice Manuals, Studies and other papers under its own authority for guidance of professional accountants in the cases felt appropriate by the Board.
3. **To review**
  - The existing Standards and Statements on Auditing
  - The existing Guidance Notes

to assess their relevance in the changed circumstances and to undertake their revision, if necessary.

**SIMILAR QUESTIONS:**

1. **What are the objectives and functions of AASB?** (PM, M15 – 6M)
- A. Refer above answer.

**Q.No.26. LIST OF STANDARDS ON AUDITNG**

200-299	<b>General Principles and Responsibilities</b>		
	SA 200	Overall objectives of the independent Auditor and the conduct of an Audit in accordance with standards on Auditing (Revised).	1-4-2010
	SA 210	Agreeing the Terms of Audit Engagements (Revised).	1-4-2010

	SA 220	Quality Control for Audit of Financial Statements (Revised).	1-4-2010
	SA 230	Audit Documentation (Revised).	1-4-2009
	SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (Revised).	1-4-2009
	SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements (Revised).	1-4-2009
	SA 260	Communications with those Charged with Governance (Revised).	1-4-2009
	SA 265	Communicating Deficiencies in Internal Control to those charged with Governance and Management.	1-4-2010
	SA 299	Responsibility of Joint Auditors.	1-4-2008
	<b>Risk Assessment and Response to Assessed Risks</b>		
	SA 300	Planning an Audit of Financial Statements (Revised).	1-4-2008
	SA 315	Identifying and Assessing the Risk of Material Misstatements through Understanding the Entity and Its Environment.	1-4-2008
<b>300-499</b>	SA 320	Materiality in Planning and Performing an Audit (Revised).	1-4-2010
	SA 330	The Auditor's Responses to Assessed Risks.	1-4-2008
	SA 402	Audit Considerations Relating to Entities Using Service Organizations (Revised).	1-4-2010
	SA 450	Evaluation of misstatements identified during the audit.	1-4-2010
	<b>Audit Evidence</b>		
	SA 500	Audit Evidence (Revised).	1-4-2009
	SA 501	Audit Evidence-Additional Considerations for Specific Items (Revised).	1-4-2005
	SA 505	External Confirmations (Revised).	1-4-2010
	SA 510	Initial Audit Engagements –Opening Balances (Revised).	1-4-2010
<b>500-599</b>	SA 520	Analytical Procedures (Revised).	1-4-2010
	SA 530	Audit Sampling (Revised).	1-4-2009
	SA 540	Auditing Accounting Estimates, including fair value accounting estimates, and related disclosures (Revised).	1-4-2009
	SA 550	Related Parties (Revised).	1-4-2009
	SA 560	Subsequent Events (Revised).	1-4-2009
	SA 570	Going Concern (Revised).	1-4-2009
	SA 580	Written Representations (Revised).	1-4-2009
	<b>Using work of Others</b>		
<b>600-699</b>	SA 600	Using the Work of Another Auditor.	1-4-1995
	SA 610	Using the work of an Internal Auditor (Revised).	1-4-2011
	SA 620	Using the work of an Auditor's Expert (Revised).	1-4-2011
<b>700-799</b>	<b>Audit Conclusions and Reporting</b>		
	SA 700	Forming an opinion and Reporting on Financial Statements (Revised).	1-4-2011
	SA 705	Modifications to the opinion in the independent Auditor's Report	1-4-2011
	SA 706	Emphasis of Matter Paragraphs and Other Matter	1-4-2011

		Paragraphs in the independent Auditor's Report	
	SA 710	Comparative information – Corresponding figures and comparative financial statements (Revised).	1-4-2011
	SA 720	The Auditor's responsibilities in relation to other information in documents containing audited financial statements.	1-4-2011

**SIMILAR QUESTIONS:**

1. Mention any twelve title of Statements on Standards on Auditing and the date from which it comes into force.

A: Write any of the 12 SA'S from above table.

**SA 200: OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING (on or after April 1, 2010)**

A. **DEFINITIONS:** (N17 – 4M)

1. **Applicable financial reporting framework:** The financial reporting framework
- adopted by management and, where appropriate, those charged with governance
  - in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity or that is required by law or regulation.

B. **PREPARATION OF FINANCIAL STATEMENT:**

- a) Primary responsibility for preparation and presentation of financial statements lies with management.
- b) Audit of the financial statements does not relieve them of their responsibilities.

C. **OVERALL OBJECTIVES OF THE AUDITOR:** Refer Q.No:9 (A) in Above. (M17RTP)

D. **SCOPE OF AUDIT:** Refer Q.No:9 (B) in Above. (M17RTP)

E. **INHERENT LIMITATIONS OF AN AUDIT:** Refer Q.No:11 in Above.  
(N14, M15, M16, N16 – RTP, M11 - 8M)

F. **REQUIREMENTS/RESPONSIBILITIES OF THE AUDITOR:** Refer Q.No:10 In Above.

G. **PROFESSIONAL SKEPTICISM:** Refer Q.No:13 in Above. (N16 RTP, M14 - 6M)

H. **PROFESSIONAL JUDGMENT:** Refer Q.No:14 in Above. (N 15 - RTP)

I. **CONDUCT OF AN AUDIT IN ACCORDANCE WITH SA'S:**

1. **Compliance:** The auditor shall comply with each requirement of an SA unless, in the circumstances of the audit:
- The entire SA is not relevant; or
  - The requirement is not relevant because it is conditional and the condition does not exist.
2. **Departure from SA:** In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA.
3. **Remedy for departure:** In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.
4. **Failure to achieve an objective:**
- i) If an objective in a relevant SA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SAs,

- to modify the auditor's opinion or
  - withdraw from the engagement.
- ii) Failure to achieve an objective represents a significant matter requiring documentation in accordance with SA 230.

**SA 240 (Revised) THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS (w.e.f. 1st April 2009)**

1. **ERROR:** REFER Q.NO:6 IN ABOVE.
2. **FRAUD:** REFER Q.NO:6 IN ABOVE.
3. **RESPONSIBILITY FOR THE PREVENTION AND DETECTION OF FRAUD:** The primary responsibility for the prevention and detection of fraud rests with both TCWG and management.
4. **RESPONSIBILITIES OF THE AUDITOR:** REFER Q.NO:10 IN ABOVE.
5. **RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES:**
  - a) **Enquiring Management and Others within the entity:** The auditor shall make inquiries of management regarding:
    - i) Management's assessment of the risk of material misstatement due to fraud;
    - ii) Management's communication, if any, to employees on business practices & ethical behavior.
  - b) **Enquiring Those Charged with Governance:**
    - i) He shall obtain an understanding of how TCWG supervise management's processes.
    - ii) The auditor shall ask TCWG whether they have knowledge of any fraud affecting the entity
  - c) **Evaluation of Fraud Risk Factors:**
    - i) **Fraud risk factors:** Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.  
**For example,** Absence of Internal controls, decline in demand for the company's products etc.
    - ii) The auditor shall evaluate whether the information obtained, indicates that one or more fraud risk factors are present.
    - iii) However, fraud risk factors may not necessarily indicate the existence of fraud.
6. **FACTORS INFLUENCING THE AUDITOR'S ABILITY TO DETECT FRAUD:** REFER Q.NO:6 IN ABOVE.
7. **FRAUD RISK FACTORS:** Fraud risk factors are the indicators of existence of fraud. Even though they does not confirm about the existence of the fraud, they have often been present in the circumstances where frauds have occurred.

The fraud risk factors may be classified based on three conditions as follows -

Conditions	Fraudulent Financial Reporting	Misappropriation of Assets
Incentives/ Pressures	<ul style="list-style-type: none"> <li>• High degree of competition</li> <li>• Significant changes in technology and decline in customer demand</li> <li>• Rapid growth or unusual profitability when compared with other companies in the same industry.</li> <li>• New accounting, statutory or regulatory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Known or anticipated future employee layoffs</li> <li>• Promotions and compensations inconsistent with expectations</li> </ul>

<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Significant related party transactions not in the ordinary course of business.</li> <li>• Usage of accounting estimates</li> <li>• Significant operations located across international borders.</li> </ul>	<ul style="list-style-type: none"> <li>• Easily convertible assets</li> <li>• Assets of smaller in size</li> <li>• Lack of internal controls</li> </ul>
<b>Attitudes and rationalizations</b>	<ul style="list-style-type: none"> <li>• Doubts about integrity of management</li> <li>• Known history of violation of laws and regulations</li> <li>• Management failing to remedy known significant deficiencies in internal control.</li> </ul>	<ul style="list-style-type: none"> <li>• Behavior indicating dissatisfaction with entity</li> <li>• Tolerance of petty thefts</li> <li>• Change in behavior or lifestyle that may indicate assets have been misappropriated.</li> </ul>

**THE END**

MASTER MINDS