

FINAL COURSE

PAPER – 3

ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

[RELEVANT FOR MAY, 2026 EXAMINATION AND ONWARDS]

BOOKLET ON CASE SCENARIOS



**BOARD OF STUDIES (ACADEMIC)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

This booklet has been prepared by the faculty of the Board of Studies (Academic). The objective of the booklet is to provide practice material to the students to enable them to prepare for the examination. In case students need any clarifications or have any suggestions to make for further improvement of the booklet, they may write to the Joint Director, Board of Studies (Academic).

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BEFORE WE BEGIN.....

Under the New Scheme of Education and Training which began from 1st July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to facilitate hands on practice for such type of questions, the BOS launched MCQ Paper Practice Portal on 1st July, 2023. This online portal carried independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies had brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At the Final level, the 'Booklet on Case Scenarios for Advanced Auditing, Assurance, and Professional Ethics' includes integrated case scenarios that cover Engagement and Quality Control Standards, applicable regulatory frameworks and ethical considerations. This booklet assimilates practical audit situations, ensuring that students develop a comprehensive and application-based understanding of the subject. The case scenario-based MCQs presented in this booklet are designed to be application-oriented, requiring students to analyze facts, apply relevant Standards on Auditing, Regulations, Code of Ethics, and guidelines, and arrive at the correct conclusions.

Each case scenario is followed by MCQs, along with correct answer and reason or hint for the same. These reasonings/hints are intended to help students recognize key concepts and identify areas requiring additional focus.

Students are strongly encouraged to first gain a thorough understanding of the topics covered in syllabus and study material before attempting the case

scenario-based MCQs in this booklet. Achieving conceptual clarity will enable students to apply their knowledge effectively, refine their analytical and problem-solving abilities, and confidently approach their examinations with a strategic mindset.

We are confident that this booklet will prove to be a valuable asset in your preparation journey. We encourage students to immerse in the case scenarios, engage critically with the MCQs, and embrace the learning experience to excel in the CA Final Examination.

Best wishes for your studies and success in the CA Final Examination!

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CASE SCENARIO 1

A Ltd. is a top 1000 listed company engaged in manufacturing of edible oils having its registered office at Mumbai and its branches all over India. M/s HG & Co., Chartered Accountants, have been appointed as the statutory auditors of A Ltd. for the financial year 2024-25. CA H is the engagement partner for this assignment. The company's net worth is ₹ 500 crores, annual turnover is ₹ 1000 crores and net profit is of ₹ 5 crores during immediately preceding financial year 2023-24. During the course of audit, CA H made the following major observations:

- A Ltd. has constituted a Corporate Social Responsibility (CSR) Committee of the Board pursuant to Section 135 of the Companies Act, 2013. The CSR Committee has formulated and recommended to the Board a CSR Policy and has recommended the amount of expenditure to be incurred on the specified activities which shall be recognized as CSR spending. CA H observed that an amount of ₹ 20 lacs was unspent in respect of other than on-going projects relating to the CSR spending. CA H is exploring his reporting responsibilities for compliance under CARO, 2020.
- CA H during the course of audit noticed that Enforcement Directorate had issued show-cause notices for various non-compliances of Foreign Exchange Management Act and regulatory action against the company may be expected. The Board of Directors have not mentioned the same in their report as the outcome is uncertain. This is not reflecting anywhere in the financial statements, however, CA H thinks that it is relevant for the users' understanding of the financial statements.
- The company also has 2 subsidiaries B Ltd. and C Ltd. The auditors are required to prepare the standalone as well as the consolidated financial statements of the company. For the purpose of making current period consolidation adjustments, CA H has asked the company to provide with the financial statements and information of the subsidiaries. Both the subsidiaries are audited by other auditors.

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- CA H in consultation with management, decided to visit 10 out of 15 branches of A Ltd., within a period of 15-20 days, situated in various states of India. Management decided to pay CA H advance of ₹ 5 lacs against the estimated expenses of ₹ 5.25 lacs on visits to be conducted as a part of services rendered. In terms of the discussion, ₹ 5 lacs was transferred to his bank account from which he has to meet all the expenses for visiting branches for the audit. However, he failed to keep the amount received from A Ltd. in a separate bank account.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. With regard to the unspent amount of ₹ 20 lacs, out of the following select the appropriate reporting responsibilities of M/s HG & Co. for compliance of CARO 2020:
 - (a) Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year.
 - (b) Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule III to the Companies Act within a period of six months of the expiry of the financial year.
 - (c) Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of three months of the expiry of the financial year.
 - (d) Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule III to the Companies Act within a period of three months of the expiry of the financial year.
2. How will CA H report the matter relating to the non-compliances under Foreign Exchange Management Act?
 - (a) CA H should include the matter in Emphasis of Matter Paragraph.
 - (b) CA H should include the matter in Other Matter Paragraph.

-
- (c) CA H should include the matter in Key audit matters.
- (d) CA H should not report the matter as no regulatory action has been taken against the company as on the balance sheet date.
3. Which of the following is not a current period consolidation adjustment?
- (a) Adjustments relating to harmonising the different accounting policies followed by A Ltd. and B Ltd. & C Ltd.
- (b) Adjustments to the financial statements for the recognized subsequent events.
- (c) Determination of goodwill or capital reserve of B Ltd. and C Ltd. as per the applicable accounting standards.
- (d) Determination of unrealised intra-group profits on assets acquired/transferred from/to B Ltd. and/or C Ltd.
4. For failing to keep moneys in a separate bank account, will CA H be held guilty of professional misconduct under the Chartered Accountant Act, 1949 and its schedules thereto?
- (a) Yes, in this connection the Council has made specific suggestion that an advance received by a Chartered Accountant against services to be rendered and not kept in separate bank account is covered under Clause (10) of Part I of the Second Schedule and hence CA H will be held guilty of professional misconduct.
- (b) No, in this connection the Council has made suggestion that an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule and not keeping in separate bank account is valid hence CA H will not be held guilty of professional misconduct.
- (c) Yes, any amount received from the client and not kept in a separate bank account falls under Clause (10) of Part I of the Second Schedule and hence CA H will be held guilty of professional misconduct.
- (d) No, CA H will not be held guilty of professional misconduct since provisions of Clause (10) of Part I of the Second Schedule are

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applicable only to professional accountant in service and not to professional accountant in practice.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year.

Reason:

As per CARO 2020, the auditor is required to report whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act.

2. **Option (b)** CA H should include the matter in Other Matter Paragraph.

Reason:

As per SA 706, Other Matter Paragraph is a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

3. **Option (c)** Determination of goodwill or capital reserve of B Ltd. and C Ltd. as per the applicable accounting standards.

Reason:

Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Permanent consolidation adjustments include determination of goodwill or capital reserve as per applicable accounting standards and determination of amount of equity attributable to minority/non-controlling interests.

4. **Option (b)** No, in this connection the Council has made suggestion that an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule and not keeping in separate bank account is valid hence CA H will not be held guilty of professional misconduct.

Reason:

As per clause (10) of Part I of the Second Schedule of the Chartered Accountant Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time. In this connection the Council has decided that an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.

CASE SCENARIO 2

M/s SQC & Associates is a firm of Chartered Accountants, specialising in audit and assurance services for the past 2 decades, having 6 partners with its headquarters at Thiruvananthapuram and branch offices at 3 locations in Kerala.

They are appointed as statutory auditors of Kochi Branch of KLM Bank Limited for the Financial Year 2024-25. The Bank branch has granted various types of advances to its customers including export advances. The auditors want to be sure that there is no revenue leakage in the branch and the auditor has conducted a detailed verification of compliance with the bank's policies and guidelines.

The following discrepancies are identified during verification of revenue leakage:

- (i) QT Ltd. was sanctioned a term loan of ₹ 5 crores at an interest rate of 9.5% p.a. as per the sanction letter. However, due to some technical problem, the bank's Core Banking System (CBS) reflects an interest rate of 8.5% p.a. w.e.f. 01/04/2024.
- (ii) The bank has sanctioned a working capital limit of ₹ 3 crores to NK Pvt. Ltd. The bank's circular mandates a processing fee of 1%, but only 0.5% was charged.
- (iii) The bank has sanctioned a Cash Credit (CC) limit of ₹ 4 crores to DEF Ltd., with a condition that stock statements must be submitted monthly. DEF Ltd. has not submitted stock statements for 3 months, triggering a penal interest of 2% p.a. as per the sanctioned terms.

M/s SQC & Associates are appointed as auditors of Easy Finance Limited, which is an NBFC company for the year 2024-25 for which CA S is the engagement partner. CA S is concerned with calculating the aggregate risk adjusted value of assets for reckoning the minimum capital ratio.

Following details are available from the Balance sheet of Easy Finance Limited as on 31st March, 2025:

- (i) Cash and bank balances including fixed deposits and certificates of deposits with banks - ₹ 8 crores
- (ii) Investments - Bonds of public financial institutions - ₹ 50 crores
- (iii) Current Assets - Loans to staff - ₹ 5 crores
- (iv) Fixed Assets (Net of Depreciation) - Furniture and Fixtures - ₹ 30 crores
- (v) Domestic Sovereign - State Government Guaranteed claims which are in default for 75 days - ₹ 60 crores

Further M/s SQC & Associates were appointed as statutory auditors of MRP Limited, a listed company, for the financial year 2024-25. It was observed during the audit that MRP Limited has carried out revaluation of its buildings and software assets. The revaluation was conducted by a Registered Valuer certified by the Insolvency and Bankruptcy Board of India (IBBI).

- As a result of the revaluation, the carrying value of its "Buildings" was increased. It represents 6% increase over the Gross carrying value of the "Buildings" class as at the beginning of the year. It represents 12% increase over the net carrying value of the "Buildings" class as at the beginning of the year.
- The "Software Assets" saw a downward revaluation adjustment. It constitutes 10% reduction over the Gross carrying value of the "software" class as at the beginning of the year. It constitutes 16% reduction over the net carrying value of the "software" class as at the beginning of the year.

M/s SQC & Associates are in the course of forming an opinion on the financial statements of MRP Limited. Based on the evaluation of the conclusions drawn from the audit evidence obtained, they have made the following observations:

- **Observation 1:** The Company procures raw materials from a large number of local and international suppliers. As on 31st March 2025, trade payables form a significant portion of total liabilities. A substantial number of supplier accounts were subject to reconciliation issues, delayed confirmations or required significant year-end adjustments. The management did not respond properly to the issues raised by the auditor. It was considered as a high risk area by the auditor. However, based on

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other audit procedures, it was concluded that the trade payable balances had been appropriately recorded.

- **Observation 2:** A batch of finished goods worth ₹ 1.8 crores was found to be missing during the physical verification of inventory. It constituted a significant portion of the value of inventory of finished goods. The management stated that it was due to a clerical error in location mapping and claimed to have traced the goods post year-end. However, the documentation presented was insufficient and not independently verifiable.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. You are required to calculate the amount of revenue leakage calculated by the auditors for Kochi Branch of KLM Bank limited.
 - (a) ₹ 9,50,000
 - (b) ₹ 9,00,000
 - (c) ₹ 8,50,000
 - (d) ₹ 10,50,000
2. Select the correct option after calculating the aggregate risk adjusted value of above funded assets for reckoning the minimum capital ratio of Easy Finance Limited for the year ended on 31st March, 2025.
 - (a) ₹ 110 crores
 - (b) ₹ 92 crores
 - (c) ₹ 115 crores
 - (d) ₹ 52 crores
3. How will M/s SQC & Associates report under CARO, 2020, with reference to the revaluation of assets of MRP Limited?
 - (a) Report only the revaluation of software assets, mention that valuation is done by a Registered Valuer and specify the amount of change.

- (b) Report only the revaluation of buildings, mention that valuation is done by a Registered Valuer and specify the amount of change.
 - (c) Both the revaluation of buildings as well as software assets is not required to be reported.
 - (d) Both the revaluation of buildings as well as software assets is required to be reported, mention that valuation is done by a Registered Valuer and specify the amount of change.
4. What type of opinion or reporting M/s SQC & Associates should issue in their auditor's report of MRP Limited considering the two observations as per the applicable Standards on Auditing?
- (a) Issue an unmodified opinion as both matters have explanations from management and are not pervasive.
 - (b) Include Observation 1 in a Key Audit Matter (KAM) section and Observation 2 in Emphasis of Matter paragraph.
 - (c) Disclose Observation 1 under "Other Matter" paragraph and Qualify the opinion due to the material but not pervasive limitation of Observation 2.
 - (d) Disclose Observation 1 under "Key Audit Matter" and Qualify the audit opinion due to material but not pervasive limitation of Observation 2.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c) ₹ 8,50,000

Reason:

Revenue Leakage

Term loan interest: 5 crores * (9.5% - 8.5%) = ₹ 500000

Processing fee : 3 crores * (1% - 0.5%) = ₹ 150000

Penal Interest : 4 crores * 2% * 3/12 = ₹ 200000

Revenue leakage = ₹ 850000

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2. Option (b) ₹ 92 crores

Reason:

Aggregate risk adjusted value:

Investments - Bonds of public financial institutions ₹50 crores*100% = ₹ 50 crores

Fixed Assets (Net of Depreciation) - Furniture and Fixtures ₹30 crores*100% = ₹ 30 crores

Domestic Sovereign - State Government Guaranteed claims which are in default for 75 days ₹60 crores*20% = ₹12 crores

Aggregate risk adjusted value = ₹92 crores

3. Option (d) Both the revaluation of buildings as well as software assets is required to be reported, mention that valuation is done by a Registered Valuer and specify the amount of change.

Reason:

As per CARO, 2020 the auditor's report on the accounts of a company to which this Order applies shall include a statement that whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

4. Option (d) Disclose Observation 1 under "Key Audit Matter" and Qualify the audit opinion due to material but not pervasive limitation of Observation 2.

Reason:

Observation 1 involved a high-risk area requiring significant auditor attention, but sufficient appropriate audit evidence was ultimately obtained and balances were found to be correctly stated; hence, it is appropriately reported as a Key Audit Matter under SA 701. Observation

2 relates to missing finished goods of material value, for which management's explanation could not be independently verified due to inadequate documentation. This represents a limitation on scope. The possible impact is material but not pervasive to the financial statements. Accordingly, as per SA 705, a qualified opinion is required. Therefore, Option (d) is the correct answer.

CASE SCENARIO 3

Ratnesh Limited (hereinafter referred to as 'The Company'), a listed entity, is in the business of hiring of Oil Rigs, is established since 2001. The Company is having its Head Office at Mumbai and having its operations across the country. The Company appointed MPR & Co., GKS & Co., YX & Associates and ABC & Associates as joint auditors for the year 2024-25. The professional work was divided by audit firms among themselves mutually. However, work relating to "Information processing" which is a part of the control activities, a component of Internal Controls of the company was allocated to MPR & Co. specifically and was not a part of the joint audit assignment. Due to shortage of resources, MPR & Co. took the help of subordinate staff of ABC & Associates for such verification.

While verifying the controls, subordinate staff of ABC & Associates observed the following control activities:

- (i) Actual performance was reviewed against budgeted one.
- (ii) Edit checks of input data and numerical sequence checks.
- (iii) Authorisation for access to computer programs and data files.
- (iv) Controls over the implementation of new releases of packaged software applications.

During audit, one of the joint auditors GKS & Co. observed that the Company has adopted a new IND AS which will be effective from 01.04.2026. Early adoption of the aforesaid IND AS is permitted as per extant guidelines. This early adoption of the new IND AS has a material effect on the financial statements of the Company. The material effect on the financial statements was disclosed in the notes to the financial statements. GKS & Co. performed various audit procedures to verify the same and it was found to be satisfactory in nature.

YX & Associates appointed Mr. C, as an expert, to verify the actuarial valuation done by the company. They performed the following specific procedures to evaluate the relevance and reasonableness of Mr. C's findings and their consistency with other audit evidence for the audit purpose:

- (i) Performed corroborative procedures for observing Mr. C's work.
- (ii) Performed detailed analytical procedures to see whether Principles of materiality aspects considered.
- (iii) Reviewed the data for completeness and internal consistency.
- (iv) Verified the origin of the data.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Which of the activities verified by the subordinate staff of ABC & Associates pertains to the Control Activities - Information processing?
Options:
 - (a) (i) & (ii)
 - (b) (iii) & (iv)
 - (c) (ii) & (iii)
 - (d) (ii) & (iv)
2. Which of the following are not the specific procedures to evaluate the relevance and reasonableness of Mr. C's finding and consistency with other audit evidence?
 - (a) (i) and (ii)
 - (b) (iii) and (iv)
 - (c) (ii) and (iii)
 - (d) (i) and (iv)
3. The effect of early adoption of Ind-AS will be reported under which head in the Audit Report?
Options:
 - (a) Other Information
 - (b) Key Audit Matter

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- (c) Other Matter Paragraph
 - (d) Emphasis of Matter Paragraph
4. Which audit firm is responsible for lapses in the audit procedures for testing of control activities relating to information processing, in terms of SA 299, in case the audit procedures are not performed professionally by subordinate staff of ABC & Associates?
- (a) MPR & Co. only
 - (b) Both MPR & Co. and ABC & Associates
 - (c) ABC & Associates only
 - (d) All the joint auditors will be responsible.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** (ii) & (iv)

Reason:

Information processing: The two broad groupings of information systems control activities are application controls and general IT-controls. Examples of application controls include automated controls such as edit checks of input data and numerical sequence checks. Examples of general IT-controls are controls over the implementation of new releases of packaged software applications.

Performance reviews control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance. Physical Controls includes authorisation for access to computer programs and data files.

2. **Option (b)** (iii) and (iv)

Reason:

As per SA 620, "Using the work of an Auditors' Expert", the auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

The Findings and Conclusions of the Auditor's Expert Specific procedures to evaluate the adequacy of the auditor's expert's work for the auditor's purposes may include corroborative procedures, such as:

- Observing the auditor's expert's work;
- Examining published data, such as statistical reports from reputable, authoritative sources;
- Confirming relevant matters with third parties;
- Performing detailed analytical procedures to see whether Principles of materiality aspects considered; and
- Re-performing calculations.

3. Option (d) Emphasis of Matter Paragraph

Reason:

Early application (where permitted) of a new accounting standard that has a material effect on the financial statements is one of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph as per SA 706.

4. Option (a) MPR & Co. only

Reason:

In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures as per SA 299, "Joint Audit of Financial Statements".

CASE SCENARIO 4

M/s FILE & Co. is a firm of Chartered Accountants consisting of 12 partners based at Mumbai. The audit firm is engaged in the audit of DEAF Ltd. for the financial year 2024-2025 for which CA L is the engagement partner.

During the course of the audit of DEAF Ltd., the following misstatements were identified:

- I. A calculation error in the depreciation schedule amounting to ₹ 1 lakh.
- II. Management's estimate regarding inventory valuation seemed aggressive, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable.
- III. A sample audit revealed an error in sales invoices amounting to ₹ 60,000 and the population of similar invoices totalled ₹ 1 crore. The auditor's best estimate of misstatement in population identified in the samples to the entire population is ₹ 6 lakhs.

CA L has determined a threshold of ₹ 75,000 as the amount below which misstatements would be considered clearly trivial.

Further:

- (i) The auditor communicated with those charged with governance regarding uncorrected misstatements and their effect and requested to them that uncorrected misstatements be corrected.
- (ii) The management corrected the inventory valuation issue but did not correct the depreciation error or the error in sales invoices amounting to ₹ 60,000, considering the immateriality.
- (iii) After evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, CA L is concerned on the documentation aspect with reference to the relevant Standard on Auditing.

M/s FILE & Co. is also the statutory auditors of Purple Pvt. Ltd., a manufacturing company, which has been severely impacted by economic downturns and

operational inefficiencies. The company's cash flow statements reveal recurring negative cash flows, and its interim financial statements show a significant decline in profitability. Additionally, Purple Pvt. Ltd. has defaulted on loan covenants, and on-going litigation poses a risk of substantial financial liabilities. Management has stated their plans to mitigate these challenges by restructuring debt, securing additional funding from related parties, and reducing operational costs. However, no formal documentation supporting these plans has been provided yet.

M/s FILE & Co. have identified the events and conditions in the case of Purple Pvt. Ltd. which cast significant doubt on the entity's ability to continue as a Going Concern, and auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty exists and gather evidence including of mitigating factors.

M/s FILE & Co. is planning to perform the following additional procedures:

- (i) As long as management provides a representation letter stating their plans to address financing difficulties the auditor is not bound by the terms of breached loan agreements.
- (ii) Confirm the existence, legality, and enforceability of arrangements to provide or maintain financial support, both from related/third parties and the assessment of the financial ability of such parties to provide the promised support as immaterial.
- (iii) Evaluate the assumptions underlying cash flow, profit, and other relevant forecasts, considering historical accuracy and current market conditions.
- (iv) Considering whether existing facts and information have become available since the date of management's initial assessment that could impact the going concern conclusion.
- (v) Review minutes of meetings of shareholders, those charged with governance, and relevant committees for references to financial difficulties, plans for mitigating actions, or discussions on securing additional funding.
- (vi) If management has not yet performed an assessment, the entity is treated as not a going concern and issue a modified audit opinion without further evidence.

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M/s FILE & Co. the statutory auditors of Crypto Ltd., a non-listed public company, carrying out manufacturing activity, have been identified for their quality review based upon risk based approach. However, Crypto Ltd. is neither covered under Rule 3 of NFRA Rules, 2018 nor referred to QRB by NFRA. The Quality Review Board (QRB) is entrusted with conducting a quality review of M/s FILE & Co.'s audit services. During the review, QRB identifies non-compliance with Standards on Auditing (SAs) in areas related to engagement documentation and independence. Meanwhile, NFRA receives a whistle blower complaint regarding audit irregularities in Glitch Ltd., a listed company, audited by FILE & Co. M/s FILE & Co. was charged with failure to identify related parties and transactions with them. Glitch Ltd. has made 95% of sales to a related party which was not identified as such in the annual report of the company. NFRA initiates an investigation under Section 132(4) of the Companies Act, 2013.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Which of the following options is correct regarding the classification and treatment of the identified misstatements of DEAF Ltd. under relevant Standard on Auditing?
 - (a) The ₹ 1 lakh error in depreciation schedule qualifies as a judgemental misstatement. Management's estimate regarding inventory, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable does not qualify as a misstatement.

A sample audit revealed an error in sales invoices amounting to ₹ 60,000 is a factual misstatement.
 - (b) The ₹ 1 lakh error in the depreciation schedule is a judgemental misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a factual misstatement.

The invoice-related error does not qualify as a misstatement as the individual error is below the trivial threshold.

- (c) The ₹ 1 lakh error in the depreciation schedule is a factual misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a projected misstatement.

The auditor's best estimate of misstatement of population is a judgemental misstatement.

- (d) The ₹ 1 lakh error in the depreciation schedule is a factual misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a judgmental misstatement. The auditor's best estimate of misstatement of ₹ 6 lakhs to entire population is a projected misstatement.

2. Which of the following actions is not required as part of the auditor's documentation for the identified misstatements of DEAF Ltd.?
- (a) Justifications for not communicating identified misstatements to those charged with governance.
- (b) Recording the predetermined threshold of ₹ 75,000 as the amount below which misstatements would be considered clearly trivial.
- (c) Listing all identified misstatements, including the inventory misstatement, even if corrected by management.
- (d) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.
3. Based on the listed additional procedures, which of the following are the inappropriate actions for the auditor to take decision on Going Concern in the case of Purple Pvt. Ltd.?
- (a) (i), (ii), (iii), (iv)
- (b) (i), (ii), (iv), (vi)

- (c) (ii), (iii), (iv), (vi)
(d) (iii), (iv), (v), (vi)
4. Which of the following statements is most appropriate in the context of the roles of QRB and NFRA?
- (a) QRB is empowered to review the quality of audit services for both Crypto Ltd. and Glitch Ltd. since it oversees all entities audited by ICAI members.
- (b) NFRA cannot investigate Glitch Ltd. as it falls under QRB's jurisdiction due to the audit being performed by ICAI members.
- (c) QRB can review the quality of audit services of Crypto Ltd.; but cannot review the quality of audit services of Glitch Ltd.
- (d) NFRA and QRB have overlapping jurisdiction for listed entities, and either body can independently investigate Glitch Ltd.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** The ₹ 1 lakh error in the depreciation schedule is a factual misstatement. The inventory valuation overstatement of ₹ 5 lakhs is a judgmental misstatement. The auditor's best estimate of misstatement of ₹ 6 lakhs to entire population is a projected misstatement.

Reason:

Factual misstatements: Misstatements about which there is no doubt.

Judgmental misstatements: Differences arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate.

Projected misstatements: The auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

2. **Option (a)** Justifications for not communicating identified misstatements to those charged with governance.

Reason:

The audit documentation shall include:

- (a) The amount below which misstatements would be regarded as clearly trivial;
- (b) All misstatements accumulated during the audit and whether they have been corrected; and
- (c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

3. **Option (b)** (i), (ii), (iv), (vi)

Reason:

As per SA 570, "Going Concern", events and conditions have been identified which cast significant doubt on the entity's ability to continue as a Going Concern, the auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty and gather evidence including mitigating factors. It can be done by performing additional procedures, however, following are the inappropriate actions for the auditor to take decision on Going Concern in the case of Purple Pvt. Ltd.: -

- (i) As long as management provides a representation letter stating their plans to address financing difficulties the auditor is not bound by the terms of breached loan agreements.
- (ii) Confirm the existence, legality, and enforceability of arrangements to provide or maintain financial support, both from related/third parties and the assessment of the financial ability of such parties to provide the promised support as immaterial.

- (iii) Considering whether existing facts and information have become available since the date of management's initial assessment that could impact the going concern conclusion.
- (iv) If management has not yet performed an assessment, the entity is treated as not a going concern and issue a modified audit opinion without further evidence.

- 4. Option (c)** QRB can review the quality of audit services of Crypto Ltd.; but cannot review the quality of audit services of Glitch Ltd.

Reason:

Overseeing quality of audit services of listed companies falls under the purview of NFRA. QRB can review quality of audit services provided by the members of the Institute only in respect of entities other than those specified under Rule 3 of the NFRA Rules, 2018 and those referred to QRB by NFRA under relevant rules.

CASE SCENARIO 5

M/s TAG & Associates, a Chartered Accountant firm was appointed by Comptroller and Auditor General to conduct performance audit of Wind power Ltd., a public sector undertaking of Government of India for the financial year 2024-25. Wind power Ltd. is engaged in generation of wind power with setting up of wind power plants at distinct locations in the country. The audit is assigned with the objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

The audit firm is concerned with Planning for Performance Audit.

The audit manager Mr. G suggested the following procedures in the following sequence of steps for conduct of Performance audit:

- (1) Understanding the entity/programme
- (2) Defining the objectives and the scope of audit
- (3) Deciding audit approach
- (4) Developing audit questions
- (5) Determining audit criteria
- (6) Establishing time table and resources
- (7) Preparing Audit Design Matrix
- (8) Assessing audit team skills and whether outside expertise required
- (9) Intimation of Audit programme to audit entities

Further, in the course of performance audit of Wind power Ltd., the engagement partner CA JP entrusted the audit work to four team members namely Mr. P, Mr. Q, Mr. R, Mr. S. The audit team is initially concentrated in deciding audit approach. CA JP suggested that there is no uniform audit approach prescribed that can be applicable to all types of subjects of performance audits. CA JP

asked his team members to suggest a method for conducting the Performance audit.

- Mr. P suggested a method which involves a descriptive analysis of an entity, scheme or a programme.
- Mr. Q suggested a method which involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc.
- Mr. R suggested a method which involves collecting information from members of a population to assess the interrelation of events and conditions.
- Mr. S suggested a method which involves review of the systems in place for planning, conducting, checking, and monitoring the activity.

CA JP analysed the methods suggested by each team member.

M/s TAG & Associates were appointed as statutory auditors of Indore Main branch of a public sector bank for the financial year 2024-25. Advances generally constitute a major part of the assets of the branch. There are substantial number of borrowers to whom variety of advances are granted. Hence, they felt that audit of advances requires major attention. M/s TAG & Associates are primarily concerned with obtaining evidence about the following while carrying out audit of advances:

- Amounts due to the bank are appropriately supported by loan documents.
- The stated basis of valuation of advances is appropriate and properly applied and recoverability of advances is recognized in their valuation.
- Advances are disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory and regulatory requirements.
- Appropriate provisions towards advances are made as per RBI norms, accounting standards and generally accepted accounting practices.

Audit approach of advances should encompass designing appropriate audit procedures to obtain audit evidence in all these areas.

The engagement partner, CA R assigned the focus areas in advances to the members of audit team as follows:

Mr. X was assigned to focus on evaluation of internal control on advances.
Mr. Y was assigned to focus on substantive audit procedures on advances.
Mr. Z was assigned to focus on recoverability of advances.

Further during the course of audit, it was observed that in the case of Kiran Ltd., a trading company which has availed a cash credit facility of ₹ 10 crore from Indore Main branch, the drawing power was not arrived at by bank.

As of 31st March 2025, the following details are provided regarding its stock, receivables (with ageing analysis), and creditors for calculating the Drawing Power (DP):

Particulars	Amount (₹ in lakhs)	Remarks
Total Stock	900	Includes damaged stock of ₹ 60 lakhs.
Total Receivables (Debtors)	800	Ageing details provided below.
Creditors for Stock	140	Related to stock financed by creditors.
Margin on Stock	25%	As per bank sanction terms.
Margin on Receivables	40%	As per bank sanction terms.
Sanctioned Cash Credit Limit	1000	

Debtors' Ageing Analysis:

Age Bucket	Amount (₹ in lakhs)
0 - 30 days	250
31 - 60 days	200
61 - 90 days	250
> 90 days (Overdue)	100
Total Receivables	800

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. CA JP, the engagement partner is satisfied with the procedures suggested by audit manager but he is not convinced with the sequence of steps while planning the performance audit of Wind power Ltd. He seeks your advice in suggesting the correct sequence after rearranging them. You are required to select the correct option from the following:
 - (a) Step 1, 2, 6, 4, 5, 3, 7, 8, 9
 - (b) Step 1, 2, 4, 3, 5, 7, 6, 8, 9
 - (c) Step 1, 2, 3, 5, 4, 8, 6, 7, 9
 - (d) Step 1, 2, 5, 3, 4, 8, 7, 6, 9

2. As regards the method suggested for conducting performance audit of Wind power Ltd., by which team member do you think that it may not be possible for the auditor to work with complete data due to its high volume and in such cases sampling techniques are required to be used?
 - (a) Mr. P
 - (b) Mr. Q
 - (c) Mr. R
 - (d) Mr. S

3. The following audit procedures are undertaken by the audit team in relation to audit of advances of the Indore Main branch:
 - (i) Examine existence, enforceability, and valuation of securities in respect of securities requiring registration.
 - (ii) Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.
 - (iii) Examine whether system laid down in bank for review/renewals of advances is being followed.

- (iv) Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of SMA1 and SMA2 borrowers from the bank and same can be considered for selection of problematic accounts.
- (v) Review auditor's reports in case of borrowers having credit facilities from the banking system beyond a cut-off limit fixed by board of directors of bank.

From the above, identify the audit procedures that Mr. Y should focus upon.

- (a) (i), (ii), (iii)
 - (b) (ii), (iv), (v)
 - (c) (ii) & (iv)
 - (d) (iii) & (iv)
4. What is the Drawing Power (DP) available to Kiran Ltd. as of 31st March 2025?
- (a) ₹ 1005 lakhs
 - (b) ₹ 1000 lakhs
 - (c) ₹ 945 lakhs
 - (d) ₹ 990 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** Step 1, 2, 5, 3, 4, 8, 7, 6, 9

Reason:

Planning for Performance Audit steps are as under:

1. Understanding the entity/programme
2. Defining the objectives and the scope of audit
3. Determining audit criteria

4. Deciding audit approach
5. Developing audit questions
6. Assessing audit team skills and whether outside expertise required
7. Preparing Audit Design Matrix
8. Establishing time table and resources
9. Intimation of Audit programme to audit entities

2. Option (b) Mr. Q

Reason:

Quantitative analysis involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc. However, it may not be possible for the auditor to work with complete data due to its high volume. In such cases, sampling techniques are required to be used.

3. Option (c) (ii) & (iv)

Reason:

Substantive Audit Procedures are given as under:

- Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.
- Verify that each customer of bank is tagged under single customer id in respect of all its accounts including those in which credit facilities are granted.
- Examine all large advances while other advances may be examined on a sample basis.
- Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of SMA1 and SMA2 borrowers from the bank and same can be considered for selection of problematic accounts.

- Examine those accounts which have been adversely commented upon by concurrent auditors/bank's internal inspection/RBI inspection team.
- Examine list of restructured accounts to ensure that restructure is as per RBI guidelines. Remember restructured account portfolio requires additional provisioning.
- Examine quick/early mortality accounts. Any advance slippage to NPA within 12 months of its sanction is called as quick/early mortality case.
- Verify completeness and accuracy of interest being charged.
- Carry out appropriate analytical procedures.

4. Option (c) ₹ 945 lakhs

Reason:

The computation of Drawing power is as under:

Total stocks	900 lacs
Less: Damaged stock	60 lacs
Less: creditors for stock	140 lacs
	700 lacs
Less: Margin @ 25%	175 lacs
Drawing power (A)	525 lacs
Value of debtors	800 lacs
Less: debtors exceeding 90 days	100 lacs
	700 lacs
Less: Margin @ 40%	280 lacs
Drawing Power (B)	420 lacs
Drawing Power (A+B)	945 lacs

CASE SCENARIO 6

M/s GDP Associates, a renowned firm of Chartered Accountants consisting of 15 partners was appointed as statutory auditors for the Financial Year 2024-25 of SYNC Technology Ltd., a technology focused engineering company engaged in turnkey electronics manufacturing services, specializing in precision manufacturing for diverse end-use industries including the automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries. The company's portfolio includes memory, SSDs, motherboards, power adapters, and systems integration.

In conducting an initial audit engagement, the objective of the M/s GDP Associates is to obtain sufficient appropriate audit evidence about whether Opening balances contain misstatements that materially affect the current period's financial statements; and appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. The company's prior year financial statements were audited by M/s JK Associates, but the predecessor auditor's report was modified due to the non-disclosure of certain liabilities. The opening balances include significant provisions and carry forward adjustments.

M/s GDP Associates decides to use sampling to test compliance with internal controls over revenue recognition. As part of the audit of SYNC Technology Ltd., M/s GDP Associates is performing sampling for tests of controls and substantive procedures. At the end of the sampling process, the auditor needed to conclude on whether the sampling results provided a reasonable basis for conclusions about the population tested.

During testing, the following scenarios arose:

- (1) A selected item could not be tested because supporting documentation was unavailable. The auditor is unable to apply the designed audit procedures since documentation relating to sales is lost, like the sales

order record, sales invoice, document for dispatch.

- (2) A deviation was identified in the sample that could potentially indicate a misstatement in the population.
- (3) The auditor found an item that seemed anomalous but required further procedures to confirm it was not representative of the population.

As part of audit, to confirm the accounts receivable balances with customers, M/s GDP Associates sends confirmation requests to SYNC Technology Ltd.'s top 50 customers, whose account balances represent 80% of the company's total receivables. The auditor sends confirmation requests to confirm balances of cash held in bank accounts and outstanding loans with the bank. The auditor also sends confirmation requests to 200 small suppliers with low-value account balances.

The following events occur during the confirmation process:

- (1) Out of the 50 positive confirmation requests, 10 responses indicate agreement with the balances, 5 responses indicate discrepancies, and 35 do not respond.
- (2) One response to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead and inconsistent information.
- (3) The 100 negative confirmation requests receive no responses.
- (4) In the case of non-response, the audit firm examined subsequent cash disbursements, email correspondences, and other records like goods received notes.

Further M/s GDP Associates engaged an external IT expert to evaluate the entity's cyber security framework, a significant area of risk identified during risk assessment. M/s GDP Associates and the expert held discussions to finalize the terms of the engagement, which included:

- (1) The expert's role in assessing the robustness of SYNC Technology Ltd.'s cyber security systems.
- (2) The communication protocol, specifying that the expert would provide interim oral reports during the engagement and a formal written report

upon conclusion.

- (3) The need for confidentiality agreements, as the entity requested additional restrictions on the disclosure of sensitive cyber security information.
- (4) The identification of specific audit team members responsible for liaising with the expert and facilitating communication between the expert and the entity.

During the audit, the following issues arose:

- The expert delayed submitting the formal report, citing unclear communication about the expected scope of work.
- The entity expressed concerns about the confidentiality provisions not being adequately addressed.
- The expert had limited interaction with the auditor, leading to misalignment on the interim findings.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Considering the factors influencing audit procedures for opening balances, which of the following is the most appropriate course of action under relevant Standard on Auditing?
 - (a) Perform audit procedures in prior period to obtain evidence relevant to opening balances or evaluate whether prior period's closing balances have been correctly brought forward.
 - (b) Evaluate the effect of the matter giving rise to modification in the predecessor auditors M/s JK Associates' report, with respect to the current period's financial statements.
 - (c) Assume the opening balances are immaterial since the predecessor auditors, M/s JK Associates issued a modified opinion and focus only on current year's transactions.

-
- (d) Accept the accounting policies applied to the opening balances based solely on management's assertion, provided they appear consistent with current period's policies.
2. Based on SA 530, which of the following is the most appropriate response for the auditor in handling these situations while performing sampling tests and procedures?
- (a) If the audit procedure is not applicable to the selected item, then the auditor shall perform only the alternative procedure but not on a replacement item.
- (b) In case when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is representative of the population.
- (c) Rely solely on the results of the sample and assume that any deviations identified are immaterial to the population.
- (d) If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a misstatement, in the case of tests of details.
3. Which of the following is the most appropriate for M/s GDP Associates in response to the events that occurred when performing external confirmation procedures to obtain relevant and reliable audit evidence in accordance with relevant Standard on Auditing?
- (a) The failure to receive a response to a negative confirmation request explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.
- (b) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is in their favour, and less likely to respond otherwise.

- (c) Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.
 - (d) The auditor shall use negative confirmation requests as the sole substantive audit procedure when he is aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.
4. M/s GDP Associates are concerned with SA 620, which deals with the auditor's responsibilities regarding the use of external IT expert when that work is used to assist the auditor in evaluating cyber security framework. Which of the following is incorrect option in relation to agreement with the auditor's expert?
- (a) When the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, only a formal written report at the conclusion of that expert's work may be appropriate while oral reports as the work progresses are not required.
 - (b) Ensure that the nature, scope, and objectives of the expert's work are agreed upon in writing, including the timeline for deliverables.
 - (c) Identification of specific partners or staff, who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.
 - (d) It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Evaluate the effect of the matter giving rise to modification in the predecessor auditors M/s JK Associates' report, with respect to the current period's financial statements.

Reason:

As per SA 510 the auditor is required to determine whether prior period's closing balance has been correctly brought forward. If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with SA 705(Revised) and SA 710. Accordingly, evaluating the effect of the predecessor auditor's modification is the most appropriate course of action.

2. **Option (d)** If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a misstatement, in the case of tests of details.

Reason:

As per SA 530, "Audit Sampling", the auditor is required to ensure that if audit procedure is not applicable on the selected item, apply the procedure on a replacement item. Further, when a deviation/misstatement is considered as anomaly, the auditor shall perform audit procedures to obtain high degree of certainty that it is not representative of the population.

Accordingly, option (d) is correct answer as if the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

3. **Option (c)** Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

Reason:

As per SA 505, "External Confirmation", a negative confirmation request asks the confirming party to respond only if they disagree with the information provided. Therefore, failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Further, confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise. Furthermore, auditor to use negative confirmation as sole substantive audit procedure when the auditor is not aware of circumstances that would cause recipients of negative confirmation requests to disregard such requests.

- 4. Option (a)** When the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, only a formal written report at the conclusion of that expert's work may be appropriate while oral reports as the work progresses are not required.

Reason:

As per SA 620 when the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, both a formal written report at the conclusion of that expert's work, and oral reports as the work progresses, may be appropriate. Identification of specific partners or staff who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

CASE SCENARIO 7

WYZ Ltd., incorporated during the year 2002-03, is a leading unicorn startup and top manufacturer of silicon wafers, with two advanced plants and over 6,000 employees. As a pioneer in its industry to be listed on the stock exchange, WYZ Ltd. underscores its longstanding and influential presence in the financial market. The company consistently complies with SEBI's Listing Obligations and Disclosure Requirements Regulations of 2015, ensuring regulatory adherence and maintaining credibility among investors and stakeholders.

Considering the nature, size and extent, the company has appointed M/s KAP & Co. and M/s BMS & Co. as their joint auditors. Both the Firms divided the work in accordance with the SA 299, shared the allocation of task to Those Charged with Governance and started conducting the audit procedures.

During the audit engagement, M/s KAP & Co. was assigned to verify the Property Plant & Equipment (PPE) Register. Mr. K, the engagement partner of M/s KAP & Co., carried out the verification process, however, he did not maintain any documentation of the same. Additionally, he did not perform impairment testing on the PPE at the end of the financial year.

Mr. B, the engagement partner of M/s BMS & Co., was responsible for verification of procure to pay process (P2P). However, he was informed by management that Mr. E, their Internal Auditor, has already verified P2P Process and carried out relevant audit procedures and thereby he relied on the work of Mr. E. He neither conducted any independent audit procedure to evaluate the work of the internal auditor nor documented his conclusion regarding the evaluation of the adequacy of work of internal auditors.

Moreover, looking at the increase in the scale of business, the management of WYZ Ltd. took the decision to implement ERP in its business during the year and gave contract to INFO Ltd. to develop an ERP suitable for its business. The development of ERP was completed on Aug 12th, 2023. The management started adoption of ERP and replacing its old practices. The adoption took a span of 4 months and was successfully completed on Dec 3rd, 2023. The previous software did not have an audit trail feature and the audit trail was

operational from Dec 3rd, 2023. However, the auditors of the company have not reported anything on the above matter relating to the audit trail in their main audit report.

In addition to the above, the WYZ Ltd., has one Indian wholly owned subsidiary, ABC Private Ltd., who is in the business of acquisition of shares and securities. M/s PQR & Co. are the auditors of ABC Private Ltd.

The important financial information of ABC Private Ltd. is as under:

Sr. No	Particular	Amount (₹)
1.	Paid-up Capital	₹ 67 Lakhs
2.	Loans and Borrowings from Financial Institution	₹ 72 lakhs
3.	Turnover	₹ 154 lakhs
4.	Reserve and Surplus	₹18.36 lakhs

Based on the above case scenario, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Mr. K, the engagement partner of M/s KAP & Co, failed to maintain any documentation of the whole verification process and did not perform impairment testing on the PPE at the end of the financial year. Select the appropriate option as per SA 299.
 - (a) Mr. K is severally responsible for his own actions and the said work was his responsibility.
 - (b) No, Mr. B & Mr. K are jointly responsible as they both were joint auditors.
 - (c) Mr. K is responsible as well as Mr. B is responsible, since Mr. B was compulsorily required to verify the work of Mr. K and he has not verified the same.
 - (d) Neither Mr. K nor Mr. B is liable for the actions of Mr. K.
2. The management of the company has adopted a new ERP system and accordingly, the audit trail was maintained from Dec 03rd, 2023 only in the new ERP System. Whether the action of auditors with respect to reporting

requirement of audit trail was justified?

- (a) Yes, the action of auditors was justified as it was the first year of implementation of ERP. Hence the auditors are not liable to report the same.
 - (b) Yes, the action of auditors was justified as the audit trail was operational during the year and hence the auditors are not liable to report the same.
 - (c) No, the action of the auditors was not justified as the audit trail was not operational throughout the year and hence it is the duty of the auditors to report the same in the main audit report.
 - (d) Yes, the action of the auditors was justified as the audit trail need not to be reported in the main audit report.
3. Mr. B, engagement partner of M/s BMS & Co., was responsible for verifying Procure to Pay Process, he did not perform any procedure and relied upon the work of Internal Auditor, without keeping any documentation. Which of the following is correct as per SA 610?
- (a) Mr. B can rely on the work of the Internal Auditor. However, he must first discuss with Internal audit function and also evaluate the adequacy of work of Internal Auditor and must document the same regarding the evaluation of work of Internal Auditor.
 - (b) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work without any further audit procedure and documentation.
 - (c) Audit procedure and the scope of Internal Audit are altogether different from Statutory Audit and therefore, the Statutory Auditor cannot use the work of Internal Auditor.
 - (d) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work of Internal Auditor after evaluating his work. However, Statutory auditor is not required to document the same.

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4. Considering the above case, whether reporting under CARO, 2020 will be applicable to ABC Private Ltd.?
- (a) No, since the company is a private limited company.
 - (b) No, since the company is in the business of acquisition of shares and securities.
 - (c) Yes, since the company is wholly owned subsidiary of listed company WYZ Ltd.
 - (d) No, since the company is a small company as per the Companies Act, 2013.
5. While preparing a consolidated financial statement of WYZ Ltd., division of responsibility between auditors of WYZ Ltd. and auditor of ABC Private Ltd. should be reported in:
- (a) Emphasis of Matter Paragraph.
 - (b) Key Audit Matter Section.
 - (c) Going Concern Paragraph.
 - (d) Other Matter Paragraph.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Mr. K is severally responsible for his own actions and the said work was his responsibility.

Reason:

As per SA 299 responsibility of joint auditor in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures. Further, All the joint auditors shall be jointly and severally responsible for the audit work which is not divided among the joint auditors and is carried out by all joint auditors.

2. **Option (c)** No, the action of the auditors was not justified as the audit trail was not operational throughout the year and hence it is the duty of the auditors to report the same in the main audit report.

Reason:

Whether the company, has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

3. **Option (a)** Mr. B can rely on the work of the Internal Auditor. However, he must first discuss with Internal audit function and also evaluate the adequacy of work of Internal Auditor and must document the same regarding the evaluation of work of Internal Auditor.

Reason:

As per SA 610 if the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function as a basis for coordinating their respective activities. Further, the external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.

4. **Option (c)** Yes, since the company is wholly owned subsidiary of listed company WYZ Ltd.

Reason:

CARO, 2020 applies to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013. However, the Order specifically exempts a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees one crore as on the balance sheet date and which does not have total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013

(including revenue from discontinuing operations) exceeding rupees ten crore during the financial year as per the financial statements. In view of above, in the given case, CARO 2020 reporting is applicable as the company is wholly owned subsidiary of listed company WYZ Ltd.

5. Option (d) Other Matter Paragraph

Reason:

In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor. It should be included in Other Matter paragraph of independent auditor's report.

CASE SCENARIO 8

M/s BNM & Associates, Chartered Accountants, are in the completion phase of the statutory audit of M/s FES Limited, a technology company, for the financial year ended 31st March 2025.

Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (I) During last quarter of the year, company's income was significantly affected by fluctuations in foreign exchange rates, with inadequate hedging arrangements. The auditors had to evaluate the impact of these transactions on financial statements.
- (II) It was observed that the server maintenance work of company was likely prone to external access, which was an area of high risk as assessed and reported by management's expert committee.
- (III) The auditor had to make important judgments in areas where the management of the company also used significant judgment. One key point was that the company depended heavily on a few major clients. While management believed that the market of the company was growing and would bring in more new clients, the auditors had to carefully consider this difference in view while reviewing the financial statements.

Following discussions, a mutual understanding was reached, and the audit of FES Limited was concluded smoothly.

Subsequently, BNM & Associates came to know about a tender floated by the Dwarka Municipal Corporation for computerisation of its records, requiring an earnest deposit of ₹ 85,000. BNM & Associates has one of its partners residing in Dwarka, hence he persuaded the firm to apply for the tender and paid the earnest deposit. However, another partner of the firm was of the view that such an act would lead to professional misconduct and insisted on withdrawing the

tender application. The firm decided to approach an experienced CA before withdrawing the tender application and went on focusing on other assignments.

BNM & Associates also commenced the statutory audit of Cash Limited, a banking company headquartered in India. During the audit, the following observations were made:

- (i) The staff and officers of the bank were frequently transferred from one position to another, without prior notice.
- (ii) Cash was test-checked daily and counted in full occasionally by another officer of the bank, apart from the cashier.
- (iii) Physical custody of cash was solely maintained by the senior-most officer at the branch.
- (iv) Unpaid cheques received through outward clearing were securely stored in the bank's lockers.

After a detailed discussion and review of internal controls and practices, the firm finalised and issued the audit report for the financial year.

CA M, a partner at BNM & Associates, firmly believed that one should always pursue their passion, regardless of their profession or business. Driven by this belief, he engaged in the following activities beyond his Chartered Accountancy practice:

- (1) Part-time employment with a Non-Profit Organisation based in Noida.
- (2) Involved in agricultural activities on his personally owned agriculture land located outside Bangalore.
- (3) Tutorship as a part-time faculty member at a private educational institute in Chennai.
- (4) Holding an honorary office leadership in a charitable educational organisation in Trivandrum.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", which of the above-mentioned areas should the audit committee and the auditors consider while determining the 'Key Audit Matters'?
 - (a) (I) & (III).
 - (b) (II) only.
 - (c) (I) & (II).
 - (d) (I), (II) & (III).

2. Assuming the role of the auditor of Cash Limited, based on the above observations, which aspects would you report as control failures, and what would be your rationale for considering them as such?
 - (a) (i) & (ii) – The frequent transfer of staff without prior notice suggests a lack of adequate control within the HR department. Similarly, permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling.
 - (b) (i) only – The frequent transfer of staff without prior notice indicates that the HR department is not having a proper control in its functions.
 - (c) (ii) & (iv) – Permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling. Further, any unpaid cheques received in outward clearance needs to be thrashed by the bank as they cannot be held by the bank in its custody.
 - (d) (iii) & (iv) – Cash should always be maintained under the joint custody of two authorised officers, as entrusting it to a single individual poses a significant control risk. Additionally, any unpaid cheques returned during outward clearance should either be dispatched to the customers at their recorded addresses or the

customers should be appropriately notified to collect them from the bank.

3. Among the various passion-driven activities undertaken by CA M as discussed in the case, which of these are generally permitted by the Institute of Chartered Accountants of India (ICAI)?
 - (a) (1) & (3).
 - (b) (3) only.
 - (c) (2) & (4).
 - (d) (1), (2) & (3).

4. According to the provisions of the Chartered Accountants Act, 1949, under which clause would CA M be guilty of professional misconduct?
 - (a) Clause 10 of Part I of First Schedule.
 - (b) Clause 2 of Part IV of First Schedule.
 - (c) Clause 11 of Part I of First Schedule.
 - (d) Clause 1 of Part III of Second Schedule.

5. Is there any professional misconduct involved in the submission of the municipality tender application by BNM & Associates under the Chartered Accountants Act, 1949?
 - (a) Yes. As per Clause 6 of Part 1 of the First Schedule, a CA in practice shall be guilty of professional misconduct if he responds to any tender.
 - (b) No. As per the Guidelines under the Act, a member can respond to any tender where the matter relates to anything other than audit. Further members can make earnest deposits in respect of a non-exclusive area for chartered accountants.
 - (c) Yes. Even though the Guidelines under the Act permit a member to respond to any tender where the matter relates to anything other than audit, he is not permitted to make any money deposit. Hence, the act of the firm is professional misconduct.

- (d) No. As per Guidelines under the Act, a member can respond to any tender which is requested by the Central government, State government or local government. Hence, there is no professional misconduct in this case.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) (I) & (III)

Reason:

As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- (i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315
- (ii) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- (iii) The effect on the audit of significant events or transactions that occurred during the period.

2. Option (d) (iii) & (iv) – Cash should always be maintained under the joint custody of two authorised officers, as entrusting it to a single individual poses a significant control risk. Additionally, any unpaid cheques returned during outward clearance should either be dispatched to the customers at their recorded addresses or the customers should be appropriately notified to collect them from the bank.

Reason:

System of Internal Control in Banks: Banks are required to implement and maintain a system of internal controls for mitigating risks,

maintaining good governance and to meet the regulatory requirements. Given below are examples of internal controls that are typically implemented in a bank:

- The staff and officers of a bank should be shifted from one position to another frequently and without prior notice.
- Cash should be kept in the joint custody of two responsible officers.
- In addition to normal checking by the chief cashier, cash should be test-checked daily and counted in full occasionally by a responsible officer other than those handling the cash. Actual cash in hand should agree with the balance shown by the Day Book every day.
- The unpaid cheques received in outward clearing should be either sent to the customers at their recorded address or the customers be informed to collect the same from bank branch.

3. Option (c) (2) & (4)

Reason:

As per Clause 11 of Part I of First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Further, Regulation 190A mentions the 'Permissions granted Generally' to engage in a certain category of occupations, for which no specific permission of Council is required. Those cases include:

- Owning agricultural land and carrying out agricultural activity
- Honorary office leadership of charitable-educational or other non-commercial organisations.

Members of the Institute in practice may engage in the following categories of business or occupations, after obtaining the specific and prior approval of the Council in each case:

- Full-time or part-time employment in non-business concern.

- Part-time or full-time tutorship under any educational institution other than the coaching organization of the Institute.

4. Option (c) Clause 11 of Part I of First Schedule.

Reason:

As per Clause 11 of Part I of First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

5. Option (b) No. As per the Guidelines under the Act, a member can respond to any tender where the matter relates to anything other than audit. Further members can make earnest deposits in respect of a non-exclusive area for chartered accountants.

Reason:

As per Chapter XIII of Council General Guidelines, 2008 a member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services. However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

CASE SCENARIO 9

Mr. Vivek was appointed as the engagement partner on behalf of Reliant & Co., a Chartered Accountant Firm, to conduct statutory audit assignment of Zenith Components Limited, an unlisted public company engaged in the manufacturing of electrical equipment.

During the audit, CA Meenal, one of the senior engagement team members, was given the responsibility to audit the matters as per requirements of CARO, 2020. Her major observations included:

- One of the buildings owned by Zenith Components Ltd. was revalued during the year based on a valuation report from a registered valuer, increasing the aggregate carrying value of Property, Plant & Equipment (PPE) from ₹ 12.5 crore to ₹ 14.5 crore.
- Zenith Components Ltd. was sanctioned a cash credit limit of ₹ 5.25 crore by Unity Bank based on the security of current assets which was reduced to ₹ 4.95 crore after 6 months. In this connection, the company submitted quarterly stock statements to the bank which were in agreement with the books of accounts.

Meanwhile, Reliant & Co. was also appointed to conduct the audit of a State Housing Department. During the course of audit, Office of the Comptroller & Auditor General of India (C&AG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit.
- Buildings with a total area surpassing a threshold limit.

However, it was noted that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Further, CA Karan, another partner, was engaged in the audit of EcoTherm Power Ltd., a listed company operating in the thermal energy generation sector. As a part of Business Responsibility and Sustainability Reporting (BRSR), the company disclosed data on its total greenhouse gas emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years.

CA Nisha, an independent Chartered Accountant who had recently completed a Certificate Course on Sustainability Reporting, was approached by CA Karan for informal guidance on improving the company's sustainability disclosures. Impressed by her knowledge, CA Karan later recommended her name for the Board of Management of Navlok Co-operative Bank, a Primary (Urban) Co-operative Bank, which was also one of their audit clients. CA Amit, another professional colleague, advised Nisha to refrain from accepting the post as it could amount to professional misconduct.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. As per the provisions of CARO 2020, what should be the auditor's reporting responsibility with regard to revaluation of Property, Plant and Equipment done by Zenith Components Ltd.?
 - (a) No reporting is required as the revaluation is based on a registered valuer's report.
 - (b) Reporting is required under Clause (i)(d) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset
 - (c) Reporting is required under Clause (i)(c) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset.
 - (d) Reporting is not required under Clause (i)(d) of Paragraph 3 as the amount of change does not exceeds 10% of the net carrying amount of each class of asset.

2. Whether reporting is required under CARO, 2020 in case of sanctioned cash credit limit i.e., working capital limits?
 - (a) Yes, reporting is required under Clause (ii)(b) of Paragraph 3, as the company was sanctioned working capital limits in excess of ₹ 5 crore.
 - (b) No reporting is required under CARO, 2020.
 - (c) No, reporting is not required under Clause (ii)(b) of Paragraph 3, because the working capital limit was later reduced below ₹ 5 crore.
 - (d) Yes, reporting is required under Clause (iii)(a) of Paragraph 3, since the company has been sanctioned working capital limits in excess of ₹ 5 crore.

3. The report of audit of State Housing Department by the C&AG is likely to be submitted to:
 - (a) The Board of the Authority directly.
 - (b) The Governor of State.
 - (c) The Central Government.
 - (d) The Ministry of Housing and Urban Affairs.

4. With respect to EcoTherm Power Ltd., which of the following statements correctly categorizes the sustainability reporting indicators?
 - (a) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and need to be mandatorily disclosed in the BRSR.
 - (b) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.
 - (c) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.

- (d) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.
5. Whether CA Nisha would be held guilty of professional misconduct if she accepts the offer to become a member of the Board of Management of Navlok Co-operative Bank (Primary Urban Co-operative Bank)?
- (a) It is permissible for a CA in practice to become a member of the board of management in primary (rural) co-operative banks. Hence, CA Nisha would be held guilty of professional misconduct if he accepts the offer.
- (b) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Nisha would not be held guilty of professional misconduct if he accepts the offer.
- (c) Yes. CA Nisha would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Nisha is getting this offer as a reciprocation for helping Reliant & Co.
- (d) Yes. As per clause 11 of Part I of First Schedule CA Nisha would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Reporting is required under Clause (i)(d) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset

Reason:

As per Clause (i)(d) of Paragraph 3 of CARO 2020, the auditor's report on the accounts of a company to which this Order applies shall include a statement on whether the company has revalued its Property, Plant and

Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.

- 2. Option (a)** Yes, reporting is required under Clause (ii)(b) of Paragraph 3, as the company was sanctioned working capital limits in excess of ₹ 5 crore.

Reason:

As per Clause (ii) (b) of Paragraph 3 of CARO 2020, whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details.

- 3. Option (b)** The Governor of State.

Reason:

As per article 151 of the Constitution Audit reports of the C&AG relating to the accounts of the Central/ State Government should be submitted to the President/Governor of the State who shall cause them to be laid before Parliament/State Legislative Assemblies.

- 4. Option (d)** The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.

Reason:

Companies are required to report upon Key performance indicators (KPIs) in alignment with the nine principles of the NGRBC. The section classifies KPIs into two categories that companies are required to report upon:

- Essential indicators (Mandatory disclosures) would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.
 - Leadership indicators (Optional disclosures) would include life cycle assessments, details of conflict management policy, additional data on biodiversity, energy consumption, supply chain managements etc.
5. **Option (b)** It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Nisha would not be held guilty of professional misconduct if he accepts the offer.

Reason:

As per the Recent Decisions of Ethical Standards Board, It is permissible for a member in practice to become professional director in the Board of Management of a Co-operative Bank.

CASE SCENARIO 10

TechNova Solutions Ltd., a software development company and one of the Top 500 listed entities on the NSE, specialises in delivering customised enterprise resource planning (ERP) solutions.

During the year, the Chief Financial Officer (CFO) received a highly realistic voice message from a known vendor, "Apex Systems," detailing a last-minute change to their bank details for an upcoming ₹ 45 lakh payment for server maintenance licenses. The message seemed urgent and was syntactically correct, mimicking the vendor's typical communication style. The CFO, pressed for time, verbally approved the change to the accounts payable team without calling back the vendor to verify.

A week later, while the accounts team was preparing for year-end closing, they found that Apex Systems had sent a formal inquiry regarding the delay in payment for the ₹ 45 lakh invoice. Investigation revealed the initial voice message was a sophisticated AI-generated deepfake designed to commit fraud. The money was transferred to a fraudulent account, and the ₹ 45 lakh loss was confirmed and recorded in the financial statements. The company immediately filed a police report and engaged its IT security team.

The statutory auditors, M/s A & P Associates, determined that the company's internal controls over disbursements were deficient, specifically regarding change management for vendor banking details. The loss, though material (as it impacts profitability metrics), was determined not to be pervasive to the financial statements as a whole. The auditor's primary concern shifted to the design and implementation of internal controls to prevent future deepfake fraud. The audit efforts related to testing controls and substantive procedures on cash and payables increased by 15%.

The management of TechNova had recently launched a new service line for green computing consultancy. They decided to prepare a statement detailing their environmental, social, and governance (ESG) performance to attract institutional investors.

The management, impressed by the auditor's in-depth knowledge of IT security during the fraud investigation, proposed to appoint M/s A & P Associates to provide internal audit services for the current financial year's Quarter 4 period.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. In the given case, the cyber-attack technique encountered by the Company is known as:
 - (a) IOT-Based attack
 - (b) Vishing
 - (c) Ransomware attack
 - (d) Mobile Malware attack

2. Considering the facts given in the case relating to loss and deficiency in internal controls which led to the fraud, what is the most appropriate reporting implication for the auditor regarding the opinion?
 - (a) The auditor should issue an Adverse Opinion due to the material misstatement resulting from the fraud.
 - (b) The auditor should issue a Disclaimer of Opinion as the internal controls were completely compromised.
 - (c) The auditor should issue a Qualified Opinion due to the material but not pervasive misstatement related to the fraud.
 - (d) The auditor should issue an Unmodified Opinion, disclosing the matter in an Emphasis of Matter (EOM) paragraph.

3. The management of TechNova decided to prepare a statement detailing their Environmental, Social, and Governance (ESG) performance. If the company were to follow the SEBI mandate for disclosure on non-financial metrics, which report would it primarily be required to file, being a Top 500 listed entity?
 - (a) The Corporate Social Responsibility (CSR) Report.

- (b) The Integrated Report (IR).
 - (c) The Business Responsibility and Sustainability Report (BRSR).
 - (d) The Directors' Responsibility Statement.
4. Can M/s A & P Associates accept the offer to provide internal audit services for TechNova Solutions Ltd. for the current financial year's Quarter 4 period?
- (a) Yes, provided they also obtain sufficient appropriate audit evidence for the annual statutory audit.
 - (b) Yes, provided the fee for the internal audit is separately agreed upon and documented.
 - (c) No, the statutory auditor of a listed entity cannot provide internal audit services to the same company.
 - (d) No, the statutory auditor can only provide internal audit services if the company is not a listed entity.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) Vishing

Reason:

Vishing, a voice phishing attack, is the fraudulent use of phone calls and voice messages pretending to be from a reputable organization to convince individuals to reveal private information such as bank details and passwords.

2. Option (c) The auditor should issue a Qualified Opinion due to the material but not pervasive misstatement related to the fraud.

Reason:

As per SA 705 the auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements or the auditor is unable to obtain

sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

3. **Option (c)** The Business Responsibility and Sustainability Report (BRSR).

Reason:

It is mandatory reporting for top 1,000 listed companies to file BRSR along with the annual reports.

4. **Option (c)** No, the statutory auditor of a listed entity cannot provide internal audit services to the same company.

Reason:

Under the provisions of Section 144 of the Companies Act, 2013, an auditor of a company is specifically prohibited from rendering certain services, including internal audit services, to the company.

CASE SCENARIO 11

Supriya is a practicing Chartered Accountant and a partner in SPR Associates, a CA firm engaged in various assignments across audit, advisory, compliance, and management consultancy for clients in the banking, education, co-operative, and public sectors. Recently, the firm received the following engagement request:

- Supriya, who is the statutory auditor of one of her major clients, Cosy Textiles Ltd., has been requested by the management to assist in compilation of financial information into a proper format for presentation to prospective investors in accordance with SRS 4410.
- She was approached by a hospitality chain for conducting a mystery audit at their 17 branches to evaluate service quality and compliance with SOPs for fee of ₹ 85,000.
- Supriya holds the position of Director Simplificitor in Fair Private Limited. The Company is now requesting her to digitally sign ROC forms due to her professional qualification.
- Additionally, to expand her practice, she is planning to use a messaging application to inform business groups about her firm's services and highlight the specialised areas and expertise.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Which of the following is correct with regards to CA Supriya approached by a hospitality client for conducting mystery audit?
 - (a) She cannot accept the assignment, as it falls outside the scope of audit services.
 - (b) She can accept the assignment since mystery audit is a permitted service.
 - (c) She can accept the assignment only if the client is not an existing audit client.

- (d) She can accept the assignment only if approved by ICAI in writing.
2. What should CA Supriya do in case of Cosy Textiles Ltd.?
- (a) Accept the assignment, as compilation is not an assurance service.
- (b) Decline the assignment, as auditors cannot perform compilation engagements for audit clients under SRS 4410.
- (c) Accept the engagement after disclosing it in the audit report.
- (d) Accept the engagement if permitted by the audit committee.
3. Can CA Supriya digitally sign the ROC Forms for Fair Private Limited?
- (a) Yes, she may sign since she is a qualified Chartered Accountant.
- (b) Yes, she may sign if she does not receive any remuneration.
- (c) Yes, she may sign if she is not the auditor of the company.
- (d) No, she cannot sign, as it creates a conflict with the auditor's role.
4. Does CA Supriya is correct in using a messaging application?
- (a) Yes, it is permitted as long as the recipients are known contacts.
- (b) Yes, it is permissible with a disclaimer.
- (c) No, it is not permissible as it amounts to solicitation.
- (d) Yes, it is permissible if only educational content is shared.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** She can accept the assignment since mystery audit is a permitted service.

Reason:

As per the Recent Decisions of Ethical Standards Board, it is permissible for a member in practice to accept the assignment of Mystery Audit.

2. **Option (b)** Decline the assignment, as auditors cannot perform compilation engagements for audit clients under SRS 4410.

Reason:

As per the Recent Decisions of Ethical Standards Board, statutory auditor of an entity is not permitted to engage in assignment of compilation engagement, of that entity as per SRS 4410.

- 3. Option (d)** No, she cannot sign, as it creates a conflict with the auditor's role.

Reason:

As per the Recent Decisions of Ethical Standards Board, a Chartered Accountant in practice being Director Simplicitor in a Company cannot sign ROC Forms of the Company as it is a direct conflict of role.

- 4. Option (c)** No, it is not permissible as it amounts to solicitation.

Reason:

As per the Recent Decisions of Ethical Standards Board, it is not permissible for a member to use Messaging Applications to send messages to make people aware about his practice, and mention the services provided therein.

CASE SCENARIO 12

ADM & Associates, a medium-sized audit firm, has recently been appointed as the statutory auditor of Muonic Ltd., a listed pharmaceutical company involved in complex global operations and intensive R&D activities.

The audit is being led by CA Rajul, an engagement partner. The company was previously audited by a Big 4 firm, which withdrew citing limitations in audit scope. During planning, CA Rajul observes that while her team has good experience with standard manufacturing audits, they lack exposure to pharmaceutical sector audits, especially in relation to R&D accounting and global regulatory requirements.

Despite this concern, the Managing Partner insists that the team follow their standard procedures to ensure the audit is completed on time, especially due to the company's obligations under listing regulations. CA Rajul is concerned about whether the firm possesses the capability and competence to deliver a high-quality audit in line with professional standards.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. As per SQC 1, what is the most appropriate action for CA Rajul to take after assessing that her audit team lacks experience in pharma R&D?
 - (a) Proceed with the audit using standard checklists and procedures.
 - (b) Raise a concern internally and consider involving external experts or specialists.
 - (c) Ignore the concern as the client expects timely reporting.
 - (d) Delegate responsibility to junior staff familiar with manufacturing audits.

2. The fact that the previous Big 4 auditor resigned due to scope limitations should prompt which of the following actions by ADM & Associates?
 - (a) Assume the limitations are resolved as the client appointed a new auditor.
 - (b) Proceed after understanding the nature of scope limitations and documenting the evaluation.
 - (c) Consider it irrelevant since resignation is a common occurrence.
 - (d) Use the previous auditor's work to complete current year audit.
3. Under SA 220, what is CA Rajul's responsibility as the engagement partner regarding audit quality?
 - (a) To ensure only documentation is maintained
 - (b) To ensure appropriate direction, supervision, and review of the audit work.
 - (c) To delegate all key decisions to the audit manager.
 - (d) To report only to the audit committee.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Raise a concern internally and consider involving external experts or specialists.

Reason:

As per SQC 1, the firm shall accept or continue an engagement only when it has the competence, capabilities, and resources to perform the engagement. Where the engagement team lacks experience in specialized areas such as pharmaceutical R&D accounting and regulatory compliance, the engagement partner is required to address the deficiency by involving appropriately qualified experts to ensure compliance with professional standards and audit quality.

2. **Option (b)** Proceed after understanding the nature of scope limitations and documenting the evaluation.

Reason:

In accordance with SA 510 and SA 220, the auditor is required to evaluate matters leading to the predecessor auditor's resignation, including scope limitations, to assess their relevance and impact on the current audit. Such evaluation must be appropriately documented to identify potential risks and determine necessary audit responses.

3. **Option (b)** To ensure appropriate direction, supervision, and review of the audit work.

Reason:

As per SA 220, "Quality Control for an Audit of Financial Statements", engagement partner has the responsibility for direction, supervision and performance of audit engagement in accordance with professional standards and regulatory and legal requirements.

CASE SCENARIO 13

Simran Edible Oil Limited is a public company which has the business of manufacturing cooking oil. The company is in this particular business since last 25 years. The financial results of the company for the previous year FY 2022-23 are as under:

Sr. No.	Particulars	Amount
1.	Aggregate Outstanding Loans, debentures and deposits	₹ 10 crore
2.	Turnover of the company	₹ 100 crore
3.	Paid-up capital of the company	₹ 50 crore
4.	Net Profit (after tax) of the company	₹ 5 crore

For the year 2022-23, M/s Pesh & Associates were the auditors of the Company. The auditors found significant deficiencies in internal control and misrepresentation of amounts in the area of Trade Payables. Therefore, the Auditor issued qualified Audit Report.

Next year, management did not wish to re-appoint the same auditors, hence, Board of Director recommended Ms. Mansi as the Statutory Auditor for FY 2023-24 to the members of the Company.

After the appointment, Ms. Mansi went through previous year financials statements, audit report etc. and emphasised the understatement of Trade Payable balance as a significant audit risk. The auditor set the materiality at ₹ 15,00,000 for conducting audit of the year 2023-24.

Further, Ms. Mansi is in process of selecting the samples for testing so as to get the samples on which Vendor Balance Reconciliations can be performed, she is considering the following for the same:

- (i) Major Vendors where the confirmation balances agrees to General Ledger.
- (ii) Vendors which have high volume of business with Simran Edible Oil Limited.

(iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.

(iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.

As at March 31st, 2024, the balance of two vendor as per company's General Ledger and as per the balance of the External Confirmation which are received from vendors are as under:-

Vendor Name	Balance as per General Ledger	Balance as per External Confirmation
Pakhi Groundnut Seeds Limited	₹ 15,00,000	₹ 20,00,000
Krishi Sunflower Seeds Limited	₹ 65,00,000	₹ 80,00,000

Pakhi Groundnut Seeds Ltd.:

The difference in the balance is due to one of the order received by the Company. This order is under dispute as the Company claims that the received raw material is of sub-standard quality. The consignment received was sent back to the vendor on March 30, 2023.

Krishi Sunflower Seeds Ltd.:

The difference in the balance is due to the reason of two invoices of ₹ 10,00,000 and ₹ 5,00,000 dated March 25, 2024 & March 27, 2024 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03rd, 2024 and therefore, those were not recorded in the financial statement for the year ended March 31st, 2024.

Ms. Mansi took the samples to verify Trade payable balances, which covered 30% of population. During the Audit, she came across 2 errors amounting to ₹ 12,00,000:

- ₹ 4,00,000 was due to one invoice not being recorded due to weak inefficient control mechanism; and
- ₹ 8,00,000 error was made by Mr. Dhruv, an executive who came as a temporary replacement for one week in the place of Ms. Kamini, who is permanent accountant of the company. The mistake was clerical in nature.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Which items should Ms. Mansi select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed?
 - (i) Major Vendors where the confirmation balances agrees to General Ledger.
 - (ii) Vendors which have high volume of business with Simran Edible Oil Limited.
 - (iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.
 - (iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.
 - (a) i & iii.
 - (b) ii, iii, & iv.
 - (c) i & ii.
 - (d) i, ii & iii.

2. How can Ms. Mansi audit the operating effectiveness of internal control around the accounting of Trade payables?
 - (a) Recalculating ageing of Trade Payables to identify the balances which may not be agreeing with the audit evidence.
 - (b) Select samples from the supplier balance based on scientific Random Sampling approach & verify the third-party evidence.
 - (c) Input a fake purchase invoice into the client system to see if it is processed accurately.
 - (d) Calculate Trade Payables' days to use in the analytical procedures.

3. What are the audit procedures that Ms. Mansi should perform to verify whether the payable balances of Krishi Sunflower Seeds Ltd. are correctly recorded in the financial statements?

- (a) Send a confirmation to Krishi Sunflower Seeds Ltd. to request to confirm the outstanding balance as at March 31, 2024.
 - (b) Verify the bank payments for the period of post March 31, 2024, for any evidence of payment of invoice.
 - (c) Review the listing of purchase order to confirm whether it pertains to the current year 2023-24 or it pertains to the next financial year.
 - (d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.
4. What would be proper course of action to be taken by Ms. Mansi for two errors amounting to ₹ 4,00,000 and ₹ 8,00,000 in the given scenario?
- (a) The total amount of error is below the materiality and therefore it should not be considered or further work upon.
 - (b) Ms. Mansi should ask Simran Edible Oil Ltd. to adjust ₹ 12,00,000 in the Payable balance and rectify the same.
 - (c) Different set of samples representing the same amount should be selected to check whether same errors are getting repeated, if it is not, then the observation should be waived off.
 - (d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ii, iii, & iv.

Reason:

As the significant risk is understatement, other than the vendors, whose balances as per confirmation are matching with General Ledger, all other vendor balances should be so considered for verification.

2. **Option (c)** Input a fake purchase invoice into the client system to see if it is processed accurately.

Reason:

Input of dummy transaction to see whether it is processed correctly or not and whether appropriate approvals as per the process is required while processing the invoice, is a part of Internal Control test, whereas other tests are part of substantive testing.

- 3. Option (d)** Inspect the Goods Receipt Note to determine the date of receipt of raw material.

Reason:

To verify the understatement of balance of Krishi Sunflower Seeds Limited, the auditor should inspect the receipt of goods and ensure that the goods pertaining to current year 2023-24 have been accounted in the same before the year end of March 31, 2024.

- 4. Option (d)** The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

Reason:

Even-though error amount of sample is not material, it should be extrapolated to whole population, to see its actual expected effect on the total payable balance. By just concluding based on taking the sample equivalent to same amount will not give correct picture of the fairness of the accounts.

CASE SCENARIO 14

Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments – printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange.

The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment.

The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2020.

The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2021.

Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out forensic accounting in the financial year 2021-22. During the audit, certain transactions were identified highly risky, on which the management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner.

For the financial year ended 31st March 2024, Due Diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself.

At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.

The company had various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from professionals and renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

At the time of investigation, the reviewer asked about the background of the promoters of the company. The management explained that there was no need for this investigation. Further, the management explained that the company has already gone through the processes of due diligence and forensic accounting in the previous years and there was no doubt raised on promoters of the company. So, the background of promoters cannot be shared with the reviewer.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years.

Which of the following statement should be correct?

- (a) The contention of the management was correct.
- (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.
- (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this

business for decades it should not have been carried out by the reviewer.

- (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.
2. The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2024. However, the reviewer asked for financial statements for the year ended 31st March 2023, which was already audited by the statutory auditors of the company and the management of the company declined this request.
- (a) The management is correct.
 - (b) Reviewer can ask for documents even for the period for which audit is completed.
 - (c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards.
 - (d) Reviewer has no right to review the financial statements of the period other than the period under review.
3. The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.
- (a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management.
 - (b) The company should not have provided the documents as those are confidential.

- (c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant.
 - (d) Tax and legal matters are not a part of review of due diligence exercise.
4. The management may refuse to share the details of promoters. Comment on this.
- (a) Since the company has already went through due diligence and forensic accounting in the previous years, the management may refuse to provide promoters details to the reviewer.
 - (b) As the background of promoters has no bearing on the financials of the company, the reviewer should not ask for the details of promoters and the management may refuse to provide the same.
 - (c) Since the company went through processes of forensic accounting in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters.
 - (d) The contention of the management is not correct.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Reviewer was correct, as due diligence covers assessment of business feasibility as well.

Reason:

The due diligence process includes "brief description of commercial and/or other activities carried out by the organization" and "the projection of future profitability", which clearly involves assessment of business feasibility and prospects, irrespective of past profitability.

2. **Option (b)** Reviewer can ask for documents even for the period for which audit is completed.

Reason:

Due diligence requires review of financial statements and trading results both past and the recent past to evaluate trends and risks. The fact that audit is completed does not restrict the reviewer from reviewing past audited financial statements.

3. **Option (a)** The reviewer needs to have independent assessment of legal/tax cases and any outcome needs to be discussed with the management.

Reason:

Taxation and litigations form an integral component of financial due diligence, and the reviewer is required to look into tax liabilities, pending assessments and litigations to assess financial impact, even if opinions from consultants already exist.

4. **Option (d)** The contention of the management is not correct.

Reason:

Financial due diligence specifically requires "brief history of the target company and background of its promoters". The accountant should begin the financial due diligence review by looking into the history of the company and the background of the promoters, irrespective of earlier due diligence or forensic reviews.

CASE SCENARIO 15

CA Harman, a practicing Chartered Accountant, intends to fill out the Multi-purpose Empanelment Form (MEF) to be included in the panel for the statutory audit of bank branches for the financial year 2023-24, as hosted by the Professional Development Committee (PDC) of ICAI. The application process requires the submission of XML files of personal income tax returns along with the computation of income. During the relevant financial year for which the information is sought, CA Harman had engaged in currency and commodity derivatives transactions, declaring the resulting income under "Business Income" in his tax return.

Additionally, Pitch Private Limited approached CA Harman to digitally sign and upload a resignation form related to Mr. Rohit, one of its directors, on the Registrar of Companies (ROC) portal. However, the signature of Mr. Rohit had been copied and pasted by another director of the company. Without verifying the authenticity of the resignation letter, CA Harman digitally signed the form, which was then uploaded to the ROC portal.

Subsequently, CA Harman's actions were brought under scrutiny when the Director (Discipline) of the Institute of Chartered Accountants of India (ICAI) received complaints regarding alleged misconduct. Upon investigation, he was found guilty of misconduct, and the competent authority imposed the appropriate penalty in accordance with the provisions of the Chartered Accountants Act, 1949.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Whether CA Harman will be held guilty for reflecting income from currency and commodity derivatives as "Business Income". If yes, under which clause?
 - (a) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as

- "Business Income" under Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
- (b) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (6) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
- (c) No, CA Harman will not be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under the Chartered Accountants Act, 1949.
- (d) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
2. Whether CA Harman will be held liable for misconduct for uploading the digitally signed resignation letter. If yes, under which clause of the Chartered Accountants Act, 1949?
- (a) Yes, CA Harman will be liable for misconduct under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
- (b) Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
- (c) Yes, CA Harman will be liable for misconduct under Clause (5) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
- (d) Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
3. Before which authority would CA Harman's misconduct case be placed for disciplinary proceedings?
- (a) The High Court.
- (b) The Board of Discipline.

- (c) The Disciplinary Committee.
 - (d) The Appellate Authority.
4. What is the minimum punishment that could have been imposed on CA Harman under the Chartered Accountants Act, 1949?
- (a) Reprimand the member.
 - (b) Removal of name from the register of members permanently or for a specified period and fine up to ₹ 5,00,000.
 - (c) Suspension of practice for up to 3 months.
 - (d) Warning and fine up to ₹ 50,000.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949.

Reason:

As per Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of the Chartered Accountant unless permitted by the Council so to engage.

Further, in accordance with the announcement of Ethical Standards Board of ICAI, it is not permissible for members in practice to transact in commodity derivative transactions. In such a case, CA Harman would be held guilty of professional misconduct for engaging in business other than profession of Chartered Accountancy.

2. **Option (b)** Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

Reason:

According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties"

3. Option (c) The Disciplinary Committee**Reason:**

Where the Director (Discipline) is of the opinion that a member is guilty of any professional or other misconduct mentioned in the second schedule or in both the Schedule, he shall place the matter before the Disciplinary Committee.

4. Option (a) Reprimand the member.**Reason:**

CA Harman was found guilty of professional misconduct under Clause (7) of Part I of the Second Schedule and Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949. The matter would have been placed before Disciplinary Committee as it's allied to both the Schedule because as per the Chartered Accountant Act, 1949 if the matter is allied to the Second Schedule or Both it is referred to the Disciplinary Committee. The minimum punishment that the Disciplinary Committee could have imposed would be:

- (I) Reprimand the member
- (II) Remove the name of the member from the Register permanently or for such period as it may think fit.
- (III) Impose such a fine which may extend to rupees five lakhs.

CASE SCENARIO 16

Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar & Co. respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2023-24 of Anitya Ltd.

They were having difference of opinion with regards to the following points:-

S No.	Reasons for Differences in Opinion
1	Manohar & Co. wanted to refer to the work of the auditor's expert, Mr. Tanmay in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.
2	Certain misstatements affected information to be included in 'Management Discussion and Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the Llyods & Co., there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements.
3	For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and Llyods & Co. wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.
4	Manohar & Co. had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, Manohar & Co. wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.

The differences in opinion in the case of Tink & Co. and Llyods & Co. were resolved but there remained disagreement with the one of the opinions of Manohar & Co. due to which Manohar & Co. expressed its opinion in a separate audit report.

Further, Manohar & Co. resigned and filed the required statement with respect to its resignation with Anitya Ltd. as well as the Registrar, respectively.

The Board of Directors of Anitya Ltd. appointed Namu & Co. as a joint auditor in place of Manohar & Co. which was later approved by members in the general meeting of the company.

Namu & Co. before getting appointed, as aforesaid, had :-

- (i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks "Office Found Locked".
- (ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Whether the opinion of Manohar & Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?
 - (a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.
 - (b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement.
 - (c) No, as such reference was not required by any law or regulation.
 - (d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.

2. Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?
 - (a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.
 - (b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.
 - (c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.
 - (d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.

3. Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?
 - (a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701
 - (b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.
 - (c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.
 - (d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.

4. Whether Namu & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?
- (a) No, as the communication through registered post acknowledgment due could not be done, Namu & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.
 - (b) Yes, as it would be deemed that such post was delivered.
 - (c) No, because in such a case Namu & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.
 - (d) No, however, Namu & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.

Reason:

As per SA 620 "Using the Work of an Auditor's Expert", the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

2. **Option (d)** No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.

Reason:

As per SA 530 "Audit Sampling", if the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

- 3. Option (b)** Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.

Reason:

As per SA 505 "External Confirmations", if the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

- 4. Option (b)** Yes, as it would be deemed that such post was delivered.

The communication received back by the Incoming Auditor with "Office found Locked" written on the Acknowledgement Due shall be deemed as having been delivered to the retiring auditor. Thus, it would be considered to have satisfied the requirements of communicating with the previous auditor.

CASE SCENARIO 17

CA Kamlesh was appointed as the engagement partner on behalf of Dutta & Associates for conducting the statutory audit for 3rd consecutive year of Pramati Limited, an unlisted public company, with a turnover of ₹ 35 crore during F.Y. 2022-23.

From F.Y. 2023-24 onwards, Pramati Limited had voluntarily adopted to prepare its financial statements as per Division II of Schedule III of the Companies Act, 2013, due to which Dutta & Associates had revised the terms of audit engagement for the current audit engagement. As per the revised terms, it was decided that the auditor's report on the financial statements will incorporate a paragraph in accordance with SA 706, drawing users' attention to the additional disclosures. Moreover, it was decided that management will also present appropriate disclosures in the financial statements with respect to this change.

While auditing the entity, CA Kamlesh came across a business policy of Pramati Limited that required to invest some portion of its money earned in its business in securities of different blue-chip companies and due to this reason, almost 55% of Pramati Limited's total assets consisted of such investments. These securities transactions were handled by its broker company, River Securities Private Limited (RSPL). RSPL was also performing necessary investment account reconciliations and was also preparing the MTM gain and loss calculation for the entity. Pramati Limited used to rely upon the calculations performed by RSPL and based on that they pass the MTM entry for their current investments every month. Pramati Limited relying on the controls presents in RSPL for the preparation of this entry. They also listed controls present in RSPL in their Risk Control Matrix as key controls.

The engagement quality reviewer, CA Tushar, recommended CA Kamlesh to obtain a Type 2 report from the management of RSPL to which CA Kamlesh said that it was not required to do so as management was already comfortable with the controls present in RSPL.

While finalising the audit report, CA Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance and Audit Committee of the entity. This letter was prepared in addition to the audit report. The audit team was of the view that for the above-mentioned letter the audit team is required to generate UDIN.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. While finalising the audit report CA Kamlesh decided to present the early adoption of IND AS under the "Other Matter Paragraph" as in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. Kindly guide CA Kamlesh with respect to correct reporting in the Audit Report as per SA 706:
 - (a) No disclosure is required as it is voluntary adoption of Division II of Schedule III of the Companies Act, 2013.
 - (b) The Audit team should report the change in the "Emphasis of Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.
 - (c) The Audit team should report the change in the "Other Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.
 - (d) The Audit team should qualify as per SA 705 the said change as it was not required to be implemented and this will create unnecessary confusion for the read.

2. CA Kamlesh 's risk assessment includes an expectation that controls at the service organization are operating effectively and he contended that there was no requirement to obtain a Type 2 report. Kindly guide CA Kamlesh with respect to the requirement of SA 402.

-
- (a) CA Kamlesh 's contention is correct as Management has comfort over the controls at service organization for the transactions and activities which are processed there.
 - (b) When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report.
 - (c) It depends upon the auditor's judgment and the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA Kamlesh's decision will be considered correct and appropriate.
 - (d) As no services are outsourced to the broker company and hence there is no need to obtain the type 2 report.
3. CA Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics and findings for discussion. Kindly guide CA Kamlesh with respect to UDIN requirements for this letter.
- (a) Separate UDINs are to be generated for the Statutory audit report and Letter to Those Charged with Governance.
 - (b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.
 - (c) One single UDIN is required to be generated for all items for this Client. UDINs are required to be generated Client wise instead of report-wise.
 - (d) One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management and Those Charged with Governance.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** The Audit team should report the change in the “Emphasis of Matter Paragraph” because, in the auditor’s judgment, it is of such importance that it is fundamental to users’ understanding of the financial statements.

Reason:

As per SA 706 “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”, early application (where permitted) of a new accounting standard that has a material effect on the financial statements is one of the circumstance where the auditor may consider it necessary to include an Emphasis of Matter paragraph.

2. **Option (b)** When the user auditor’s risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report.

Reason:

As per SA 402 “Audit Considerations Relating to an Entity Using a Service Organisation”, when the user auditor’s risk assessment includes an expectation that controls at the service organisation are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures:

- (i) Obtaining a Type 2 report, if available;
- (ii) Performing appropriate tests of controls at the service organisation;
or
- (iii) Using another auditor to perform tests of controls at the service organisation on behalf of the user auditor.

3. **Option (b)** UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.

Reason:

UDIN is mandatory from 1st July, 2019 on all Corporate/ Non- Corporate Audit, Attest and Assurance Functions. Thus, a member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him. Communications with Those Charged with Governance under SA 260 and SA 265 do not require UDIN, as these are not audit reports or certificates.

CASE SCENARIO 18

CA Mridul, a practicing Chartered Accountant, has been appointed as the statutory auditor of PQT Limited, a reputed listed company engaged in manufacturing electronic products, as per the provisions of the Companies Act, 2013. In addition to his audit responsibilities, he is actively involved in advising the government on proposed legislation aimed at attracting investments and advanced technology in the electronic products sector. He has publicly advocated the proposed policy in TV debates, articles in business newspapers, and advisory submissions to the government. In all such public appearances, he has disclosed his role as the auditor of PQT Limited.

Meanwhile, CA Mridul is also the statutory auditor of Fincorp Limited, non-banking financial company, for the financial year 2023-24. While reviewing the financial statements, he observes that the company has made the following provisioning in compliance with the Reserve Bank of India (RBI) Prudential Norms for Asset Classification as of 31st March 2024:

Asset Category	Balance Outstanding (₹ crores)	Provision for FY 2023-24 (₹ crores)
Standard Assets	200	NIL
Sub-standard Assets (Fully secured)	15	1.00
Doubtful Assets (1-3 years) (Fully secured)	8	2.00
Loss Assets	2	2.00
Total Provision for NPA		5.00 crores

Upon review, CA Mridul is of the opinion that the company has not done the provisioning correctly and expresses concerns regarding non-compliance with RBI guidelines.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is likely to be correct in regard to PQT Limited?
 - (a) The described situation can involve self-interest threats to the independence of the auditor.
 - (b) The described situation can involve familiarity threats to the independence of the auditor.
 - (c) The described situation can involve advocacy threats to the independence of the auditor.
 - (d) The described situation can involve self-review threats to the independence of the auditor.

2. Is the provision for Loss Assets of ₹ 2 crores correct as per RBI norms?
 - (a) Yes, because the provision should be 100% of the outstanding amount.
 - (b) No, the provision should be only 50% as it is secured.
 - (c) No, the provision should be NIL if the asset is secured.
 - (d) Yes, but only if the RBI has classified it as a fraud-related asset.

3. Fincorp Limited has classified ₹ 15 crores of loans as sub-standard assets. As per RBI norms, what should be the minimum provision required for this category?
 - (a) ₹ 1.50 crores
 - (b) ₹ 3.00 crores
 - (c) ₹ 0.75 crores
 - (d) ₹ 1.00 crores

4. Fincorp Limited has ₹ 8 crores in doubtful assets (one to three years) and has provided ₹ 2.00 crores. What is the shortfall in provisioning as per RBI norms?
- (a) ₹ 0.40 crores
 - (b) ₹ 1.00 crores
 - (c) ₹ 0.80 crores
 - (d) No shortfall

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** The described situation can involve advocacy threats to the independence of the auditor.

Reason:

Advocacy threat is the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised.

2. **Option (a)** Yes, because the provision should be 100% of the outstanding amount.

Reason:

In case of the loss Assets, the entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for.

3. **Option (a)** ₹ 1.50 crores

Reason:

Sub-standard assets: A general provision of 10 percent of total outstanding shall be made.

Minimum provision required: 15 Crores*10% = ₹ 1.5 Crores

4. Option (a) ₹ 0.40 crores**Reason:**

Period for which the asset has been considered as doubtful	Percent of provision
Up to one year	20
One to three years	30
More than three years	50

Provision required: 8 Crores*30% = 2.4 Crore

Provision made = 2 Crore

Shortfall in provisioning as per RBI norms (2.4 crore – 2 crore) = 0.4 Crore

CASE SCENARIO 19

Innovate Robotics Pvt. Ltd. (IRPL) engaged in the business of manufacturing advanced robotic machinery and developing proprietary automation software appointed M/s Gaur & Associates, Chartered Accountants, as the statutory auditor for the financial year 2024-25.

The financial highlights of IRPL for the year were as follows:

Particulars	Balance as at 31st March 2024)
Total Turnover (Previous Year: ₹ 85 crores)	₹ 120 crores
Borrowings from banks and financial institutions	₹ 35 crores
Paid-up Share Capital	₹ 20 crores
Profit Before Tax	₹ 15 crores

During the audit, Engagement Partner CA. Gaurav and his team observed the various issues which are given as under:

- (i) While conducting substantive procedures, the audit team noticed a significant increase in sales during the last quarter of the financial year. A major portion of this increase, amounting to ₹ 8 crores, was attributed to sales made to a new customer, TechSynergy Solutions Pvt. Ltd., which was incorporated on 1st October, 2024. The audit team's inquiries revealed that the payment for these sales was received on 5th April, 2025, just before the audit commenced. Upon further investigation, Anjali, an audit assistant, discovered that one of the directors of TechSynergy Solutions was the husband of the daughter of IRPL's Chief Financial Officer (CFO), Mr. Alok. When CA. Gaurav brought this information to Mr. Alok's attention, the CFO dismissed it as a mere coincidence and insisted that the transaction was conducted at arm's length. He also argued that since the payment was fully received, there was no risk of a misstatement. Management also refused to disclose this relationship in the financial statements, contending that it was not a related party transaction as per the applicable financial reporting framework, and that doing so would

unnecessarily complicate matters. It was also observed that approval by way of resolution was also not obtained by management before entering into the contract with TechSynergy for sale of goods.

- (ii) During the physical verification of Property, Plant, and Equipment (PPE), the audit team & management could not locate a highly specialised robotic arm, which was recorded in the fixed asset register with a written down value of ₹ 2.5 crores. Later, management provided a verbal explanation that the asset had been sent to a facility in Germany for immediate calibration in February 2025 and was in transit. However, they failed to provide any supporting documentation such as gate pass, dispatch challan, or insurance documentation for this movement. This matter remained unresolved at the time of finalisation of the audit report.
- (iii) IRPL holds 60% equity shares in a subsidiary, AutoBots Ltd. The statutory auditors of AutoBots Ltd., in their audit report for FY 2024–25, expressed a qualified opinion due to non-provision of doubtful debts amounting to ₹ 1.5 crores, which the auditor considered materially misstated.

During the final phase of the audit, on 15th April 2025, IRPL's CEO offered a position of 'Head of Software Development' to CA. Gaurav's wife, a highly qualified software engineer. CA. Gaurav subsequently discovered that his father purchased 1,00,000 equity shares of ₹ 10 each in AutoBots Ltd., a subsidiary of IRPL on 27th June, 2025 i.e., after issuance of audit report. The total paid-up capital of AutoBots Ltd. is ₹ 5 crores.

In the final meeting on 25th April 2025, IRPL's management strongly contended that the unresolved matters were minor in the context of their overall profitable operations. They urged CA. Gaurav to issue an unmodified audit opinion, warning that any modification could jeopardize a crucial funding deal for the company.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. With reference to the ₹ 8 crore sales transaction with TechSynergy Solutions Pvt. Ltd., and management's refusal to disclose the relationship with the entity, how should CA. Gaurav assess this matter in accordance with SA 240?
 - (a) CA. Gaurav should accept the CFO's explanation and conclude that the transaction does not pose a significant risk, as the payment was fully received subsequent to the year-end, which mitigates the risk of financial loss.
 - (b) CA. Gaurav should treat the transaction as indicative of a significant risk of material misstatement and consider the implications for the audit, including the reliability of management's representations, regardless of the subsequent payment.
 - (c) CA. Gaurav can rely on the management's assertion that the transaction was at arm's length and that the relationship does not meet the technical definition of a related party, thereby concluding that no further action is necessary.
 - (d) CA. Gaurav should only request a written representation from management confirming the nature of the transaction and their assertion that no related party relationship exists and then proceed to issue an unmodified opinion.

2. What is the reporting responsibility of CA. Gaurav under para 3(i) of CARO 2020, regarding the undisposed robotic arm with a written down value of ₹ 2.5 crores that was not physically located?
 - (a) Since the management has provided a verbal explanation that the asset is in transit for calibration, CA. Gaurav should accept it and is not required to report any discrepancy in the CARO report.
 - (b) The discrepancy is not considered material as it represents only a small portion of the company's total turnover of ₹ 120 crores, and therefore, no reporting under CARO 2020 is necessary.

-
- (c) CA. Gaurav should state in his CARO report that a material discrepancy of ₹ 2.5 crores was noticed during the physical verification of Property, Plant, and Equipment, and this has not been properly dealt with in the books of account.
- (d) CA. Gaurav should qualify his main audit report for this matter but can choose not to mention this specific discrepancy in the CARO report to avoid redundancy.
3. Assuming that CA. Gaurav's father purchased the shares with a face value of ₹ 10 lakhs in AutoBots Ltd., the subsidiary company, on 1st April, 2025, what is the implication on the audit engagement of IRPL under the Companies Act, 2013 and the Chartered Accountants Act, 1949?
- (a) There is no implication, as the shares are held in the subsidiary company (AutoBots Ltd.) and not in the holding company (IRPL).
- (b) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, and continuing the engagement constitutes professional misconduct.
- (c) Since CA. Gaurav was not aware of his father's investment at the time of accepting the audit, he is not in violation, provided he now obtains a declaration from his father confirming it is not a material investment.
- (d) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, but the disqualification can be retrospectively corrected if his father sells the shares within 60 days of CA. Gaurav becoming aware of the holding, thereby avoiding any misconduct.
4. What is the most appropriate type of audit opinion that CA. Gaurav should express for IRPL's financial statements in accordance with SA 700 regarding multiple unresolved issues, specifically the ₹ 8 crore revenue transaction, the missing ₹ 2.5 crore asset and the impact of the subsidiary's qualified opinion?

- (a) An adverse opinion, because the collective impact of the identified misstatements is so material and pervasive that the financial statements as a whole are misleading.
 - (b) A qualified opinion, as the issues identified are material but are confined to specific elements of the financial statements and are not pervasive.
 - (c) A disclaimer of opinion, because the inability to physically verify a key asset constitutes a significant limitation on the scope of the audit.
 - (d) An unmodified opinion with a Key Audit Matters (KAM) paragraph describing the revenue recognition and asset verification issues as high-risk areas.
5. If CA. Gaurav surrenders to the pressure from IRPL's management and issues an unmodified audit report for the year ended 31st March 2025, despite the unresolved issues regarding the revenue transaction with TechSynergy and the unverified robotic arm, he would be guilty of professional misconduct. Which of the following clauses of Part I of the Second Schedule to the Chartered Accountants Act, 1949, would be applicable?
- (a) Clause 5 and 9
 - (b) Clause 6 and 4
 - (c) Clause 5 and 8
 - (d) Clause 5, 6 and 7

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (b)** CA. Gaurav should treat the transaction as indicative of a significant risk of material misstatement and consider the implications for the audit, including the reliability of management's representations, regardless of the subsequent payment.

Reason:

SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," requires the auditor to maintain professional

skepticism and investigate significant unusual transactions. The sale to TechSynergy Solutions, a newly incorporated entity, in the last quarter, which significantly inflates revenue without necessary and requisite approvals under Section 188 of the Companies Act, is a red flag. The discovery that a director of TechSynergy is related to the CFO, combined with management's refusal to disclose this, strongly indicates a risk of fraudulent financial reporting (e.g., to overstate revenue).

2. **Option (c)** CA. Gaurav should state in his CARO report that a material discrepancy of ₹ 2.5 crores was noticed during the physical verification of Property, Plant, and Equipment, and this has not been properly dealt with in the books of account.

Reason:

Companies (Auditor's Report) Order, 2020, requires the auditor to state whether any material discrepancies were noticed on physical verification of Property, Plant, and Equipment and if so, whether they have been properly dealt with in the books of account. A fixed asset with a WDV of ₹ 2.5 crores being physically untraceable without any supporting documentation (like a gate pass, challan, or insurance) constitutes a material discrepancy. Management's verbal explanation is insufficient audit evidence. Therefore, CA Gaurav must report this material discrepancy and the fact that it has not been properly accounted for.

3. **Option (b)** CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, and continuing the engagement constitutes professional misconduct.

Reason:

As per Section 141(3)(d)(i) of the Companies Act, 2013, an auditor is disqualified if he or his relative holds any security or interest in the company, its subsidiary, its holding company, or its associate company. The proviso to this section allows a relative to hold securities or interest in the company of face value not exceeding ₹1,00,000.

In this case, CA Gaurav's father is his relative. He holds shares in AutoBots Ltd., a subsidiary of IRPL. The face value of these shares is ₹10,00,000 (1,00,000 shares x ₹10), which is significantly higher than the permitted threshold of ₹1,00,000. Therefore, CA Gaurav is disqualified from being appointed as the auditor of IRPL. Continuing to act as an auditor while being disqualified contravenes the provisions of the Companies Act, 2013, and is deemed professional misconduct under Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

- 4. Option (a)** An adverse opinion, because the collective impact of the identified misstatements is so material and pervasive that the financial statements as a whole are misleading.

Reason:

An adverse opinion is appropriate in this scenario. According to SA 705 (Revised), an auditor should express an adverse opinion when, having obtained sufficient appropriate audit evidence, they conclude that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

The situation involves:

1. A potential fraudulent revenue transaction of ₹8 crores, where management refuses disclosure, casting doubt on their integrity. This misstatement alone is highly material relative to the Profit Before Tax of ₹15 crores.
2. An unverified asset of ₹2.5 crores with no supporting documentation.
3. The effect of a qualified opinion in a subsidiary.

The combination of these issues, particularly the one related to revenue which suggests management override and potential fraud, is not isolated. It indicates a pervasive lack of reliability in the financial statements. Therefore, the financial statements as a whole are materially misstated and misleading.

5. Option (d) Clause 5, 6 and 7**Reason:**

The correct answer is (d) because issuing an unmodified opinion under these circumstances would violate all three clauses mentioned.

- Clause (5) is applicable because CA Gaurav is aware of the relationship between IRPL's CFO and a director of TechSynergy Solutions. This is a material fact that management has refused to disclose. Failure to ensure this disclosure makes the financial statements misleading, constituting misconduct under Clause (5).
- Clause (6) is applicable because CA Gaurav has identified two clear material misstatements: the potential fraudulent revenue of ₹8 crores and the unaccounted-for asset of ₹2.5 crores. Knowingly failing to report these misstatements in his audit report is a direct violation of Clause (6).
- Clause (7) is applicable because ignoring such significant audit evidence, resulting to management pressure, and failing to adhere to the fundamental principles of auditing (like obtaining sufficient appropriate evidence and maintaining professional skepticism) would be considered a case of gross negligence and a failure to exercise due diligence.

CASE SCENARIO 20

SCL is a prominent, listed Non-Banking Financial Company (NBFC) (non-deposit taking NBFCs with an asset size of ₹ 1,000 crore and above) primarily engaged in providing corporate loans and retail financing. Mehta & Shah Associates (MSA), a partnership firm with two partners, CA. Karan Mehta and CA. Arjun Shah, was appointed as the statutory auditor of SwiftFin Capital Ltd. (SCL) for the financial year ended 31st March, 2025.

During the audit, MSA team led by CA. Mehta, began reviewing SCL's compliance with RBI's Master Directions for NBFCs. They discovered that three large corporate loan accounts, with a total outstanding balance of ₹ 15 crores, had principal and/or interest payments overdue for a period ranging from 95 to 110 days as at the balance sheet date. However, these accounts were still classified as 'Standard Assets' in the company's records. The management of SCL argued that these were long-standing, "blue-chip" clients with whom they were in advanced restructuring negotiations. They contended that classifying these accounts as Non-Performing Assets (NPAs) would trigger cross-default clauses in other agreements of those clients and permanently damage valuable business relationships. They insisted that the non-classification was a temporary measure based on commercial judgment.

While reviewing the board minutes, the audit team came to know about a lawsuit filed against SCL in January 2025. A group of retail customers alleged that the company had provided loans by charging interest rates that were not transparently disclosed and were in violation of the RBI's Fair Practices Code. SCL's internal legal department had prepared a note for the board estimating a financial outcome of up to ₹ 5 crores if the judgment went against the company. However, the financial statements contained no provision or disclosure for this matter. Management asserted that their legal advisors believed the probability of an unfavourable outcome was "remote".

In April 2025, impressed with the firm's diligence, the management of SCL also offered the tax audit engagement under Section 44AB of the Income-tax Act, 1961, to MSA for the Assessment Year 2025-26. CA. Mehta reviewed the firm's

workload for the assessment year. As on that date, CA. Mehta had already signed 55 tax audit reports, and his partner, CA. Arjun, had signed 60 tax audit reports.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Considering the requirements of SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" and the specific context of an NBFC audit, what is the most appropriate course of action for CA. Mehta regarding the non-classification of loan accounts worth ₹ 15 crores as NPAs?
 - (a) CA. Mehta should accept management's commercial judgment, as advanced restructuring negotiations are in progress, and disclose the matter in an "Emphasis of Matter" paragraph to ensure user awareness.
 - (b) CA. Mehta should inform the management that this non-classification constitutes a material misstatement due to non-compliance with RBI's mandatory prudential norms. If management refuses to correct this by reclassifying the assets and making provisions, he must modify the audit opinion.
 - (c) CA. Mehta's primary responsibility is to report this specific instance of non-compliance with IRAC norms to the Department of Supervision of the RBI, and he can issue an unmodified opinion on the financial statements.
 - (d) CA. Mehta should obtain a specific written representation from management confirming the future recoverability of the loans and based on this representation, he can agree to the existing classification and issue a clean report.
2. With reference to the tax audit engagement offered by SCL and assuming that the CA. Arjun is finalised as the signing on behalf of the firm Mehta & Shah Associates (MSA), can the firm legally accept this new Tax Audit

assignment for the Assessment Year 2025-26 as per the guidelines issued by the Council of ICAI?

- (a) No, the firm cannot accept the engagement because the total number of tax audits conducted by the partner CA. Arjun (60) is very close to the limit, and accepting one more would be a violation.
 - (b) Yes, the firm can accept the engagement, but the audit report must be signed by CA. Mehta, as CA. Arjun has already reached his permissible limit of 60 audits.
 - (c) No, the firm cannot accept the engagement because the specified limit of 60 tax audits applies to the firm as a whole, and the partners' individual counts are irrelevant.
 - (d) Yes, the firm can accept the engagement because the specified limit of 60 tax audits applies to each partner individually, and the firm can still take five more Tax Audits before reaching its 120 Tax Audit limit.
3. CA. Mehta has identified the matter regarding NPA classification and the non-disclosure of the lawsuit as the two most significant issues of the entire audit. He wishes to highlight these matters prominently in his report as Key Audit Matters. Considering the nature of matters, which of the following is the only appropriate method for CA. Mehta to communicate these in his audit report?
- (a) Describe both issues in detail in the "Key Audit Matters" (KAM) section, as they represent the areas of highest risk and significant auditor judgment.
 - (b) Describe both issues in an "Emphasis of Matter" (EOM) paragraph, as they are fundamental to understanding the company's financial position and risks.
 - (c) Describe the issues giving rise to the misstatements in the "Basis for Modification" paragraph, which will support a qualified or adverse opinion.

- (d) Describe the issues in an "Other Matter" (OM) paragraph, as they are relevant to the users' understanding of the conduct of the audit and management's integrity.
4. Apart from making inquiries with management wherein the management's assessment of the lawsuit is "remote," which audit procedures should be designed and performed by CA. Mehta?
- (a) He should discuss the matter with audit committee, expressing concern that management's representation is unreliable and insists on making a provision of ₹ 5 crores required in the financial statements based on the available evidence and his independent assessment.
- (b) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared and sent by management, requesting the entity's external legal counsel to provide a necessary update on the litigation.
- (c) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.
- (d) After seeking direct communication with the entity's external legal, he should independently engage a forensic accountant at the firm's own cost to obtain the evidence against the lawsuit, which should be admissible in the court of law.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** CA. Mehta should inform the management that this non-classification constitutes a material misstatement due to non-compliance with RBI's mandatory prudential norms. If management refuses to correct this by reclassifying the assets and making provisions, he must modify the audit opinion.

Reason:

The RBI's Prudential Norms on Income Recognition, Asset Classification, and Provisioning (IRAC norms) are laws and regulations that have a direct effect on the determination of material amounts and disclosures in an NBFC's financial statements. According to SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor has a responsibility to obtain sufficient appropriate audit evidence regarding compliance with such laws and regulations. The overdue status of over 90 days requires a mandatory classification as NPA. Management's "commercial judgment" cannot override these specific regulatory requirements. This non-classification results in a material misstatement of assets and profits. Therefore, CA Mehta must request management to correct the financials. If they refuse, he is obligated under SA 705 (Revised) to issue a modified opinion (qualified or adverse, depending on pervasiveness).

2. **Option (d)** Yes, the firm can accept the engagement because the specified limit of 60 tax audits applies to each partner individually, and the firm can still take five more Tax Audits before reaching its 120 Tax Audit limit.

Reason:

According to the Council General Guidelines, 2008 (Chapter VI), a Chartered Accountant in practice is permitted to conduct a maximum of 60 tax audits under Section 44AB of the Income-tax Act, 1961, per assessment year. This limit is applicable per partner in a firm. Paragraph 6.1.7 of Chapter VI of Council General Guidelines, 2008, clarifies that the limit on the number of tax audit assignments per partner in a CA Firm may be distributed between the partners in any manner whatsoever. In the case of MSA, which has two partners, the firm can collectively handle up to 120 tax audits (60 for CA Mehta + 60 for CA Shah). As of the offer date, CA Mehta has signed 55 and CA Shah has signed 60 reports. Therefore, the firm can legally accept the new tax audit, and it can be signed by either of the partners.

3. **Option (c)** Describe the issues giving rise to the misstatements in the "Basis for Modification" paragraph, which will support a qualified or adverse opinion.

Reason:

Since there are identified material misstatements that management has refused to correct, this is the only appropriate placement for these matters.

4. **Option (c)** He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.

Reason:

If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.

CASE SCENARIO 21

Prakriti Limited is a listed company engaged in the manufacture of eco-friendly home appliances. During the financial year, the company significantly expanded its operations by setting up a new manufacturing facility in a semi-rural location. The expansion was aimed at increasing production capacity while benefiting from lower operational costs and proximity to raw material suppliers.

During the statutory audit of Prakriti Limited, the auditor became aware of the undisclosed environmental violations and labour-related non-compliances. Management represented that the issues were operational in nature and assured corrective action. Relying on management representations, the auditor did not include any specific reference to these matters in the audit report.

The company sources raw materials from a diverse supplier base and employs a large workforce, a substantial portion of which consists of contractual labour engaged through third-party contractors. Prakriti Limited sells its products through online platforms as well as a widespread network of distributors across India.

Being a listed entity, Prakriti Limited is required to comply with the Business Responsibility and Sustainability Reporting (BRSR) framework. During the year, the following issues came to the attention of stakeholders and regulators:

- Prakriti Limited has published its sustainability policies and environmental commitments on its official website. However, certain material environmental violations relating to emissions and waste management at the newly established plant were disclosed to the public only after these violations were highlighted in media reports. The company did not make timely or voluntary disclosures to its stakeholders when the violations first occurred.
- Contractual workers employed at the new manufacturing facility raised complaints regarding delayed payment of wages by contractors and absence of adequate safety measures at the workplace. The workers alleged that despite being aware of these issues, the company did not take sufficient steps to ensure compliance by contractors.

- Prakriti Limited collects customer data through its online sales platform for order processing and customer engagement. During the year, it was observed that the company shared customer data with third-party marketing agencies without obtaining explicit consent from customers.

Statutory auditor CA. Manik, during the statutory audit of Prakriti Limited, became aware of the undisclosed environmental violations and labour-related non-compliances. Management represented that the issues were operational in nature and assured corrective action. Relying on management representations, the auditor did not include any specific reference to these matters in the audit report.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. The delayed disclosure of environmental violations at the new manufacturing plant is contrary to which BRSR principle?
 - (a) Principle 2 – Safe and Sustainable Goods and Services
 - (b) Principle 1 – Ethics, Transparency and Accountability
 - (c) Principle 6 – Protection and Restoration of Environment
 - (d) Principle 9 – Provide Value to the Consumers in a Responsible Manner
2. Which clause of CARO, 2020 is most likely to require reporting in respect of delayed wages and labour-related statutory non-compliances at Prakriti Limited?
 - (a) Clause 3(vii) – Statutory Dues
 - (b) Clause 3(i) – Property, Plant and Equipment;
 - (c) Clause 3(xi) – Fraud by the company
 - (d) Clause 3(xv) – Non-cash transactions with directors
3. The grievances raised by contractual workers regarding delayed wages

and unsafe working conditions primarily indicate non-compliance with which principle?

- (a) Principle 4 – Respect for Stakeholders’ Interests and Responsiveness
 - (b) Principle 2 – Safe and Sustainable Goods and Services
 - (c) Principle 8 – Promote Inclusive Growth and Equitable Development
 - (d) Principle 3 – Promote Well-Being of All Employees Including those in the Value Chain
4. Which is the most appropriate response of the auditor upon becoming aware of environmental and labour law non-compliances as per relevant Standards on Auditing?
- (a) Accept management representation as sufficient audit evidence
 - (b) Ignore the matters since they relate to non-financial reporting
 - (c) Evaluate implications under applicable laws and communicate with those charged with governance, and consider appropriate reporting
 - (d) Immediately resign from the audit
5. Sharing customer data with third-party marketing agencies without explicit consent amounts to a violation of:
- (a) Principle 2 – Safe and Sustainable Goods and Services:
 - (b) Principle 4 – Respect for Stakeholders’ Interests and Responsiveness
 - (c) Principle 5 – Respect and Promote Human Rights
 - (d) Principle 9 – Provide Value to the Consumers in a Responsible Manner

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Principle 1 – Ethics, Transparency and Accountability

Reason:

Principle 1 requires businesses to conduct operations with integrity and transparency and to ensure timely, accurate and complete disclosure of material information to stakeholders. Delayed disclosure of environmental violations, especially after media intervention, reflects a lack of transparency and accountability, thereby violating Principle 1.

2. **Option (a)** Clause 3(vii) – undisputed statutory dues

Reason:

Clause (vii) of Paragraph 3 of CARO, 2020 requires reporting on whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated.

3. **Option (d)** Principle 3 – Promote Well-Being of All Employees Including Those in the Value Chain

Reason:

Principle 3 extends beyond permanent employees and includes workers in the value chain, such as contractual labour. Timely payment of wages and provision of safe working conditions are core elements of employee well-being. Failure to address wage delays and workplace safety concerns indicates non-compliance with this principle.

4. **Option (c)** Evaluate implications under applicable laws and communicate with those charged with governance, and consider appropriate reporting

Reason:

As per SA 250, the auditor must consider non-compliance with laws and regulations and communicate with those charged with governance. Further, reliance solely on management representation by the auditor violates SA 580 and the principle of professional skepticism.

- 5. Option (d)** Principle 9 – Provide Value to the Consumers in a Responsible Manner

Reason:

Principle 9 emphasises responsible engagement with customers, including protection of customer data and privacy. Sharing personal data with third parties without explicit consent infringes upon customers' right to privacy and violates the responsible business conduct expected under this principle.

CASE SCENARIO 22

Wire Ltd. is a listed company engaged in the manufacture of electrical equipment. The company operates multiple manufacturing units across India and consumes significant quantities of electricity, water, and natural resources such as copper and aluminium for its operations. The production process results in carbon emissions, water discharge, hazardous waste, and e-waste.

To address environmental concerns, Wire Ltd. has installed solar power facilities at its plants and implemented water recycling systems. The company has also set measurable targets to reduce its carbon emissions by 30% over the next five years and periodically tracks its emission levels.

Wire Ltd. employs a large workforce, including permanent and contract workers. The company has framed policies relating to employee health and safety, labour welfare, gender diversity, equal opportunity, and skill development. It also undertakes community development initiatives in the areas surrounding its manufacturing units.

The Board of Wire Ltd. comprises executive and independent directors. The company has constituted various Board committees, including the Audit Committee, Nomination and Remuneration Committee, and Risk Management Committee. Wire Ltd. follows a code of conduct, has a whistle-blower mechanism, and ensures compliance with applicable laws and regulations.

In response to increasing investor and regulatory expectations, Wire Ltd. has initiated Environmental, Social and Governance (ESG) reporting, which includes both qualitative disclosures (such as policies and strategies) and quantitative disclosures (such as metrics and key performance indicators).

Wire Ltd. appoints a firm of Chartered Accountants APR & Associates to provide ESG assurance using advanced digital auditing tools such as data analytics and automated extraction of ESG data from its ERP systems.

Subsequently, CA. Ankur, Partner APR & Associates instruct his article assistant CA Mihir to publish a detailed post on its website and social media platforms highlighting its role in conducting "ESG and Digital Audits of a listed

manufacturing company using AI-based tools” and to invites other corporates to approach the firm for similar assignments.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Which of the following activities undertaken by Wire Ltd. falls under the Environmental (E) pillar of ESG?
 - (a) Constitution of Board-level committees
 - (b) Adoption of a whistle-blower mechanism
 - (c) Installation of solar power facilities and water recycling systems
 - (d) Community development initiatives

2. Policies relating to labour welfare, gender diversity, and community development primarily relate to which pillar of ESG?
 - (a) Environmental Pillar
 - (b) Social Pillar
 - (c) Governance Pillar
 - (d) Financial Pillar

3. Whether the instruction of CA Ankur, Partner of APR & Associates, to his articled assistant CA Mihir is in compliance with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereto?
 - (a) Yes, since publication of information relating to professional expertise and use of digital audit tools is permitted under the provisions of the Chartered Accountants Act, 1949 and the Schedules thereto.
 - (b) No, as the instruction results in indirect solicitation of professional work, thereby violating Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (c) No, as the instruction results in indirect solicitation of professional work, thereby violating Clause 6 of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

- (d) Yes, since ESG assurance and digital auditing are emerging areas and are not restricted provisions of the Chartered Accountants Act, 1949 and the Schedules thereto.
4. The presence of independent directors and constitution of Audit and Risk Management Committees indicate adherence to:
- (a) Environmental Pillar
 - (b) Social Pillar
 - (c) Governance Pillar
 - (d) Financial Pillar

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Installation of solar power facilities and water recycling systems

Reason:

The environmental pillar include the following elements as under:

- Climate Change: Carbon Emissions, Product Carbon FootPrints, Financing Environmental Impact, Climate Change Vulnerability
- Natural Resources: Water Stress, Bio-diversity & land use, Raw Material sourcing
- Pollution & Waste: Toxic emission and waste, Packing Material and waste, E- Waste
- Environment Opportunity: Clean Tech, Green Building, Renewable Energy

2. **Option (b)** Social

Reason:

The Social pillars include the following elements as under:

- Labour Management
- Health & Safety

- Human Capital Development
- Supply Chain Labour Standards

3. Option (b) No, as the instruction results in indirect solicitation of professional work, thereby violating Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Reason:

Clause 6 of Part I of the First Schedule prohibits a Chartered Accountant from advertising or soliciting professional work, directly or indirectly. Publishing posts on websites or social media highlighting assignments and inviting clients amounts to indirect solicitation, even if the client's name is not disclosed. Therefore, the instruction given by CA Ankur is not in compliance with professional ethics.

4. Option (c) Governance Pillar

Reason:

The Governance pillars include the following elements as under:

- Corporate Governance: Broad Diversity, Executive Pay, Ownership, Accounting
- Corporate Behaviour: Business Ethics, Anti - Competitive Practices, Corruption & Instability, Financial system and stability, Tax Transparency

CASE SCENARIO 23

CA Kishan, a sole proprietor of M/s R K & Co., is a Chartered Accountant in practice. He employs CA Isha, a qualified Chartered Accountant, as a full-time paid assistant. CA Isha conducts audits, prepares reports and signs certificates under the name and supervision of CA Kishan.

The firm also engages Mr. Varun, a non-Chartered Accountant, to assist in administrative coordination, client communication and liaison work. The firm pays him a portion of professional receipts described as "*legal consultancy and office support charges*", although Mr. Varun does not possess any recognised professional qualification prescribed by the Council.

With prior approval of the Council, CA Kishan purchases the goodwill from Ms. Vishakha, wife of a deceased Chartered Accountant. Following this acquisition, the firm witnesses a rapid expansion of its client base, including corporate and overseas clients.

During this expansion phase AMC Ltd., one of the client of CA Kishan, had following cyber fraud attempts:

- The CFO of a client company receives an urgent phone call from a person impersonating a bank official, requesting OTP details to reverse a supposedly failed transaction.
- Around the same time, the Managing Director receives a "Highly Confidential" email appearing to originate from the Chairman, seeking immediate authorisation for an overseas wire transfer.
- The attackers leveraged publicly available information and weak segregation of duties to make their communications appear authentic.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Whether payment to Mr. Varun described as “legal consultancy and office support charges” is permissible under the provisions of the Chartered Accountants Act, 1949 and the Schedules thereto?
 - (a) Permissible sharing of fees due to legal consultancy
 - (b) Professional misconduct under Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949
 - (c) Professional misconduct under Clause (3) of Part I of the First Schedule to the Chartered Accountants Act, 1949
 - (d) Permissible if disclosed in the engagement letter

2. The phone call received by the CFO requesting OTP details to reverse a failed transaction is known as:
 - (a) Whaling
 - (b) Spear phishing
 - (c) Vishing
 - (d) Smishing

3. Whether purchase of goodwill from a non-CA in the given case will tantamount to Professional Misconduct under the provisions of the Chartered Accountants Act, 1949 and the Schedules thereto?
 - (a) Purchase of goodwill from a non-CA is professional misconduct under Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (b) Purchase of goodwill from the legal heir of a deceased CA, with Council approval, is permissible.
 - (c) Purchase of goodwill is permissible only if the seller is a practicing CA.

- (d) Purchase of goodwill from a non-CA amount to professional misconduct under Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949
4. The email sent to the Managing Director impersonating the Chairman and seeking urgent wire transfer authorisation is an example of:
- (a) Spear phishing
 - (b) Phishing
 - (c) Whaling
 - (d) Smishing

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Professional misconduct under Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949

Reason:

Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from sharing professional fees with a non-member, except in circumstances specifically permitted (such as sharing with members, retired partners, legal representatives of deceased partners, or persons with prescribed qualifications). Merely describing the payment as "legal consultancy" does not alter its substance. Since Mr. Varun is neither a member nor a prescribed professional, sharing fees with him constitutes professional misconduct.

2. **Option (c)** Vishing

Reason:

Vishing involves fraudulent phone calls impersonating trusted entities such as banks to extract sensitive information like OTPs or passwords. The CFO receiving a call claiming to be from the bank and requesting OTP details clearly fits within vishing attacks.

- 3. Option (b)** Purchase of goodwill from the legal heir of a deceased CA, with Council approval, is permissible.

Reason:

With reference to Clause (2) of Part I of First Schedule to the Chartered Accountants Act, 1949, the Council of the Institute of Chartered Accountants of India considered whether the goodwill of a proprietary concern of chartered accountant can be sold to another member who is otherwise eligible, after the death of the proprietor.

It lays down that the sale is permitted subject to certain conditions discussed in the above flowchart. It further resolved that the legal heir of the deceased member has to obtain the permission of the Council within a year of the death of the proprietor concerned.

- 4. Option (c)** Whaling

Reason:

Whaling is a specialised form of phishing that targets senior executives or decision-makers (such as MDs, CEOs, or Chairpersons) with the objective of authorising high-value transactions. The impersonation of the Chairman and request for urgent wire transfer authorisation squarely qualifies as a whaling attack.

CASE SCENARIO 24

M/s BAT & Co., a firm of Chartered Accountants, recently launched its official website "bat-ca.com". The website featured bright neon colours, details of the partners, and listed some major clients with the fees charged. The website also used a "push" technology, where updates were automatically sent to subscribers without them requesting it.

Around the same time, Mr. P, a partner in the firm, appeared on a business channel TV interview and handed over a bio-data of the firm to the interviewer. The bio-data contained details of:

- The firm's international affiliations.
- Personal achievements and awards of Mr. P as a tax expert.
- Notable clients handled by the firm.

Later, another partner, Mr. Q, published a congratulatory advertisement in a leading newspaper with his photograph on the occasion of opening a new branch office.

Further, M/s BAT & Co. was appointed as the statutory auditor of RST Ltd., a company covered under CARO 2020. While reporting under Paragraph 3 of CARO 2020 relating to property, plant and equipment, inventory, statutory dues, and borrowings, the audit team relied on system-generated MIS reports from the company's ERP system, and management representations confirming the accuracy and completeness of such information.

The audit team did not carry out independent verification of underlying records or evaluate the effectiveness of internal controls, on the assumption that consistency between MIS reports and management representations provides sufficient audit evidence.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Regarding the website "bat-ca.com", which of the following statements is correct under the Council General Guidelines, 2008?
 - (a) The firm is fully compliant because there is no restriction on website colours.
 - (b) The firm is in violation of guidelines because it uses "push" technology and discloses client names and fees without regulatory requirement.
 - (c) The website is compliant because disclosure of clients and fees is allowed on the firm's discretion.
 - (d) The firm is only liable if the website is used to actively solicit new clients.

2. In the given case, whether approach of audit team i.e., relying on written representation and MIS with respect to reporting under relevant Standards on Auditing and CARO 2020 is appropriate?
 - (a) The auditor's approach is appropriate since consistency between MIS reports and management representations is sufficient for compliance with SAs and CARO 2020 reporting.
 - (b) The auditor's approach is acceptable as reporting largely involves matters based on information and explanations provided by management during the audit.
 - (c) The auditor's approach is inappropriate because management representations and system-generated MIS cannot substitute independent audit procedures required for compliance with SAs and CARO 2020 reporting.
 - (d) The auditor's approach is justified unless there is a specific indication of fraud or material misstatement.

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3. Whether Mr. P will be held guilty for professional misconduct for handing over the firm's bio-data during a TV interview under the Chartered Accountants Act, 1949 and Schedules thereto?
- (a) Yes, Mr. P will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 because handing over bio-data promoting the firm and the partner's achievements indirectly solicits professional work.
 - (b) No, Mr. P will not be held guilty of professional misconduct as the partner did not personally read out the bio-data on TV.
 - (c) No, Mr. P will not be held guilty of professional misconduct as long as the bio-data was factual.
 - (d) Yes, Mr. P will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 only if the TV channel ran advertisements alongside the bio-data.
4. Whether the publishing of the photograph by Mr. Q is permissible under the Chartered Accountants Act, 1949 and the Schedules thereto?
- (a) Yes, it is permissible as it merely conveys information about an event and does not amount to solicitation of professional work.
 - (b) Yes, it is permissible since the publication highlights personal credentials of the partner and does not involve advertisement of professional services.
 - (c) No, it is not permissible as it indirectly solicits professional work and promotes the partner and the firm and tantamount to professional misconduct.
 - (d) Yes, it is permissible provided the publication does not contain any reference to services rendered or fees charged.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** The firm is in violation of guidelines because it uses “push” technology and discloses client names and fees without regulatory requirement.

Reason:

The Council of the Institute had approved posting of particulars on website by Chartered Accountants in practice under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949 subject to the prescribed guidelines. The relevant guidelines in the context of the website hosted by M/s XYZ are:

- No restriction on the colours used in the website;
- The websites are run on a “pull” technology and not a “push” technology;
- Names of clients and fees charged not to be given.

However, disclosure of names of clients and/or fees charged, on the website is permissible only where it is required by a regulator, whether or not constituted under a statute, in India or outside India, provided that such disclosure is only to the extent of requirement of the regulator.

2. **Option (c)** The auditor’s approach is inappropriate because management representations and system-generated MIS cannot substitute independent audit procedures required for compliance with SAs and CARO 2020 reporting.

Reason:

CARO 2020 reporting is an integral part of the statutory audit and requires the auditor to obtain sufficient and appropriate audit evidence. Further, as per SA 580, “Written Representations”, management representations serve only as supplementary audit evidence, and cannot replace independent verification of records, evaluation of internal controls, and other audit procedures. Accordingly, reliance solely on MIS reports and representations—without independent verification—is not adequate for

reporting and reflects non-compliance.

3. **Option (a)** Yes, Mr. P will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 because handing over bio-data promoting the firm and the partner's achievements indirectly solicits professional work.

Reason:

Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits solicitation of client or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means since it shall constitute professional misconduct.

4. **Option (c)** No, it is not permissible as it indirectly solicits professional work and promotes the partner and the firm and tantamount to professional misconduct.

Reason:

As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means.

CASE SCENARIO 25

Verma & Co. has been appointed as the central statutory auditor of Quick Trust Bank Ltd., a private sector bank registered with RBI, for F.Y. 2023–24.

Mr. Verma, the engagement partner, while examining the computation of DTL (Demand and Time Liabilities), raised his suspicion regarding the inclusion and exclusion of the following items:

Sr. No.	Particulars of Item	Inclusion/Exclusion
1	Amounts received in INR for disposal of import bills shown under Sundry Deposits	Inclusion
2	Net credit balance of Branch Adjustment Account	Inclusion
3	Amount received from ECGC by invoking the guarantee	Exclusion
4	Margins held and kept in sundry deposits for funded facilities.	Inclusion
5	Unaccounted inward remittances received on behalf of customers	Inclusion

During the course of audit, Verma & Co. also observed that one large advance account of the bank had no recovery of principal or interest for the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee.

Additionally, Verma & Co. was offered Stock audit of a sister concern of Quick Trust Bank Ltd. for F.Y. 2023–24, and Branch audit of its Andheri Branch for F.Y. 2023–24 and Bandra Branch for F.Y. 2024–25, respectively.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Items at which serial number, as aforesaid, have been wrongly included or excluded for the computation of Demand and Time Liabilities?
 - (a) Items at which Sr. No. 1 & 4, respectively.
 - (b) Items at which Sr. No. 2, 3 & 5, respectively.
 - (c) Items at which Sr. No. 1 & 3, respectively.
 - (d) Items at which Sr. No. 3 & 5, respectively.

2. Whether the classification of advance and income recognition by Quick Trust Bank Ltd. is correct?
 - (a) The bank is incorrect in not classifying the advance as NPA and in continuing to recognize interest income, since guarantees do not affect IRAC norms.
 - (b) The bank is correct in not classifying the advance as NPA for provisioning purposes since the Central Government guarantee has not been repudiated, but interest income should not be recognized unless actually realized.
 - (c) The bank is correct in both not classifying the advance as NPA and in recognizing interest income on accrual basis due to Central Government guarantee.
 - (d) The bank should classify the advance as NPA only after 90 days of overdue irrespective of whether the guarantee is by Central or State Government.

3. Would the auditor's conclusion change if the advance, which has remained overdue for more than 18 months, was guaranteed by a State Government instead of the Central Government?
 - (a) Yes, since the special exemption from NPA classification is not available for State Government guaranteed advances, and the account would be treated as NPA after 90 days of overdue.
 - (b) Yes, but only income recognition norms would change, while asset classification would remain unaffected.

- (c) No, both Central and State Government guarantees are treated identically for asset classification and income recognition under RBI IRAC norms.
 - (d) No, the account would be classified as NPA only on invocation and repudiation of the State Government guarantee.
4. Whether Verma & Co. can accept the stock audit assignments, as aforesaid?
- (a) It can only accept the stock audit assignment of its Bandra Branch and its Andheri Branch.
 - (b) It can only accept the stock audit assignment of its Bandra Branch.
 - (c) It can only accept the stock audit assignment of the sister concern of Quick Trust Bank Ltd., its Bandra Branch as well as its Andheri Branch. However, it will require NOC from Quick Trust Bank Ltd. for accepting the stock audit assignment of its sister concern.
 - (d) It can only accept the stock audit assignment of the sister concern of Quick Trust Bank Ltd.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Items at which Sr. No. 1 & 4, respectively.

Reason:

While examining the computation of DTL, specifically examine that following items have been excluded from liabilities:

- Amounts received in Indian currency against import bills and held in sundry deposits pending receipts of final rates
- Amount received from ECGC by invoking the guarantee
- Margins held and kept in sundry deposits for funded facilities.

Similarly, specifically examine that the following items have been included in liabilities-

- Net credit balance in branch adjustment accounts including these relating to foreign branches.

- The reconciliation of Nostro accounts (with Nostro Mirror Accounts) needs to be scrutinized carefully to analyze and ascertain if any inwards remittances are received on behalf of the customers / constituents of the bank and have remained unaccounted and / or any other debit (inward) entries have remained unaccounted and are pertaining to any liabilities for the bank.

Sr. No.	Particulars of Item	Inclusion/ Exclusion	Correct Treatment
1	Amounts received in INR for disposal of import bills shown under Sundry Deposits	Inclusion	Exclusion
2	Net credit balance of Branch Adjustment Account	Inclusion	Inclusion
3	Amount received from ECGC by invoking the guarantee	Exclusion	Exclusion
4	Margins held and kept in sundry deposits for funded facilities.	Inclusion	Exclusion
5	Unaccounted inward remittances received on behalf of customers	Inclusion	Inclusion

2. **Option (d)** The bank is correct in not classifying the advance as NPA for provisioning purposes since the Central Government guarantee has not been repudiated, but interest income should not be recognized unless actually realized.

Reason:

If a government guaranteed advance becomes NPA, then for the purpose of income recognition, interest on such advance should not be taken to income unless interest is realized. However, for the purpose of asset classification, credit facility backed by Central Government Guarantee, though overdue, can be treated as NPA only when the Central Government repudiates its guarantee, when invoked.

Since the bank has not invoked the guarantee, the question of repudiation does not arise. Hence the bank is correct to the extent of not applying the

NPA norms for provisioning purpose. But this exemption is not available in respect of income recognition norms. Hence the income to the extent not recovered should be reversed.

- 3. Option (a)** Yes, since the special exemption from NPA classification is not available for State Government guaranteed advances, and the account would be treated as NPA after 90 days of overdue.

Reason:

As per RBI IRAC norms, the exemption from asset classification applicable to Central Government guaranteed advances is not available in case of State Government guaranteed advances. Accordingly, if an advance guaranteed by a State Government remains overdue for more than 90 days, it is required to be classified as NPA, irrespective of invocation of the guarantee.

- 4. Option (b)** It can only accept the stock audit assignment of its Bandra Branch.

Reason:

As per Recent Decisions of Ethical Standards Board a chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.

In the present case, Verma & Co. is the statutory auditor of Quick Trust Bank Ltd. for F.Y. 2022–23. Accordingly, it cannot accept the stock audit assignment of the sister concern of Quick Trust Bank Ltd. for F.Y. 2022–23, nor can it accept the stock audit of its Andheri Branch for F.Y. 2022–23, as both pertain to the same financial year.

However, the stock audit assignment of the Bandra Branch for F.Y. 2023–24 relates to a different financial year. Hence, the restriction does not apply, and Verma & Co. can accept only the stock audit of the Bandra Branch for F.Y. 2023–24.

CASE SCENARIO 26

MINSAN Ltd., an unlisted company in South India, is engaged in the business of spice oil extraction. Total paid up capital of the company is ₹ 9 crore. Details of the annual turnover and profit of the company for the last 3 years are given below:

Year ended	Turnover (₹ in crore)	Profit (loss) before tax (₹ in crore)
31-03-2022	527.21 (Audited)	50.16
31-03-2023	301.37 (Audited)	01.25
31-03-2024	104.13 (provisional)	(10.25)

The company is using conventional methods for extraction of oil from spices. This requires more human intervention and hence, the cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.

A new competitor viz, Natural Extracts Ltd, had come in the market during the year 2022 and by the end of March, 2023, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows a whole range of automated extraction method, thus, minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of MINSAN Ltd. has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 90 lakh. The company approached SA Bank Ltd. for a term loan of ₹ 80 lakh which would be repaid in 5 years. On 28-12-2023, the bank had sanctioned the loan and disbursed ₹ 40 lakh till 31st March, 2024.

MINSAN Ltd. has appointed M/s Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2023 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2023-24 in

February, 2024 and completed the work by the end of May, 2024. The audit team submitted the following findings to the engagement partner:

- PX Ltd., one of the material suppliers, filed a case against the company on 12-09-2023 for a compensation of ₹ 3 crore.
- The Company has made an estimate for allowance of debtors @5%.
- 70% of the value of inventory was only covered in physical verification during the year 2022-23 due to restriction on movement posed by the State Government.
- Company got a show cause notice from the State Pollution Control Board for the contravention of the provisions of Hazardous and Waste Management Rule.
- Three incidences of fraud noticed (total ₹ 1.02 crore)- fraud committed by the Purchase Manager ₹ 85 lakh, by Accounts Manager ₹ 15 lakh and by a Cashier ₹ 2 lakh.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed?
 - (a) Analysis and discussion with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce the cost of production.
 - (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.

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- (c) Evaluating management's future plan and strategy to increase the market share of the product.
- (d) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts.
2. Company has made an estimate for allowance of debtors @ 5%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?
- (a) Judgments about the outcome of pending litigation with PX Ltd. against the company.
- (b) Estimates made for inventory obsolescence that are frequently made and updated.
- (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in the marketplace.
- (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors' review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.
3. The company in the notes accompanying its financial statements disclosed the existence of the suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if the auditor is satisfied with

the conclusions reached by the management and this matter is fundamental to the reader of financial statements?

- (a) Include an Emphasis of Matter paragraph in the Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.
 - (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred to in the notes on accounts.
 - (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.
 - (d) Include an Emphasis of Matter Paragraph in the Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.
4. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would not be the audit procedure to be performed?
- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
 - (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.
 - (c) Monitoring legal requirements and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.

- (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.
5. The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned an amount of ₹ 25 lakh was earmarked for the purchase of the machinery-Oil Extractor, but the company has acquired an improved model of machinery, viz, Oil extractor with Dryer instead. State which of the reporting option would be correct.
- (a) State the fact in the CARO report that out of term loan taken for machinery-Oil Extractor, ₹ 25 lakh was not utilized for acquiring the machinery for which it was sanctioned.
- (b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.
- (c) State the fact in the CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.
- (d) State the fact in the CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts.

Reason:

As per SA 570, the procedure, 'Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts' is not related to assessing whether an entity is a going concern. All other options are audit procedures to be performed.

2. **Option (a)** Judgments about the outcome of pending litigation with PX Ltd against the company.

Reason:

As per SA 540, 'Judgments about the outcome of pending litigation' is an example of accounting estimates that may have high estimation uncertainty. This uncertainty stems from several factors inherent in the legal process, including the complexity of the case, the nuances of the applicable laws, and the variability in judicial interpretations.

3. **Option (d)** Include an Emphasis of Matter Paragraph in the Auditors' report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.

Reason:

As per SA 706, if the auditor considers it necessary to draw users' attention to a matter presented in the financial statement and the auditor would not be required to modify the opinion, he gives Emphasis of Matter paragraph with a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.

4. **Option (c)** Monitoring legal requirements and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.

Reason:

All other options are audit procedures when the auditor identify the non-compliance with laws and regulations. As per SA 250, option (c) is one of the policies and procedures an entity may implement to prevent and detect non-compliance with laws and regulations.

5. **Option (c)** State the fact in the CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.

Reason:

As per clause (ix) of Para 3 of CARO, 2020, the auditor is required to report that whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loans so diverted and the purpose for which it is used.

CASE SCENARIO 27

XY & Associates, Chartered Accountants, have been appointed as auditors of ABC Enterprises, a company that obtained a license from the Central Government to promote cricket in rural areas of India. The company's average annual profit is estimated to be around ₹45 lakh. This profit would not be distributed as dividends to shareholders but is applied toward its objective of promoting sports in the country.

During the audit for the financial year 2023-24, the following observations were made:

- The company did not maintain proper records for its fixed assets, valued at approximately ₹1.80 crore.
- Physical verification of the assets had not been conducted at regular intervals. The last verification occurred on 31st August 2022.

Due to these observations, the auditors decided to report on the issues in the Companies (Auditor's Report) Order (CARO). However, the management disagreed, arguing that the issues should not be reported. After discussions, XY & Associates ultimately decided not to report the issues.

XY & Associates were also auditing QR Ltd. and ST Bank Ltd. During the audit of QR Ltd., there was a difference of opinion between management and the auditors regarding which of the following areas should be considered "Key Audit Matters" (KAM) as per SA 701:

1. The effect of significant transactions during the financial year on the audit.
2. Areas of high risk, as assessed and reported by the management's expert.
3. Significant auditor judgment related to financial areas that involved significant management judgment.

During the audit of ST Bank Ltd., a difference of opinion arose regarding the amount and items that should be disclosed under the head contingent liabilities. Additionally, the auditors made the following observations:

- 59 agricultural loan accounts (guaranteed by the Government of Uttar Pradesh) amounting to ₹29 lakh were overdue for more than two years.
- 73 agricultural loan accounts (guaranteed by the Government of India) amounting to ₹25 lakh were overdue for more than two years.
- 6 corporate loan accounts (guaranteed three each by the Government of India and Government of Uttar Pradesh) amounting to ₹ 25 lakh each were overdue for more than three months and a half month.

Due to their reputation for efficiency, XY & Associates were offered incorporation services for UV General Insurance Ltd., a new company proposed to be set up with a paid-up share capital of ₹ 113 crore, of which preliminary expenses of ₹ 17 crores were included.

The audit firm, after considering all facts, decided not to take on either assignment.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Was the decision of XY & Associates not to report the issues of ABC Enterprises in CARO, 2020 justified? If so, under what reason?
 - (a) No. CARO, 2020 is applicable to ABC Enterprises. Hence, the issues must be reported under clause (i) of CARO.
 - (b) Yes. CARO, 2020 is not applicable to ABC Enterprises, hence, the issues do not need to be reported.
 - (c) No. As per SA 240, the auditor must maintain professional skepticism, especially concerning issues related to fixed assets, and the issues must be reported.
 - (d) Yes. As per SA 320, the auditor may choose whether or not to report the issues after considering their materiality.
2. What is the total amount of loans that should be classified as NPA by ST Bank?
 - (a) ₹ 79 lakh.

- (b) ₹ 100 lakh.
 - (c) ₹ 204 lakh.
 - (d) ₹ 104 lakh.
3. Which of the following must be reported as a contingent liability for ST Bank Ltd.?
- (a) A percentage of the total bills purchased by ST Bank.
 - (b) Claims against the bank acknowledged as debt.
 - (c) Unpaid salaries of ₹ 6 lakh to six employees of ST Bank Ltd., who are currently involved in a court trial.
 - (d) Guarantees given by ST Bank on behalf of constituents located in Nepal.
4. As per SA 701 – Communicating Key Audit Matters in the Independent Auditor’s Report, which of the following areas should XY & Associates consider when determining "Key Audit Matters"?
- (i) The effect of significant transactions that took place during the financial year on the audit.
 - (ii) Areas of high risk as assessed and reported by the management's expert.
 - (iii) Significant auditor judgment related to financial areas involving significant management judgment.
- (a) (i) & (iii)
 - (b) (ii) only
 - (c) (i) & (ii)
 - (d) (i), (ii) & (iii)

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Yes. CARO, 2020 is not applicable to ABC Enterprises. Hence, the issues do not need to be reported.

Reason:

The CARO, 2020 specifically exempts a company licensed to operate under section 8 of the Companies Act, 2013.

2. Option (d) ₹ 104 lakh.**Reason:**

With respect to the circular issues by RBI on verification of provision for non-performing assets, if government guaranteed advance becomes NPA, for the purpose of asset classification, credit facility backed by Central Government Guarantee, though overdue, need not be treated as NPA until the Central government repudiates its guarantee. This exception is not applicable for the State Government guarantee. Therefore, in this case all the loan accounts guaranteed by the Government of Delhi should be classified as NPA.

[Amount of NPA= 29 lakhs + (3 * 25 lakhs) = 104 lakhs.]

3. Option (d) Guarantees given by ST Bank on behalf of constituents located in Nepal.**Reason:**

The items to be reported as contingent liability during a bank audit includes the Guarantee given on behalf of the constituent (within India/outside India) and Claims against the bank acknowledged as debt.

4. Option (a) (i) & (iii)**Reason:**

As per SA 701, the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- (i) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty
- (ii) The effect on the audit of significant events or transactions that occurred during the period.

CASE SCENARIO 28

CA Love and CA Kush are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On the back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative. However, the person declined the same informing that this act was against professional ethics and would lead to disciplinary action from ICAI.

The partner of M/s SB & Associates is a close friend of CA Love. The firm was involved in an audit of a listed company which was required to submit Business Responsibility and Sustainability Report (BRSR). The company being audited was into thermal energy production business in India. They had submitted details about the total emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years. Since CA Love had undergone a course on Sustainability Reporting, he was approached for getting advice on what needs to be reported in the BRSR of the company. As a gesture for helping the firm, the partner of the firm suggested CA Love's name for the post of becoming a member of the Board of Management of KYC Co-operative Bank, a Primary (Urban) Co-operative Bank and a client of SB & Associates. Upon hearing the same, CA Kush requested Love not to take up the post as it would lead to professional misconduct.

CA Love was acting as an internal auditor of NN Technologies Private Limited. The company decided to raise more funds for expanding its business across the country by including new age technological services such as AI. Love was observing the business model and the way in which the company was operating for quite some time, and he was keen on investing in the company. As a result, he decided to invest in the company's shares and ended up acquiring 9.75% of the shares (total face value of the shares acquired was ₹ 4.75 lakhs) of the company during the financial year. CA Kush got to know about this information, and he immediately urged Love to resign from being the internal auditor of NN

Technologies Private Limited, for the reason that an internal auditor cannot hold any shares in the company, and it will lead to professional misconduct and also failure to comply with the provisions of the Companies Act, 2013. However, Love did not accept the argument of Kush, and he said that nothing would happen because of him acquiring 9.75% shares in the company and continuing to act as its internal auditor.

CA Kush was the statutory auditor for BD Finance Private Limited, a NBFC head quartered in India. The company's treasury department had undergone changes in the recent past and the current set of team members did not have much experience in handling the treasury functions. Due to this situation, the company reached out to their auditor, CA Kush, who was also into equity research advisory apart from CA practice, to support the company and the members of its treasury department for a brief period by giving Investment Advisory Services, to ensure efficient utilization and management of the funds of the company. Before committing anything on the offer, CA Kush wanted to consult with CA Love as to whether the service requested by the NBFC can be performed by him.

Based on the above facts, answer the following MCQs:

MULTIPLE CHOICE QUESTIONS

1. Whether the act of conducting joint training session on GST by CA Love & Kush and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?
 - (a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Love & Kush are guilty of professional misconduct.
 - (b) Yes, CA Love & Kush will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949.

- (c) Yes, this is a case of solicitation of client whereby, CA Love can influence clients of CA Kush and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule of the Chartered Accountants Act 1949.
 - (d) No, as per the recent decisions of Ethical Standards Board, it is permissible for two or more CAs in practice collectively to have joint training sessions for their clients on GST, and share the fee collected from the clients thereof.
2. With regards to the BRSR reporting on the data of total emissions & the future energy consumption plans of the company, how do you treat them?
- (a) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.
 - (b) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and needs to be mandatorily disclosed in the BRSR.
 - (c) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.
 - (d) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.
3. The futuristic plan which the company has for its energy consumption can be categorized under which principle of National Guidelines on responsible business conduct?
- (a) Principle 1 – Ethics, Transparency and Accountability
 - (b) Principle 6 – Protection and Restoration of Environment
 - (c) Principle 4 – Respect for Stakeholder’s Interests and Responsiveness
 - (d) Principle 7 – Influence on Public and Regulatory Policy

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4. By accepting the offer to become a member of the Board of Management of KYC Co-operative Bank, do you think that CA Love would be held guilty of professional misconduct?
- (a) Yes. As per Clause 11 of Part I of First Schedule CA Love would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
 - (b) It is permissible for a CA in practice to become a member of the board of management in primary (Rural) co-operative banks. Hence, CA Love would be held guilty of professional misconduct if he accepts the offer.
 - (c) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Love would not be held guilty of professional misconduct if he accepts the offer.
 - (d) Yes. CA Love would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Love is getting this offer as a reciprocation for helping SB & Associates.
5. In the given case, it is mentioned that CA Kush is a practicing CA and is also engaged as an Equity Research Advisor. Do you think that CA Kush will be held guilty of professional misconduct as per the provisions of the Chartered Accountant Act, 1949?
- (a) No. A CA in practice may be an equity research advisor, but he cannot publish retail reports as it would amount to other business or occupation. Thus, if CA Kush doesn't publish any reports, he will not be held guilty of professional misconduct.
 - (b) Yes. As per clause 11 of Part I of First Schedule CA Love would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
 - (c) No. A CA in practice cannot be an Equity Research Advisor, for his existing clients or for any other person. Hence, CA Kush will be held guilty of professional misconduct.

- (d) Yes. As per clause 11 of Part I of First Schedule read with Part III of Second Schedule, CA Love would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (d)** No, as per the recent decisions of Ethical Standards Board, it is permissible for two or more CAs in practice collectively to have joint training session for their clients on GST, and share the fee collected from the clients thereof.

Reason:

As per the recent decisions of the Ethical Standards Board, it is permissible for two or more Chartered Accountants in practice to have a joint training sessions collectively for their clients on GST, and share the fees collected from the clients thereof.

- 2. Option (a)** The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.

Reason:

Section C – Principle-wise performance disclosures

- Essential indicators (Mandatory disclosures) include data on energy, emissions etc.
- Leadership indicators (Optional disclosures) include additional data on energy consumption etc.

- 3. Option (b)** Principle 6 – Protection and Restoration of Environment

Reason:

One of the core elements associated with the principle 6 – Protection and Restoration of Environment is the entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.

4. **Option (c)** It is permissible for a CA in practice to become a member of the Board of Management in primary (urban) co-operative banks. Hence, CA Love would not be held guilty of professional misconduct if he accepts the offer.

Reason:

As per the recent decisions of the Ethical Standards Board, it is permissible for a practicing Chartered Accountant holding the Certificate of Practice to become a member of the 'Board of Management' in Primary (Urban) Co-operative Banks.

5. **Option (a)** No. A CA in practice may be an equity research advisor, but he cannot publish retail reports as it would amount to other business or occupation. Thus, if CA Kush doesn't publish any reports, he will not be held guilty of professional misconduct.

Reason:

As per the recent decisions of the Ethical Standards Board, a Chartered Accountant in practice may be an equity research adviser, but he cannot publish the retail report, as it would amount to other business or occupation.

CASE SCENARIO 29

M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2023-24. Delco Ltd. deals in the manufacture of shoes.

During the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates.

Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd., which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiaries, there would have been material impact on important elements of the financial statements.

At the time of finalization of the Audit Report of the company for the year ended on March 31st, 2024, the auditors are considering their reporting responsibility for non-consolidation of the financial statements of Soccer Limited.

The auditors also asked the management to disclose their reason for the non-consolidation of financial of Soccer Ltd. in the notes to accounts.

Also, the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2022-23.

Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements.

Based on the above facts, answer the following: -

MULTIPLE CHOICE QUESTIONS

1. With respect to the non-consolidation of the financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?
 - (a) The auditor should give a disclaimer of opinion.
 - (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
 - (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.
 - (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.

2. With respect to the corresponding figures of the financial year 2022-23 in the current year financial statements, what are the auditor's reporting responsibility for the same?
 - (a) The auditor's opinion should refer to each period for which the financial statements are presented.
 - (b) The auditors need to report on the current year financials only be it comparative or corresponding figures.
 - (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.
 - (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.

3. What is the reporting responsibility of the auditor in case the prior period financial statements are not audited?

- (a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.
 - (b) The auditors need to report such matter in the Other Matter paragraph in his report.
 - (c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.
 - (d) Both b & c.
4. Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility?
- (a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.
 - (b) The management may undertake to accept such responsibility through an engagement letter itself.
 - (c) The auditor report should describe the management responsibility in a section with the heading "responsibility of management for financial statements".
 - (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.
5. If the auditors of Delco Ltd. decide to give a qualified/ adverse opinion in the current financial year with respect to the non-consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter?
- (a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.
 - (b) EOM paragraph on a matter can be added if the auditors' opinion is neither qualified/ nor adverse in respect to that particular matter

- and the matter is fundamental to the user's understanding of financial statements.
- (c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.
 - (d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.
6. If the management discloses the fact of non-consolidation of financial statements of Soccer Ltd. in the notes to accounts of the current financial year, what will be the impact on the audit report?
- (a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.
 - (b) The auditor can ignore the issue of non-consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts.
 - (c) The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph.
 - (d) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.

Reason:

As per SA 705, the auditor shall express an adverse opinion when the auditor, having obtained sufficient and appropriate evidence, concludes that misstatements, individually or in aggregate, are both material and pervasive to the financial statements.

2. **Option (c)** The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.

Reason:

As per SA 710, the auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.

3. **Option (d)** Both b & c.

As per SA 710, if the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

4. **Option (c)** The auditor report should describe the management responsibility in a section with the heading "responsibility of management for financial statements".

Reason:

Basic elements of Auditor's Report include "Responsibilities for the financial statements". Accordingly, the auditor's report shall include a section with a heading "Responsibilities of Management for the financial statements". The auditor's report shall use the term that is appropriate in the context of the legal framework applicable to the entity.

5. **Option (b)** EOM paragraph on a matter can be added if the auditors' opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.

Reason:

As per SA 706, EOM paragraph on a matter can be added if the auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.

6. **Option (a)** The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.

Reason:

When the auditors include an Emphasis on Matter Paragraph in the auditor's report, the auditor shall:

- Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis on Matter".
- Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- Indicate that the auditor's opinion is not modified in respect to the matter emphasized.

CASE SCENARIO 30

The Kranti Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2024. 10 branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2023-24.

- (i) Moradabad branch which started foreign exchange business from December 2023.
- (ii) Ludhiana branch whose aggregate deposits were more than 45% of the aggregate deposits of the bank.
- (iii) Mumbai branch which deals in treasury functions like investments and inter bank borrowings but not in bill re-discounting.

Mishty and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for ten branches for year 2023-24. The Bank's management appointed and fixed the remuneration of Mishty and Associates, Chartered Accountants as the statutory auditors also for the year 2023-24, for the same ten branches for which they were given the assignment of stock audit.

At the Kerala branch of the bank there were high value cash deposits in one of the current accounts during June 2023. Your firm has been appointed as the concurrent auditors for the Kerala branch for the year 2023-24. The cash collected by the branch was remitted to the currency chest on the very same day but, during the concurrent audit for the month of April 2023 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Mishty and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the ten branches, so whether

Mishty and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select the correct option from the following:

- (a) Mishty and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.
 - (b) Mishty and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same ten branches for which they were conducting stock audit.
 - (c) Mishty and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
 - (d) Mishty and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors.
2. Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following:
- (a) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.
 - (b) Mishty and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.
 - (c) Mishty and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.

- (d) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.
3. You have been asked by your senior to verify the high value cash deposits at the Kerala branch. What parameters/ documents will you verify as the concurrent auditor of the branch? Select the correct option from the following:
- (a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only.
 - (b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc.
 - (c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance are maintained properly.
 - (d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.
4. How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kerala branch of the bank should be dealt by the concurrent auditor in his audit report? Select correct option from the following:
- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
 - (b) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
 - (c) The auditor should verify the details from e-mail sent to currency chest and close the matter.
 - (d) As it is a minor irregularity the auditor can ignore the same.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Mishty and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.

Reason:

Internal Assignments in banks by statutory auditors: The RBI decided that the audit firms should not undertake statutory audit assignments simultaneously when they are associated with internal assignments in the bank during the same year.

2. **Option (d)** Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.

Reason:

Authority appointing the Auditors - As per the provisions of the relevant enactments, the auditor of a banking company is to be appointed at the annual general meeting of the shareholders, whereas the auditor of a nationalised bank is to be appointed by the concerned bank acting through its Board of Directors.

In either case, approval of the Reserve Bank is required before the appointment is made.

3. **Option (c)** Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance are maintained properly.

Reason:

A higher officer or branch manager should verify high-value cash receipts and payments, and the excess cash balance should be remitted to the currency chest daily according to the branch's retention limit.

4. **Option (b)** The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

Reason:

During the bank audit, it is essential to discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager. The auditor should also ensure that same is being complied with in the next audit period.

CASE SCENARIO 31

ComTeK Limited, a top 1000 listed entity on the BSE by market capitalization for the past two years, sells IT and related equipment directly to consumers through its website.

One day, the CFO of the company received a video call from the Managing Director (MD) instructing him to transfer ₹ 90 lakhs to the bank account of NxT Limited. When questioned by the CFO, the Managing Director explained NxT's products are fast moving and contribute 30% of the company's revenue. Further, the amount of payment is within the approved limit and can easily be remitted without any further approval. Satisfied with the explanations, the CFO made the necessary transfer.

At the end of the month, while preparing the bank reconciliation statement, the CFO realised that five incremental payments of ₹ 90 lakhs each had been made to NxT Limited. These payments were unreconciled and do not have any corresponding entry in the books of account. The CFO explained the situation to the MD, reminding him about the video call that had instructed him to make such payments. However, the MD denied making any such video call.

The CFO and Managing Director engaged a forensic expert, who observed that the company had cyber-attack using sophisticated AI tools. Investigation further revealed that the video call to the CFO was fake and made from the laptop not owned by the company. The hackers have gained access to the CFO's laptop and have obtained bank details and its authorisation information. The company filed a police complaint and reported the incident to the appropriate authorities.

During the risk assessment process, the auditor of the company determined that the IT environment poses a significant risk. The auditor assessed that the principal financial systems used in the preparation of the financial statements were compromised during the cyber-attack. The auditor also focused on the judgements made by management related to the known security incidents. The auditor made inquiries with the Risk Management team and with the Chief Information Officer to understand their assessment of the cybersecurity risk and

the measures in place to mitigate this risk, focusing on the principal financial systems used in the preparation of the financial statements. The auditor also communicated with those charged with governance about the cyber incident. After completion of necessary procedures, the auditor felt that it had incurred additional efforts to the tune of 20%. The auditor reviewed, with the assistance of specialists, management's assessment of the potential impact on the principal financial systems used in the preparation of the financial statements.

The management of the company was impressed by the level of detail and diligence employed by the auditor while dealing with the cyber security incident. They particularly appreciated the in-depth knowledge of the auditor, timely involvement of IT specialist by the auditor and experience in dealing with cyber-security incidents. The management felt that the auditor would be the right fit for conducting a thorough audit of the IT systems of the company. In order to leverage the auditor's expertise, the management proposed to engage the auditor to conduct a system audit.

The stakeholders of the company believe that Integrated Reporting, as prescribed by the International Integrated Reporting Council, should be prepared by the management. The primary purpose was to explain to providers of financial capital how the company creates, preserves or erodes value over time. The Integrated Report would provide relevant information, both financial and other, for the benefits of all the stakeholders interested in a company's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. In the given case, cyber-attack encountered by the company is known as:
 - (a) Spoofing
 - (b) Denial of Services Attack
 - (c) Malware
 - (d) Identity Based Attack

2. The engagement partner is confused as to whether the audit report would be impacted by the cyber-attack instance. What is the appropriate reporting implication:
 - (a) No implication in the audit report since the financial loss has already been recognised in the financial statements.
 - (b) Qualify audit opinion as the amount of loss due to cyber-attack is incremental and does not emanate from its operating activity.
 - (c) Include an Emphasis of Matter paragraph as cyber security incidents are by default fundamental to the attention to the users of the financial statements.
 - (d) Report as a Key Audit Matter since the cyber incident was of most significance in the audit of the financial statements of the current period.
3. The company wants to prepare an Integrated Report as contained in the International Integrated Reporting Council and endorsed by SEBI. The Company Secretary is of the view that an Integrated Report is mandatory for a listed entity. Which of the following is correct in this regard?
 - (a) The view of Company Secretary is correct since the company meet the qualifying threshold i.e. Top 1000 listed entity by market capitalisation at the end of the previous year.
 - (b) The view of company Secretary is incorrect as Integrated Reporting is voluntary for the top 500 listed entities.
 - (c) The view of Company Secretary is correct as the company meet the qualifying threshold i.e. Top 1000 listed entity by market capitalisation at the end of the current year.
 - (d) The view of Company Secretary is incorrect since Integrated Reporting is voluntary for the top 1000 listed entities.
4. Integrated Reporting comprises 6 categories of capital. The company observed that it has capitalised intangible assets (patent) and roof top solar equipment in the balance sheet. In the Integrated Report patents and solar equipment should be disclosed respectively as:
 - (a) Financial Capital and Manufactured Capital.

- (b) Natural Capital and Financial Capital.
 - (c) Intellectual Capital and Natural Capital.
 - (d) Human Capital and Intellectual Capital.
5. Can the auditor accept the system audit as offered by ComTeK Limited?
- (a) Yes, the statutory auditor can accept the assignment of system audit, provided it did not involve any scrutiny/review of financial data and information.
 - (b) Yes, the statutory auditor can accept the assignment of system audit, provided it involves any scrutiny/review of financial data and information
 - (c) Yes, the statutory auditor can accept the assignment of system audit, provided the fee for system audit is not more than the audit fee.
 - (d) No, the statutory auditor cannot accept the assignment of system audit since it did not involve any scrutiny/review of financial data and information.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) Spoofing

Reason:

Spoofing is when someone or something pretends to be something else in an attempt to gain confidence, get access to systems, steal data, steal money, or spread malware. Spoofing attacks come in many forms, including facial spoofing.

2. Option (d) Report as a Key Audit Matter since the cyber incident was of most significance in the audit of the financial statements of the current period.

Reason:

As per SA 701, Key Audit Matters are those matters that, in the auditor's professional judgment, 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.

3. **Option (b)** The view of company Secretary is incorrect as Integrated Reporting is voluntary for the top 500 listed entities.

Reason:

SEBI Circular provides that Integrated Reporting may be adopted on a voluntary basis from FY 2017-18 by top 500 companies.

4. **Option (c)** Intellectual Capital and Natural Capital.

Reason:

Intellectual capital – Organizational, knowledge-based intangibles

Natural Capital: All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.

5. **Option (a)** Yes, the statutory auditor can accept the assignment of system audit, provided it did not involve any scrutiny/review of financial data and information.

Reason:

In case any scrutiny/review of financial data and information is not involved then the statutory auditor can accept the assignment of a system audit of the same entity, subject

CASE SCENARIO 32

M/s JKL & Associates, Chartered Accountants, were acting as the statutory auditors of M/s IBS Bank Limited. During the statutory audit for the relevant financial year, the following observations were made:

Interest income included the following: -

- ₹ 5 lakh interest relating to a short-term crop loan where instalment was overdue for one crop season.
- ₹ 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.
- A 25 month old NPA account worth ₹ 43 lakh (net book value) was sold to an asset reconstruction company for ₹ 45 lakh. The profit from the above transaction was taken to the P&L account. The above NPA was sold 'without recourse' and at cash basis. The auditors noticed a discrepancy in this transaction and hence decided to report the same.

After completing the bank audit, JKL & Associates agreed to take up the following management consultancy and other services for one of the start-up company based in Noida:

- (i) Setting up executive incentive plan and wage incentive plan.
- (ii) Price-fixation and other management decision making.
- (iii) Conduct a periodical audit and advisor for tax matters.

Mr. K, one of the partners of the firm, felt that providing the above services could result in professional misconduct. Hence, he resigned from the partnership and became a sole practitioner. One of the clients of JKL & associates came to know about the issue and they approached Mr. K to conduct the statutory audit for the financial year. Mr. K took up the assignment without informing the previous firm. Annoyed by this, Mr. J filed a complaint to ICAI regarding the act of Mr. K. After enquiry, it was decided that Mr. K was guilty of professional misconduct.

After this incident, Mr. K also decided to file a complaint against Mr. J. When he was thinking about a reason for the same, he remembered that Mr. J had entered into an agreement with two of his articled clerks to pay stipend on an annual basis, while others were paid on monthly basis. Realising that this act is in violation of Regulation 48 of the Act, he filed a complaint to ICAI. After enquiry, it was found that Mr. J was guilty of professional misconduct.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. From the above facts and details, what is the correct amount of interest which the bank should account in its financial statements?
 - (a) Nil.
 - (b) ₹ 8.5 lakh.
 - (c) ₹ 5 lakh.
 - (d) ₹ 3.5 lakh.
2. What could be the possible amount classified as NPA relating to the accounts with respect to observation regarding the inclusion of interest income given below: - ₹ 5 lakh interest relating to a short-term crop loan where instalment was overdue for one crop season. - ₹ 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.
 - (a) ₹ 12 lakh.
 - (b) ₹ 8.5 lakh.
 - (c) ₹ 7 lakh.
 - (d) ₹ 3.5 lakh.
3. In NPA, sales to asset reconstruction company, what discrepancy auditor might have noticed:
 - (a) The NPA had not completed 30 months.
 - (b) Sale was made without recourse.
 - (c) Sale was made for cash basis.

- (d) The profit of ₹ 2 lakh was taken to P&L account.
4. Among the services to be provided to the start-up company, providing which service(s) would not lead to violation of the Chartered Accountant Act, 1949?
- (a) (i) & (ii)
(b) (i) & (iii)
(c) (iii) only
(d) (ii) & (iii)

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (c) ₹ 5 lakh.**

Reason:

As per the RBI circular on income recognition, in case of an NPA account, the interest shall not be accounted unless it is received.

In case of short-term crop loan, the account shall be classified as NPA if the instalment is due for two crop seasons. In the given case, the instalment is due for only one crop season, hence the account is not NPA. Therefore, the interest of ₹ 5 lakhs can be accounted.

The loan guaranteed by the Central and State Government is NPA since the instalment has remained overdue for more than 6 months. Therefore, the interest of ₹ 7 lakhs shall not be accounted. The fact that 50% of the loan is guaranteed by Government of India does not matter for the purpose of income recognition. It shall apply only for NPA classification.

- 2. Option (d) ₹ 3.5 lakh.**

Reason:

In case of short-term crop loan, the account shall be classified as NPA if the instalment is due for two crop seasons. In the given case, the instalment is due for only one crop season, hence the account is not NPA.

The loan guaranteed by the Central and State government is a NPA since the instalment has remained overdue for more than 6 months. However,

considering the fact that 50% of the loan is guaranteed by Government of India, only the balance loan amount of ₹ 3.5 lakhs shall be classified as NPA.

3. Option (d) The profit of ₹ 2 lakh was taken to P&L account.

Reason:

In case of Sale/Purchase of NPA by Bank, the auditor should examine:

- only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.
- the assets have been sold/ purchased "without recourse" only.
- subsequent to the sale of the NPA, the bank does not assume any legal, operational or any other type of risk relating to the sold NPAs.
- the NPA has been sold at cash basis only.

4. Option (a) (i) & (ii)

Reason:

Pursuant to Section 2(2)(iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of "Management Consultancy and other Services.

"Management Consultancy and other Services" does not include conducting a periodical audit and advisor for tax matters.

CASE SCENARIO 33

Opus Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Vadodara, Gujarat. Listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Opus Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, and basic chemicals. These products have applications in various sectors, from pharmaceuticals and textiles to paints and coatings, construction, and agriculture.

NLP & Co., a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2023-24 for the company. Mr. Kamal was the engagement partner for the said assignment. In the organisational structure, Mr. Kamal noticed that those charged with governance in the company are also involved in managing the entity.

During the ongoing engagement of the audit, at the end of the third quarter, two limited review reports were issued by NLP & Co. Before the issuance of the third quarter's limited review report, the management of the company imposed a limitation on the scope of the audit that Mr. Kamal considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitations. However, the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, finally, Mr. Kamal with his engagement team, concluded that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualified opinion would be inadequate to communicate the gravity of the situation. Accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on

15th November, 2023. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. What was the responsibility of NLP & Co. with respect to the issue of limited review report at the time of resignation?
 - (a) Limited review report for third quarter was required to be issued.
 - (b) Limited review report for third quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued.
 - (c) No further Limited review report was required to be issued as it was already issued for the second quarter at the time of resignation.
 - (d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement.

2. What was the responsibility of Mr. Kamal when the management refused to remove the said limitation?
 - (a) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (b) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.
 - (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.

3. If the auditor proposed to resign on 14th November before issuing Limited Review Report for second quarter, then what will be the

responsibility of MNL & Co. with respect to withdrawal from engagement and issue of limited review report at the time of resignation?

- (a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third quarter were required to be issued.
 - (b) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.
 - (c) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second quarter was required to be issued.
 - (d) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second quarter was required to be issued.
4. Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal?
- (a) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
 - (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.

- (c) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
5. Assuming Opus Chemicals Ltd. to be an unlisted company, whether the reason for resignation by NLP & Co. was proper?
- (a) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management and refusal to provide reasons for the same and accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.
- (b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.
- (c) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.
- (d) No, the reasons should have been a little extensive and further the exact reason must be provided to the new auditor to be appointed by the company.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Limited Review Report for third quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued.

Reason:

Where Auditors' withdrawal is not permitted: As per Securities and Exchange Board of India's directive on the resignation of auditor, if the auditor proposes to resign:

- after 45 days from the end any of the quarters of a period covered under the appointment, then he shall, before such resignation, issue the audit / Limited review report for such quarter as well as the next quarter.
- If the Limited Review Report has been issued for all the three quarters, then the auditor shall issue the audit report for the full year before resigning from the engagement.

- 2. Option (b)** To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

Reason:

As per SA 705, if management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

- 3. Option (d)** The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second quarter was required to be issued.

Reason:

Where Auditors' withdrawal is not permitted:

As per the Securities and Exchange Board of India's directive on the resignation of auditor, if the auditor proposes to resign :

- a) within 45 days from the end of any of the quarters of a period covered under the appointment, then the auditor shall, before such resignation, issue the audit / limited review report for such quarter.

Here, if the auditor proposed to resign on 14th November, i.e. within 45 days from the 2nd quarter and before issuance of the limited review report for 2nd quarter, then the limited review report for 2nd quarter was required to be issued

4. **Option (a)** In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.

Reason:

As per SA 705, if the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall disclaim an opinion on the financial statements, if withdrawal from the audit before issuing the auditor's report is not practicable or possible.

5. **Option (c)** No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.

Reason:

The ICAI has made an announcement that the auditor of an unlisted company shall not mention "professional pre-occupation" as a reason for the resignation. The auditor shall clearly mention the reasons for the resignation in the resignation letter issued to the Company.

CASE SCENARIO 34

JMP Limited is a public company listed on the BSE, having its registered office in Mumbai. The company is primarily engaged in the manufacturing of consumer electronics. During the preceding financial year, the company recorded a remarkable turnover of ₹ 4200 crores, accompanied by a net profit of ₹ 670 crores. Additionally, the company has secured a loan facility from the ICICI Bank amounting to ₹ 850 crores.

RST & Co., a firm of chartered accountants based in Mumbai, has been appointed as a joint auditor along with LM & Co. and ABC & Co., an esteemed chartered accountant's firm in the same city. JMP Limited has completed the appointment related formalities as well as they have also signed engagement letters. The engagement letter contains details on the objective and scope of the audit, responsibilities of the auditors, management, and identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 42 Crore as the materiality threshold, calculated at 1% of turnover.

During the audit, LM & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 175 Lakhs.

Additionally, as a part of the audit procedure, the auditor had sent requests to 90 suppliers for confirming the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, the confirmation responses were received only from 30 Suppliers.

Moreover, as a part of the audit procedure, the auditors of JMP Limited decided to roll out external confirmation from the 40 Debtors to confirm their year end balance. However, the management refused the auditors to send the confirmation. After asking the reason for such refusal, auditors concluded that such refusal was unreasonable, and the auditor was also unable to obtain relevant and reliable audit evidence from alternative audit procedures.

In addition, while forming an opinion, RST & Co. had a different opinion on the valuation of inventories, but LM & Co. and ABC & Co. had the same opinion and accordingly, given their majority stance, both LM & Co. and ABC & Co. assert that RST & Co. must endorse a Common audit report aligned with their opinion.

Apart from this, AB Private Limited, an associate enterprise of JMP Limited, appointed HJK & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor for the first time for the current financial year. The financial statements of AB Private Limited were audited by its predecessor auditor in the previous financial year. During the audit of the current financial year, HJK & Co. came across a material misstatement in the opening balance, that affected the current year's financial statement. In this regard, the auditor discussed the facts with the management. However, management fails to address or disclose this adequately in the current year's financial statement.

The Other Important financial information of AB Private Limited is as below:
(₹ in Crores)

Sr. No.	Particulars	Current Year	Previous Year
1.	Paid up Share capital	1.80	1.80
2.	Credit Balance of Profit & Loss Account	1.50	0.65
3.	Turnover	28.00	20.00
4.	Borrowing from Banks and Financial Institutions	3.00	2.00

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

- Whether RST & Co. should adhere to the opinion formulated by LM & Co. and ABC & Co. or explore alternative options.
 - RST & Co. will have to go with the opinion framed by the majority of auditors.

- (b) RST & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.
 - (c) RST & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.
 - (d) RST & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by RST & Co. should be prominently highlighted within the emphasis of the matter paragraph.
2. In the above given case, what should be the next course of action on the part of auditors of JMP Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable and the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures?
- (a) Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.
 - (b) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.
 - (c) Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.
 - (d) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.
3. Auditor of the RJ Private Limited, shall mention the fact that the financial statements for the prior period were audited by another auditor, in____.
- (a) Emphasis of Matter paragraph
 - (b) Other Matter paragraph

- (c) Key Audit matter Section
 - (d) Going Concern Section
4. In the above given case, what should be the course of the action on the part of HJK & Co., when they found material misstatement that has not been accurately accounted or presented or disclosed in the financial statement of current year?
- (a) HJK & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).
 - (b) HJK & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.
 - (c) HJK & Co. should take such matter in the written representation received from the management and no need to report such fact in audit report.
 - (d) HJK & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.
5. In the context of the aforementioned scenario, does CARO apply to RJ Private Limited company, an associate company of JMP Limited?
- (a) The CARO 2020 applies to the company as the turnover of the company exceeds the prescribed limit.
 - (b) The CARO 2020 applies to the company as the borrowing of the company exceeds the prescribed limit.
 - (c) The CARO 2020 does not apply to the company as the paid-up share capital of RJ Private Limited does not exceed 4 crores and turnover does not exceed 40 crores.
 - (d) The CARO 2020 applies as RJ Private Limited is an associate entity of JMP Limited.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** RST & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report

issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.

Reason:

As per SA 299, the joint auditors are required to issue common audit report. However, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report. Such reference shall be made under the heading "Other Matter Paragraph" as per SA 706.

- 2. Option (a)** Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.

Reason:

As per SA 505, if the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with SA 260(Revised), "Communication with Those Charged with Governance". The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

- 3. Option (b)** Other Matter paragraph

Reason:

As per SA 706, a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

- 4. Option (a)** HJK & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).

Reason:

As per SA 510, if the auditor concludes that the opening balances contain

a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).

5. **Option (c)** The CARO 2020 does not apply to the company as the paid-up share capital of RJ Private Limited does not exceed 4 crores and turnover does not exceed 40 crores.

Reason:

CARO 2020 specifically exempts One Person Company as defined under clause (62) of section 2 of the Companies Act and a small company as defined under clause (85) of section 2 of the Companies Act.

Small company means a company, other than a public company:

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; or
- (ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees.
- (iii) As per Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014, for the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid-up capital and turnover of the small company shall not exceed rupees four crore and rupees forty crore respectively.

CASE SCENARIO 35

Shield & Co; a reputed Chartered Accountants firm is appointed as a statutory auditor of Prism Limited. The Company is into manufacturing of Steel products. The company has advanced in all its endeavours by supplying million Steel units. The company has incorporated another company "SteelX Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of ₹ 280 crore. Viraj promotes the product as its product brand ambassador.

You are the audit manager, and your 1st year trainee asks you the following questions listed below. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

- Prism Ltd. is required to appoint the Internal Auditor under the provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee who joined the company as first year Architect. The audit team is planning to use the work performed by the Internal Auditor as the reports given by him are designed in a marvelous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.
- The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor was appointed as the auditor of subsidiaries; the company plans to use his work for verifying the investment balance during the year.

Based on the above facts, answer the following:-

MULTIPLE CHOICE QUESTIONS

1. The company has requested its previous auditor to give back its audit documentation (“working papers”) and warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:
 - (a) The previous auditor is bound to return the workpapers as the company has raised the confidentiality clause over the audit firm. Thus, SA 230 is not applicable in such a scenario as the original owner itself requests you to return the working papers.
 - (b) The auditor has a right over its working papers but the owner of them is the company. He should make available the workpapers to the company at its request and SQC 1 mandates the auditor to make copies made available to its clients.
 - (c) The auditor has a right over its working paper, and he is the owner of the workpapers, and he may give at his discretion make available the workpapers to the company.
 - (d) The auditor has a right over its working paper, and he is the owner of the workpapers, but he cannot give the workpapers to any person even at the request of the company.

2. The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:
 - (a) As the work done by the internal auditor is marvellously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should definitely be used by Shield & Co.
 - (b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Shield & Co. need to reduce the unnecessary work as the same has been performed by the other auditor.

- (c) The work performed by the internal auditor can be used by the External Auditor in this case if the architect is not an employee of the company but is in private practice.
 - (d) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor, Shield & Co., needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.
3. The Trainee asked whether the audit team is required to perform any procedures for the investment in SteelX Private Limited:
- (a) The company need to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.
 - (b) The auditor needs to perform audit procedures on the investment balances and transactions with related parties.
 - (c) The auditor need not perform any procedures as the investment in SteelX Private Limited was already made in the previous year.
 - (d) Both (a) & (b).
4. The trainee asked about role of auditor in case the investment in SteelX Private Limited is increased to 60% in the next year:
- (a) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.
 - (b) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.
 - (c) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.

- (d) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** The auditor has a right over its working paper, and he is the owner of the workpapers, and he may give at his discretion make available the workpapers to the company.

Reason:

As per Clause (1) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force.

Further, as far as working papers are concerned, working papers are the property of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to his client.

2. **Option (d)** The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor, Shield & Co., needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.

Reason:

As per SA 610, the auditor can use the work of the internal auditor only after considering his objectivity, professional care and technical competence. In this case, the architect being an individual with no prior experience of internal audit and not technically competent, the external auditor cannot use its work as per the standard.

3. **Option (d)** Both (a) & (b).

Reason:

The auditor needs to perform both tasks, one of which is testing the Investment Account balance while auditing the Standalone Financial Statements. The other being while auditing the Consolidated Financial Statements, the company needs to get comfort over the figures of its subsidiary. M/s SteelX Private Limited will be a subsidiary of the company although it might not hold more than 50% stake in the company but the company has control over the operations of the business i.e.; the Board of Directors and thus, considering substance over form and the provisions of the Companies Act, 2013.

- 4. Option (d)** The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.

Reason:

As the company needs to prepare the consolidated financials in the current year, the same procedures need to be performed in the next year. There will be no additional procedures except for the verification of change in investment value and disclosures of the same in the next year.

CASE SCENARIO 36

JDDS Deposit Limited, a NBFC registered with RBI under section 45-IA of the RBI Act and listed on National Stock Exchange, appointed BDP & Co. Chartered Accountants as their statutory auditor for the financial year ending on 31st March 2024. Mr. Rajan the audit partner of BDP & Co. extracted the monthly net owned fund position from the books of JDDS Deposit Limited.

Month	Net Owned Funds (as calculated based on monthly position)
April 2023	₹ 350 Lakh
May 2023	₹ 350 Lakh
June 2023	₹ 320 Lakh
July 2023	₹ 310 Lakh
August 2023	₹ 290 Lakh
September 2023	₹ 250 Lakh
October 2023	₹ 240 Lakh
November 2023	₹ 190 Lakh
December 2023	₹ 180 Lakh
January 2024	₹ 240 Lakh
February 2024	₹ 270 Lakh
March 2024	₹ 310 Lakh

During the year, Mr. Rajan recommended to the Board and Audit Committee the appointment of internal auditors. However, the Board rejected this recommendation due to budget constraints. They assured that they would consider establishing an internal audit department within the Company next year.

Based on the above facts, answer the following:-

MULTIPLE CHOICE QUESTIONS

1. Kindly guide Mr. Rajan regarding areas where he may need to report the absence of internal audit function in the company in Audit Report.
 - (a) The auditor is required to report the same under Para 3(xiii) of the CARO (Companies Auditor's Report Order), 2020.
 - (b) The auditor is required to report the matter in the Basis of Qualification paragraph of his audit report as the auditor was unable to place a reliance on the internal audit function of the Company.
 - (c) The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.
 - (d) The auditor is required to report the said matter in Key Audit Matters as per SA 701, which requires significant professional judgement and user attention.

2. Mr. Rajan reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that JDDS Deposit Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the statutory auditor is required with reference to the position of the Company as at the end of the financial year ended 31 March and not based on each month's position. Kindly guide Mr. Rajan with respect to the requirement under Master Direction.
 - (a) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.
 - (b) Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as of the end of the financial year ended 31 March.

- (c) Only NBFC-MFI shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.
 - (d) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as of the end of each month.
3. Mr. Rajan wants to highlight the matter with respect to the absence of internal audit function in his audit report under the Emphasis of Matter paragraph. However, management was of the view that the audit partner was not right by disclosing the said matter in his audit report as it was an internal matter, and the audit team had not identified any material evidence which could impact the opinion of the auditor. Kindly guide Mr. Rajan whether proposed reporting under Emphasis of Matter (EOM) para in the Audit Report is correct.
- (a) EOM paragraph included in auditor's report refers to a 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. Hence reporting under EOM is incorrect.
 - (b) EOM paragraph included in auditor's report refers to a 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. Hence reporting under EOM is correct.
 - (c) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is correct.
 - (d) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is incorrect.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.

Reason:

As paragraph 3 (xiv) of CARO,2020

- (a) whether the company has an internal audit system commensurate with the size and nature of its business;
 - (b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.
2. **Option (b)** Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as of the end of the financial year ended 31 March.

Reason:

Every NBFC shall submit a certificate from its Statutory Auditor that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under section 45-IA of the RBI Act and is eligible to hold it. The certificate from the Statutory Auditor in this regard is required with reference to the position of the company as at the end of the financial year ended March 31.

3. **Option (a)** EOM paragraph included in auditor's report refers to a 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. Hence reporting under EOM is incorrect.

Reason:

As Per SA 706, EOM paragraph included in auditor's report refers to a 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.

CASE SCENARIO 37

MSK & Partners, a firm of Chartered Accountants, having CA Manik and CA Taran as partners, is based at Bangalore. MSK & Partners are appointed to conduct statutory audit of Zyllo Ltd. Zyllo Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. MSK & Partners asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

CA Manik accepted his appointment as tax auditor of a firm under section 44AB of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA Manik realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA Taran provides management consultancy and other services to its clients. CA Taran was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA Taran posted his framed photograph on his website wherein he was receiving the said award from the Institute.

Upon hearing about the efficient services provided by MSK & Partners Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 501/-.

Based on the above facts, answer the following:-

MULTIPLE CHOICE QUESTIONS

1. As per the Chartered Accountants Act, 1949, under which clause CA Taran is liable for misconduct?
 - (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (b) Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
 - (d) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

2. MSK & Partners sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
 - (a) MSK & Partners can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
 - (b) CA. IA cannot assist MSK & Partners in assembling information necessary to resolve exceptions in confirmation responses. However, MSK & Partners can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.
 - (c) MSK & Partners cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
 - (d) MSK & Partners cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist MSK &

Partners in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.

3. With respect to the fees to be charged for its new assignment, which option can be opted by MSK & Partners?
 - (i) To charge fees of ₹ 501/-, or
 - (ii) To charge fees as percentage of Net Profits.
 - (a) (i) Only.
 - (b) (ii) Only.
 - (c) Neither (i) nor (ii).
 - (d) Either (i) or (ii).
4. Before signing the tax audit report, CA Manik sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA Manik be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
 - (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA Manik will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
 - (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA Manik will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
 - (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA Manik will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.
 - (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA Manik will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (a)** Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Reason:

As per Council General Guidelines of the ICAI laid down in Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant of the firm can create its own website using any format subject to guidelines. However, the website should be so designed that it does not solicit clients or professional work and should not amount to direct or indirect advertisement. The guidelines of the ICAI to allow a firm to display of a passport size photograph.

- 2. Option (d)** MSK & Partners cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist MSK & Partners in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.

Reason:

As per SA 610, the external auditor shall not use internal auditors to provide direct assistance to perform procedures that:

- (i) Involve making significant judgments in the audit;
- (ii) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;

However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

- 3. Option (d)** Either (i) or (ii).

Reason:

As per Regulation 192 of the Chartered Accountants Regulations, 1988 on

Restriction on Fees, no Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings or results of such work, provided that in the case of an auditor of a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits.

4. **Option (a)** As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA Manik will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

Reason:

As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice cannot accept a position as auditor previously held by another Chartered Accountant without first communicating with him in writing.

CASE SCENARIO 38

Govil is a practicing-chartered accountant and also member of CPA Ireland. He handles only GST related work and tax audits for clients. Currently, he has 19 companies for which he is handling the tax audit. At the beginning of the current Financial Year, he was approached by 40 new clients for tax audit assignments. He was reluctant to accept all the work as he feared breaching the permissible limit of handling clients. After consulting several friends of his, he finally decided to accept the work of just 2 big clients who approached him.

Chandan, (Govil's friend) a chartered accountant in practice and a member empaneled as insolvency professional was acting as the statutory auditor for a listed entity. The audit for the current financial year was completed but there was some difference of opinion between the auditor and the management. As a result of this, the company did not send the notice for AGM to Chandan. When enquired, it was said that the company is not obliged to send notices to the auditor and it's the responsibility of the auditor to be aware of the AGM. Having heard this, Chandan went to his friend to clarify the above matter. As a result of this incident, the management had not paid a part of the agreed audit fees to Chandan. In retaliation, Chandan took lien over few documents pertaining to the company. Having come to know about this, Govil immediately informed his friend that his act would lead to professional misconduct.

Govil & his friend Chandan decided to start a partnership firm. They completed all formalities and went ahead and printed their visiting card as follows:

M/s DS & Associates Govil, Chartered Accountant, CPA Ireland Partner No.5, MMM Street, Delhi Phone: 8xxxxxxx0	M/s DS & Associates Chandan, Chartered Accountant, Insolvency Professional Partner No.5, MMM Street, Delhi Phone: 9xxxxxxx2
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The firm has also received the following assignments:

- (i) Concurrent audit for TT Bank Ltd.

- (ii) Statutory audit for HBT Bank Ltd. (it is to be noted that the bank was not sponsored by TT Bank)
- (iii) Offer to act as settler of JJ Charitable Trust.
- (iv) Internal audit of PF Trust of Government Company Ltd.
- (v) Statutory Auditor of Government Company Ltd.

Based on the above facts, answer the following:-

MULTIPLE CHOICE QUESTIONS

1. In the given case scenario, has Govil breached the maximum limit of clients. If yes, can he be held guilty of professional misconduct?
 - (a) Yes. The ceiling on number of tax audits which can be accepted by a chartered accountant is 20. In this given case, Govil is already having 19 clients and has now accepted 2 more ($19+2=21$). Also, he shall be held guilty of professional misconduct as per the Chartered Accountants Act, 1949.
 - (b) Yes. The ceiling on number of tax audits which can be accepted by a chartered accountant is 20. In this given case, Govil is already having 19 clients and has now accepted 2 more ($19+2=21$). However, this shall not be considered as guilty of professional misconduct as per the Chartered Accountants Act, 1949.
 - (c) No. In the above case, the maximum ceiling is 25 in number (as per the latest decision taken by the ICAI council). The assignments (existing + new) handled by Govil is well below the prescribed limit and hence there is no breach.
 - (d) No. In the above case, the maximum ceiling is 60 in number. The assignments (existing + new) handled by Govil is well below the prescribed limit and hence there is no breach.
2. Will the retaliating act of Chandan against the company make him guilty of professional misconduct?
 - (a) No. The above act will not lead to professional misconduct. However, under section 147 of the Companies Act, 2013, Chandan

shall be punishable for exercising lien over the company's documents.

- (b) No. The Chartered Accountants Act, 1949 is silent about the above situation and hence it will not lead to professional misconduct.
 - (c) Yes. As per the recent decision of the Ethical Standards Board, a chartered accountant cannot exercise lien over client documents/ records for non-payment of his fees.
 - (d) Yes. As per Clause 7 of Part I of Second Schedule to the Chartered Accountants Act, 1949, the above act of Chandan will make him guilty of professional misconduct.
3. In the given case scenario, visiting cards printed by Govil & Chandan, is there anything which may lead to professional misconduct? If so, under what provisions?
- (a) Mentioning 'CPA Ireland' & the term 'Insolvency Professional' by Govil & Chandan respectively violates the provisions of Clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949. Hence, both of them shall be held guilty of professional misconduct.
 - (b) There is no information contained in both the visiting cards, which leads to professional misconduct. All details mentioned are abiding the provisions of Clause 7 of Part I to First Schedule of the Chartered Accountants Act, 1949.
 - (c) Mentioning 'CPA Ireland' by Govil violates the provisions of Clause 6 & Clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949. Hence, Govil shall be held guilty of professional misconduct. However, as far as Chandan's card is concerned, nothing mentioned in it is against the provision of the Chartered Accountants Act, 1949, so he shall not be held guilty of professional misconduct.
 - (d) Mentioning the term 'Insolvency Professional' by Chandan violates the provisions of Clause 7 of Part I of First Schedule of the Chartered Accountants Act, 1949. Hence, he shall be held guilty of professional misconduct. However, as far as Govil's card is concerned, nothing mentioned in it is against the provision of the Chartered

Accountants Act, 1949, so he shall not be held guilty of professional misconduct.

4. The firm had received the following assignments:
- (i) Concurrent audit for TT Bank Ltd.
 - (ii) Statutory audit for HBT Bank Ltd. (it is to be noted that the bank was not sponsored by TT Bank)
 - (iii) Offer to act as settler of JJ Charitable Trust.
 - (iv) Internal audit of PF Trust of Government Company Ltd.
 - (v) Statutory Auditor of Government Company Ltd.

Among the above assignments, which assignments can be accepted by the firm?

- (a) Either (i) or (ii), (iii) & Either (iv) or (v).
- (b) (i), (ii), (iii) & Either (iv) or (v).
- (c) Either (i) or (ii) & Either (iv) or (v).
- (d) (ii) only.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** No. In the above case, the maximum ceiling is 60 in number. The assignments (existing + new) handled by Govil are well below the prescribed limit and hence there is no breach.

Reason:

As per Council General Guidelines 2008, a member of the Institute in practice shall not accept, in a financial year, more than the "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961.

In the case of firm of Chartered Accountants in practice "the specified number of tax audit assignments" means 60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesseees.

2. **Option (c)** Yes. As per the recent decision of the Ethical Standards Board, a chartered accountant cannot exercise lien over client documents/ records for non-payment of his fees.

Reason:

As per the recent decision of the Ethical Standards Board, a chartered accountant cannot exercise lien over client documents/ records for non-payment of his fees.

3. **Option (b)** There is no information contained in both the visiting cards, which leads to professional misconduct. All details mentioned are abiding the provisions of Clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.

Reason:

There is no misconduct as the same is in accordance with Clause 7 of Part I to First Schedule of the Chartered Accountants Act, 1949.

4. **Option (b)** (i), (ii), (iii) & Either (iv) or (v)

Reason:

As per the recent decision of the Ethical Standards Board, CA firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.

CASE SCENARIO 39

Honey and Money Associates is a firm of Chartered Accountants that provides assurance services to many companies, including listed companies. The firm has offices across many locations in India, with subject matter experts in most of these locations. The firm has established a comprehensive quality management system covering leadership responsibilities for quality within the firm, ethical requirements, acceptance, and continuance of client relationships and specific engagements based on SQC 1 issued by the ICAI. During the current year, the audit engagement of a listed company was picked up for an inspection by an appropriate authority. The inspection covered various aspects of the audit of financial statements and included an assessment of the firm's quality control system. The reviewer decided to discuss the following with the audit team members:

Matter 1: The reviewer enquired about the roles and responsibilities of CA Honey. CA Honey explained that the engagement team is comprised of CA Honey as the engagement partner and other professionals, including the engagement in-charge. CA Money was the engagement control quality reviewer. As the engagement partner, he was responsible for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and the auditor's report being appropriate in the circumstances, taking responsibility for reviews being performed in accordance with the firm's review policies and procedures. He also explained that he has already completed 7 years as an engagement partner and has decided to continue as an engagement partner for the next year as well. The firm's policy permits that an engagement partner can continue consecutively for 15 years.

Matter 2: The reviewer enquired about the roles and responsibilities of CA Money, the engagement control quality reviewer. CA Money explained that the EQCR plays an important role in the quality control process of an audit and is key to safeguarding audit quality. The Firm has established a comprehensive system that prescribes the eligibility of EQCR, the need to maintain objectivity

by EQCR, and considerations for carrying out effective EQC reviews. Specifically, in this engagement, CA Money explained that he has rich experience in handling direct and indirect tax matters and was selected by CA Honey. There was no formal letter confirming his selection as EQCR. The listed company had significant GST litigations. CA Money ensured that he was involved in forming the audit team's judgments relating to these litigations, including making relevant provisions. CA Money confirmed that the EQC review was conducted in periodic intervals, and the engagement team had resolved all the observations raised during the EQC review.

Matter 3: The reviewer enquired about the areas that require discussion with management/ those charged with governance or areas that require significant efforts. CA Honey explained that during the current year, the engagement team observed material prior errors in recognition of revenue, including errors in recognition of revenue on a gross basis instead of a net basis. These errors were identified after the year end and required significant judgement and efforts by the engagement team. After many deliberations, the management agreed to correct the material prior to the period errors by restating the comparative information as per applicable GAAP. Relevant internal controls were accordingly modified after the year end. Considering the complexities involved, the measurement of revenue was identified as a key audit matter.

Matter 4: The reviewer enquired about the rationale for material difference between the amount of revenue stated in the financial statements and the corresponding amount in the Board report included as a part of the Annual Report. CA Honey explained that auditors are required to comment on the true and fair view of the financial statements and are not required to comment on the Annual Report. He also explained that the Board Report was not provided to the auditor till the date of the audit report. Accordingly, after considering the requirements of SA 720, a specific statement was made in the audit report regarding the non-availability of the Board Report and that the auditor is not responsible to consider the Board Report which is expected to be received the date of the audit report. Thus, any discrepancy between the Board Report and the audited financial statements does not require any consideration. However,

as good governance, CA Honey has obtained a reconciliation of the amount of revenue between the Board Report and the financial statements.

Based on the above facts, answer the following:-

MULTIPLE CHOICE QUESTIONS

1. Whether the selection of EQCR is as per the requirements of SQC 1?
 - (a) No. EQCR's objectivity was not maintained since it was selected by the engagement partner, and no formal communication was made regarding such selection.
 - (b) Yes. CA Money is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to the company's tax litigations.
 - (c) No. The EQCR's objectivity could not be maintained since it was selected by the engagement partner and made decisions for the engagement team.
 - (d) Yes. CA Money is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to tax litigation. The EQC review was conducted in a timely manner before the issuance of the audit report.

2. The reviewer is of the view that the audit opinion on internal controls under section 143(3)(i) of the Companies Act 2013 should have been modified as material weakness existed in the comparative information. Do you agree with the reviewer?
 - (a) Yes. Restatement of comparative information due to error is a strong indicator of material weakness in internal controls. Also, relevant internal controls were not corrected by the end of the year.
 - (b) No. All prior-period errors were corrected as per applicable GAAP by restating the comparative information.
 - (c) No. Judgemental matters, where divergent views are possible, are not indicative of material weakness.
 - (d) No. Internal controls were corrected by the date of the audit report.

3. Whether CA Honey should consider the Board Report or not as the audit report was already issued:
- (a) The Board Report should not be considered as auditors don't have any obligation to consider Other Information obtained after such date.
 - (b) The Board Report should be considered since auditors' responsibility in relation to Other Information is uniform irrespective of the point of their availability.
 - (c) The Board Report should be considered since subsequent events are required to be assessed.
 - (d) The Board Report should not be considered to align with the audit report, which specifically excludes Other Information obtained after the date of the audit report.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** No. The EQCR's objectivity could not be maintained since it was selected by the engagement partner and made decisions for the engagement team.

Reason:

As per SQC 1, the firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer.

For example, the engagement quality control reviewer: (i) Is not selected by the engagement partner; (ii) Does not otherwise participate in the engagement during the period of review; (iii) Does not make decisions for the engagement team; and (iv) Is not subject to other considerations that would threaten the reviewer's objectivity.

2. **Option (a)** Yes. Restatement of comparative information due to error is a strong indicator of material weakness in internal controls. Also, relevant internal controls were not corrected by the end of the year.

Reason:

As per section 143(3)(i) of the Companies Act 2013, restatement of

comparative information due to error is a strong indicator of material weakness in internal controls.

3. **Option (b)** The Board Report should be considered since auditors' responsibility in relation to Other Information is uniform irrespective of the point of their availability.

Reason:

As per SA 720, if the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

- (i) If the other information is corrected, perform the procedures necessary in the circumstances; or
- (ii) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

CASE SCENARIO 40

M/s HVM & Co. is a firm of Chartered Accountants based in Chennai. CA M, CA V and CA H are the partners of the firm. The firm is engaged in various assignments including audits and its engagement partners who were handling their respective assignments for the financial year 2023-24 dealt with the following issues raised during and after the course of their respective audits.

M/s HVM & Co. are appointed as statutory auditors of AST Ltd. for the financial year 2023-24. CA V, the engagement partner while conducting an audit of AST Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of AST Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA V wants to communicate this and other circumstances as additional information in his report with those charged with the governance.

Financial statements of VED Ltd. for the year ended on 31st March 2024 were signed by CA H, the engagement partner on 15th May 2024. The AGM was decided to be held during the month of August 2024. On 17th May 2024, the company had received a communication from the Central Government that an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 which was kept in abeyance would be released to the company by 15th June 2024. Accordingly, the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the financial statements of the company for the Financial Year ended on 31st March, 2024 and requested CA H to consider this matter.

During the course of audit of SIM Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain machineries. The management gave a certificate to prove the existence and value of machinery as appearing in the books of account. The certificate from the Registered Valuer shows a value which is inconsistent with the written representation of management.

HT institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professionals. CA M of M/s HVM & Co. is an alumnus of the institution, and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the HT institute of professional studios is highly satisfied with his teaching skills and the level of knowledge he possesses. Due to his capabilities, the management offers CA M to take up the assignment of statutory audit of their institute for the financial year 2023-24.

Based on the above facts, answer the following Questions

MULTIPLE CHOICE QUESTIONS

1. Since there arose a doubt on the management representation and considering the responsibilities of M/s HVM & Co. to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:
 - (a) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
 - (b) The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.
 - (c) In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.
 - (d) The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded

that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230.

2. CA V, engagement partner, in the course of audit of AST Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required.

Help CA V in getting identified incorrect circumstance from the below mentioned circumstances.

- (a) when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.
 - (b) when the auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.
 - (c) when a material uncertainty related to going concern is reported in accordance with SA 570.
 - (d) when there are no key audit matters to be communicated in accordance with SA 701.
3. In view of the Board of Directors of the VED Ltd. agreeing to include an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 in the financial statements of the company for the Financial Year ended on 31 March, 2024 by amending the accounts, CA H shall consider the following procedures. Identify the incorrect procedure from the following:
- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
 - (b) Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

- (c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.
 - (d) Modify the opinion as required by SA 705 and then provide the auditor's report.
4. In response to the management offer, guide CA M, whether to take up the assignment of statutory audit of HT institute of professional studies for the financial year 2023-24.

Select the correct option in terms of professional code of conduct.

- (a) CA M can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.
- (b) CA M cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.
- (c) CA M can accept the statutory assignment as he does not have any substantial interest in the HT Institute of professional studies.
- (d) CA M cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **(b)** The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.

Reason:

As per SA 580, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities or about specific assertions.

2. **(d)** when there are no key audit matters to be communicated in accordance with SA 701

Reason:

As per SA 260, circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the SAs, and for which communication with those charged with governance is required include all the procedures given except when there are no key audit matters to be communicated in accordance with SA 701 as audit procedure.

- 3. (d)** Modify the opinion as required by SA 705 and then provide the auditor's report.

Reason:

As per SA 560, if the management amends the financial statements, the auditor shall:

- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
- (b) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.
- (c) Unless the circumstances apply:
 - (i) Extend the audit procedures to the date of the new auditor's report, and the date the new auditor's report no earlier than the date of approval of the amended financial statements; and
 - (ii) Provide a new auditor's report on the amended financial statements.
- (d) When the given circumstances apply, amend the auditor's report, or provide a new auditor's report as required.

Thus, modify the opinion as required by SA 705 and then provide the auditor's report is an incorrect procedure.

- 4. (b)** CA M cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.

Reason:

As per Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

Further, the Council has also decided that a Chartered Accountant should not by himself or in his firm name accept the auditorship of a college, if he is working as a part-time lecturer in the college.

Thus, CA M cannot accept the assignment.

CASE SCENARIO 41

M/s Roshan & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of GHF Bank (referred to as 'Bank') for the Financial Year 2023-24.

During the audit, it was found that the bank has a balance with a Swiss based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank.

The engagement partner, Mr. Mitansh, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.

Amount of interest accrued and not due on deposits amounting to ₹ 87,75,000/.

The balance of Interest rate swaps amounting to ₹ 81,26,500/-.

Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is compliance with CRR and SLR requirements.

The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team. The details with respect to unaudited branches are as under:

Interest Income: ₹ 27,86,000/-.

Interest Expense: ₹ 13,38,220/-.

Total advances: ₹ 5,10,22,000/-.

Total deposits: ₹ 3,38,00,000/.

The auditors also discussed the following with the audit staff and the bank management during the course of the audit:

Computation of Demand and Time Liabilities.

Computation of Tier I & Tier II capital of the Bank.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. The balance of GHF Bank with the Swiss based Bank should be converted into Indian Currency at the following rate:
 - (a) The exchange rate prevailing on the Balance sheet date.
 - (b) The average of opening and closing exchange rates during the year.
 - (c) The exchange rate as prescribed by Reserve Bank of India.
 - (d) The exchange rates applicable on the respective dates of transaction in the account.
2. What should be the proper audit procedure in respect of Interest on deposits accrued but not due amounting to ₹ 87,75,000/- appearing in the financial statements of GHF Bank?
 - (a) The amount should be included in deposits amount.
 - (b) The amount should not be included in amount of deposits.
 - (c) The amount should be shown under the head other liabilities and provisions.
 - (d) Both b & c.
3. The amount of Interest Rate Swaps amounting to ₹ 81,26,500/- should appear as in the financial statements of the bank :-
 - (a) Contingent Liabilities.
 - (b) Other Liabilities and provisions.
 - (c) Current Liabilities.
 - (d) Deposits.
4. Which of the following is correct statement related to the requirement laid down by the RBI for Roshan & Associates while verifying the

compliance with the SLR requirements of the bank?

- (a) M/s Roshan & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.
- (b) M/s Roshan & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.
- (c) M/s Roshan & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays.
- (d) M/s Roshan & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (a)** The exchange rate prevailing on the Balance sheet date.

Reason:

These balances should be converted into the Indian currency at the exchange rates prevailing on the balance sheet date.

- 2. Option (d)** Both b & c.

Reason:

The auditor may verify various types of deposits in the prescribed manner i.e. examine that interest accrued but not due on deposits is not included under the relevant deposits but is shown under the head 'other liabilities and provisions'.

- 3. Option (a)** Contingent Liabilities.

Reason:

Audit Procedures for Other items for which Bank is contingently liable includes determination and verification of any other items under this head as required. For example, outstanding underwriting contracts, bills rediscounting, disputed tax demands, interest rate swaps etc.

4. **Option (b)** M/s Roshan & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.

SLR is the requirement that every scheduled commercial bank in India is required to maintain in the form of gold, cash and government approved securities before proving credit to the customers. The Reserve Bank of India requires statutory central auditors to verify the compliance with SLR requirements of 12 odd dates in different months of a fiscal year not being Fridays.

CASE SCENARIO 42

BNN Ltd., incorporated in the financial year 1980-81, is a distinguished company specialising in the manufacturing of nickel-based batteries. As one of the oldest manufacturing companies in this sector, BNN Ltd. operates with two manufacturing plants and a comprehensive distribution network that spans across India. Remarkably, BNN Ltd. was among the first companies to be listed on the stock exchange, underscoring its longstanding presence in the market. The company has consistently adhered to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards.

M/s KP & Co. were the statutory auditors in the previous year and resigned from the role of statutory auditor. M/s JKL & Co. is appointed as a statutory auditor of BNN Ltd. in FY 2023-24. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of the preceding period.

During the audit, the auditor observed that the company is unable to pay its creditors on time. The company is also not able to properly comply with the terms of the loan agreement with the banks. Moreover, several key ratios are also adverse. In view of the above, the auditor asked management to provide an assessment of going concern, however the management did not provide the same. Despite the following up, the management did not provide the requested assessment. As a result, the auditor documented the request and follow-up regarding the going concern assessment in the working papers.

Apart from the above, the company has one accounting software for maintaining its books of accounts, which does not have any feature of edit log (Audit Trail). Accordingly, the auditor reported the said fact of not having the facility of edit log under the heading Other Legal & Regulatory Requirements- Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 in the main audit report.

Apart from the above facts, the several important financial information of BNN Limited during the year ended 31st March 2024 are tabulated as below:

(₹ In Crore)

Sr. No	Particular	Amount (₹)
1.	Paid Up Share Capital	10
2.	Deficit balance in Profit & Loss Account	11.47
3.	Turnover	85
4.	Inventory*	15
5.	Cash Loss	2.95
6.	Operating Loss	1.97

*Out of Total inventory as above, inventory amounting to ₹ 12.35 Crore are lying with third party.

Based on the above facts, answer the following:-

MULTIPLE CHOICE QUESTIONS

- As per the requirement of SA 570, how auditors should deal with the matter of unwillingness of management to provide for the assessment relating to going concern?
 - Auditor should report such matters in the section of Key Audit Matter.
 - The auditor should properly document evidence relating to asking management and its subsequent follow up with the management for assessment on going concern and accordingly should express unmodified opinion.
 - Auditor should report such matters in Emphasis of Matter Paragraph Section.
 - Auditor should express modified opinion in his audit report.
- As per SA 501, what is the correct audit procedure to be followed regarding the existence and condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?

- (a) The auditor should rely on the management explanation regarding the inventory lying with the third party.
 - (b) The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate.
 - (c) The auditor should verify the inventory lying with the company.
 - (d) The auditor should take written representation only from the management regarding the inventory lying with the third party.
3. State the amount required to be reported by the auditor of BNN Ltd., under clause 3(xvii) of Para 3 of CARO, 2020 on account of losses during the year under consideration.
- (a) ₹ 4.92 Crore
 - (b) ₹ 1.97 Crore
 - (c) ₹ 2.95 Crore
 - (d) ₹ 11.47 Crore
4. According to SA 510, which of the following audit procedures can be implemented by M/s JKL & Co. to obtain sufficient and appropriate audit evidence on the opening balances about whether it contain any material misstatement that could affect financial statements of current year?
- (i) Closing balances of the preceding period have been correctly brought forward to the current period.
 - (ii) Performing specific audit procedures to obtain evidence regarding its opening balances.
 - (iii) Determining whether the opening balances reflects the application of appropriate accounting policies.
- (a) Only (i)
 - (b) Only (iii)
 - (c) Only (i) and (iii)
 - (d) (i), (ii) and (iii)

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** Auditor should express modified opinion in his audit report.

Reason:

As per SA 570, if management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

2. **Option (b)** The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate.

Reason:

As per SA 501, when inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

- (i) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
- (ii) Perform inspection or other audit procedures appropriate in the circumstances.

3. **Option (c)** ₹ 2.95 Crore

Reason:

Clause (xvii) of Para 3 of CARO 2020, requires the auditor to report whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.

4. Option (d) (i), (ii) and (iii)

Reason:

As per SA 510, the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.

CASE SCENARIO 43

EFG Ltd., incorporated in 1984-85, has distinguished itself as one of the most rapidly growing non-banking financial companies (NBFCs) having principal business of granting loans. Its head office is situated in Pune, a city renowned for its dynamic financial and industrial sectors. Remarkably, EFG Ltd. holds the notable achievement of being among the first NBFCs to be listed on the stock exchange, which underscores its longstanding and influential presence in the financial market. Over the years, the company has demonstrated an unwavering commitment to regulatory compliance by consistently adhering to the Securities and Exchange Board of India's (SEBI) Listing Obligations and Disclosure Requirements Regulations of 2015. This steadfast adherence ensures that all its operations align with the rigorous standards set by regulatory authorities, thereby reinforcing its credibility and trustworthiness among investors and stakeholders.

M/s SDS & Co. thoroughly obtained the knowledge and background of the company, including an understanding of the legal and regulatory requirements applicable to the company.

During the audit of the financial statements, the auditor observed that the company has violated one of the prudential guidelines of RBI as applicable to the company relating to the acceptance of public deposit. Since the company was non-deposit taking, and in one case during the year under consideration, the company had accepted the public deposit. In this regard, the management has also provided a detailed note in the financial statements and subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important and required the attention of the users of the financial statements.

The auditor of EFG Ltd. sent confirmation requests to 14 debtors (to whom loan has been granted) to confirm the year-end balances as per SA 505. The said requests were designed in such a way that debtors will directly respond to the auditor only when they disagree with the same.

Based on the above facts, answer the following: -

MULTIPLE CHOICE QUESTIONS

1. Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: -
 - (i) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934
 - (ii) In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
 - (iii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.
 - (iv) Whether the company has provided any loans, guarantee or provided security to any other entity.
 - (a) Only (i) and (iii)
 - (b) Only (i), (ii) and (iii)
 - (c) Only (i) and (ii)
 - (d) Only (i), (ii) and (iv)

2. What is the auditor's responsibility when the audit of EFG Ltd. for the previous year has not been conducted by the current auditor i.e. M/s SDS & Co.?
 - (i) The auditor needs to report such matters in the other matter paragraph in the main audit report.
 - (ii) The auditor needs to report such matter in the emphasis of matter paragraph.
 - (iii) The auditor shall be responsible for obtaining sufficient and appropriate audit evidence that the opening balances does not contain any material misstatement.
 - (a) Both (i) & (iii)

- (b) Both (ii) & (iii)
 - (c) Only (ii)
 - (d) Only (i)
3. In the given case, what is the reporting requirement in relation to SA 250, on the part of the auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?
- (a) The auditor is required to report such matters in the main audit report under the head other matter paragraph section only.
 - (b) The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only.
 - (c) Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.
 - (d) Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Only (i), (ii) and (iii)

Reason:

As per Clause (iii)(a) of Para 3 of CARO, 2020 auditor is required to report whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans]. Thus, Considering the nature of business auditor is not required to report the same.

2. **Option (a)** Both (i) & (iii)

Reason:

As per SA 510, the auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures and the auditor shall obtain sufficient appropriate audit evidence about whether the opening

balances contain misstatements that materially affect the current period's financial statements.

- 3. Option (c)** Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.

Reason:

As per SA 250, the auditor is required to report certain matters of non-compliance to the Reserve Bank of India as per the requirements of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1988, issued by the Reserve Bank of India.

CASE SCENARIO 44

Bhuvan & Co. Chartered Accountants, mainly into statutory audit and tax audit, are now exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:

- (a) One of the clients of Bhuvan & Co. is planning to acquire another company to expand its business. In this regard, due diligence is to be carried out to check if the proposed merger would create operational synergies. Also, a full-fledged financial due diligence is planned to be carried out after a price has been agreed for the business acquisition. They want to include, Cash flow, Accounting Policies, Brief history of the target and background of its promoters, Accounting Information System etc. in the scope of the same.
- (b) During the course of due diligence, an articled assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank.
- (c) Further, Bhuvan & Co. has also received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. With respect to this investigation, Bhuvan & Co. is contemplating on the getting the assistance of an expert with respect to certain matters.
- (d) During the course of carrying out investigation as above, Bhuvan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below?

- (a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.
 - (b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.
 - (c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.
 - (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.
2. Which among the following is not a matter included in the scope of a full-fledged financial due diligence?
- (a) Cash flow.
 - (b) Accounting Policies.
 - (c) Brief history of the target and background of its promoters.
 - (d) Accounting Information System.
3. Can Bhuvan & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?
- (a) Yes, Bhuvan & Co. should consider whether assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.
 - (b) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert’s assistance for investigation.
 - (c) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.

- (d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.

Reason:

The objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and accordingly hidden liabilities include letter of comforts. Since these are not guarantees; these may not be disclosed in the Balance Sheet of the target company.

2. **Option (d)** Accounting Information System.

Reason:

If a full-fledged financial due diligence is conducted, it would include the following matters, inter alia, in its scope:

- (a) Brief history of the target and background of its promoter
- (b) Accounting policies
- (c) Review of financial statements
- (d) Taxation
- (e) Cash flow
- (f) Financial Projection
- (g) Management and employees
- (h) Statutory Compliance

Hence, clear from the above points, that option D is not relevant in this context.

- 3. Option (a)** Yes, Bhuvan & Co. should consider whether assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.

Reason:

In the general approach for Investigation, the auditor should also consider whether assistance of other experts like engineers, lawyers etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.

SA 620 is not a specific standard for using the work of experts for investigation. The main objective of using the work of an auditor's expert is to determine whether to use the work of an auditor's expert and if using the work of an auditor's expert, whether that work is adequate for the auditor's purpose.

Further, though the auditor uses the work of an expert, the opinion is finally his responsibility, and he is at discretion to rely or not rely on the findings of the expert. Hence, his independence is not affected.

So, accordingly, options B, C and D are not relevant reasoning for using or not using an expert.

CASE SCENARIO 45

CA Kunal is in the midst of conducting statutory audit for the year 2023-24 of "TSG Chemicals Limited", a listed company. He is collecting information required for reporting under CARO, 2020 from the management. Audit procedures, as are necessary in the circumstances will be performed on the information obtained. The company's revenue from sales of products is ₹ 15,000 crore. During this exercise, he obtained the following information:

- A. The management has provided the following details of dues that have not been deposited on 31st March, 2024 on account of disputes: -

Name of Statute	Nature of dues	Forum where the dispute is pending Period to which the amount relates	Amount involved (₹ in crore)	Amount unpaid (₹ in crore)	Other comments
Municipal Corporation Act	Property tax	Hon'ble High Court of Rajasthan	FY 2018-19	0.15	0.15
Income-tax Act, 1961	Income-tax	CIT (Appeals)	AY 2019-20	50.00	50.00
Income-tax Act, 1961	Income-tax	ITAT	AY 2021-22	10.00	10.00
EPF Act	PF contribution	Hon'ble High Court of Rajasthan	FY 2020-21	0.10	0.10

The company has already made a provision of ₹10 crore in its financial statements considering the likely outcome of ongoing matters under dispute at ITAT. However, no provision has been made in respect of income-tax matters pending before CIT(Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court.

- B. The following information is available from financial statements / records of the company. (₹ in crore)

Non-Current assets	As at 31/03/24	As at 31/03/23
Property, Plant and Equipment	3,500	4,000
Right-of-use assets	750	700
Intangible assets	42	40

Values stated above are as per gross block.

Right-of-use assets consist of leases where the company has obtained the right-of-use asset under lease agreement in accordance with Ind AS 116.

TSG Chemicals Limited produces goods for which the Central Government has specified maintenance of cost records. Besides, cost audit has also been mandated under section 148(2) of the Companies Act. The cost auditor has already examined cost records and issued the cost audit report.

During the audit, CA Kunal has found that physical verification of inventories of the company has been conducted during the year by management. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of accounts as at the year-end:

(Amount ₹ in crores)

Particulars	As per physical verification	As per books of accounts
Raw material	1,160	1,180
Work-in-progress	410	430
Finished goods	2500	2790
Stores and spares	220	180
Total	4,290	4,580

During the course of audit, he is informed by management that two supervisory employees have been dismissed from service due to fraud of ₹ 47 lakh committed by them during the year 2023-24. The amount has also been subsequently recovered from them during the year itself.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Identify the correct statement relating to the reporting duties of the auditor under clause 3(i) of CARO, 2020 with regard to:
 - (a) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets.
 - (b) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty does not extend to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets.
 - (c) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. However,

this duty to report on physical verification by management does not extend to Right-of-use assets.

- (d) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. Similarly, there is a duty to report on whether company is maintaining proper records showing full particulars of intangible assets. However, this duty does not extend to reporting on maintenance of records for Right-of-use assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets.
2. Select the correct statement relating to reporting statutory dues which have not been deposited on account of disputes under clause 3(vii)(b) of CARO, 2020?
- (a) All the four matters for which information has been provided in the case scenario need to be reported.
 - (b) Only matters relating to income-tax pending before CIT (Appeals) and PF contribution matter pending before Hon'ble High Court need to be reported.
 - (c) Only Income-tax matter pending before ITAT needs to be reported.
 - (d) Income-tax matter pending before CIT (Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court need to be reported, matter pending with ITAT does not require reporting.
3. Should the fraud described in the case be reported by the auditor under clause 3(xi)(a) of CARO, 2020?
- (a) The requirement to report the fraud does not apply in the current situation since the fraud was not discovered by the auditor.
 - (b) There is no duty to report since the amount involved is less than ₹ 1 crore.

-
- (c) It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved.
- (d) The requirement to report the fraud does not apply in the current situation since the amount has been fully recovered during the year from the employees who committed the fraud.
4. As regards cost records is concerned, which of the following statements is correct regarding reporting under clause 3(vi) of CARO, 2020?
- (a) The auditor is not required to report on maintenance of cost accounts and cost records since cost auditor has already issued the cost audit report. In such situations, the auditor does not have any duty to report under CARO, 2020.
- (b) The auditor is required to examine the cost audit report as well as take into account any qualifications therein and report them under clause 3(vi) of CARO, 2020. However, his duty to report on maintenance of cost accounts and cost records does not exist anymore.
- (c) The auditor has a duty to report on cost accounts (or cost statements) only. The clause does not require the auditor to comment on maintenance of cost records (e.g. cost records relating to materials, labour, overheads) where specified by the Central Government.
- (d) The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.
5. Considering the values of inventories that arrived upon physical verification conducted by management vis - à-vis values reflected in its books of accounts, select the correct option for instance in the case study to be reported by the auditor on inventories under clause 3(ii)(a) of CARO, 2020?
- (a) There is no instance to be reported in the given case since the difference between the total value of inventories as per books and physical verification is less than 10%.

- (b) To report differences in the value of work-in-progress, finished goods and stores and spares since the difference in each class of inventory is 10% or more (based on value after adjustments). The auditor should also comment on whether they have been properly dealt with in the books of account.
- (c) To report differences in the value of finished goods and stores and spares since the difference in each class of inventory is more than 10% (based on value as per books of accounts). The auditor should also comment on whether they have been properly dealt with in the books of account.
- (d) Differences in all classes of inventories (raw material, work-in-progress, finished goods and stores and spares) should be reported irrespective of the materiality and the auditor should also comment on whether they have been properly dealt with in the books of account.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (a)** It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets.

Reason:

Under Clause 3(i)(a) of CARO, 2020, the auditor is required to report on maintenance of proper records showing full particulars including quantitative details and situation of Property, Plant and Equipment. It includes reporting on maintenance of records for Right of use assets. This clause also casts duty upon audit report on maintenance of records for intangible assets. Further, auditor is also required to report on whether Property, Plant and Equipment have been physically verified by

management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets.

2. **Option (a)** All the four matters for which information has been provided in the case scenario need to be reported.

Reason:

Amounts to be reported under clause 3(vii)(b) are those which have not been deposited on account of any dispute, irrespective of the treatment of such disputed amounts in accounts. It is quite possible that an amount is disputed and has not been deposited but on consideration of the likely outcome of the dispute, a provision has been made in the accounts. Such an amount will need to be reported, notwithstanding that it has been provided for in accounts. Similarly, even if it had not been provided for in accounts, it would have to be reported as long as it is not deposited. Further, property tax is also in nature of statutory dues and disputed amount needs to be reported by the auditor. Therefore, all matters reflected in details need to be reported.

3. **Option (c)** It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved.

Reason:

As per clause (3)(xi)(a) of Paragraph 3 of CARO, 2020, it is duty of the auditor to report whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated. Fraud committed by employees are generally known as frauds on the company.

4. **Option (d)** The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.

Reason:

Under Clause 3(vi) of CARO, 2020, the auditor is required to report whether prescribed cost accounts and records have been so made and maintained. The auditor has to report under this clause irrespective of

whether a cost audit has been ordered by the central government. It is an independent requirement to report whether prescribed cost accounts and records have been so made and maintained. It is not taken away due to the reason that cost audit has been conducted and report stands issued.

- 5. Option (c)** To report differences in the value of finished goods and stores and spares since the difference in each class of inventory is more than 10% (based on value as per books of accounts). The auditor should also comment on whether they have been properly dealt with in the books of account.

Reason:

As per clause (3)(ii)(a) of CARO, 2020, the auditor is required to report whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed on physical verification conducted by management and if so, whether they have been properly dealt with in the books of account.

CASE SCENARIO 46

CA Kumar is statutory auditor of a listed company engaged in providing services relating to "hospitality sector". He is practicing in sole-proprietorship capacity. The audit of above said listed company was conducted by his proprietary firm and the report was issued for year 2023-24. Subsequently, the audit report was selected by NFRA to oversee quality of service and compliance with Standards. Necessary information was called from the auditor towards the above objective.

It was required of him to produce audit working papers to show that audit was carried out in accordance with Standards on Auditing. Details of the audit plan and details of risk assessment procedures carried out to identify and assess risk of material misstatement in financial statements were called. It was also required to show how response to assessed risks was designed and implemented and communicated with those charged with governance.

Audit working papers sent by him through email included procedures on how some balances in the financial statements were verified. Also included in working papers were procedures performed by him relating to verification of inventories, trade receivables and trade payables.

The working papers sent by him to the authority did not include details on audit plan and manner of identifying and assessing risks of material misstatement. On being asked to respond, it was reasoned by him that audit was properly planned and required procedures were carried out in relation to material items on test check basis.

It has been further clarified by him to the authority that audit was carried out in accordance with Standards, and it was practically not feasible for a firm of small size to make a detailed audit plan. It was also put on record with authority that he had assessed risk of material misstatement to be low based upon his understanding of the company. He has further reasoned that assessing risks is a matter of professional judgment. Representation has also been made by him stating that communications as necessary were made orally with those charged with governance.

It was also pointed out to him that engagement quality control review was not carried out. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise.

Attention was also drawn to the fact that financial statements of company were required to be prepared on the basis of Ind-AS. However, at some places in terms of notes to accounts, reference is made to Accounting Standards which are not applicable to the company. These errors have been attributed to data feeding entry errors by junior staff.

Based on the above facts, answer the following: -

MULTIPLE CHOICE QUESTIONS

1. It has been contended by the auditor that the audit was properly planned. He has further stated that it was practically not feasible for firms of small size to prepare a detailed audit plan.

Which of the following views is most appropriate in this regard?

- (a) Audit was, in fact, planned as evidenced by auditor's submissions. However, there is an exemption for small CA firms doing away with cumbersome documentation in relation to audit plan.
 - (b) Since auditor has no record of audit plan, it indicates non-compliance with SA 220.
 - (c) Audit was, in fact, planned as evidenced by auditor's submissions.
 - (d) Although auditor has no record of audit plan, it does not affect compliance with SA 220.
2. On your overall reading of the case study, which of the following statements appears to be true?
- (a) The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA 220.

-
- (b) The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.
- (c) SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220.
- (d) SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.
- 3 The auditor has reasoned that risk of material misstatement has been assessed to be low based upon his understanding of the company and it is a matter of professional judgment. Identify the most appropriate statement from below in this regard.
- (a) Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was identified.
- (b) Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220.
- (c) Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.
- (d) Such a query, itself, is outside the mandate of authority.
4. Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below: -
- (a) Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.
- (b) Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.
- (c) No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review.

- (d) Engagement quality control review is dependent upon benchmarks established under SQC 1. If those benchmarks are satisfied, such a review is necessary.
5. Considering the auditor's reply regarding errors in data feeding entry by junior staff in relation to accounting standards, which of the following statements is proper?
- (a) Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220.
 - (b) Such are examples of clerical errors encountered during preparation of reports. There is no effect on auditor's opinion and consequently question of non-compliance with SA 220 does not arise.
 - (c) Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.
 - (d) Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Since auditor has no record of audit plan, it indicates non-compliance with SA 220.

Reason:

In accordance with SA 220, one of the objectives of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and regulatory and legal requirements. Failure to document the audit plan shows non-compliance with professional standards and consequently SA 220.

2. **Option (b)** The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.

Reason:

SQC 1 inter alia requires that the firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with the professional standards and regulatory and legal requirements. In the present case the firm does not have effective system of quality control described in SQC 1. The audit engagement has also not been performed in accordance with SA 220. In fact, SA 220 is premised on the basis that the firm is subject to SQC 1.

3. **Option (c)** Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.

Reason:

The auditor has no record of how risk of material misstatement was arrived at. In fact, risk assessment procedures performed to identify and assess risks of material misstatement need to be documented. It shows non-compliance with requirement of documenting the manner of identifying and assessing risks of material misstatement.

4. **Option (a)** Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.

Reason:

As per SA 220, Engagement quality control review is mandatory for audit of financial statements of listed entities.

5. **Option (c)** Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.

Reason:

The auditor's reply attributing references to accounting standards in place of Ind AS to errors in data feeding entry by junior staff is not proper. These are examples of serious lapses on the part of auditor and go on to show that quality control procedures have not been implemented at engagement level resulting in non-compliance with requirements of SA 220.

CASE SCENARIO 47

CA. Munish is conducting audit of Mixer Limited. He is auditor of the company since last three years and has found nothing unusual in operations and financial statements of the company. The company has many locations where substantial inventories are stored and lying. During his fourth year stint, he finds that inventory quantities have risen disproportionately as compared to past few years trends. He has assessed existence of risk of material misstatement due to fraud.

The company has revenue of ₹ 580 crore during the year. He has deeply verified all aspects pertaining to revenue recognition of the company and has concluded that there is no risk of material misstatement due to fraud related to revenue recognition.

During audit, it has come to his knowledge that company is also required to install online air pollution control monitoring systems in its plant as mandated in state pollution control legislation and regulations. Non-installation of such online air pollution control monitoring systems may lead to fines and even sealing of plants.

While verifying payroll data of the company, it has come to notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour in flagrant violation of rules in this regard. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. With respect to auditor's conclusion relating to risk of material misstatement due to fraud related to revenue recognition, which of the following statements is most appropriate in this respect?

-
- (a) The auditor needs to document reasons for arriving at conclusion that there is no risk of material misstatement due to fraud related to revenue recognition.
 - (b) Identified and assessed risks of material misstatement due to fraud need to be documented. Since no risk of material misstatement due to fraud pertaining to revenue recognition was identified, separate documentation in this respect is not needed.
 - (c) The auditor needs only to document that no risk of material misstatement due to fraud relating to revenue recognition was identified.
 - (d) The auditor needs to give reference to discussion among engagement team members to document that no risk of material misstatement due to fraud relating to revenue recognition was identified.
 2. Considering the auditor's findings related to inventory quantities, which of the following is not likely to be an appropriate response to outlined assessed risk of material misstatement due to fraud?
 - (a) Observing inventory counts at all locations at same date by employing necessary resources.
 - (b) Observing inventory counts at certain locations after prior intimation.
 - (c) More rigorous examination of packed items during observing inventory count process.
 - (d) Observing inventory count at end of reporting period to minimize risk of manipulation.
 3. Which of the following statements most appropriately describes the responsibilities of auditor in relation to compliance with state pollution control legislation and regulations?
 - (a) Sufficient appropriate evidence needs to be obtained by auditor to verify compliance.

- (b) Physical verification of workability of such systems is required from an auditor.
 - (c) Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance.
 - (d) Only physical verification of workability of such systems and review of correspondence with regulatory authorities are suffice to verify compliance.
4. With respect to the auditor's observation relating to the matter of child labour, which is the most appropriate course of action for him to proceed in this matter?
- (a) He should obtain further information to evaluate the possible effect on financial statements.
 - (b) He must report the matter to concerned government department.
 - (c) He should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.
 - (d) He should express a modified opinion in audit report.
5. Which of the following statements is most appropriate about documentation of non-compliance with laws and regulations by an auditor in context of SA 250?
- (a) Instances of identified non-compliance with laws and regulations need to be documented.
 - (b) Instances of suspected non-compliance with laws and regulations need to be documented.
 - (c) Instances of non-compliance with laws and regulations finally determined by Courts of law need to be documented.
 - (d) Instances of identified as well as suspected non-compliance with laws and regulations need to be documented.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** The auditor needs to document reasons for arriving at conclusion that there is no risk of material misstatement due to fraud related to revenue recognition.

Reason:

In accordance with SA 240, when the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion.

2. **Option (b)** Observing inventory counts at certain locations after prior intimation.

Reason:

Due to fraud, observing inventory counts at certain locations after prior intimation is not likely to be an appropriate response to assessed risk of material misstatement.

3. **Option (c)** Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance.

Reason:

In accordance with requirements of SA 250, the auditor shall perform following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and (b) Inspecting correspondence, if any with the relevant licensing or regulatory authorities.

4. **Option (c)** He should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.

Reason:

The auditor has observed non-compliance of laws prohibiting employment of child labour. In accordance with SA 250, if the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (a) An understanding of the nature of the act and the circumstances in which it has occurred; and (b) Further information to evaluate the possible effect on the financial statements. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.

- 5. Option (d)** Instances of identified as well as suspected non-compliance with laws and regulations need to be documented.

Reason

As per SA 250, the auditor shall document identified or suspected non-compliance with laws and regulations.

CASE SCENARIO 48

You are the auditor of "Rev Motors Ltd.", a listed company specialising in manufacturing components for electric vehicles. The company has experienced rapid growth in recent years due to the increasing demand for electric vehicles. However, the industry is highly competitive, with several new entrants and rapid technological advancements.

Revenue for the year ended March 31, 2024, declined by 15% compared to the previous year. The company reported a net loss of INR 10 Crores for the year ended March 31, 2024. The company's current liabilities exceeded its current assets by INR 25 Crores as at March 31, 2024. The company's debt-to-equity ratio increased from 1.2 to 1.8 during the year ended March 31, 2024. Management has acknowledged the challenges that are present in the market conditions but has expressed confidence in the company's ability to secure new contracts and to bring the company's profitability back in the next financial year. Management had prepared a cash flow forecast for the next 12 months, which provided that the company will need additional financing of INR 30 Crore to meet its obligations. Management is actively looking for various financing options available in the market, including a potential equity rights issue and with banks for additional cash credit up to INR 40 Crore, which is already approved by the board. However, management is pursuing further actions and steps.

Rev Motors Ltd. values its inventory using the FIFO method. As at March 31, 2024, the company had INR 5.5 Crores in inventory, a 20% increase from the previous year. During the year, INR 3 Crores of this inventory was on consignment. The dealer confirmed that 50% of the consigned inventory sold but is yet to be delivered. Negotiations for the remaining 50% are expected to conclude by the first quarter of the next financial year. As a result, Rev Motors has classified all consigned inventory as sold, following its internal policy. The company performs a physical inventory count at the end of each year. However, this year, to manage business process costs more efficiently, the company did not conduct a full physical inventory count. Instead, management used cycle counts and other analytical methods to estimate the year-end inventory balance.

The company recognises revenue from its contracts using the percentage of completion method. The contracts typically span over 12 to 18 months. The company's revenue recognition policy is based on management's certification and estimation for the stage of completion of its contracts.

Furthermore, the company has faced difficulties in meeting its statutory dues obligations during the year. As at March 31, 2024, there were significant arrears in undisputed statutory dues, including Goods and Services Tax (GST) and provident fund contributions, amounting to INR 5 Crores each, which have been outstanding for more than six months past their due dates. Additionally, there are disputed statutory dues with respect to income tax and employees' state insurance amounting to INR 2 Crores and INR 1 Crore, respectively, currently that are under litigation. The disputes are pending before the Income-tax Appellate Tribunal and the Employees' State Insurance Court. These arrears and disputes were acknowledged by the management but as at the year end they remain unresolved.

Based on the above facts, answer the following: -

MULTIPLE CHOICE QUESTIONS

1. In assessing whether the risk of material misstatement related to Rev Motors Ltd.'s revenue recognition policy is a significant risk, which of the following is most critical for the statutory auditor to consider as per SA 315, even when the internal audit team has found no fraud risk based on management's experience?
 - (a) The internal audit team's competence and objectivity in evaluating management's experience.
 - (b) Management's integrity and whether their experience translates into appropriate accounting estimates.
 - (c) The complexity of the transactions and the degree of subjectivity in measuring the percentage of completion.
 - (d) Whether the revenue recognition policy is appropriate for the company's business and consistent with the applicable financial reporting framework.

-
2. Based on the above case scenario and the auditor's assessment of the company's financial performance, which of the following courses of action is most consistent with the requirements of SA 570 Going Concern?
- (a) Conclude that no material uncertainty exists because the board has approved plans to raise additional capital.
 - (b) Evaluate management's plans to raise additional capital, including their feasibility and the likelihood of their success in mitigating the going concern concerns.
 - (c) Request written representations from management and those charged with governance regarding their plans for future actions and the feasibility of these plans.
 - (d) Communicate to regulators that the events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, even though management has plans to address them.
3. Rev Motors Ltd. paid their arrears of undisputed statutory dues just a day before the date of the audit report. After this, now the auditor believes that only disputed dues need to be reported under CARO 2020 as undisputed are paid before the date of the audit report. Which of the following is the most appropriate course of action for the auditor in this situation?
- (a) Report only the disputed statutory dues in the CARO 2020 report under Para 3(viii)(b), as there is no requirement to report undisputed statutory dues if they are paid on or before the date of the audit report.
 - (b) Report both disputed and undisputed statutory dues in the CARO 2020 report under Para 3(vii)(a) & (b), as required by the CARO 2020 provisions.
 - (c) Consult with legal counsel to determine the specific reporting requirements for disputed and undisputed statutory dues under CARO 2020.

- (d) Discuss the matter with management and obtain their agreement to report both disputed and undisputed statutory dues in the CARO 2020 report.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** The complexity of the transactions and the degree of subjectivity in measuring the percentage of completion.

Reason:

SA 315 requires the auditor to exercise professional judgment and skepticism, even when relying on the work of the internal audit team. While management's experience is relevant, it's not the sole determinant of risk. The complexity of transactions and subjectivity in measurement are critical elements under SA 315 that contribute to a high risk of material misstatement, irrespective of management's experience.

2. **Option (b)** Evaluate management's plans to raise additional capital, including their feasibility and the likelihood of their success in mitigating the going concern concerns.

Reason:

SA 570 requires the auditor to evaluate management's plans for future actions in relation to its going concern assessment, including whether the outcome of these plans is likely to improve the situation and whether the plans are feasible. While the board's approval of the plan to raise additional capital is a positive step, the auditor cannot solely rely on this approval to conclude that no material uncertainty exists.

3. **Option (b)** Report both disputed and undisputed statutory dues in the CARO 2020 report under Para 3(vii)(a) & (b), as required by the CARO 2020 provisions.

Reason:

Paragraph 3 of CARO, 2020 requires reporting of both disputed and undisputed statutory dues. Clause (vii)(a) of Para 3 mandates the reporting of undisputed dues, and clause (vii)(b) of Para 3 requires reporting disputed dues with the forum of the dispute. The auditor's belief that only disputed dues need to be reported is incorrect.

CASE SCENARIO 49

CA. Sarthak is in midst of finalising audit reports of four clients. On reviewing each file, it is noticed as under:

- [A] With respect to a company engaged in business of selling of agricultural products which are outside ambit of GST, the engagement team has found that substantial part of revenues of the company (about 75%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenues generated through cash sales. Therefore, the team has been unable to verify such revenues generated through cash sales.
- [B] Another client, Excel Limited has been dragged to court by Rare Limited for stealing its trade secrets using cyber theft and filed a claim for ₹ 50 crore. On reviewing audit file of Excel Limited, CA Sarthak finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of Excel Limited are silent on this litigation matter.
- [C] It is noticed on review of audit file of a client that net profit before tax was ₹ 2 crore on a turnover of ₹100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ₹ 3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.
- [D] On reviewing file of a client, it is noticed that team was not informed about finished goods of ₹ 1 crore lying at a location taken on rent in February 2024. The said issue was flagged at time of reconciling inventories by the team. Hence, the audit team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is ₹ 8 crores. PBT of client is ₹10 crores.

Based upon above, answer the following questions:

MULTIPLE CHOICE QUESTIONS

1. As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705?
 - (a) Qualified opinion will be issued and basis for qualified opinion will also be provided.
 - (b) Adverse opinion will be issued and basis for adverse opinion will also be provided.
 - (c) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "auditor was engaged to audit financial statements."
 - (d) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "financial statements have not been audited."

2. Considering litigation matter of Excel Limited, which of the following statements is most appropriate in this regard?
 - (a) Unmodified opinion needs to be expressed by auditor.
 - (b) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.
 - (c) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.
 - (d) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.

3. Considering description of issue regarding non-recoverability of export receivable of ₹ 3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?

- (a) Disclaimer of opinion
 - (b) Unmodified opinion
 - (c) Qualified opinion
 - (d) Adverse opinion
4. Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in February 2024, which type of opinion is appropriate to be issued in case of this client?
- (a) Modified opinion
 - (b) Qualified opinion
 - (c) Unmodified opinion
 - (d) Either Modified or Qualified opinion

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** A disclaimer of opinion will be issued and a basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "auditor was engaged to audit financial statements."

Reason:

Team is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Therefore, disclaimer of opinion and basis of opinion shall be given in terms of SA 705. Further, when the auditor disclaims an opinion, the auditor shall amend the statement required by SA 700 which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

2. **Option (c)** It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs be expressed by auditor.

Reason:

The financial statements of Excel Limited are silent on litigation matter.

The issue described is in nature of contingent liability. It amounts to non-disclosure of contingent liability in financial statements by the company. The auditor has obtained sufficient appropriate evidence reflecting that misstatement is material, but not likely pervasive, to the financial statements.

3. Option (d) Adverse opinion

Reason:

The financial statements of the company show PBT ₹ 2 crore. Export receivable of ₹ 3 crores is not written off/provided for. Providing it, would turn company's PBT to net loss. The team has obtained sufficient appropriate evidence reflecting misstatement which is both material and pervasive. Adverse opinion is appropriate to be issued in report.

4. Option (b) Qualified opinion

Reason:

The team was not informed about one location taken on rent where inventories of ₹ 1 crore were lying. PBT of company is ₹10 crore. The team has obtained sufficient appropriate evidence reflecting that misstatement is material, but not likely pervasive, to the financial statements. Qualified opinion is appropriate. Modified opinion also includes disclaimer of opinion. Therefore, option (a) and (d) are wrong as auditor has obtained evidence of misstatement.

CASE SCENARIO 50

CA Priya, a partner in M/s P & Associates, is carrying out a statutory audit of M/s Zigzag Ltd. for the Financial Year 2023-24, and she is ready to sign her audit report on 05.07.2024. There are some written representations which are pending with the management of the company pertaining to such an audit, and she sent Aakash (her articled trainee), who is also a member of the engagement team, to the company's office for collection of the same.

On returning, Aakash tells CA Priya that major stocks of the company got destroyed because of a fire in their plant on 27.06.2024, and it has affected the company's operations badly. However, the business operations are likely to be resumed by management at an alternate place.

CA Priya postponed the issuance of the audit report to consider the impact of such an event on the financial state of affairs of the company. She wants the management to disclose the impact of this unfortunate event in financial statements for the year 2023-24, to which management is disinclined. After the management's refusal, she issued her audit report on 15.07.2024.

The management of the company seeks an appointment from CA Priya to discuss an important matter on 20.07.2024. They informed her that the company had lost a lawsuit filed against it by one of the creditors on 18.07.2024 in a fast-track court, and now the company has to pay the plaintiff a huge amount of ₹2 crores. The events causing this lawsuit arose after 31.03.2024.

CA Priya is a bit perplexed, and her first question to the people from management visiting her office was whether audited financial statements have been made available to any third party or filed with the regulator. The management responded negatively.

Now, CA Priya wants them to amend the financial statements to include the impact of this lawsuit on the financial affairs of the company. This time, they agreed and amended the financial statements accordingly to cover the impact of both the events – that of the fire in the plant and losing the lawsuit, but they

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requested CA Priya to issue a new audit report against the earlier one dated 15.7.2024.

The management amends the financial statements, which are finally approved on 25.7.2024. CA Priya issues a new audit report.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. What should be the appropriate date of signing of the new audit report?
 - (a) 20.07.2024.
 - (b) Anytime between 15.07.2024 & 18.07.2024.
 - (c) On or after 25.07.2024.
 - (d) Anytime between 15.07.2024 & 25.07.2024.

2. CA Priya would have taken into account a lot of procedures to get knowledge of the events occurring after the balance sheet date up to the date of the audit report relating to the company. Which of the following does not fall under such audit procedures as per SA 560?
 - (a) Obtaining an understanding of the management's procedures set up to identify subsequent events.
 - (b) Inquiring of the management w.r.t the occurrence of any such subsequent events.
 - (c) Reading the minutes of the meetings of the board held after the balance sheet date during this period.
 - (d) Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report.

3. W.r.t the first audit report dated 15.07.2024, which type of opinion was most likely provided by her?
 - (a) Modified opinion.
 - (b) Unqualified opinion.
 - (c) Disclaimer of opinion.

- (d) Including a statement in Emphasis of Matter/Other matters para.
4. W.r.t the new audit report issued, which type of opinion is most appropriate?
- (a) Disclaimer of opinion.
- (b) Unqualified opinion.
- (c) Adverse opinion.
- (d) Unqualified opinion and a statement in Emphasis of Matter/Other Matters para.
5. The fire event occurring on 27.6.2024 in the company's plant requires the following action on part of management: -
- (a) Disclosure in notes to accounts.
- (b) Adjustment in financial statements.
- (c) Wait for the insurance company to settle the claim.
- (d) Preparing financial statements afresh.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** On or after 25.07.2024

Reason:

In terms of SA 560, if management amends financial statements, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

2. **Option (d)** Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report.

Reason:

Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report does not fall under audit procedures performed to get knowledge of the events occurring after the balance sheet date up to the date of the audit report relating to the company as per SA 560.

3. Option (a) Modified opinion

Reason:

The management has not disclosed the impact of unfortunate event of fire (subsequent event occurring between date of financial statements and date of audit report). Therefore, modified opinion should be given.

4. Option (d) Unqualified opinion and a statement in Emphasis of Matter/Other matters para.

Reason:

The management has amended financial statements to cover the impact of both the events stated in case study. Therefore, unqualified opinion shall be provided. However, a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements is required in accordance with requirements of SA 560.

5. Option (a) Disclosure in notes to accounts

Reason:

The fire in the company's plant has occurred after date of financial statements on 27.06.24. It provides evidence of conditions that arose after the date of the financial statements. Such an event requires disclosure in notes to accounts.

CASE SCENARIO 51

While auditing consolidated financial statements of Gupta Industries Limited for the year 2023-24, a manufacturing company whose financial statements are required to be prepared in accordance with Division II of Schedule III of the Companies Act, 2013, CA. Akshay Shah notices as under: -

- (A) The notes to accounts in respect of consolidated financial statements disclose additional information pertaining to the holding company and its subsidiaries. It provides disclosure regarding percentages of consolidated net assets, of consolidated profit and loss and of total comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries.
- (B) It is noticed by him that financial statements of one foreign subsidiary included in consolidated financial statements are drawn up to 31st December, 2023 in accordance with legal requirements in US. He feels it to be weird and is of the view that consolidated financial statements of group could present a distorted picture. The management, in turn, informs him that it is not practicable to draw the financial statements of foreign subsidiary to 31st March, 2024.
- (C) During the year 2023-24, goodwill of ₹ 50 crore had arisen on account of the acquisition of a subsidiary during the year and there is no impairment loss as on the balance sheet date. Besides, adjustments have been made in consolidated financial statements with respect to intra-group indebtedness and those related to harmonizing different accounting policies being adopted by parent and its subsidiaries.
- (D) It is noticed by him that one subsidiary was acquired on 15.06.23. He is in a dilemma as regards to the correctness of consolidation of its financial statements in group financial statements.

Besides, he is also in the process of finalising audit report including matters to be reported under CARO, 2020 in respect of consolidated financial statements.

However, he is in a fix in respect of manner of reporting under CARO,2020 relating to consolidated financial statements.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct?
 - (a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.
 - (b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.
 - (c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.
 - (d) The said disclosure is proper.

2. What should be auditor's proper course of action pursuant to situation highlighted in para [B] relating to financial statements of a foreign subsidiary?
 - (a) The auditor should insist for drawing up of financial statements of foreign subsidiary to 31st March,2024. The reason for impracticality is a mere excuse. In case of failure to redraw, he can modify his opinion in accordance with SA 705.
 - (b) The auditor can accept management's version.
 - (c) The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2024 and 31st March, 2024.

-
- (d) The auditor should modify his opinion by quantifying the financial effects of such an inconsistency.
3. Which of the following statements is correct in respect of goodwill and other matters described in the case scenario?
- (a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.
- (b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.
- (c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.
- (d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current-period consolidation adjustments.
4. Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 15.06.23?
- (a) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

- (b) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.
 - (c) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.
 - (d) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.
5. As regards reporting under reporting CARO, 2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law?
- (a) A separate report providing Clause by Clause reporting under CARO, 2020 is required in respect of specified matters pertaining to parent and all subsidiaries incorporated in India.
 - (b) It would be sufficient if report under CARO, 2020 in respect of standalone financial statements is supplemented with additional information in respect of all subsidiaries incorporated in India.
 - (c) A separate report under CARO, 2020 in respect of all subsidiaries incorporated in India together is required. It should be annexed with report under CARO, 2020 in respect of standalone financial statements.
 - (d) Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such

companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

Reason:

When financial statements are required to be consolidated, information relating to amount in OCI and percentage of OCI as percentage of consolidated OCI is required to be disclosed pertaining to parent and its subsidiaries in accordance with Schedule III requirements.

2. **Option (c)** The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2024 and 31st March, 2024.

Reason:

The financial statements of companies used in consolidation should be drawn up to the same reporting date as that of the parent company. However, if it is not practicable to draw the financial statements of the components to such date, then adjustments should be made for the effects of significant transactions or events that occur between date of the component's financial statements and date of the consolidated financial statements.

3. **Option (c)** Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

Reason:

Determination of goodwill as per accounting standards is in nature of permanent consolidation adjustment. Adjustments relating to intra-group

adjustments and those relating to harmonizing accounting policies are in nature of current period consolidation adjustments. All other statements are wrong.

- 4. Option (a)** The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

Reason:

Ind AS 110 requires results of operations of subsidiary included in CFS from the date in which parent gained control of subsidiary. Therefore, it is responsibility of auditor to verify that income and expenses of subsidiary are included in CFS from date of gaining control in subsidiary and income and expenses are based on amounts of assets and liabilities recognized in CFS as at acquisition date.

- 5. Option (d)** Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

Reason:

As per clause (xxi) of CARO 2020, the auditor is required to report as to whether there have been any qualifications or adverse remarks by the respective auditors in their CARO reports of the companies included in the consolidated financial statements. This clause further requires the auditor to provide the details of the companies and the paragraph numbers of the respective CARO report containing the qualifications or adverse remarks.

CASE SCENARIO 52

CA. Ronit is conducting concurrent audit of a branch of a nationalized bank. It is a large branch with deposits of ₹ 300 crore and advances of ₹ 600 crore respectively. The deposits of branch consist of term deposits along with CASA deposits. It is an old branch that has been in operation since the early 80s. Therefore, there are many dormant deposit savings, current and term deposit accounts at the branch. As per CA. Ronit the following is the part of the duty of the concurrent auditor, as regards the dormant deposit accounts in the branch:

- (i) Following up with account holders to ensure that status of accounts remain active.
- (ii) Examining authorization for withdrawals.
- (iii) Verifying that dormant accounts are revived with appropriate authority.

Recently, the top management of the bank has been pushing for aggressive targets in the opening of CASA deposits. He wants to ensure that CASA deposit accounts opened by the branch during his term comply with KYC norms.

During the concurrent audit of a particular month, Rajan discovers that temporary over limits were granted to few borrowers availing cash credit facilities up to 20% of their respective sanctioned limits. Granting such over limits falls within the powers of Chief Manager of the branch. He also notices that temporary overdrafts are allowed to few customers in their current accounts. However, granting these temporary overdrafts also falls under the Chief Manager's delegated powers. Temporary over limits and overdrafts as discussed above have been adjusted and paid before the end of the month.

Additionally, Rajan observes that the branch has sanctioned 7 fresh advances, aggregating to ₹ 15 crore, within Chief Manager's powers and in conformity with the bank's norms. All these sanctioned advances pertain to the same industry, i.e., jute mills manufacturing jute sacks. He feels that branch's approach is not proper and sanction of 7 advances to the same industry lacks diversity and lending decision of branch is not proper.

Furthermore, during the month, a borrower of branch classified as a “small enterprise” under MSME sector shifted its credit facilities from the branch to a bank in private sector. The branch has levied foreclosure charges on outstanding credit facilities pertaining to borrower by disregarding “Code of Bank’s Commitment to Micro and Small Enterprises”. The borrower is still having a current account with the branch. Reversal of such charges would lead to revenue loss for the branch. He is in a fix as far as reporting is concerned.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. The concurrent auditor wants to ensure that fresh CASA accounts opened in the branch are KYC compliant. Which of the following best sums up the scope of KYC guidelines prescribed by RBI?
 - (a) Such guidelines contain detailed requirements in respect of customer acceptance policy, customer identification procedures, monitoring of transactions and risk management.
 - (b) The basic purpose of such guidelines is to weed out duplicate customers at the same branch.
 - (c) Such guidelines contain detailed requirements for banks to enable them to draw a 360-degree credit profile of the customers by monitoring of transactions. Its primary purpose is assisting banks in making prudent credit decisions.
 - (d) Such guidelines have a basic objective of ensuring credit of Direct benefit transfers (DBT) in accounts of deserving account holders.

2. Is the thinking of CA. Ronit correct, as regards the duty of the concurrent auditor with respect to the dormant deposit accounts in the branch?
 - (a) The thinking of CA. Ronit is correct.
 - (b) The thinking of CA. Ronit is partially incorrect as following up with the account holders to ensure that status of accounts remain active, does not form part of the duty of the concurrent auditor.

- (c) The thinking of CA. Ronit is partially incorrect as examining authorisation for withdrawals, does not form part of the duty of the concurrent auditor.
- (d) The thinking of CA. Ronit is incorrect as all three points mentioned in the above case scenario do not form part of the duty of the concurrent auditor as regards the dormant deposit accounts in the branch.
3. Which of the following statements is most appropriate regarding the sanction of fresh advances to borrowers aggregating to ₹ 15 crore, from the concurrent auditor's perspective?
- (a) Such a lending increases credit risk for branch and needs immediate attention of higher authorities of bank.
- (b) Lending has been made within Chief Manager's powers. It does not fall in concurrent auditor's domain to question wisdom of lending decision conforming to bank norms.
- (c) Although lending has been made within Chief Manager's powers, branch should have reported to higher authorities flagging sanction of fresh advances to same industry. Only this aspect should be reported in concurrent auditor's report.
- (d) Such a lending lacks diversity and needs to be reported without fail.
4. As regards the matter of levying of foreclosure charges described in case scenario, what is appropriate course of action for concurrent auditor?
- (a) The matter should not be reported as it is part of duties of concurrent auditor to safeguard branch's revenue interests.
- (b) The matter should be reported only for its disregard of Code without highlighting revenue impact.
- (c) The matter concerns branch management's decision. It does not fall in purview of concurrent audit.
- (d) The matter should be reported even though it would lead to revenue loss for branch.

5. Which of the following statements is most appropriate as regards reporting of matters relating to temporary over limits in cash credit accounts and temporary overdrafts in current accounts?
- (a) The said instances can be reported in monthly concurrent audit report. However, a discussion is necessary with Chief Manager in this respect.
 - (b) The said instances cannot be reported as these fall in powers of Chief Manager and have been adjusted and paid before the end of the month.
 - (c) The said instances cannot be reported as these fall in powers of Chief Manager.
 - (d) The said instances can be reported in monthly concurrent audit report. No discussion is necessary with Chief Manager in this respect to ensure sanctity of report.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Such guidelines contain detailed requirements in respect of customer acceptance policy, customer identification procedures, monitoring of transactions and risk management.

Reason:

KYC guidelines prescribed by RBI relate to requirements in respect of customer acceptance policy, customer identification procedures, monitoring of transactions and risk management. All other options are wrong regarding the proper scope of KYC guidelines.

2. **Option (b)** The thinking of CA. Ronit is partially incorrect as following up with the account holders to ensure that status of accounts remain active, does not form part of the duty of the concurrent auditor.

Reason:

It is not responsibility of the concurrent auditor to follow up with account holders to ensure active status of accounts. It has to be done at the level of bank staff.

3. **Option (b)** Lending has been made within Chief Manager's powers. It does not fall in concurrent auditor's domain to question wisdom of lending decision conforming to bank norms.

Reason:

It is outside the scope of concurrent auditor's duties to question lending decisions which conform to bank norms. However, in case such decisions do not conform to system/procedure laid down by bank, he is bound to point out lapses.

4. **Option (d)** The matter should be reported even though it would lead to revenue loss for branch.

Reason:

It is responsibility of concurrent auditor to ensure that necessary charges levied are proper in accordance with bank's manuals/guidelines. It is immaterial whether it leads to revenue loss for the branch. Adherence to bank's guidelines is necessary.

5. **Option (a)** The said instances can be reported in monthly concurrent audit report. However, a discussion is necessary with Chief Manager in this respect.

Reason:

The matter of granting of temporary over limits and overdrafts can be reported in monthly concurrent audit report. It is necessary that such matters are brought to the attention of controlling authorities although such temporary facilities may have been adjusted. It is responsibility of concurrent auditor to discuss issues in monthly concurrent audit report with Chief Manager to have branch perspective on the matters highlighted in the report.

CASE SCENARIO 53

CA. Ananya is statutory auditor of “*Vikas Finance Limited*”, a micro finance institution, pre-dominantly operating in Uttarakhand, Bihar, Chhattisgarh, and Gujarat. It is a non-deposit taking NBFC catering to credit requirements of rural and semi-urban households and provides small ticket loans. She has performed audit procedures for the year 2023-24 and following further information is given as under:-

- (A) The Board of Directors of the company has passed a resolution in its meeting held on 25th May 2023 for non-acceptance of public deposits during year ended 31st March, 2024.
- (B) Audit procedures performed by her included testing design and operating effectiveness of controls relating to allowances for loan losses using Expected Credit Loss Model (ECL) in accordance with Ind-AS 109. Tests of details performed by her included verifying assumptions affecting ECL calculations.
- (C) The company has obtained certificate of registration dated 20th April, 2013 from RBI in pursuance of section 45-IA of RBI Act, 1934 and it is entitled to hold such certificate of registration in terms of its financial assets/income pattern for year ended 31st March, 2024.
- (D) It falls in middle layer of scale-based regulations and regulations for a systemically important non-deposit taking NBFC are applicable to it. Its capital adequacy ratio is stated in note 37 of financial statements.
- (E) The company has identified instances of cash embezzlement by the employees during the year. Such instances relate to employees fleeing after collection of instalments from customers at some centres. The total amount involved is ₹35 lacs and ₹ 10 lacs have been recovered subsequently. The matter has also been reported in note 36 of financial statements.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. The Board of Directors has passed a resolution as mentioned in para (A). Which of the following statement is most appropriate as regards reporting obligations of auditor are concerned?
 - (a) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company.
 - (b) Passing of board resolution for non-acceptance of public deposits, being an internal governance matter, is not required to be reported by auditor.
 - (c) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement for auditor under CARO, 2020.
 - (d) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020.

2. The auditor has performed audit procedures relating to allowances as mentioned in para (B). As these allowances involve significant judgment and estimates, she wants to state how it was addressed by her. How can she do that?
 - (a) By stating it in Auditor's additional report to Board of Directors.
 - (b) By identifying it as Key Audit Matter in Independent auditor's report.
 - (c) By incorporating Emphasis of Matter Paragraph in Independent auditor's report.
 - (d) By stating it in matters as required under Section 143(3) of the Companies Act.

3. Which of the following statements is most appropriate in respect of reporting requirements relating to certificate of registration of the company obtained from RBI as described in the above case?

- (a) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of the RBI Act, 1934 in auditor's additional report to the Board of Directors of the company.
 - (b) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of the RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020.
 - (c) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of the RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020. Further, it is also required to be reported in auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its financial assets/income pattern.
 - (d) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of the RBI Act, 1934 and under CARO, 2020.
4. As regards description of capital adequacy ratio as described in the case, which of the following statements meets regulatory reporting requirements?
- (a) Auditor has to ascertain and verify whether such ratio has been disclosed in financial statements in notes to accounts.
 - (b) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at.
 - (c) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI.
 - (d) Auditor has to ascertain and verify whether such ratio has been disclosed in financial statements in notes to accounts and has been correctly arrived at and is in compliance with minimum CRAR prescribed by RBI.

5. Regarding instances of cash embezzlement identified by the company during the year, which of the following statements best fits into the reporting requirements of an auditor?
- (a) Such instances are required to be reported under CARO, 2020 as well as in auditor's additional report to Board of Directors of company.
 - (b) Such instances are required to be reported under CARO, 2020 under relevant clause.
 - (c) Cash embezzled amount is less than ₹1 crore. No reporting under CARO, 2020 is required of such instances.
 - (d) Such instances are to be specifically reported in auditor's report under Section 143(3) of the Companies Act, 2013.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company.

Reason:

The company is a non-deposit taking NBFC. Matter of passing of board resolution for non-acceptance of deposits is a specific reporting requirement in auditor's additional report to BOD under RBI directions for such type of companies.

2. **Option (b)** By identifying it as Key Audit Matter in independent auditor's report.

Reason:

In accordance with requirements of SA 701, description of key audit matters includes how matter was addressed. Therefore, an auditor can include such matter under Key audit matters, and it would serve her purpose of addressing issue identified.

3. **Option (c)** It is the duty of the auditor to report whether the company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020. Further, it is also required to be reported in the auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its financial assets/income pattern.

Reason:

Requirements contained in this option are in accordance with relevant matters to be stated in the additional report to the Board of Directors and CARO, 2020.

4. **Option (c)** Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI.

Reason:

In respect of systemically important non-deposit taking NBFC, auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI. The matter is required to be reported in accordance with RBI directions.

5. **Option (b)** Such instances are required to be reported under CARO, 2020 under relevant clause.

Reason:

The company has noticed incidents of cash embezzlement during the year. Under clause (xi)(a) of CARO, 2020, it is required to be reported by auditor whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated. Fraud also includes misappropriation of assets. It involves theft of an entity's assets and may be perpetrated by employees like embezzling receipts. The subsequent recovery does not erase the fraud committed earlier.

CASE SCENARIO 54

Kochhar & Associates are refreshing up their knowledge on functions of various Parliamentary financial committees and on the varied functions and duties of Comptroller & Auditor General of India in relation to audits of government institutions and government companies. They recognize that a thorough understanding of the C&AG's responsibilities is essential for conducting audits effectively in this sector.

To enhance their knowledge, they have reviewed various resources, both online and offline, including the official C&AG website. Below is a summary of key insights drawn from their research:

- [A] In one of its reports, the C&AG, in respect of a state government owned industrial development corporation, pointed out non-adherence of One-time settlement (OTS) guidelines of state government by the corporation resulting in acceptance of a below par OTS proposal thus foregoing recovery of loan amounting to ₹ 8.52 crores. The said corporation was providing loans to industrial units.
- [B] Another C&AG report for a particular year contained results of the compliance audit of Department of Revenue-Direct Taxes of the Union Government dealing with "Assessments relating to Agricultural Income". It included certain observations relating to allowing claim for exemption of agricultural income without supporting documents, use of this area by non-agriculturists as a conduit to avoid taxes etc., in scrutiny assessments performed by the Department.
- [C] In another case, the state government owned PSU was involved in construction of a thermal power plant in the state. C&AG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out.

[D] Finally, Kochhar & Associates reviewed annual report of a listed public sector company which is a "mini-ratna" PSU, engaged in providing diversified services to Indian Railways.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Considering the description stated in para [A] of the case, the above audit finding is likely to fall in which areas?
 - (a) Propriety audit.
 - (b) Comprehensive audit.
 - (c) Compliance audit
 - (d) Performance audit.

2. In para [B] of the case, which Parliamentary Financial Committee is likely to examine above report of C&AG and make its recommendations?
 - (a) Committee on Public Undertakings.
 - (b) Estimates Committee.
 - (c) Public Accounts Committee.
 - (d) Committee on Commerce.

3. Considering the nature of audit finding in the case concerning delay in completion of work of thermal power plant, the said audit finding is likely to fall in domain of:
 - (a) Performance audit.
 - (b) Propriety audit.
 - (c) Financial audit.
 - (d) Compliance audit.

4. Which of the following statements is most appropriate with regard to the listed PSU, stated in para [D]?

- (a) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by C&AG. Further, C&AG can give directions to the firm of auditors.
 - (b) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. C&AG cannot give directions to such firm of auditors. However, its office is empowered to conduct a supplementary audit.
 - (c) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. However, C&AG can give directions to the firm of auditors.
 - (d) The statutory audit of above PSU is to be conducted by C&AG.
5. PSU engagements are generally attestation engagements or direct reporting engagements. Which of the following statements is correct in this regard?
- (a) Performance audit is a direct reporting engagement whereas compliance audit is an attestation engagement.
 - (b) Performance audit is an attestation engagement whereas compliance audit is a direct reporting engagement.
 - (c) Performance audits and compliance audits are generally direct reporting engagements.
 - (d) Performance audits and compliance audits are generally attestation engagements.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c) Compliance audit

Reason:

The C & AG in its report has pointed out non-adherence to OTS guidelines. Compliance audit is also concerned with regularity i.e. adherence of subject matter to formal criteria emanating from relevant rules, regulations and agreements applicable to the entity.

2. **Option (c)** Public Accounts Committee.

Reason:

The Public Accounts Committee examines various aspects of Government's tax administration. The Committee examines cases involving under-assessments, tax evasion, misclassifications, etc. and identifies loopholes in taxation laws and procedures.

3. **Option (a)** Performance audit.

Reason:

The C&AG's report on the state government owned PSU highlights delay in work of completion of thermal power plant. The said audit finding falls in domain of performance audit as performance audit addresses the issues of economy, efficiency and effectiveness.

4. **Option (a)** The statutory audit of above PSU is to be conducted by a firm of auditors appointed by C&AG. Further, C&AG can give directions to the firm of auditors.

Reason:

Under provisions of the Companies Act, 2013, statutory audit of PSU is conducted by firm of auditors appointed by C & AG. Further, directions can also be given by C& AG.

5. **Option (c)** Performance audits and compliance audits are generally direct reporting engagements.

Reason:

In direct reporting engagements, it is the auditor who measures or evaluates subject matter against the criteria. Performance audit is an examination of evidence for purpose of providing independent assessment of a Government organization, service, program, activity or function usually carried out by C&AG. Compliance audit is also independent assessment whether a given subject matter is in compliance with applicable criteria. In both cases, auditor measures or evaluates subject matter against the criteria.

CASE SCENARIO 55

ABC Ltd. is in the business of trading garments. Within a span of five years since its incorporation, the company has gained a good market reputation. Last year, in its Kochi warehouse the inventory was less than 1% of total inventory value, so the auditor instead of witnessing or performing the physical count of inventory relied upon the management's inventory confirmation and management in turn relied upon the warehouse keeper's stock register without verifying the actual count. The same year there was some difference between the store register and books of accounts closing balance. The management considered it to be an immaterial amount and wrote it off through "Miscellaneous Profit and Loss Account".

In the current year, while performing analytical procedure, the auditor saw a significant reduction in sales through Kochi warehouse, whereas there was a spike in freight charges to Kochi. Through further examination, the auditor noticed that there was increase in number of shipments to Kochi and increase in number of invoice cancellation instances and sales return instances from the customers of GST unregistered category. However, this year the inventory lying at Kochi is 4.5% as per books.

The Auditor enquired on the periodicity of physical verification and sales process through Kochi warehouse. The management gave the following response to the auditor:

1. The physical verification takes place every six months and the warehouse keeper is responsible for physical verification and sending records back to the head office.
2. Because of low operations in past years the warehouse keeper himself takes care of invoicing and dispatching the goods.
3. Monthly invoice details along with the monthly stock register is sent to the head office.
4. Further, this year too there is a substantial difference among inventory as per books, inventory as per stock register and inventory as per physical verification in descending order.

The auditor decided to visit the Kochi warehouse and conduct the root cause analysis and get the correct closing value of the inventory. After the visit, the auditor concluded that the warehouse keeper was issuing the stocks with invoices, however on the sales return the credit notes were issued to various customers, and the entry was made in the stock register of "Goods received on sales return" but physically the goods were never returned. The auditor also doubts that the same instance might have happened last year as well because of which there was a difference between physical stock and the books. On this information, the management has asked the auditor why this was not brought to notice last year and whether the audit was not conducted properly then. To this, the auditor contended that last year the inventory was not in the sampling materiality level.

Further, a consultant was appointed by the management for the overview of internal controls with regard to verification of inventory and for suggesting recommendations

Based on the above facts, answer the following Questions

MULTIPLE CHOICE QUESTIONS

1. Which according to you is the correct statement in context of the aforesaid case scenario?
 - (a) Only the errors can be expected to be identified during the audit.
 - (b) Only the statutory compliance can be expected out of a Statutory Audit.
 - (c) The auditor contends that last year the inventory levels in Kochi were not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk.
 - (d) The management is of the view that all the frauds and errors must be identified by the statutory auditor.

2. Which components of audit risks are represented in the aforesaid scenario?

- (a) Inherent Risk & Control Risk – Inherent risk due to its nature of business or operations and Control risk due to inappropriate design and ineffective implementation of internal controls.
 - (b) Control Risk & Detection risk- Control risk due to inappropriate design and ineffective implementation of internal controls and detection risk due to possibility of auditor not identifying risk of misstatement.
 - (c) Fraud risk due to nature and size of operations and high likelihood of fraud due to its significance.
 - (d) Risk of Error because there was an error in the presentation in the financial statement last year.
3. Which Internal Control seems to have been compromised as the root cause here?
- (a) Lack in safeguarding the assets of company.
 - (b) Lapse in compliance controls leading to non-compliance of sharing inventory level with the GST department.
 - (c) Segregation of Duty.
 - (d) Inadequate records and documents leading to non-recording of correct inventory value.
4. Which Segregation of Duties aspect seems to have been compromised here?
- (a) Authorization, Execution & Record keeping.
 - (b) Authorization, Execution & Custodian.
 - (c) Execution, Custodian & Record keeping.
 - (d) Custodian, Record keeping & Authorization.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** The Auditor contends that last year the inventory levels in Kochi were not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk.

Reason:

This is a detection risk, which is a part of Audit Risk and was unidentified because it was not considered material.

- 2. Option (b)** Control Risk & Detection risk- Control risk due to inappropriate design and ineffective implementation of internal controls and detection risk due to possibility of auditor not identifying risk of misstatement.

Reason:

Internal Controls could not ensure prevention of these instances, i.e., Control Risk and Auditor could not detect because of out of scope sampling, i.e., Detection Risk.

- 3. Option (c)** Segregation of Duty.

Reason:

Segregation of Duty as no one person should carry through the completion of transaction from start to finish. In the present case, the warehouse keeper is responsible for physical verification of stocks at warehouse and for invoicing and dispatching the goods from warehouse which implies there is no segregation of duty.

- 4. Option (c)** Execution, Custodian & Record keeping.

Reason:

The storekeeper was executing the sales, keeping custody of the goods in the warehouse and keeping the store records as well.

CASE SCENARIO 56

Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2024. Total deposits of the bank on 31.03.2024 w ₹ 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2023-24 are PK & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances noticed the following:

- (a) The advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue since November 2023.
- (b) As on 20.04.2024, the ad hoc limit of account of Mr. Y has not been reviewed even though 120 days of date of ad hoc sanction were over.

The above advances have been granted by Meerut Branch. However, this branch is not subject to Concurrent Audit.

The Bank has also granted Term Loan of ₹ 20 crore to Samarth Ltd (An Unlisted Company) on 01.02.2024. The sanction letter read as follows:

"The Facility shall be used for Repayment of Unsecured Loans of Promoters – ₹ 10 crore and towards development & construction expenses (Other than Land Cost) of the company's new office to be situated in Faridabad, Haryana – ₹ 10 crore".

The company has utilized the facility as follows as on 31st March 2024:

- (i) Land Purchased for New Office: ₹ 4 crore.
- (ii) Development and Construction Expenses of New Office: ₹ 11 crore.
- (iii) Repayment of Unsecured Loans of Promoters: ₹ 3 crore.
- (iv) Investment in Fixed Deposit: ₹ 2 crore (Temporarily).

Company's Total Borrowings from all Banks as on 31st March 2024 is ₹ 60 crore.

Royal Bank of India is the parent organization (100% Holding) of Royal General Insurance Co. Ltd. The Statutory auditors of Royal General Insurance are AK &

Co., Chartered Accountants (Firm based in Mumbai). Brief financial information is as under as on 31st March 2024:

- Value of Assets: ₹ 700 crore.
- Amount of Liabilities: ₹ 415 crore.
- Capital: ₹ 200 crore.

Mr. P (Partner in PK & Associates) also acts as Surveyors and Loss Assessors under the Insurance Act, 1938. However, he has not intimated or taken permission from the Council of the Institute of Chartered Accountants of India.

AK and Co., have not included a report on CARO in their statutory auditor report for FY 2023-24 for Royal General Insurance Co. Ltd.

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

- 1 As statutory auditor of Samarth Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained?
 - (a) ₹ 4 crore.
 - (b) ₹ 5 crore.
 - (c) ₹ 7 crore.
 - (d) ₹ 2 crore.
- 2 As an audit manager of the firm, advice which advance(s) shall be classified as Non-Performing Asset?
 - (a) Mr. X.
 - (b) Mr. Y.
 - (c) Both Mr. X and Mr. Y.
 - (d) Neither Mr. X nor Mr. Y.

- 3 Whether the acting of Mr. P as a Surveyor and Loss Assessor is in violation of Clause 11 of Part 1 of First Schedule of the Chartered Accountants Act, 1949?
- (a) Yes, as specific permission from the Council shall be required.
 - (b) No, as general permission from the council has been granted.
 - (c) No, as specific permission from the council can be obtained at any point of time.
 - (d) Yes, as general permission is not granted for above occupation.
4. Whether AK & Co. is correct in not including a report on CARO in their Statutory Auditor Report?
- (a) Yes, since CARO is not be applicable to insurance companies.
 - (b) No, since CARO is applicable to public companies.
 - (c) No, since CARO is applicable in case of wholly owned subsidiary company.
 - (d) No, since CARO is applicable to insurance companies.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 7 crore.

Reason:

As per clause (ix) (c) of Paragraph 3 of CARO,2020, the auditor is required to report whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;

Amount not utilised for purpose or diverted includes:

Land Purchased for New Office: ₹ 4 crore;

Development and construction Expenses of New Office: ₹ 1 crore;

Investment in Fixed Deposit: ₹ 2 crore.

2. Option (a) Mr. X.

Reason:

State Government Guaranteed advances are to be considered NPA if it remains overdue for more than 90 days.

3. Option (b) No, as general permission from the council has been granted.

Reason:

Members of the Institute in practice is generally permitted to Act as Surveyor and Loss Assessor under the Insurance Act, 1938 provided they are otherwise eligible.

4. Option (a) Yes, since CARO is not applicable to insurance companies.

Reason:

CARO, 2020 specifically exempts an insurance company as defined under the Insurance Act,1938 (4 of 1938);

CASE SCENARIO 57

Papa Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2023-24. After making sure that all of them are qualified to be appointed as statutory auditors of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year, Papa Limited has acquired another bank called Baby Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 2 crore, determination of amount of minority interest of ₹ 50 lakh and some intra-group transaction adjustment of ₹ 15 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of ₹ 30 lakh.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of financial year. Mr. Das with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	6 th	Thursday
May	6 th	Saturday
June	9 th	Friday

July	28 th	Friday
August	28 th	Monday
September	5 th	Tuesday
October	27 th	Friday
November	5 th	Sunday
December	5 th	Tuesday
January	7 th	Sunday
February	5 th	Monday
March	3 rd	Sunday

Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31st March 2024, total liability stood at ₹ 200 crore. It includes Margin held for funded facilities of ₹ 3 crore, credit balance for one branch of ₹ 4 crore, adverse balance of Nostro Mirror Account of ₹ 2 crore and unadjusted deposit for agency business of ₹ 6 crore.

Wife of CA Das was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of Papa Limited of ₹ 100 each for ₹ 15,00,000. All the required communication were made among the joint auditors, and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued, which was signed by all three joint auditors.

Based on the above facts, answer the following:

1. Which of the following statement is true as per given situation?
 - (a) For giving the effect of merger, permanent consolidation adjustment of ₹ 250 lakh and current period consolidation adjustment of ₹ 45 lakh was made.
 - (b) For giving the effect of merger, permanent consolidation adjustment of ₹ 280 lakh and current period consolidation adjustment of ₹ 15 lakh was made.
 - (c) For giving the effect of merger permanent consolidation adjustment of ₹ 295 lakh.

- (d) For giving the effect of merger, permanent consolidation adjustment of ₹ 265 lakh and current period consolidation adjustment of ₹ 30 lakh was made.
2. List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?
- (a) January, February and March.
- (b) July, August and October.
- (c) June, July and October.
- (d) May and November.
3. While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March?
- (a) ₹ 191 crore.
- (b) ₹ 200 crore.
- (c) ₹ 197 crore.
- (d) ₹ 185 crore.
4. Will CA Das be held guilty of professional misconduct after his wife purchased 100 shares for ₹ 15,00,000?
- (a) Mr. Das will be held guilty for professional misconduct as he is disqualified as an auditor of Papa Limited, since his relative owns shares of more than ₹ 100,000 market value.
- (b) Mr. Das will not be held guilty for professional misconduct as he is not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 20,00,000 market value.
- (c) Mr. Das will not be held guilty for professional misconduct as he is not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value.
- (d) Mr. Das will be held guilty for professional misconduct as he is disqualified as an auditor of Papa Limited, as his relative owns shares in Papa limited irrespective of amount of investment.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** For giving the effect of merger, permanent consolidation adjustment of ₹ 250 lakh and current period consolidation adjustment of ₹ 45 lakh was made.

Reason:

Permanent consolidation adjustments are:

- (a) Determination of goodwill or capital reserve as per applicable accounting standards.
- (b) Determination of amount of equity attributable to minority/ non-controlling interests.

Current period consolidation adjustments primarily relate to the elimination of intra-group transactions and account balances including adjustments related to harmonising the different accounting policies being followed by the parent and its components.

2. **Option (c)** June, July and October.

Reason:

The Reserve Bank of India requires statutory central auditors of banks to verify the compliance with SLR requirements of 12 odd dates in different months of a fiscal year not being Fridays.

3. **Option (a)** ₹ 191 crore.

Reason:

While examining the computation of DTL, specifically items that have been excluded from liabilities as per RBI guidelines are:

- Margins held and kept in sundry deposits for funded facilities.
- Un-adjusted deposits/balances lying in link branches for agency business.

Items that have been included in liabilities are:

Net credit balance in branch adjustment accounts.

The reconciliation of Nostro accounts (with Nostro Mirror Accounts).

Thus, ₹ 200-₹ 3-₹ 6= ₹ 191 crore.

4. **Option (c)** Mr. Das will not be held guilty for professional misconduct as he is not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value.

Reason:

Section 141(3)(d) (i) of the Companies Act, 2013, read with Rule 10 of Companies (Audit and Auditors) Rules, 2014 bars a person from being auditor of a Company, if his relative holds security or interest in the Company, or its subsidiary, or holding or associate company or a subsidiary of such holding Company of face value exceeding rupees One Lakh.

CASE SCENARIO 58

Tom Ltd. is in to the business of manufacturing and distributing of Toys for the past 25 years. Since inception, the company has its own in-house dedicated internal audit department, having team of competent & qualified chartered accountants, headed by the Chief Internal Auditor, who with systematic and disciplined approach monitors various Internal Controls laid down at all levels of the functional areas. M/s Deva & Co., Chartered Accountants, have been newly appointed as the statutory auditors of the company for the F.Y. 2024-25.

- M/s Deva & Co. want to use the work of the internal audit function in respect of testing of the operating effectiveness of controls and in respect of substantive procedures involving limited judgement. Due to time constraints and the extensive scope of statutory audit, M/s Deva & Co. want to take direct assistance of internal auditors in the areas of Physical verification of fixed assets, inventory verification and Goodwill impairment assessment. Accordingly, M/s Deva & Co. are in the process of determining in which areas and to what extent internal auditors can be used and in which areas statutory auditors shall not use internal auditors to provide direct assistance to perform procedures.
- M/s Deva & Co. during the course of identifying and assessing the risks of material misstatement through understanding the entity and its environment and during the course of performing the audit procedures finds that the company is holding significant bank accounts and having branch operations in tax-haven jurisdictions for which there appears to be no clear business justification. Also, there were significant related party transactions which do not appear to be in the normal course of business.
- The audit report of Tom Ltd. for the last F.Y. 2023-24, audited by predecessor auditor, contained a qualification regarding non provision of doubtful debts. In F.Y. 2024-25 also, the company does not want to make provision for doubtful debts. The statutory auditors, M/s Deva & Co., in their auditor's report on the current period's financial statements want to report the same.

- Pursuant to the reporting requirements under CARO, 2020 in respect of the company's regularity in depositing undisputed arrears of outstanding statutory dues to the appropriate authorities, M/s Deva & Co. are considering to take a view on the following issue observed during the audit of Tom Ltd.

The company in view of voluminous pay roll data consistently follows the method of making lump sum deposit of estimated amount of ESI collections and adjust the excess or deficit against next following months' deposit and the difference of the said amount always remains insignificant.

Based on the above facts, answer the following Questions:

MULTIPLE CHOICE QUESTIONS

1. M/s Deva & Co., in their auditor's report on the current period's financial statements, wants to report that Tom Ltd. does not want to make provision for doubtful debts in F.Y. 2024-25. Identify the correct action to be resorted out of the following:
 - (a) As per SA 710, can modify their report for previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
 - (b) As per SA 710, can modify their report for current year's figures of financial statements but need not refer to the previous year's modification.
 - (c) As per SA 710, will have to modify their report for both current and previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
 - (d) As per SA 710, cannot modify their report but need to refer to the earlier year's modification.
2. M/s Deva & Co. assigned the following procedures to internal auditors to provide direct assistance.

- (i) that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited.
- (ii) that relate to work with which the internal auditors have been involved, and which will not be reported to management or those charged with governance by the internal audit function.
- (iii) that relate to decisions the statutory auditor makes in accordance with SA.

From the above, identify the appropriate procedure(s) that can be assigned to internal auditors:

- (a) (i), (ii), (iii)
 - (b) (ii) only
 - (c) (ii) & (iii)
 - (d) (iii) only
3. Issue identified by Deva & Co., with regard to holding significant bank accounts and having branch operations in tax-haven jurisdictions and significant related party transactions is a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?
- (a) The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting.
 - (b) The risk factor creates an incentive /pressure for the fraud and results in a misstatement due to misappropriation of assets.
 - (c) The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to fraudulent financial reporting.
 - (d) The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to misappropriation of assets
4. Out of the following which view of M/s Deva & Co. is the correct one for complying the reporting requirement under CARO, 2020 as regards lump-sum deposit of estimated ESI collections and its adjustment against next months' deposit leaving the insignificant difference of ESI amount?

- (a) the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported.
- (b) depositing of ESI collections and the arrears of ESI dues cannot be considered as statutory dues under CARO, 2020 and hence not to be reported.
- (c) lumpsum deposit of estimated ESI amount and adjusting excess/deficit against following months' deposit shall be considered as dues payable and hence to be reported under CARO, 2020.
- (d) even though the difference between the total dues of ESI and lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited and hence to be reported under CARO, 2020.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** As per SA 710, will have to modify their report for both current and previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.

Reason:

SA 710 states that if the auditor's report on the prior period, as previously issued, included a qualified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.

2. **Option (b)** (ii) only

Reason:

As per SA 610, the external auditor shall not use internal auditors to provide direct assistance to perform procedures that:

- (i) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
- (ii) Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

- 3. Option (c)** The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to fraudulent financial reporting.

Reason:

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.

- 4. Option (a)** the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported.

Reason:

As per clause (vii) (a) of Paragraph 3 of CARO,2020, the auditor is required to report whether the company is regular in depositing undisputed statutory dues including employees' state insurance.

Since the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported.

CASE SCENARIO 59

XYZ & Associates LLP, is a firm of Chartered Accountants, consisting of 12 partners has been allotted Central statutory audit of Maha Bank Limited, a scheduled commercial bank.

- (i) As a part of the scope, the audit firm has been asked to find out the correct position of Demand and Time liabilities of Maha Bank.

DTL balance as on 30th September 2024 was ₹ 50,000 Crore which included the following-

	₹ in Crore
(i) Paid up capital	27,000
(ii) Reserves	1,650
(iii) Credit balance in Profit & Loss account	1,210
(iv) Loan taken from RBI	575
(v) Refinance taken from EXIM bank and NHB	480
(vi) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii) Net credit balance in branch adjustment accounts	105
(viii) Interest accrued but not accounted for in books	90
(ix) Margins held and kept in sundry deposits for funded facilities	80

- (ii) During the FY 2024-25, XYZ & Associates LLP is appointed as Statutory auditors of APP Ltd., an NBFC, which was set up under the Companies Act, 2013 and got itself registered as non-banking financial company (NBFC) with the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31st March 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification and regulation like Capital requirements, Government standards, Prudential regulations, etc. based

on four layers that are defined based on their size, activity and perceived riskiness.

During the FY 2024-25 APP Ltd. has accepted deposits of ₹ 900 Crore, while its asset size is ₹ 990 Crore. It has also undertaken following activities-

- (i) Standalone Primary Dealers (SPDs)
- (ii) Infrastructure Debt Fund
- (iii) Housing Finance
- (iv) Infrastructure Finance

The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit checklist.

- (iii) XYZ & Associates LLP has been appointed as auditors of Heavy Electricals Corporation, a Public Sector Undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time schedule, well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.

On the basis of above details, you are required to answer the following questions.

MULTIPLE CHOICE QUESTIONS

1. Keeping in view of the information in para (ii), Identify under which layer APP Ltd. will be categorised -
 - (a) Top Layer
 - (b) Upper Layer

- (c) Middle Layer
 - (d) Base Layer
2. Based on facts given in para (i), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30th September 2024.
- (a) ₹ 18,000 crore
 - (b) ₹ 19,360 crore
 - (c) ₹ 18,790 crore
 - (d) ₹ 18,880 crore
3. Keeping in view of the information in para (iii), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM)
- (a) Audit programme
 - (b) Evidence
 - (c) Audit Questions
 - (d) Data collection and Analysis Method

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Middle Layer

Reason:

The Middle Layer shall consist of all deposit taking NBFCs (NBFC-Ds), irrespective of asset size. Thus, APP Ltd. will be categorised under Middle Layer.

2. **Option (d)** ₹ 18,880 crore

Reason:

While examining the computation of DTL, items that have been excluded from liabilities as per RBI guidelines are:

- Paid up capital, reserve, any credit balance in Profit and Loss Account of the bank, amount of any loan taken from the RBI and amount of refinance taken from EXIM Bank, NHB, NABARD, SIDBI.
- Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.
- Margins held and kept in sundry deposits for funded facilities.

Items that have been included in liabilities as per RBI guidelines are Net credit balance in branch adjustment accounts and Interest accrued but not accounted for in books.

Therefore: 50,000 - 27,000 - 1650 - 1210-575 - 480 - 125 - 80 = ₹ 18,880.

3. Option (a) Audit programme

Reason:

A specimen of ADM includes:

- Audit Objective
- Audit Questions
- Audit Criteria
- Evidence
- Data Collection and Analysis Method

Thus, Audit programme is not a part of ADM.

CASE SCENARIO 60

Arpan Films Ltd. is a distributor of movies in the state of West Bengal. The company has a significant interest in other operating segments and operates through multiple subsidiaries. At the consolidated level, major operating segments comprise of movie distribution, selling tea from self-owned tea gardens at Assam, real estate development for commercial purposes and investment in start-up entities. The Group was founded jointly by Mr. Rishu (the Group Managing Director) and Mr. Prashant, an old confidant of Mr. Rishu.

Unfortunately, Mr. Rishu met with an accident and expired. His untimely death rattled the entire Group and disrupted the business operations of the Group. The Board of the Parent Company decided to induct his son – Mr. Vishu – as the Managing Director of the Parent Company and the Group. The appointment of Mr. Vishu enraged Mr. Prashant, and he filed an application of oppression of mismanagement with the National Company Law Tribunal alleging various wrongdoings, including inappropriate related party transactions, siphoning off funds through connected entities and manipulation of financial statements. Considering the gravity of the allegations, the existing auditor of the Parent Company tendered his resignation. The Board appointed Shubh and Laabh LLP as the new auditors. Shubh and Laabh LLP informed the previous auditor over the phone and accepted the appointment.

After 5 months, Shubh and Laabh LLP sent an email to the previous auditor as a professional courtesy stating that the appointment was for the auditor. The previous auditor replied by stating 'Received'.

To deal with these allegations, the Board of the Parent Company initiated a forensic investigation covering all the major operating segments through an independent professional services firm. The conclusion of the investigation significantly delayed the submission of financial statements for the current year of the Parent Company. The outcome of the forensic investigation included the following:

Matter 1: Neel Ltd.- a subsidiary, is the real estate arm of the Group and has significant receivables from various Partnership Firms/ LLPs. The investigation revealed that these advances, which have been outstanding for more than a decade, were given for the purchase of land. Further, the identity of these entities could not be traced as no PAN/ GST details were available with the subsidiary company. Any attempt to contact these entities proved futile.

It was also noted that the auditors of Neel Ltd. had already completed the audit under the Companies Act 2013. Hemant and Manna LLP - the auditor of Neel Ltd. – informed the investigator that, in their view, the allegations do not affect the financial statements of Neel Ltd. and accordingly have issued an unmodified audit opinion on the financial statements of the current year. The financial statements and the audit report were adopted by the shareholders in the AGM.

Matter 2: Arpan Films Ltd. - the parent company historically purchases music rights from Sangeet Ltd., which is approximately INR 20 crores per annum. Sangeet Ltd. is controlled by Mr. Prashant. At the beginning of the current year, an advance of INR 50 crores was given to Sangeet Ltd. for the purchase of music rights. Any amount remaining unadjusted would be repaid over a period of 5 years. The advance amount is highly disproportionate to the expected purchase amount to be made, and the credit period is not in line with normal credit terms. The investigation revealed that the advance was given to provide financial support to Sangeet Ltd. as it was undergoing financial distress. As of the end of the year, ₹ 30 crores remained unadjusted. No interest was charged in the unadjusted amount.

Matter 3: Assam Tea is a cash-generating unit of Teacup Ltd., a subsidiary company. The unit generates negative cash flow and is expected to do so in the future. Accordingly, it should have been impaired. However, the cash flow projection was fabricated to avoid recognition of impairment expenses in the previous years.

There was a disagreement between the subsidiary management and its auditor. The auditor in the audit report under the Companies Act 2013 issued a qualified opinion stating that impairment loss was under-recorded. From the context, the consolidated financial statements understatement of impairment expense would reduce the consolidated:

- Net Profit by 1%
- Total assets by 0.5%
- Net worth by 2%

Based on the above facts, answer the following:

MULTIPLE CHOICE QUESTIONS

1. Is Shubh and Laabh LLP guilty of professional misconduct for accepting the audit of Arpan Films Ltd.?
 - (a) Yes, Shubh and Laabh LLP are guilty of professional misconduct. The email response of the previous auditor does not include reasons for their resignation.
 - (b) Yes, Shubh and Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh and Laabh LLP should have intimated its appointment as auditor to the previous auditor through registered post (instead of sending an email).
 - (c) Yes, Shubh and Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh and Laabh LLP should not have intimated its appointment by telephone.
 - (d) Yes, Shubh and Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh and Laabh LLP should have communicated to the predecessor auditor via email before accepting appointment.
2. Since the subsidiary Neel Ltd. was already audited by other auditor, whether Shubh and Laabh LLP have to compulsorily rely on the financial statements/ audit report of the auditor of Neel Ltd. while auditing the consolidated financial statements?
 - (a) Yes. Under SA 600, it is compulsory for every principal auditor to rely solely on the audited financial statements of every group company.
 - (b) No. Principal auditor is not compelled to use the work of the other auditor. SA 600 requires the principal auditor to assess the

appropriateness of component auditor's work prior to placing reliance on such work.

- (c) Yes. The principal auditor is not the statutory auditor of the component. Hence, the principal auditor has no option but to rely on the audited financial statements of the subsidiary company.
 - (d) No. The subsidiary company was audited under the provisions of the Companies Act, 2013 and not for the purpose of preparing consolidated financial statements.
3. Management of Arpan Films (Parent Company) reconciled its balances with the customers and vendors at an interim period. Shubh and Laabh LLP also decided to send independent requests to the customers and vendors to confirm their balances as of the year's end. With the risk of material misstatement assessed to be low, the top 15 parties, comprising 5% of customers and 7% of vendors, were selected to obtain external confirmations. Is the sampling strategy appropriate?
- (a) Inappropriate. Sample size appears to be insufficient. Method of sample selection does not allow each item in the population a chance of selection.
 - (b) Inappropriate. Sampling method is judgmental and not statistical based.
 - (c) Inappropriate. Considering the underlying audit risk, external confirmation from all customers and vendors should have been obtained.
 - (d) Inappropriate. Rely on confirmations obtained by management and perform roll-forward procedures to arrive at the year-end balance.
4. Would the advance for purchasing music rights to the extent remaining unadjusted as at the year-end (i.e. INR 30 crores) require reporting under Clause 3(iii) of CARO 2020 (i.e. grant of loans, etc.)?
- (a) No. Advance for purchase of goods is not a loan/ advance in the nature of loans. Thus, it is not covered under the above clause.

- (b) No. In the absence of interest charges, the advance would neither qualify as a loan nor be an advance in the nature of a loan. Thus, it is not covered under the above clause.
 - (c) Yes. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan.
 - (d) Yes. Advance for purchase of goods is covered under the above clause.
5. Shubh and Laabh LLP considered the qualification of the auditor of Teacup Ltd. They conclude that the audit opinion on the consolidated financial statements of the Group should be:
- (a) Unmodified as the effect of misstatement is not material to the Group.
 - (b) Unmodified as the effect of misstatement is not material. However, the subsidiary auditor's issued qualified opinion should be highlighted in the audit report through an Emphasis of Matter paragraph.
 - (c) Qualified as the subsidiary auditor has issued a qualified opinion.
 - (d) Qualified to the extent it relates to the subsidiary and unmodified to the extent it relates to the remaining part of the Group.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** Yes, Shubh and Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh and Laabh LLP should have communicated to the predecessor auditor via email before accepting appointment.

Reason:

As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice cannot accept a position as auditor previously held by another Chartered Accountant without first communicating with him in writing.

2. **Option (b)** No. Principal auditor is not compelled to use the work of the other auditor. SA 600 requires the principal auditor to assess the appropriateness of component auditor's work prior to placing reliance on such work.

Reason:

As per SA 600, the principal auditor should perform procedures to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.

3. **Option (a)** Inappropriate. Sample size appears to be insufficient. Method of sample selection does not allow each item in the population a chance of selection.

Reason:

As per SA 530, when designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. Further, the auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

4. **Option (c)** Yes. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan.

Reason:

Clause (iii) of Para 3 of CARO 2020 includes advances in the nature of loan. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan.

5. **Option (a)** Unmodified as the effect of misstatement is not material to the Group.

Reason:

As per SA 600, in all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting that it requires a modification of the principal auditor's report.