

# CA FINAL AUDIT

4th Edition



## COMPILER

By India's Most Dynamic Faculty For Audit

**CA Aarti Lahoti**

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# CA FINAL

## GROUP - I

# ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

## MCQ COMPILER

**4TH EDITION**

*Author*

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*CA Aarti N. Lahoti*

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*Dear Students,*

*IT'S ALL ABOUT AUDIT!*

*It gives me immense pleasure to present before you the 4th Edition of Advanced Auditing, Assurance & Professional Ethics – Theory Notes & Q – A Scanner – for CA Final.*

*I have made an humble attempt to include all theory, Q & A & Amendments released by ICAI through its different mediums viz. Latest Study Material, Suggested Answers, Mock Test Papers & Revision Test Papers in this book.*

*Any constructive criticism is always welcome. @ [aartilahoti9@gmail.com](mailto:aartilahoti9@gmail.com)*

*The greatest strength of this book is its wholistic approach towards the subject – a one stop solution for the entire subject of CA Final Auditing. It covers each & every topic of the syllabus in a tabular & pointwise format & also the myriad varieties of questions in relation to the same.*

*Having **CONCEPTUAL CLARITY** about the topics is half the battle won!!! To complete it you need to do a lot of **WRITING PRACTICE**. As a general problem faced by students is that though they understand the concepts but they are not able to put it in words & this happens merely due to lack of writing practice. So never forget that!*

*And one final piece of advice would be to do **CUMULATIVE REVISIONS** of the subject so that you are able to retain the subject better.*

*Wishing you all the very best for your exams and for a brightful future!*

*Happy Auditing!*

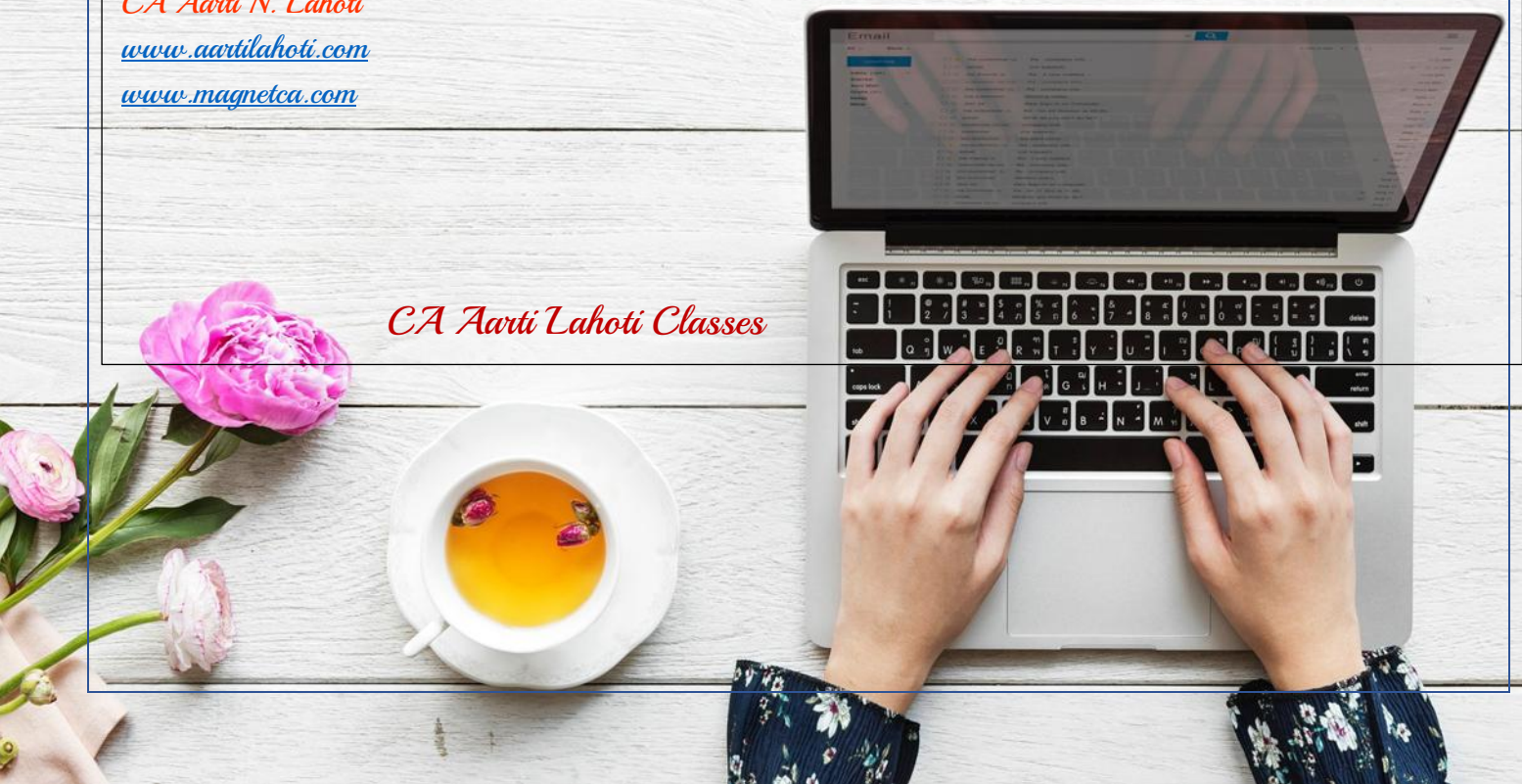
*Regards,*

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## CHAPTER

## 1

## INTEGRATED CASE STUDIES

## INTEGRATED CASE STUDY - 1

Sun 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 Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) & the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Sun 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, & basic chemicals. These products find application in various sectors, from pharmaceuticals & textiles to paints & coatings, construction, & agriculture. RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2033-34 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity.

During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, & accordingly, he requested that management remove such limitation. But the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, Finally, Mr. Rahul with his engagement team, derived on a conclusion that the possible effects on the financial statements of undetected misstatements, could be material & pervasive so that a qualification of the 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, 2033. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

1.	What was the responsibility of Mr. Rahul when the management refused to remove the said limitation?	A
	(a) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.	
	(b) To communicate the matter to those charged with governance & 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 & also communicate the matter to those charged with governance.	
2.	What was the responsibility of RKM & Co. with respect to the issue of limited review report at the time of resignation?	C
	(a) Limited review report for third Quarter was required to be issued.	
	(b) No further limited review report was required to be issued as already it was issued for the second Quarter at the time of resignation.	
	(c) Limited review report for third Quarter was required to be issued & consequently, after its issue, audit report for the full year is also required to be issued.	
	(d) Limited review report for third Quarter was required to be issued subject to the terms of the audit engagement.	
3.	Whether in the given circumstance withdrawal from engagement was mandatory & if so, what is the responsibility of the auditor with respect to such withdrawal?	B

	(a)	In the given circumstance withdrawal from engagement was not mandatory & in case of withdrawal, the auditor was required to withdraw from the audit, where practicable & possible under applicable law or regulation.	
	(b)	In the given circumstance withdrawal from engagement was mandatory & 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.	
	(c)	In the given circumstance withdrawal from engagement was mandatory & in case of withdrawal, the auditor was required to withdraw from the audit, where practicable & possible under applicable law or regulation.	
	(d)	In the given circumstance withdrawal from engagement was not mandatory & 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.	
4.	Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper?		A
	(a)	No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.	
	(b)	Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.	
	(c)	Yes, in the given case, the reason was resignation was due to the limitations imposed by the management & refusal to provide reasons for the same & accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.	
	(d)	No, the reasons should have been a little lengthier & further the exact reason must be provided to the new auditor to be appointed by the company.	
5.	Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM & Co. with respect to withdrawal from engagement & issue of limited review report at the time of resignation?		B
	(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 & the limited review reports for second & third Quarter were required to be issued.	
	(b)	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 & the limited review report for second Quarter was required to be issued.	
	(c)	The auditor shall communicate to management & those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review report was not required to be issued.	
	(d)	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 & pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation & the limited review report for second Quarter was required to be issued.	

## INTEGRATED CASE STUDY - 2

MN & Associates, a firm of Chartered Accountants, having CA. M & CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 & appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management & 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 & evaluation of the results of external confirmation procedures.

CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, & 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. M 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 & obtained the postal acknowledgement.

CA. N provides management consultancy & other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N 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 MN & Associates 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 & 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 abovementioned facts, you are required to answer the following MCQs:

1.	With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates.? (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of ₹ 501/-.	C								
	<table><tr><td>(a)</td><td>(i) Only</td></tr><tr><td>(b)</td><td>(ii) Only</td></tr><tr><td>(c)</td><td>Either (i) or (ii)</td></tr><tr><td>(d)</td><td>Neither (i) nor (ii)</td></tr></table>	(a)	(i) Only	(b)	(ii) Only	(c)	Either (i) or (ii)	(d)	Neither (i) nor (ii)	
(a)	(i) Only									
(b)	(ii) Only									
(c)	Either (i) or (ii)									
(d)	Neither (i) nor (ii)									
2.	MN & Associates 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.	B								
	<table><tr><td>(a)</td><td>CA. IA cannot assist MN &amp; Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN &amp; Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates &amp; assessing the risk of material misstatements as per SA 610.</td></tr><tr><td>(b)</td><td>MN &amp; Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates &amp; assessing the risk of material misstatements. However, CA. IA may assist MN &amp; Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610</td></tr><tr><td>(c)</td><td>MN &amp; Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates &amp; assessing the risk of material misstatements &amp; in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.</td></tr><tr><td>(d)</td><td>MN &amp; Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates &amp; assessing the risk of material misstatements &amp; in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.</td></tr></table>	(a)	CA. IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements as per SA 610.	(b)	MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements. However, CA. IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610	(c)	MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements & in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.	(d)	MN & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements & in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.	
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3.	As per the Chartered Accountants Act, 1949, under which clause CA. N is liable for misconduct?	B								
	<table><tr><td>(a)</td><td>Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.</td></tr><tr><td>(b)</td><td>Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.</td></tr><tr><td>(c)</td><td>Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.</td></tr><tr><td>(d)</td><td>Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.</td></tr></table>	(a)	Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.	(b)	Clause (6) 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 (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.	
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(b)	Clause (6) 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 (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.									
4.	Before signing the tax audit report, CA. M sent a registered post to the previous auditor & obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949?	B								

(a)	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
(b)	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
(c)	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M 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. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

### INTEGRATED CASE STUDY - 3

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. & 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 & scope of the audit, responsibilities of the auditors, management, & 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, & the auditor was also unable to obtain relevant & 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. & ABC & Co. had the same opinion & accordingly, given their majority stance, both LM & Co. & 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)

S.N.	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 & Financial Institutions	3.00	2.00

Based on the above facts, answer the following:

1.	Whether RST & Co. should adhere to the opinion formulated by LM & Co. & ABC & Co. or explore alternative options.	B
(a)	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 & the auditor is unable to obtain relevant & reliable audit evidence from alternative audit procedures?	A
(a)	Auditor shall communicate the matter with TCWG & also determine the implications for the Audit & Auditor's opinion in accordance with SA 705.	
(b)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & 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 & fact of inability to obtain the relevant & 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 .	B
(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
(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 & 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?	C

(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 & turnover does not exceed 40 crores.
(d)	The CARO 2020 applies as RJ Private Limited is an associate entity of JMP Limited.

### INTEGRATED CASE STUDY - 4

ABC Limited is a manufacturing company having three manufacturing facilities in India & ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15,000 crore & profit before tax of INR 2,000 crore during FY 2032-33. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promoter & Chief Executive Officer of the company. Mr. B, son of Mr. A, is a company's non-executive director & holds a graduate degree from IIT Bombay & a post-graduate degree from IIM Ahmedabad.

During the audit, it was discovered that the company had acquired two subsidiaries, Maan Ltd. which deals in copper manufacturing & Dhan Ltd. which deals in paper manufacturing. Maan Ltd. & Dhan Ltd. are audited by M/s XYZ & Associates. ABC Ltd. prepared the consolidated financial statements for the current financial year under Indian Accounting Standards, which includes the financial statements of subsidiary Maan Ltd. However, the financial statements of Dhan Ltd. were not consolidated as the company has not yet been able to determine the fair values of certain material assets & liabilities of Dhan Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of ABC Ltd. Had the company consolidated the financial statements of both subsidiaries, there would have been a material impact on important elements of the financial statements. Also, the financial statements of ABC Ltd. for the current financial year include the corresponding figures (without consolidation) of the previous financial year, i.e., FY 2031-32.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	With respect to the non-consolidation of financial statements of Dhan Ltd. with the financial statements of ABC Ltd., how should the auditor deal with the same in their audit report?	B
(a)	The auditor should give a disclaimer of opinion.	
(b)	The auditor should give an adverse opinion if the impact is material & pervasive in his audit report.	
(c)	The auditor should mention this fact in the emphasis of matter paragraph.	
(d)	The auditor should mention this fact in other matter paragraph.	
2.	With respect to the corresponding figures of the financial year 2031-32 in the current year financial statements, what is the auditor's reporting responsibility for the same?	C
(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's 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 the 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.	

### INTEGRATED CASE STUDY - 5

SED & Associates, a firm of auditors, received an offer letter dated 15th July 2032 to conduct audit of BTM Limited (a listed company) engaged in manufacturing of cement for the first time from year 2032 -33 onwards. The audit was accepted by the firm on the basis of offer letter designating it as "Engagement Letter". The partners of firm have not felt the necessity to keep documents to show that firm has complied with requirements of section 141(3)(d) of Companies Act, 2013. CA E, engagement partner of SED & Associates, is conducting audit of aforementioned company.

The company was incurring losses since last few years & it had resulted in erosion in substantial part of its net worth. It had negative working capital & was substantially debt-ridden.

The company had only one plant located in Madhya Pradesh. The plant was found to be in working condition during the course of audit. The Majority of fixed assets of the company were located at this very plant. The engagement partner was also informed during the audit that physical verification of Property, Plant & Equipment (PPE) was carried out by management during the year. However, the internal auditor had pointed out in one of its reports during the year that management did not physically verify Property, Plant & Equipment items. Having experience as an engagement partner in cement industry, he was of the view that the valuation of PPE was less than the value recorded in books of accounts. However, no such assessment/work was made during the audit.

During the year, the company defaulted in repayment of its loans to the bank & the credit facilities of the company were classified as NPA by the concerned bank. One note forming part of “Notes to Accounts” in financial statements on this matter presented for audit states as follows: -

"The company has not provided for interest on the loan taken from the bank to the extent that the same has remained unpaid as the loan accounts have been classified as NPA by the lender bank & the management is in the final stage of settlement of the liability. Interest, if any, will be recorded in the books when it will be crystallized after settlement/agreement with the lender bank."

Considering the prevailing situation, future plans provided by the management & applying professional Judgment, it has been decided to include an “Emphasis of Matter” paragraph in the auditor’s report relating to going concern matters. It is felt that this matter is of such importance that it is fundamental to users’ understanding of financial statements. The management has also included this matter in Notes to Accounts. However, he has not felt the need for evaluation of future plans provided by management.

During the audit for the year 2032-33, management was requested vide letter dated 20th May 2033 to provide all the information regarding contingent liabilities & credentials for logging in income tax portal, GST portal & other significant online portals. However, management had failed to provide such information, including login credentials, despite the engagement partner’s request.

Therefore, it was decided to sign the audit report on the basis of the information available up to the date of signing of the audit report.

On the basis of the above case scenario, you are required to answer the following MCQs.

1.	The case scenario describes the acceptance of the audit of the aforementioned company by SED & Associates. Which of the following statements is likely to be most appropriate in this regard?	C
(a)	It was proper for auditors to accept an audit of the company on the basis of an offer letter designated as an engagement letter. Further, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements.	
(b)	It was improper for auditors to accept audit of the company on the basis of offer letter designated as engagement letter. It is necessary to accept audit on basis of separate engagement letter. However, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements.	
(c)	It was improper for auditors to accept audit of the company on the basis of an offer letter designated as an engagement letter. It is necessary to accept the audit on the basis of a separate engagement letter. There is a necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.	
(d)	It was proper for auditors to accept an audit of a company on the basis of an offer letter designated as an engagement letter. However, there is the necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.	
2.	What should be an appropriate course of action for the auditors in respect of PPE considering the situation described in this respect in the case scenario?	C
(a)	The auditor should not attach much importance to the internal auditor’s observations as he has found the plant of the company to be in working condition with its major assets intact. However, it should be evaluated whether impairment testing has been performed considering the company’s circumstances.	

	(b)	The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report & evidence obtained by him & its effect on other aspects of the audit. However, no evaluation of impairment testing is necessary, considering the company's circumstances.	
	(c)	The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report & evidence obtained by him & its effect on other aspects of the audit. Further, evaluation of impairment testing is necessary considering the company's circumstances.	
	(d)	The auditor should not attach much importance to the internal auditor's observations as he has found the plant of the company to be in working condition with its major assets intact. Further, evaluation of impairment testing is not necessary considering the company's circumstances.	
3.	The Company has not recognised interest costs on its borrowings as loan accounts have turned NPA during the year under consideration. Which of the following statements is most appropriate in this context?		A
	(a)	The policy followed by management is in contravention of applicable accounting standards to be followed by the company.	
	(b)	The policy followed by management is in accordance with established norms due to the classification of loan accounts as NPA by the concerned bank. As banks do not recognise interest income on NPA accounts, mirror treatment is applicable to the company in question.	
	(c)	The policy followed by management is in accordance with established norms as negotiations are underway with bankers. Interest would be recognised on NPA borrowings upon crystallisation of final settlement with bankers.	
	(d)	The policy followed by management is in contravention of guidelines issued by the Reserve Bank of India.	
4.	The auditor has decided to include "Emphasis of Matter" (EOM) paragraph in auditor's report relating to going concern matters. Which of following statements is true in this regard?		C
	(a)	EOM paragraph can be included in auditor's report depending upon auditor's professional judgment & evaluation of management's plans without maintaining documentation in this regard.	
	(b)	EOM paragraph can be included in auditor's report because going concern matter is fundamental to users understanding of financial statements However, no separate evaluation of management's plans is required.	
	(c)	If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion & the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern".	
	(d)	If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express a modified opinion & the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern".	
5.	Considering the matter of not providing information regarding contingent liabilities, including login credentials by the company as described, which of the following statements is most appropriate?		B
	(a)	The auditor should express unmodified opinion.	
	(b)	The auditor should request management again to provide such information & must determine whether it is possible to perform alternate audit procedures to obtain sufficient appropriate audit evidence. In case of failure to obtain such evidence, implications for audit report should be considered.	
	(c)	The auditor should take written representation from management stating that all such liabilities have been reflected in accordance with SA 580 & unmodified opinion should be expressed.	
	(d)	The auditor's responsibility is fulfilled on commenting appropriately regarding non-furnishing of required information by management regarding disputed statutory dues under clause 3(vii)(b) of CARO, 2020.	

## INTEGRATED CASE STUDY - 6

CA. Subhadra is conducting statutory audit of a branch of FNB Bank. The branch is having deposits of ₹ 450 crore & advances of ₹300 crore respectively reflected in its financial statements as on 31st March 2033. While performing audit procedures, she noticed the following: -

- [1] While reviewing advances of the branch, she came across the following particulars of two cash credit accounts: (₹ in crore)

Name of borrower	Sanctioned Limit	Value of primary security	Value of collateral security	Net worth of borrower	Net worth of guarantors
KT Fab	10.00	20.00	15.00	5.00	3.00
PM Decor	15.00	25.00	12.00	7.50	5.00

Following further information is also available in respect of above noted accounts: -

Information pertaining to KT Fab (₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2032	9.00	9.61
31.01.2033	9.25	9.55
28.02.2033	9.50	9.60
31.03.2033	9.50	9.75

The outstanding balance in the account has remained more than ₹9.50 crore beginning from 31st December, 2032 till 31st March, 2033 on all days. Information pertaining to PM Décor (₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2032	12.00	12.50
31.01.2033	12.50	12.25
28.02.2033	12.50	12.40
31.03.2033	12.50	12.50

Both units are working & their financial position is satisfactory. The branch has classified both accounts as Standard Assets.

- [2] On reviewing “Statement of Accounts classified as NPA” as on 31.03.33, she finds that an education loan was granted to son of Mr. X, a customer of bank, for pursuing short duration technical higher studies abroad for ₹50.00 lakh sometime back repayable in 5 years. The loan was granted against security of residential house of Mr. X, valuing ₹60.00 lakh assessed by bank’s empanelled valuer. However, the name of bank’s empanelled valuer has now been removed due to certain irregularities. Later, value of residential house got reassessed from another valuer & he gave a report reflecting realisable value of residential house for ₹20.00 lakh. Meanwhile, the instalments in education loan account are overdue for 110 days as on 31st March, 2033. The account was classified as standard asset till last year i.e., 31st March, 2032.
- [3] While verifying deposits of the branch, she noticed that inoperative accounts for less than 10 years are to the tune of ₹5 crore reflected in the balance sheet of the branch. She plans to focus her audit procedures on this segment too. One of her team members has suggested the following audit procedures in this regard:
- Verifying whether there exists a system of informing customers on accounts turning inoperative.
  - Identification of cases where there is significant reduction in balances as compared to last year.
  - Testing debits in inoperative accounts.
  - Verifying auto activation of inoperative accounts.
- [4] While gathering information to be included in LFAR, she comes across some cases of advance accounts which became non-performing within a relatively short span of time. The details of few such identified accounts are as under:

	Account name	Sanctioned amount (₹ in crore)	Nature of facility	Date of first sanction	Date of renewal
	ABC Industries	1.00	Cash credit	15/05/32	Not applicable
	XY Pvt. Ltd.	0.50	Cash credit	01/07/32	Not applicable
	SK & Sons	1.50	Cash credit	04/04/31	04/04/22
	DK Creations	0.75	Term loan	01/10/32	Not applicable

[5] The branch also sends substantial number of Inland outward bills for collection. The bank has a system under which account of customer on whose behalf bill has been sent for collection is credited only after the bill has been actually collected from the drawee either by the bank itself or through its agents. One of her team members has jotted following audit procedures for Inland outward bills sent for collection: -

- ➔ Verification of outward bills for collection as on closing date.
- ➔ Verification of accrual of commission income in respect of bills outstanding as on closing date.
- ➔ Verification of accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Keeping in view information stated in respect of two borrower accounts at para [1] of case scenario, which of the following statement is correct?	C								
	<table><tr><td>(a)</td><td>The classification made by branch is not proper. Both accounts should be classified as non - performing assets.</td></tr><tr><td>(b)</td><td>The classification made by branch is not proper. Borrower account of KT Fab should be classified as Standard asset. However, borrower account of PM Décor should be classified as non-performing asset.</td></tr><tr><td>(c)</td><td>The classification made by branch is not proper. Borrower account of KT Fab should be classified as non-performing asset. However, borrower account of PM Décor should be classified as Standard asset.</td></tr><tr><td>(d)</td><td>The classification made by branch is proper.</td></tr></table>	(a)	The classification made by branch is not proper. Both accounts should be classified as non - performing assets.	(b)	The classification made by branch is not proper. Borrower account of KT Fab should be classified as Standard asset. However, borrower account of PM Décor should be classified as non-performing asset.	(c)	The classification made by branch is not proper. Borrower account of KT Fab should be classified as non-performing asset. However, borrower account of PM Décor should be classified as Standard asset.	(d)	The classification made by branch is proper.	
(a)	The classification made by branch is not proper. Both accounts should be classified as non - performing assets.									
(b)	The classification made by branch is not proper. Borrower account of KT Fab should be classified as Standard asset. However, borrower account of PM Décor should be classified as non-performing asset.									
(c)	The classification made by branch is not proper. Borrower account of KT Fab should be classified as non-performing asset. However, borrower account of PM Décor should be classified as Standard asset.									
(d)	The classification made by branch is proper.									
2.	Considering issue relating to education loan described in para [2] of case scenario, how should it be classified in books of branch as on 31st March, 2033?	B								
	<table><tr><td>(a)</td><td>Sub-standard asset</td></tr><tr><td>(b)</td><td>Doubtful asset</td></tr><tr><td>(c)</td><td>SMA</td></tr><tr><td>(d)</td><td>Loss asset</td></tr></table>	(a)	Sub-standard asset	(b)	Doubtful asset	(c)	SMA	(d)	Loss asset	
(a)	Sub-standard asset									
(b)	Doubtful asset									
(c)	SMA									
(d)	Loss asset									
3.	As discussed in para [3] of case scenario, one of team members has suggested certain audit procedures described in case scenario for verification of inoperative accounts. Which of audit procedure(s)/ combination of procedures are relevant in such a situation?	D								
	<table><tr><td>(a)</td><td>Identification of cases where there is significant reduction in balances as compared to last year, testing debits in inoperative accounts &amp; verifying auto-activation of inoperative accounts.</td></tr><tr><td>(b)</td><td>Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year &amp; verifying auto activation of inoperative accounts.</td></tr><tr><td>(c)</td><td>Verifying whether there exists a system of informing customers on account turning inoperative, testing debits in inoperative accounts &amp; verifying auto activation of inoperative accounts.</td></tr><tr><td>(d)</td><td>Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year &amp; testing debits in inoperative accounts.</td></tr></table>	(a)	Identification of cases where there is significant reduction in balances as compared to last year, testing debits in inoperative accounts & verifying auto-activation of inoperative accounts.	(b)	Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year & verifying auto activation of inoperative accounts.	(c)	Verifying whether there exists a system of informing customers on account turning inoperative, testing debits in inoperative accounts & verifying auto activation of inoperative accounts.	(d)	Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year & testing debits in inoperative accounts.	
(a)	Identification of cases where there is significant reduction in balances as compared to last year, testing debits in inoperative accounts & verifying auto-activation of inoperative accounts.									
(b)	Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year & verifying auto activation of inoperative accounts.									
(c)	Verifying whether there exists a system of informing customers on account turning inoperative, testing debits in inoperative accounts & verifying auto activation of inoperative accounts.									
(d)	Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year & testing debits in inoperative accounts.									

4.	Quick mortality cases are required to be stated in LFAR by statutory branch auditor. With reference to the particulars in para [4] above, which of the following statement is correct?	C								
	<table><tr><td>(a)</td><td>All the four cases reflected in the table in para [4] are quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.</td></tr><tr><td>(b)</td><td>Only the case of DK creations is in nature of quick mortality case. Quick mortality cases are indicative of shortcomings in credit appraisal.</td></tr><tr><td>(c)</td><td>Cases of ABC Industries, XY Pvt Ltd &amp; DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.</td></tr><tr><td>(d)</td><td>Cases of XY Pvt Ltd &amp; DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit disbursement.</td></tr></table>	(a)	All the four cases reflected in the table in para [4] are quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.	(b)	Only the case of DK creations is in nature of quick mortality case. Quick mortality cases are indicative of shortcomings in credit appraisal.	(c)	Cases of ABC Industries, XY Pvt Ltd & DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.	(d)	Cases of XY Pvt Ltd & DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit disbursement.	
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(d)	Cases of XY Pvt Ltd & DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit disbursement.									
5.	One of her team members has planned certain audit procedures described in case scenario at para [5] for verification of Inland outward bills for collection. Which of the following audit procedure(s)/combination of procedures are likely to be relevant in such situation?	C								
	<table><tr><td>(a)</td><td>To verify bills for collection on closing date.</td></tr><tr><td>(b)</td><td>To verify bills for collection on closing date &amp; verification of accrual of commission in respect of bills outstanding as on closing date.</td></tr><tr><td>(c)</td><td>To verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.</td></tr><tr><td>(d)</td><td>To verify accrual of commission in respect of bills outstanding as on closing date &amp; verification of accrual of charges in the account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.</td></tr></table>	(a)	To verify bills for collection on closing date.	(b)	To verify bills for collection on closing date & verification of accrual of commission in respect of bills outstanding as on closing date.	(c)	To verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.	(d)	To verify accrual of commission in respect of bills outstanding as on closing date & verification of accrual of charges in the account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.	
(a)	To verify bills for collection on closing date.									
(b)	To verify bills for collection on closing date & verification of accrual of commission in respect of bills outstanding as on closing date.									
(c)	To verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.									
(d)	To verify accrual of commission in respect of bills outstanding as on closing date & verification of accrual of charges in the account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.									

## INTEGRATED CASE STUDY - 7

Mr. Ayush, the proprietor of BCD & Co Chartered Accountants, was appointed to audit the financial statements of Amrita Industries Private Limited for the Financial Year 2032-33. These financial statements were prepared in accordance with the Dutch GAAP & the terms & conditions specified in the contract between Amrita Industries Private Limited & Dutch Industries b.v. (Pvt. Ltd is known as b.v. in Dutch). One of the terms & conditions of the contract was to get the financial statements audited from an independent auditor. The contract also stipulated auditors to take into account misstatements of € 5000 or more while framing their report. Any misstatements identified below this threshold did not require correction or adjustment in terms of stipulation in contract. While planning audit, the audit team had also determined performance materiality at € 10000 & overall materiality at € 200000.

The following information extracted from general purpose financial statements of Amrita Industries Pvt. Ltd. prepared in accordance with provisions of the Companies Act, 2013 is given as under: - (Figures in ₹ crores)

Particulars	FY 32-33	FY 31-32
Turnover	300	250
Borrowings from bank	100	75
Paid up capital	25	25

The borrowings from bank consisted of working capital credit facilities only. The company had been enjoying such credit facilities with a sanctioned amount of ₹75 crore in Financial Year 31-32. The credit facilities were enhanced to ₹ 100 crore at beginning of Financial Year 32-33. Outstanding balance in above credit facilities has never crossed sanctioned limits at any time during each of the above years. Mr. Shubham, partner at BB & Associates, Chartered Accountants firm, was appointed as engagement partner for audit of general-purpose financial statements of Amrita Industries Private Limited for FY 2032-33. Before finalising audit plan, BB & Associates asked for internal audit reports. However, management informed him that there was no internal audit team or function in the organization.

During the course of audit of general-purpose financial statements, Mr. Anand, an audit executive performed risk assessment procedures, test of controls & substantive procedures. He performed a trend analysis to compare the purchases of raw materials in various months. He also performed purchase– production–sale cycle analysis to understand inventory holding. Besides going through the company's internal control manuals & visiting company's

plant, inquiries were also made with company's information system personnel to provide information about control failures. Diligent inquiries were also made from company's marketing personnel regarding contractual arrangements with customers. Inquiries were also made from company's in-house legal counsel & communications were also made with company's external legal counsel by sending a letter of inquiry.

While issuing the report, BCD & Co inserted an Other Matter Paragraph in the Audit Report specifying the use of a special purpose financial reporting framework for preparing & presenting the financial statements. On the other hand, BB & Associates decided to issue an adverse opinion on all financial statement except for cash flow statement & an unmodified opinion on cash flow statement. As per BB & Associates, the cash flow statement was prepared as per the required method, & hence, it did reflect the appropriate figures.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	<p>The audit team of BCD &amp; Co were not sure which materiality to choose to evaluate the effect of identified misstatements on the audit &amp; of uncorrected misstatements, if any, on the financial statements in order to form an opinion &amp; to conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. You are required to guide the audit team by selecting the appropriate option from below:</p> <table><tr><td>(a)</td><td>In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning &amp; performing the audit of the special purpose financial statements.</td></tr><tr><td>(b)</td><td>In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold is sufficient to comply with the requirement of determining materiality in accordance with SA 320 for purposes of planning &amp; performing the audit of the special purpose financial statements.</td></tr><tr><td>(c)</td><td>In the case of special purpose financial statements, misstatements based on consideration of the financial information needs of the intended users are considered material &amp; pervasive. However, the auditor needs to follow the threshold limit provided in terms of the contract, &amp; such thresholds should be considered as the performance materiality for planning &amp; performing the audit.</td></tr><tr><td>(d)</td><td>The auditor is required to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional &amp; the condition does not exist. In the case of an audit of special purpose financial statements, the requirements of SA 320 are not applicable in entirety.</td></tr></table>	(a)	In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning & performing the audit of the special purpose financial statements.	(b)	In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold is sufficient to comply with the requirement of determining materiality in accordance with SA 320 for purposes of planning & performing the audit of the special purpose financial statements.	(c)	In the case of special purpose financial statements, misstatements based on consideration of the financial information needs of the intended users are considered material & pervasive. However, the auditor needs to follow the threshold limit provided in terms of the contract, & such thresholds should be considered as the performance materiality for planning & performing the audit.	(d)	The auditor is required to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional & the condition does not exist. In the case of an audit of special purpose financial statements, the requirements of SA 320 are not applicable in entirety.	A
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2.	<p>Mr. Manish, the audit manager of BCD &amp; Co., objected to the insertion of the Other Matter Paragraph in the audit report. According to him, there is no such requirement to insert Other Matter Paragraph to disclose the use of a Special Purpose Framework. Whether contention of Mr. Manish is in order?</p> <table><tr><td>(a)</td><td>The auditor's report on special purpose financial statements shall include an Other Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework &amp; that, as a result, the financial statements may not be suitable for another purpose.</td></tr><tr><td>(b)</td><td>To avoid misunderstandings, the auditor shall mention that the financial statements are prepared in accordance with a special purpose framework &amp;, therefore, may not be suitable for another purpose in Management's Responsibility section. Adding an Other Matter Paragraph for this will result in duplication of the matter, &amp; the same should be avoided.</td></tr><tr><td>(c)</td><td>The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users &amp; may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph.</td></tr><tr><td>(d)</td><td>The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework &amp; that, as a result, the financial statements may not be suitable for another purpose.</td></tr></table>	(a)	The auditor's report on special purpose financial statements shall include an Other Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework & that, as a result, the financial statements may not be suitable for another purpose.	(b)	To avoid misunderstandings, the auditor shall mention that the financial statements are prepared in accordance with a special purpose framework &, therefore, may not be suitable for another purpose in Management's Responsibility section. Adding an Other Matter Paragraph for this will result in duplication of the matter, & the same should be avoided.	(c)	The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users & may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph.	(d)	The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework & that, as a result, the financial statements may not be suitable for another purpose.	D
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(c)	The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users & may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph.									
(d)	The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework & that, as a result, the financial statements may not be suitable for another purpose.									

3.	<p>Mr. Chitrang, the audit manager at BB &amp; Associates Chartered Accountant, is seeking your guidance in drafting separate opinions on the cash flow statement &amp; Other Financial Statements. Guide the audit manager by selecting the appropriate option from below:</p> <table><tr><td>(a)</td><td>When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement.</td></tr><tr><td>(b)</td><td>The expression of a disclaimer of opinion regarding the results of operations, &amp; cash flows, where relevant, &amp; an unmodified opinion regarding the financial position is allowed. In this case, the auditor has expressed a disclaimer of opinion on the financial statements as a whole &amp; separate opinion on cash flows.</td></tr><tr><td>(c)</td><td>The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework &amp;, within the same report, the expression of an adverse opinion on the same financial statements under the same financial reporting framework is permissible.</td></tr><tr><td>(d)</td><td>An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not limit the auditor's responsibility to issue an unmodified opinion on identified matters that would not require a modification of the auditor's opinion.</td></tr></table>	(a)	When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement.	(b)	The expression of a disclaimer of opinion regarding the results of operations, & cash flows, where relevant, & an unmodified opinion regarding the financial position is allowed. In this case, the auditor has expressed a disclaimer of opinion on the financial statements as a whole & separate opinion on cash flows.	(c)	The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework &, within the same report, the expression of an adverse opinion on the same financial statements under the same financial reporting framework is permissible.	(d)	An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not limit the auditor's responsibility to issue an unmodified opinion on identified matters that would not require a modification of the auditor's opinion.	A
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4.	<p>The company has violated provisions of the Companies Act, 2013 by not appointing an internal auditor. Which of following statement is likely to be correct reason necessitating appointment of internal auditor &amp; for matters relating to appointment of internal auditor for the financial year 2032-33 in described situation in accordance with provisions of law?</p> <table><tr><td>(a)</td><td>The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled necessary condition relating to turnover during financial year 2031-22. Such an internal auditor may have been either an individual or a partnership firm only.</td></tr><tr><td>(b)</td><td>The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled all necessary conditions relating to turnover, borrowings from banks &amp; paid up capital during financial year 2032-23. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.</td></tr><tr><td>(c)</td><td>The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled necessary condition relating to turnover during financial year 2031-32. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.</td></tr><tr><td>(d)</td><td>The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled necessary conditions relating to turnover &amp; borrowings from banks during financial year 2032-33. Such an internal auditor may have been either an individual or a partnership firm.</td></tr></table>	(a)	The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled necessary condition relating to turnover during financial year 2031-22. Such an internal auditor may have been either an individual or a partnership firm only.	(b)	The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled all necessary conditions relating to turnover, borrowings from banks & paid up capital during financial year 2032-23. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.	(c)	The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled necessary condition relating to turnover during financial year 2031-32. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.	(d)	The company was required to appoint internal auditor during financial year 2032-33 as it fulfilled necessary conditions relating to turnover & borrowings from banks during financial year 2032-33. Such an internal auditor may have been either an individual or a partnership firm.	C
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5.	<p>Mr. Anand, an audit executive, has performed various procedures during the course of audit. Which of the following procedure/combinations of procedures is/are not likely to be considered as risk assessment procedures?</p> <table><tr><td>(a)</td><td>Performing trend analysis, going through company's internal control manuals &amp; visiting company's plant</td></tr><tr><td>(b)</td><td>Inquiries from company's marketing personnel &amp; with in-house legal counsel</td></tr><tr><td>(c)</td><td>Communication with company's external legal counsel by sending a letter of inquiry</td></tr><tr><td>(d)</td><td>Inquiries made with company's information system personnel to provide information about control failures &amp; going through company's internal control manuals</td></tr></table>	(a)	Performing trend analysis, going through company's internal control manuals & visiting company's plant	(b)	Inquiries from company's marketing personnel & with in-house legal counsel	(c)	Communication with company's external legal counsel by sending a letter of inquiry	(d)	Inquiries made with company's information system personnel to provide information about control failures & going through company's internal control manuals	C
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## INTEGRATED CASE STUDY - 8

Rainbow Non-Bank Limited, a "Non-Systemically Important Non-Deposit Taking Non-Banking Financial Company", was operating appropriately till the start of the COVID-19 pandemic. Due to unforeseen conditions during the pandemic & after that, the operating revenue of the NBFC started decreasing. Following is the position of Net Owned Funds of the company during the last 4 financial years:

Financial Year	Net Owned Funds
FY29-30	₹ 12 crore
FY30-31	₹ 5 crore
FY31-32	₹ 3 crore
FY32-33	₹ 2.5 crore

Rainbow Non-Bank Limited appointed Tirthankara & Company as their statutory auditor for FY 2032-33. Rainbow Non-Bank was involved in re-financing of accounts payables of other companies (i.e., paying to accounts payables on behalf of the company on the due date & allowing additional credit period by charging interest).

To test for understatement in existence or valuation of accounts payable, Mr. Abhinandan (Engagement Partner) decided to test recorded & refinanced accounts payables on a sample basis. He also decided to verify refinanced accounts payable against signed contracts. Mr. Abhinandan did not identify any misstatements.

While performing audit procedures in the month of March 2033 itself, it was noticed by Mr. Abhinandan that Senior Sales Manager from Rainbow Non-Bank agreed to refinance the accounts payables of Opal Stones India Limited, but on the due date, he issued payment to his personal account instead of issuing payments to Accounts Payables of Opal Stones India Limited. The matter was flagged by him to audit committee & amount was subsequently recovered. Due to this Opal Stones had to pay an additional amount of ₹ 4 crore over & above amount of accounts payables of ₹ 25 crore embezzled by the Senior Sales Manager. As Opal Stones had to shell out extra funds due to above, it was proposing to file a suit against the company. However, negotiations were still going on between two companies to settle the matter. There was no disclosure in financial statements regarding these negotiations.

No other observation was identified by Mr. Abhinandan. He is considering to express an unmodified opinion in above situation. He has also approached EQCR to review working papers & documentation.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

1.	While reviewing working papers of Mr. Abhinandan, the Engagement Quality Control Reviewer (EQCR) identified that the audit procedure followed to test for understatement in existence or valuation of accounts payable refinanced is not relevant. However, Mr. Abhinandan did not understand the comments provided by his EQCR. Kindly guide Mr. Abhinandan with respect to the “relevance of the audit procedure” by selecting the appropriate option from below:	A								
	<table><tr><td>(a)</td><td>Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure &amp;, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement in existence or valuation of accounts payable &amp; not their understatement.</td></tr><tr><td>(b)</td><td>Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure &amp;, where appropriate, the assertion under consideration. In the current case, testing accounts payable will give comfort on completeness &amp; valuation but not on existence.</td></tr><tr><td>(c)</td><td>The relevance of the information to be used as audit evidence, &amp; therefore of the audit evidence itself, is influenced by its source &amp; its nature, &amp; the circumstances under which it is obtained, including the controls over its preparation &amp; maintenance where relevant.</td></tr><tr><td>(d)</td><td>The relevance of audit evidence is increased when it is obtained from independent sources outside the entity.</td></tr></table>	(a)	Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure &, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement in existence or valuation of accounts payable & not their understatement.	(b)	Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure &, where appropriate, the assertion under consideration. In the current case, testing accounts payable will give comfort on completeness & valuation but not on existence.	(c)	The relevance of the information to be used as audit evidence, & therefore of the audit evidence itself, is influenced by its source & its nature, & the circumstances under which it is obtained, including the controls over its preparation & maintenance where relevant.	(d)	The relevance of audit evidence is increased when it is obtained from independent sources outside the entity.	
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(d)	The relevance of audit evidence is increased when it is obtained from independent sources outside the entity.									
2.	During the review of Mr. Abhinandan's working papers, the External Conformity & Quality Review (EQCR) observed that Rainbow Non-Bank Limited's performance was subpar, with the Net Owned Funds (NOF) standing at ₹2.5 crore at the close of FY32-33. The EQCR believed that Mr. Abhinandan was expected to include the NOF in the auditor's certificate for the year-end. However, Mr. Abhinandan disagreed with the same. Can you please provide guidance on the accurate reporting obligation in the current case.	A								
	<table><tr><td>(a)</td><td>Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration &amp; it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.</td></tr></table>	(a)	Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration & it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.							
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	(b)	Non-banking financial company whose NOF falls below ₹ 200 Lakh shall submit a certificate from its Statutory Auditor.	
	(c)	A certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision. However, the same is not mandatory.	
	(d)	Only for NBFC - MFI, a certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 should be submitted to the Regional Office of the Department of Non-Banking Supervision.	
3.	Regarding the issue involving the embezzlement by the Senior Sales Manager, what is the most appropriate compliance action for Mr. Abhinandan under the provisions of the Companies Act, 2013? Please select the most suitable option from the choices below:		B
	(a)	As per section 92 of the Companies Act 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers & details of compounding of offences & appeals made against such penalty or punishment.	
	(b)	As per Section 143(12) of the Companies Act 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.	
	(c)	As per Section 143(12) of the Companies Act 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees ten crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.	
	(d)	As per section 92 of the Companies Act 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers, which involves or is expected to involve individually an amount of rupees ten crore or above, & details of compounding of offences & appeals made against such penalty or punishment.	
4.	Considering the overall materiality of ₹ 2 crore, EQCR believes that Mr. Abhinandan should not issue an unmodified opinion. Mr. Abhinandan, however, argues that he has not identified any material misstatement. To guide Mr. Abhinandan appropriately, the following option is the most suitable:		B
	(a)	If the auditor has expressed an unmodified opinion on the financial statements, then the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion & the effects thereof.	
	(b)	If there is a material misstatement in the financial statements that relate to the non-disclosure of information that should be disclosed, then the auditor shall discuss the non-disclosure with those charged with governance, & where the impact of non-disclosure is material but not pervasive, then the auditor should issue a qualified opinion.	
	(c)	When evaluating the outcome of litigation, the Auditor should record in the audit report the interests & relationships of management that may create threats in the litigation & any applicable safeguards to save the company from outcomes of litigation, whether legal or not.	
	(d)	If the auditor has expressed an unmodified opinion along with the "Emphasis of Matter" Paragraph, then the auditor shall describe in the "Basis for Emphasis of Matter" section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion & the effects thereof.	
5.	On noticing the issue, Mr. Abhinandan reported the fraud to Audit Committee within two days of his knowledge of the fraud, seeking their reply or observations within forty -five days. However, neither the		C

audit committee nor management replied to the auditor till the 45th day. Kindly guide what the auditor is expected to do in the case when he has not received any reply from the audit committee or management.

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| (a) | In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall wait for the next 45 days, & he shall send a reminder to Audit Committee & Management to reply on the matter reported by him to them.   |
| (b) | In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall report the matter to shareholders & should seek their reply on observations within the next thirty days.  |
| (c) | In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations. |
| (d) | In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the CFO along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.                |

### INTEGRATED CASE STUDY - 9

Good Deposit Limited a NBFC registered with RBI under section 45-IA of the RBI Act & listed on National Stock Exchange, appointed ABC & Co. Chartered Accountants as their statutory Auditor for the financial year ending on 31 March 2033. Mr. J the audit partner of ABC & Co. extracted the monthly net owned fund position from the books of Goods Deposit Limited.

Month	Net Owned Funds (as calculated based on monthly position)
April 2032	₹ 350 Lakh
May 2032	₹ 350 Lakh
June 2032	₹ 320 Lakh
July 2032	₹ 310 Lakh
August 2032	₹ 290 Lakh
September 2032	₹ 250 Lakh
October 2032	₹ 240 Lakh
November 2032	₹ 190 Lakh
December 2032	₹ 180 Lakh
January 2033	₹ 240 Lakh
February 2033	₹ 270 Lakh
March 2033	₹ 310 Lakh

During the year, Mr. J recommended to the Board & Audit Committee to have internal auditors. However, Board, citing budget issues, rejected the Audit Partner's recommendation. Board, however, assured that they would consider next year to have an internal audit department within the Company.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

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| 1. | Mr. J reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Good 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 & not based on each month's position. Kindly guide Mr. J with respect to the requirement under Master Direction. | A |
|----|--|---|

	<p>(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 as of the end of the financial year ended 31 March.</p> <p>(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 each month.</p> <p>(c) 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.</p> <p>(d) 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.</p>	
2.	<p>Mr. J 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, &amp; the audit team had not identified any material evidence which could impact the opinion of the auditor. Kindly guide Mr. J whether proposed reporting under Emphasis of Matter (EOM) para in the Audit Report is correct.</p> <p>(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 correct.</p> <p>(b) 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.</p> <p>(c) 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.</p> <p>(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 correct.</p>	C
3.	<p>Kindly guide Mr. J regarding areas where he may need to report the absence of Internal Audit Function in the Company in Audit Report.</p> <p>(a) 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 reliance on the internal audit function of the Company.</p> <p>(b) The auditor is required to report the same under Para 3(xiii) of the CARO (Companies Auditor's Report Order), 2020.</p> <p>(c) The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.</p> <p>(d) The auditor is required to report the said matter in Key Audit Matters as per SA 701, which requires significant professional judgment &amp; user attention.</p>	C

### INTEGRATED CASE STUDY - 10

KKML & Associates was appointed statutory auditor for FY 2031-32 of AMPL Limited (a steel & Iron manufacturing company & NSE-listed company) for the first time. CA. Kush was engagement partner for this assignment. Last year, it was audited by Ananya & Company Chartered Accountants. Ananya & Company charged ₹ 7,00,000 for the statutory

audit for FY 2030-2031. Over & above that, Ananya & Company raised bills for overtime & out-of-pocket expense of ₹ 1,50,000. AMPL Limited paid ₹ 7,00,000 to Ananya & Company but raised a dispute over the calculation of overtime. As per AMPL Limited, the overtime on account of additional work as recalculated along with OPE should be ₹ 95,000/- & the same was paid on a day before proposing the appointment of CA. Kush as a Statutory Auditor. This OPE was accounted only to the extent of ₹ 80,000 on a provisional basis in books of accounts for FY 2030-31.

CA. Kush before accepting the appointment, communicated with Ananya & Company, as to why he should not accept the appointment as a Statutory Auditor for AMPL Limited. Ananya & Company replied on the same day stating the reason for not accepting the appointment as there were pending audit fees of ₹ 55,000/- (1,50,000 - 95,000) for FY 2030-31. After analysing the whole situation CA. Kush communicated with Ananya & Company that this was a case of disputed audit fees, & he cannot decline acceptance of the appointment on this basis. Later, CA. Kush accepted the appointment.

CA. Akash, the Engagement Quality Control Reviewer, insisted CA. Kush analyse whether the opening balances reflect the application of appropriate accounting policies. CA. Kush contented that he is not required to verify as he is already testing for closing balances which contain opening balances & that will give comfort over the application of accounting policies.

During the year, Mr. Shyam entered into an arrangement with the company wherein the company will transfer the residential flat (originally purchased by the company in his name) to Mr. Shyam for ₹ 4 Crore (originally purchased at ₹ 2 Crore & having FMV ₹ 4 Crore). Instead of consideration, the company will create a long-term loan due from Mr. Shyam in the books of accounts at ₹ 3 Crore & for the rest (₹ 1 Crore) of the amount, Mr. Shyam will provide Plant & Machinery to the company. No reporting or further disclosures were made by the company for this transaction as this was at an arm's length price.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Ananya & Company raised the contention that the appointment of CA. Kush is inappropriate as there were outstanding audit fees of ₹ 55,000 & he should not have accepted the appointment as Statutory Auditor. Considering the above scenario kindly guide CA. Kush on whether he should have declined the appointment on grounds of pending audit Fees.	D
(a)	As per section 141 of the Companies Act, 2013, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then should not accept the appointment till the time the previous auditor's audit fees are paid in full.	
(b)	As per section 139 read with Rule 3, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then he should not accept the appointment till if the previous auditor's audit fees are outstanding for a period of 180 days or more.	
(c)	CA. Kush can accept a position as auditor previously held by another CA or a certified auditor i.e., Ananya & Company who has been issued a certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.	
(d)	CA. Kush can accept the appointment as statutory auditor as the pending fees are disputed fees & this would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered.	
2.	Ananya & Company contended that they were not given special notice & hence the appointment of CA. Kush is invalid. Considering the above scenario kindly guide CA. Kush on what course of action he should have adopted in the current case.	A
(a)	Clause (9) of Part I of the First Schedule to CA Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 & 140 of the Companies Act, 2013 & hence CA. Kush is guilty of professional misconduct & his appointment is invalid.	
(b)	Clause (8) of Part I of the First Schedule to CA Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 & 140 of the Companies Act, 2013 & hence CA. Kush is guilty of professional misconduct & his appointment is invalid.	

	(c)	As per section 140(4) of the Companies Act, 2013, the company is required to share the general resolution & notice of appointment of another auditor once the resolution is passed in AGM. Hence, CA. Kush's appointment is valid & hence is not required to perform anything further.	
	(d)	CA. Kush before getting appointed communicated with the previous auditor which was sufficient & equivalent to special notice. Hence, the contention of Ananya & company is incorrect.	
3.	Whether contention of CA. Akash, the Engagement Quality Control Reviewer regarding analysis of the opening balances is correct. Kindly guide CA. Kush with the correct course of action as per SA 510.		A
	(a)	The auditor shall obtain SAAE about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's FS, & whether changes in the accounting policies have been properly accounted for & adequately presented & disclosed in accordance with the AFRF.	
	(b)	The auditor shall obtain SAAE about whether the material accounting policies reflected in the closing balances have been consistently applied in the current period's FS when there is a material change.	
	(c)	If the auditor has identified misstatement in the drafting of accounting policies in the current period, then he shall obtain SAAE about whether the accounting policies reflected in the opening balances were appropriately drafted & applied.	
	(d)	The auditor is not required to obtain SAAE about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's FS, & whether changes in the accounting policies have been properly accounted for & adequately presented & disclosed in accordance with the AFRF.	
4.	CA. Kush was perplexed concerning reporting a transaction entered between Mr. Shyam & the Company for the transfer of the Immovable Property. You are being the Engagement Quality Control Reviewer, kindly guide CA. Kush concerning the appropriate reporting of the said transaction as per CARO 2020.		A
	(a)	As per para 3(xv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions with directors or persons connected with him & if so, whether the provisions of section 192 of the Companies Act have been complied with.	
	(b)	As per para 3(xiv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions, other than being at arm's length price, with directors or persons connected with him & if so, whether the provisions of section 192 of Companies Act have been complied with.	
	(c)	As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof & also report if the company has defaulted in repayment of such loans raised.	
	(d)	As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has revalued its Property, Plant & Equipment (including Right of Use assets) or intangible assets or both during the year &, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant & Equipment or intangible assets.	

## INTEGRATED CASE STUDY - 11

CA. Kamlesh Dutta 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. 2029-30.

From F.Y. 2030-31 onwards, Pramati Limited had voluntarily adopted to prepare its FS 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 FS 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 FS 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 & 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 & was also preparing the MTM gain & loss calculation for the entity. Pramati Limited used to rely upon the calculations performed by RSPL & based on that they pass the MTM entry for their current investments every month. Pramati Limited were relying on the controls present 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.

Further while conducting the audit, CA. Kamlesh observed that investments in certain securities were sold at a price less than at which they were acquired & he didn't report on such matter as per Section 143(1) of the Companies Act, 2013, without even considering to inquire into the propriety aspect of the same.

CA. Kamlesh made the following observations while examining the FS prepared by the company as per Division II of Schedule III of the Companies Act, 2013, for the first time: -

1. Other non-operating income & expenses related to it were shown separately in the statement of Profit & Loss.
2. Trade payables (payable after 12 months) & Deferred tax liabilities were shown directly under the head "Non-Current Liabilities".

While finalizing the audit report, CA. Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance & 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.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	While finalizing 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:	B
(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 FS.	
(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 FS.	
(d)	The Audit team should qualify as per SA 705 the said change as it was not required to be implemented & this will create unnecessary confusion for the reader.	
2.	CA. Kamlesh's risk assessment includes an expectation that controls at the service organization are operating effectively & 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.	B
(a)	CA. Kamlesh's contention is correct as Management has comfort over the controls at service organization for the transactions & 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 & the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA. Kamlesh 's decision will be considered correct & appropriate.	
(d)	As no services are outsourced to the broker company & hence there is no need to obtain the type 2 report.	

3.	Whether it is justifiable that CA. Kamlesh didn't report on the matter with respect to sale of investments even without inquiring for the same?	D								
	<table><tr><td>(a)</td><td>No, as at least CA. Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bona-fide.</td></tr><tr><td>(b)</td><td>Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.</td></tr><tr><td>(c)</td><td>No, he should have at least consulted CA. Tushar before doing so.</td></tr><tr><td>(d)</td><td>Yes, as the relevant clause for the reporting is not applicable in case of Prammat Limited.</td></tr></table>	(a)	No, as at least CA. Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bona-fide.	(b)	Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.	(c)	No, he should have at least consulted CA. Tushar before doing so.	(d)	Yes, as the relevant clause for the reporting is not applicable in case of Prammat Limited.	
(a)	No, as at least CA. Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bona-fide.									
(b)	Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.									
(c)	No, he should have at least consulted CA. Tushar before doing so.									
(d)	Yes, as the relevant clause for the reporting is not applicable in case of Prammat Limited.									
4.	Identify the errors, if any, in the preparation of FS by the company as per Division II of Schedule III of the Companies Act, 2013, from the observations made by CA. Kamlesh.	C								
	<table><tr><td>(a)</td><td>Other non-operating income should have been shown by netting off the expenses related to it &amp; trade payables &amp; Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.</td></tr><tr><td>(b)</td><td>Trade payables &amp; Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.</td></tr><tr><td>(c)</td><td>Other non-operating income should have been shown by netting off the expenses related to it &amp; trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.</td></tr><tr><td>(d)</td><td>Trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.</td></tr></table>	(a)	Other non-operating income should have been shown by netting off the expenses related to it & trade payables & Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.	(b)	Trade payables & Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.	(c)	Other non-operating income should have been shown by netting off the expenses related to it & trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.	(d)	Trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.	
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(c)	Other non-operating income should have been shown by netting off the expenses related to it & trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.									
(d)	Trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.									
5.	CA. Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics & findings for discussion. Kindly guide CA. Kamlesh with respect to UDIN requirements for this letter.	B								
	<table><tr><td>(a)</td><td>Separate UDINs are to be generated for the Statutory audit report &amp; Letter to Those Charged with Governance.</td></tr><tr><td>(b)</td><td>UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 &amp; SA 265.</td></tr><tr><td>(c)</td><td>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.</td></tr><tr><td>(d)</td><td>One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management &amp; Those Charged with Governance.</td></tr></table>	(a)	Separate UDINs are to be generated for the Statutory audit report & 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 & 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 & Those Charged with Governance.	
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(d)	One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management & Those Charged with Governance.									

## INTEGRATED CASE STUDY - 12

During the planning stage of audit of Mobile & Cell Limited, the statutory auditor of the company, ABC & Co, decided:

- (1). To evaluate whether to use the work of internal audit function to gather SAAE for the purpose of expressing opinion on the FS of the company.
- (2). To perform test counts on a sample basis for Inventory Balance which was material. Also, the audit team will inquire management to provide copies of management's completed physical inventory count which will assist them in performing subsequent procedures required to determine whether inventory records accurately reflect actual inventory count results.
- (3). To perform substantive analytical procedures to gather SAAE for payroll cost. Audit team decided to recalculate the payroll cost by multiplying the total employees of the company with the average pay-out per employee.
- (4). To perform substantive procedures over the direct expenses which were assessed as a material with respect to the FS as a whole. Moreover, the number of items/transactions in direct expense were huge & were of non-homogenous nature. As a result, audit team decided to select some samples from each identified strata disaggregated to the lowest level based on their characteristics.
- (5). The performance materiality for assessing any misstatement was fixed at ₹ 10,00,000/-.
- (6). During the audit phase the audit team identified that -

- (7). The internal audit function reports directly to the management & they do not have any direct communication with the those charged with governance or an officer with the appropriate authority. Also, all the findings of internal audit function are first reported to the management & then the management decides what to report to those charged with governance from the findings of internal audit function.
- (8). Since last three years the company is making cash losses & is facing liquidity crisis. Moreover, there was a huge loan instalment due for repayment in next three months. Considering the company's liquidity profile, it was evident that company will default the upcoming loan instalment & the payment of interest there on. When inquired with the management as to how they will deal with this situation & how they will consider the impact of these events on management's assumption of going concern, the management contended that the company would raise more funds through issue of fresh equity in the primary market to manage the liquidity requirements.
- (9). Moreover, there was an ongoing litigation on Company & its Officers for misappropriation of loan funds. As a result, after analysing the SEBI Listing Requirements, it was evident that company was not in position to issue fresh equity in the primary market.
- (10). In one of the direct tax litigations, the adjudicating authority issued an unfavourable order against the company because of which the company was now required to pay huge fines & interest to the Tax Authority. The amount of fine & interest there on was material.
- (11). The engagement manager identified that the total payroll costs booked for the period was ₹ 30,00,000/for total 150 employees employed throughout the year from the payroll records & register. Engagement manager was able to identify that the average pay-out per employee was ₹ 20,500/-. Also, the independent expectation developed for the payroll cost was between ₹ 30,00,000/- to ₹ 32,00,000/- for the year.
- (12). The Audit team performed the testing of direct expense & following is the outcome:

Strata Name	Balance as per books	Total of sample value	No of Samples	Exception amount in samples	Reason for exception
Freight Expense	₹ 5,00,000	₹ 1,00,000	10	₹ 25,000	one invoice was incorrectly booked
Loading Charges	₹ 4,00,000	₹ 80,000	15	₹ 0	NA
Shipping Charges	₹ 9,00,000	₹ 2,70,000	10	₹ 0	NA
Packaging Expense	₹ 8,00,000	₹ 2,40,000	5	₹ 3,000	No documents were available for the said samples
Storing Expense	₹ 12,00,000	₹ 1,20,000	10	₹ 8,000	Warehouse charges were booked as storing expense. Wrong classification.
Total	₹ 38,00,000	₹ 8,10,000	50	₹ 36,000	Projected misstatement was ₹ 1,68,889/-(36,000 / 8,10,000 x 38,00,000).

- (13) Management allowed auditor to attend the physical inventory count, however, management did not allow audit team to perform any other procedure during the physical count. When inquired from management regarding the denial to the auditor from performing additional audit procedures along with attending the inventory count, the management explained that the inventory consists of very unstable chemicals & inflammable gases which require handling with skill & care. Any carelessness in handling the inventory can result in catastrophe. As a result, due to safety standards & policies, the management cannot allow the auditor to perform additional audit procedures.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Auditor of the company decided to draw attention of the users of the audit report on the existence of the material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern by disclosing the same in other matter paragraph. As an Engagement Quality Control Reviewer, guide the Auditor about the correct way of disclosing the existence of the material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern when the management has not made appropriate disclosure of a material uncertainty in the FS.	C
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	<p>(a) When the management has not made appropriate disclosure of a material uncertainty in the FS &amp; there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should disclose the same in "Key Audit Matter" section in Audit Report only. No other disclosure is required.</p> <p>(b) Disclosure of the material uncertainty in the FS is the responsibility of the management &amp; the auditor should not comment on the same.</p> <p>(c) When the management has not made appropriate disclosure of a material uncertainty in the FS &amp; there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should express a qualified or adverse opinion &amp; should mention in the Basis of Qualified / Adverse Opinion section of the Audit Report about existence of the material uncertainty.</p> <p>(d) When the management has not made appropriate disclosure of a material uncertainty in the FS &amp; there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should express an unmodified opinion &amp; should obtain the written representation about existence of the material uncertainty from management.</p>	
2.	<p>In view of current scenario, which of the following requirements as per SA 610 are required to be fulfilled by Statutory Auditors of the Company, prior to using the direct assistance of the Internal Audit Team?</p> <p>(a) Statutory Auditors should obtain written agreement from the management of the Company that the internal audit team will be allowed to follow the statutory auditors' instructions.</p> <p>(b) Statutory auditors should obtain written agreement from internal audit team that his team will keep the matters confidential.</p> <p>(c) Both a &amp; b.</p> <p>(d) Statutory Auditors can use the direct assistance of the internal audit team after discussing the same with the management. No prior written agreement is required.</p>	C
3.	<p>Considering the inherent limitation with respect to the inventory count, the audit team decided not to perform any other procedure or not to obtain any documentary evidence from management with respect to inventory. Guide the audit team in the current scenario by selecting the appropriate option from below:</p> <p>(a) If the auditor has not obtained SAAE as to a material FS assertion, the auditor shall not attempt to obtain further audit evidence.</p> <p>(b) If the auditor has not obtained SAAE as to a material FS assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain SAAE, the auditor shall express a qualified opinion or a disclaimer of opinion.</p> <p>(c) In case where audit team is not able to obtain SAAE as to a material FS assertion, then the auditor should appoint management's expert &amp; should try to obtain required evidence from such expert.</p> <p>(d) In case where audit team is not able to obtain SAAE as to a material FS assertion, then the auditor should communicate to management &amp; should obtain written representation from them.</p>	B
4.	<p>Based on the recalculation performed by the audit team, the total payroll cost arrived for the period was ₹ 30,75,000/-. Analyse &amp; guide the audit team with respect to the results obtained from the substantive analytical procedure by selecting the appropriate option from below:</p> <p>(a) The difference identified between the payroll costs derived through substantive analytical procedure &amp; the expectation developed is material based on the materiality fixed by the audit team &amp; hence it requires further investigation.</p> <p>(b) The amount derived through substantive analytical procedure is not in congruence with the total amount of the payroll cost booked for the period. Hence the audit team should investigate the reasons for the difference between the amount derived &amp; the actual cost booked.</p> <p>(c) The total payroll cost arrived is well within the expectation developed &amp; the difference between the amount recorded &amp; the amount derived through substantive analytical procedure is not material. Hence, it does not require any further investigation.</p>	C

	(d)	The difference identified between the amount derived through substantive analytical procedure & amount developed as an expectation is significant & the audit team should obtain appropriate written representation from management with respect to the completeness & accuracy of the amount derived through substantive analytical procedure.	
5.	Based on the above outcome of the direct expense testing the audit team decided to project the total misstatement on the entire balance considered for testing. As per the calculation performed, the projected misstatement was ₹ 1,68,889/-. Kindly analyse & guide the audit team with respect to the results obtained from the substantive testing by selecting the appropriate option from below:		B
	(a)	The projected misstatement calculated is appropriate. Moreover, Based on the performance materiality & projected misstatement the auditor should modify his opinion.	
	(b)	When a class of transactions or account balance has been divided into strata, then the misstatement is required to be projected for each stratum separately. Hence, the audit team's approach is incorrect with respect to the calculation of projected misstatement. The Audit team should recalculate the projected misstatement & then they should consider its impact on overall audit opinion based on the materiality.	
	(c)	The audit team should have considered the exception of ₹ 8,000/- twice while calculating the projected misstatement, as the error is regarding wrong classification & the same will affect two class of transactions or balances. Hence audit team should consider revising the projected misstatement & then they should consider its impact on overall audit opinion based on the materiality.	
	(d)	Audit team has appropriately calculated the projected misstatement. However, before modifying the audit opinion the audit team should obtain written representation with respect to the completeness & accuracy of the direct expense balance which could serve as a sufficient & appropriate.	

### INTEGRATED CASE STUDY - 13

Mr. Paras has been appointed statutory auditor under Companies Act, 2013 of DEMA Limited., a company engaged in manufacturing of range of products. DEMA Limited was also listed on NSE. Mr. Paras identified a fraud related to misappropriation of cash amounting to ₹ 3 Crore in the books of the company. In this fraud, Procurement Manager & Payment Managers were together involved. As per provision of Section 143(12) Mr. Paras, reported fraud to Audit Committee within 7 days from date of identification & asked audit committee to submit their response. Audit Committee did not respond as they wanted to investigate further on this.

In the absence of any reply, audit committee &, understanding the nature of issue, Mr. Paras did not report this issue to anyone as it could impact negatively to the image of the company. Further, Mr. Paras made necessary change in their audit procedures to extent their coverage of Procurement & Payments area. After performing additional procedures over Procurement & Payment business process, Mr. Paras identified that the internal controls over the said area are significantly deficient. Mr. Paras did not communicate this finding with those Charged with Governance as he already reported about the fraud & the Audit Committee was investigating the same.

Mr. Paras also identified that the internal audit function reports directly to the management & they do not have any direct communication with those charged with governance or an officer with the appropriate authority. Also, all the findings of internal audit function are first reported to the management & then the management decides what to report to those charged with governance from the findings of internal audit function.

At the end, Mr. Paras issued a qualified opinion, &, in his report, he mentioned the following paragraph under the head "Basis of Qualified Opinion":

- Company has not disclosed the impact of pending litigations on its financial position in its FS. The impact assessed for the pending litigation is ₹ 4.5 Crore (Best Estimate).
- During the audit, a fraud related to misappropriation of cash amounting to ₹ 3 Crore was identified in the books of the company.
- Company has not made any provision, as required under any law or accounting standards, for material foreseeable losses on long term contracts including derivative contracts. During the year, as per assessment

performed by an expert, the amount of provision for material foreseeable loss on long term contracts was estimated at ₹ 7 Crore for which no provision was made.”

No other reference or reporting was made of these qualifications in audit report.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Kindly guide whether Mr. Paras is eligible to be appointed as a Tax Auditor of DEMA Limited u/s 288 of the Income Tax Act, by selecting the appropriate option from below:	B
(a)	As per 288(2)(viii)(a) of Income Tax Act read with Section 141(3) of Companies Act, relative of Mr. Paras is holding securities of market value of ₹ 1,00,000 or more & hence Mr. Paras is not eligible to be appointed as Tax Auditor.	
(b)	As per 288(2)(viii)(a) of Income Tax Act read with Section 141(3) of Companies Act, relative of Mr. Paras is not holding securities of face value having ₹ 1,00,000 or more & hence Mr. Paras is eligible to be appointed as Tax Auditor.	
(c)	As per Section 288(2)(viii)(b) relative of Mr. Paras is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company & hence Mr. Paras is not eligible to get appointed as a Tax Auditor.	
(d)	Relative of Mr. Paras is the person who is competent to verify the return u/s 139 in accordance with the provisions of section 140 & hence Mr. Paras is eligible to get appointed as a Tax Auditor.	
2.	With respect to the qualifications (a) & (c) specified in the Audit Report, kindly guide with respect to the additional reporting requirement of these matters in audit report.	B
(a)	As per the CARO, 2020, Auditor is required to report these matters under reporting done for Para 3(ix) of the Order.	
(b)	As per section 143(3)(j) read with Rule 11(a) & 11(b) of The Companies (Audit & Auditors) Rules, 2014, Auditor is required to report or give reference of these matters.	
(c)	Company is not required to report these matters anywhere else except for qualification under the head "Basis for Qualification"	
(d)	Company should report this matter under the head "Management Responsibilities".	
3.	With respect to identification of Fraud in the books of account of the company, Kindly guide Mr. Paras with respect to the appropriate reporting requirements u/s 143(12) of Companies Act.	C
(a)	Mr. Paras should have reported the matter to Audit Committee within 2 days of identification of the fraud. However, Mr. Paras is valid in not reporting this issue further as it could negatively to the image of company.	
(b)	Mr. Paras should have reported the matter to Audit Committee & Board of Directors within 7 days of identification of the fraud. Hence, Mr. Paras did not report to Board of Director which is inappropriate.	
(c)	Mr. Paras should have reported the matter to Audit Committee within 2 days of identification of the fraud. Over & above Mr. Paras should have reported this matter to the CG as per prescribed rules.	
(d)	Mr. Paras should not have reported this matter to Audit Committee. Mr. Paras should have reported matter first to CG within 2 days of identification of fraud.	
4.	With respect to the reporting of significant deficiencies to those charged with governance, kindly guide Mr. Paras with respect to appropriate provisions in this regard.	B
(a)	As per SA 315, the engagement partner shall determine which matters are to be communicated to management & those charged with governance involved in the discussion.	
(b)	As per SA 265, the auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.	
(c)	As per SA 315, the auditor should understand the communications between management & those charged with governance before communicating anything to those charged with governance.	

	(d)	As per SA 450, the auditor shall communicate on a timely basis critical misstatements accumulated during the audit with the appropriate level of management, unless they are already communicated with management earlier in any form.	
5.	The external audit team decided to rely on & to use the work of internal audit function in the areas where more judgment was involved or where the risk of material misstatement was assessed at a higher level. Based on the above information, kindly guide the audit team regarding use of the work of internal audit function as per SA 610 by selecting the appropriate option from below:		A
	(a)	The external auditor shall not use the work of an internal audit function if the external auditor determines that the internal audit function's organizational status & the relevant policies & procedures do not adequately support the objectivity of the internal auditors.	
	(b)	The external auditors shall not use the work of an internal audit function if the external auditor determines that the internal audit function's organizational structure & relevant policies & procedures do adequately support the objectivity of internal auditors.	
	(c)	The external auditor shall use the work of the internal audit function if the external auditor determines that the internal audit function applies a systematic & discipline approach including quality control while discharging their duties.	
	(d)	The external auditor shall not use the work of the internal audit function if the external auditor determines that the internal audit function does not lack sufficient competence to discharge their duties.	

### INTEGRATED CASE STUDY - 14

AB & Co., CAs are having 4 partners- Mr. A, Mr. B, Mr. C & Mr. D respectively. Head office is situated at New Delhi with 2 branch offices at Mumbai & Kolkata. The Firm was founded in the year 1983.

Mr. A looks after Internal Audit assignments. Mr. B & Mr. C head Income Tax Audits & consultancy. Mr. D specializes in Company Audits & Bank Audits.

Firm is empanelled with the Comptroller Auditor General of India (CAG), Reserve Bank of India (RBI) & the Income Tax Department for conducting Special Audits.

During the statutory audit of PQR Ltd. (a Listed company) for FY 2030- 2031, following observations were noted by Mr. Z (an articled assistant):

- ➔ The company's accounts have been prepared on IND-AS basis as specified by the Companies Act, 2013
- ➔ There was a major fire at the plant on 3rd April 2031 which destroyed stocks worth ₹ 40 lakh, approximately equal to 35% of the total stock in hand.
- ➔ The company acquired 53% shares of Subsidiary Ltd. on 1st March 2031 However it sold all shares on 15th October 2031.
- ➔ The Company is having 1 crore Equity Shares @ ₹ 10 as its Paid up Capital.
- ➔ During the Year Company declared dividend of ₹ 1 per share out of current year profits.
- ➔ Mr. Z was offered 0.5% of total profits of AB & Co. for performing very well in the audit of PQR Ltd. by Mr. D as a token of appreciation.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Whether preparation of Consolidated FS is required for FY 2030-2031 for PQR Ltd?		D
	(a)	No, since the control is temporary as the shares are held for disposal in near future, the consolidation is not required as per IND AS 110.	
	(b)	No, since the control is temporary as shares are held with a view for disposal in near future & it should be presented as asset held for sale under IND AS 105.	
	(c)	No, since as per section 129(3) of the Companies Act, 2013, only disclosure in notes shall be sufficient.	
	(d)	Yes, it is required under IND AS 110.	
2.	Regarding the loss by fire, what is the correct course of action for the FS for 2030-31 as per IND AS 10?		A

	(a)	Disclose the loss by fire in the notes, do not adjust the FS.	
	(b)	Write off the stock lost by fire totally as on 31.03.2031.	
	(c)	Make a provision for loss by fire on 31.03.2031 & pass actual write off entry on 3.04.2031, the date of fire.	
	(d)	Neither adjust the loss nor disclose in the notes as the loss does not relate to FY 2030-31.	
3.	Is Mr. D liable for professional misconduct by sharing profits with Mr. Z? If yes, under which clause?		B
	(a)	No, as the profits were given as a token of appreciation	
	(b)	Yes, under clause (2) Part I of First Schedule.	
	(c)	Yes, under clause (2) Part I of Second Schedule.	
	(d)	Yes, under clause (1) Part II of Second Schedule.	

## INTEGRATED CASE STUDY - 15

Andy & Co. a reputed CA firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company & 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 ₹ 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year & your 1st year trainee asks you the following questions listed down. 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 & its environment:

- ➔ The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 & the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as the reports given by him are designed in a marvellous 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 having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

On the basis of the abovementioned facts, you are required to answer the following MCQs

1.	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:		C
	(a)	As the work done by the internal auditor is marvellously designed & 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 be definitely used by Andy & Co.	
	(b)	The work done by the Internal Auditor need to be assessed for the sufficiency & should be used to avoid the double work. The audit team of Andy & Co. need to reduce the unnecessary work as the same has been performed by the other auditor.	
	(c)	The auditor is required to assess the competence & professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co. needs to reconsider the audit strategy & cannot use the work of the Internal Auditor.	
	(d)	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.	
2.	The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:		D

	(a)	The company needs to prepare the consolidated FS & the same need to be audited by the auditor & the auditor needs to consider the financial information & also assess regarding the need to use of the work of the component auditor.	
	(b)	The auditor needs to perform audit procedures over the balances in investments & transactions with its related party.	
	(c)	The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.	
	(d)	Both (a) & (b).	
3.	The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:		A
	(a)	The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value & its disclosures in the FS.	
	(b)	The auditor should also audit the group consolidated FS as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.	
	(c)	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.	
	(d)	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.	
4.	The company has requested its previous auditor to give back its audit documentation ("working papers") & warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:		C
	(a)	The previous auditor is bound to return the workpapers as the company has raised the confidentiality clause over the audit firm. Thus, the SA – 230 is not applicable in such scenario as the original owner itself is requesting to return the working papers.	
	(b)	The auditor has a right over its working paper, & he is the owner of the workpapers but he cannot give the workpapers to any person even at the request of the company.	
	(c)	The auditor has a right over its working paper, & he is the owner of the workpapers & he may give at his discretion make available the workpapers to the company.	
	(d)	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 & SQC-1 mandates the auditor to make copies made available to its clients.	
5.	The trainee asked you whether the IND AS is applicable to the group or not?		B
	(a)	Yes, but only Manava Swaroopam Limited need to prepare its FS as per the Companies (Indian Accounting Standards Rules), 2015.	
	(b)	Yes, the Company Manava Swaroopam Limited & its subsidiaries (including associates) need to prepare its FS as per the Companies (Indian Accounting Standards Rules), 2015.	
	(c)	The Company is not required to prepare FS as per Companies (Indian Accounting Standards Rules), 2015 as the company's net worth is below 250 crore & is not listed in any recognised stock exchange in India.	
	(d)	The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange & get the books audited by the CPA but not the Indian CA.	

## INTEGRATED CASE STUDY – 16

Sankalp 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 F.Y: 2030-31 is as follows:-

S. No.	Particulars	Amount
1	Aggregate Outstanding Loans, debentures & 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 2030-31, M/s Aagam & Associates were the auditors of the Company. The auditors found out significant deficiencies in internal control & misrepresentation of amounts in the area of Trade Payables. Therefore, Auditor issued qualified Audit Report.

Next year, management did not wish to re-appoint the same auditors, & hence, Board of Director recommended Ms. Aangi as the Statutory Auditor for F.Y 2031-32 to the members of the Company.

After appointment, Ms. Aangi went through previous year financials statements, audit report etc. & emphasised the understatement of Trade Payable balance as a significant audit risk. Auditor set the materiality at ₹ 15,00,000 for conducting audit of the year 2031-32.

Further, Ms. Aangi is in process to select 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 Sankalp 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 31, 2032, the balance of two vendor as per company's General Ledger & 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
Suchi Groundnut Seeds Limited	₹ 15,00,000	₹ 20,00,000
Nishi Sunflower Seeds Limited	₹ 65,00,000	₹ 80,00,000

Suchi 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, 2031.

Nishi Sunflower Seeds Ltd.:-

The difference in the balance is due to the reason of two invoices of ₹ 10,00,000 & ₹ 5,00,000 dated March 25, 2032 & March 27, 2032 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03, 2031 & therefore, those were not recorded in the FS for the year ended March 31, 2032.

Ms. Aangi 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 &;
- ➔ ₹ 8,00,000 error was made by Mr. Samyak, an executive who came as a temporary replacement for one week in the place of Ms. Hetavi, who is permanent accountant of the company. The mistake was clerical in nature.

Based on the above facts, answer the following:-

1.	Which items should Ms. Aangi select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed?	B
	<ol style="list-style-type: none"> <li>(i) Major Vendors where the confirmation balances agrees to General Ledger.</li> <li>(ii) Vendors which have high volume of business with Sankalp Edible Oil Limited.</li> <li>(iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.</li> <li>(iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.</li> </ol>	
	(a) i & iii.	
	(b) ii, iii, & iv.	

	(c)	i & ii.	
	(d)	i, ii & iii.	
2.	How can Ms. Aangi audit the operating effectiveness of internal control around the accounting of Trade payables?		C
	(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. Aangi should perform to verify whether the payable balances of Nishi Sunflower Seeds Ltd. are correctly recorded in the FS.?		D
	(a)	Send a confirmation to Nishi Sunflower Seeds Ltd. to requesting to confirm the outstanding balance as at March 31, 2032.	
	(b)	Verify the bank payments for the period of post March 31 2032, for any evidence of payment of invoice.	
	(c)	Review the listing of purchase order to confirm whether it pertains to the current year 2031-32 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. Aangi for two errors amounting to ₹ 4,00,000 & ₹ 8,00,000 in the given scenario?		D
	(a)	The total amount of error is below the materiality & therefore it should not be considered or further work upon.	
	(b)	Ms. Aangi should ask Sankalp Edible Oil Ltd. to adjust ₹ 12,00,000 in the Payable balance & 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 & extrapolated across the whole population.	

## INTEGRATED CASE STUDY - 17

Mr. I was appointed as statutory auditor of M/s New Limited & M/s Old Limited. Both the companies were having their base in Chennai they had recently listed their shares on the stock exchange. For the F.Y. 2031-32, Mr. I had signed limited review reports for each quarter, till the quarter ended 31st December 2031 for both the companies. Owing to his personal commitments & increased work load, he tendered his resignation to M/s New Limited on 30th January 2032 & asked the company to appoint another auditor to issue audit report for the remaining quarter & the FY 2031-32 as a whole. But the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.

However, Mr. I continued to as act as auditor for M/s Old limited. During the 1st week of March 2032, Mrs. W (wife of Mr. I) had borrowed a sum of ₹ 6 lakh from the company for her personal use. Having come to know about this, Mr. I immediately informed the management that he had been disqualified to act as auditor & told them that he won't issue audit report for last quarter. But once again, the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.

Apart from the above assignments, Mr. I was engaged in the audits as well:

- ➔ Internal audit of M/s ABC (P) Ltd.
- ➔ Registration of a 'RCO Trust' which was started on 31st December 2031.

Mr. J, (friend of Mr. I) a CA in practice invited Mr. I to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same & decided to start a network firm by the name M/s JI & Co. However, one of the auditors suggested that they cannot use the term '& Co.' & it needs to be changed. But Mr. J informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of CA Act & Regulation was accepted by all the four partners.

Based on the above facts, answer the following -

1.	Is the management (of M/s New Limited) right in asking Mr. I to issue audit report for the last quarter & the FY 2031-32 as a whole, despite his resignation ? What could be the reason for the same ?	D
(a)	No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the F.Y. as a whole.	
(b)	Yes. If the auditor resigns within 45 days from the end a quarter, he is obligated to issue audit report for such quarter.	
(c)	No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue audit report for the F.Y. as a whole if he resigns during last quarter.	
(d)	Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2031-32 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the F.Y. as a whole if he resigns during last quarter.	
2.	From the aspect of SEBI LODR regulations & the recent circular on 'Resignation of Statutory Auditors from listed entities', is the management (of M/s Old Limited) right in asking Mr. I to issue audit report for the last quarter? What could be the reason for the same?	B
(a)	Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2030-31 since he was the one who had issued the same for first 3 quarters.	
(b)	No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable.	
(c)	Yes. The disqualification affects Mr. I from issuing audit report from next quarter only.	
(d)	Yes. If the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter.	
3.	Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of CA Act & regulation?	D
(a)	JI & Co.	
(b)	JI & Associates.	
(c)	JI & Networks.	
(d)	JI & Affiliates.	

## INTEGRATED CASE STUDY - 18

TMRT Retail Limited, (the 'Company' or 'TMRT'), is engaged in the business of retail. The Company follows F.Y. ending 31st March. The Company also plans to get listed in India in the next 4 -5 years.

During the F.Y. ended 31st March 2029, the management had noted extra-ordinary shrinkages of inventories at one of their stores. Post examination/ analysis by the in-house inventory shrinkage team, the management came to know about fraud of ₹ 19 lakh by the employees of the Company comprising of Head Cashier, Cashier & Public Relations Officer.

TMRT has a joint venture, DT Ltd., which is engaged in the business of trading of goods. DT Ltd. appointed new tax auditors for the F.Y. ended 31st March 2029. DT Ltd. follows calendar year i.e. year ending 31st December for statutory reporting after obtaining requisite approvals. The appointment of the new tax auditors was done after 31st March 2029.

For the reporting year ended 31st March 2031, TMRT's management plans to have BKP & Associates as their internal auditors. BKP & Associates also happen to be the statutory auditors of TMRT. However, the management has been

advised by a consultant that it cannot appoint statutory auditors as their internal auditors because it would lead to the issue of independence.

BKP & Associates have been auditing TMRT for the last 3 years & had considered management override of controls as fraud risk & revenue recognition as significant risk for TMRT. BKP & Associates are evaluating whether they should drop both management override & revenue recognition as significant risks for the F.Y. ending 31st March 2032 considering they did not find any problems/observations in respect of these two items in the past years & their reports have been clean for the last 2 years.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	In respect of the fraud identified by the management, what shall be the reporting implications on the part of the auditor?	A
(a)	Auditors would need to report the fraud in their CARO report. Further they also need to evaluate whether their report on IFC & the main report should be qualified or not.	
(b)	Considering the materiality, the auditors may consider not to report this matter anywhere. This is also because of the fact that management has identified this.	
(c)	Auditors would need to qualify their main report as well as their CARO report.	
(d)	Auditors would need to qualify their main report as well as their CARO report. Further they would also need to report about this matter to the Audit Committee as well as the CG.	
2.	The management of DT Ltd did not carry out physical verification of inventory for the year ended 31 March 2029. What could be the reporting implications on the part of the tax auditor in such a case?	D
(a)	Since the tax auditors & the management both did not carry out physical verification of inventory as at 31 March 2029, tax auditors should report on the basis of statutory audit report of the same period or last audited period, as applicable.	
(b)	It is a common practice to appoint tax auditors after reporting year end & in such a case, the auditors should carry out the physical verification after their appointment & roll back procedures in respect of inventory. Accordingly, no reporting matter arises in such a situation.	
(c)	The tax auditors would need to evaluate the nature of the inventory. Further the management should give a note in respect of this matter in the FS basis which no reporting implication would arise.	
(d)	Since the tax auditors & the management both did not carry out physical verification of inventory as at 31 March 2029, tax auditors would need to qualify the tax audit report. Tax auditor would also evaluate how the statutory auditor has reported this particular matter in his auditor's report.	
3.	The management of TMRT needs your advice in respect of appointment of common auditor both for statutory auditors & internal auditor for the F.Y. ended 31 March 2031.	A
(a)	Management has been advised correctly. Statutory auditors of TMRT cannot become their internal auditors.	
(b)	Management has not been advised correctly. Statutory auditors of TMRT can also become their internal auditors.	
(c)	Management has not been advised properly. Statutory auditors of TMRT can also become their internal auditors as they are familiar.	
(d)	Management has not been advised properly. However, in the given case, statutory auditors of TMRT would not be able to take up internal audit of TMRT because they need to mention the same at the time of giving their consent letter & eligibility certificate at the time of appointment of statutory auditor.	
4.	Please advise BKP & Associates whether it would be appropriate to drop management override of controls & revenue recognition as significant risks for the F.Y. ending 31 March 2032.	B
(a)	It would be appropriate to drop management override of controls & revenue recognition as significant risks for the F.Y. ending 31 March 2032.	

	(b)	Management override of controls & revenue recognition should continue to be the significant risks for the F.Y. ending 31 March 2032 if that continues to be significant risk at inherent level.
	(c)	Management override of controls should continue to be the significant risk for the F.Y. ending 31 March 2032. Revenue recognition may not be considered as significant risk.
	(d)	Revenue recognition should continue to be the significant risk for the F.Y. ending 31 March 2032. Management override of controls may not be considered as significant risk.

## INTEGRATED CASE STUDY - 19

Kaai (P) Ltd. is involved in the wholesale business of vegetables across various cities of India. The company delivers all the orders using its own vehicles. However, during peak season, the company would hire vehicles to deliver its orders. M/s PAZH & Co. CAs were the auditors of the company for past two years. For the year ended 31st March 2031, the statutory & tax audit was conducted by the firm, & following were the observations made:

Observation – 1: With respect to the expenditure made by the company, the following were to be disclosed in tax audit report, but the management did not accept the decision of the auditor.

- (i) The company had incurred ₹ 40,000/- towards advertisement expenditure on a brochure/ pamphlet published by a private educational institution in Pune.
- (ii) The company reimbursed ₹ 18,000/- to its employees who had incurred the expenses on entrance fees paid to a club.
- (iii) The company had an idle land near to one of its godown. It had employed 5 farmers to cultivate rice & had made an income of ₹ 13 lakh by selling the output. The salary paid to the 5 employees & other costs amounting to ₹ 2 lakh were debited to the profit & loss account of the company.

Observation – 2: The company was operating with same share capital which it had since inception (i.e. ₹ 95 lakh). During the year, it had made a turnover of ₹ 158 lakh & its borrowings stood at ₹ 58 lakh as on 31st March, which was after settling a loan of ₹ 43 lakh taken from SBI on 24th March. The amount of ₹ 58 lakh was the balance of term loan taken in the earlier year & after repayment of instalments in the current year as & when due.

After completion of the above audit, the firm received the following assignments:

- (i) Offer to be appointed as internal auditor of HH Ltd.
- (ii) Offer to be appointed as statutory auditor of HH Employees Provident Fund.
- (iii) Offer to be appointed as statutory auditor for YY Bank & simultaneously, they were also appointed to perform stock audit of its branch.
- (iv) To act as financial advisor to M/s NBE Mutual Fund Ltd. for a professional fee of ₹ 1 lakh per annum.

The audit firm feared that it would attract professional misconduct & regulatory issues if it takes up all the assignments & hence gave up all the offers.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	From the observation - 2, can you suggest whether CARO is applicable to the company or not? What is the reason?		D
	(a)	No, as per para 1 of CARO 2020, private limited companies are exempt.	
	(b)	Yes. Since the paid-up capital of the company exceeds the specified limits, CARO 2020 is applicable.	
	(c)	Yes. Since the turnover of the company exceeds the specified limits, CARO 2020 is applicable.	
	(d)	Yes. Since the borrowings of the company exceeds the specified limits, CARO 2020 is applicable.	
2.	Does the act of being appointed as financial advisor to M/s NBE Mutual Fund Ltd attract professional misconduct? What is the reason?		B
	(a)	No. As per the decisions of ethical standard board of ICAI, only if the firm acted as equity research advisor it would attract professional misconduct.	
	(b)	Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a mutual fund company & receive fees from them.	
	(c)	No. Only if the firm acted as financial advisor to NBFC or Insurance company, it would attract professional misconduct	

	(d)	No. As per the decisions of ethical standard board of ICAI, only if the firm acted as financial advisor for commission income, it would attract professional misconduct	
3.	Among the assignments (i), (ii) & (iii) given in the scenario which PAZH & Co. received, undertaking which would have led to professional misconduct?		C
	(a)	(ii) only.	
	(b)	Both (i) & (ii).	
	(c)	(iii) only.	
	(d)	(i) only.	

## INTEGRATED CASE STUDY - 20

Arogya Pradhan Limited is a public company incorporated in September 2031 with a registered office in Chennai. The company is in business of Healthcare services. The company has 151 Ayurvedic clinics & 303 Ayurvedic pharmacies throughout the country.

In the previous year, company achieved turnover of ₹ 3,000 crore & had earned the Net Profit of ₹ 25 crore. The company had borrowed a term loan of ₹ 100 crore from State Bank of India.

M/s Bright Moon LLP are appointed as statutory Auditors of the company for the year 2030-31. After completing the initial engagement procedures & audit planning, the audit team started with the verification of Internal Financial Controls of the company.

While understanding the controls established by the management in the 'Revenue Process', the audit team observed that there is only one Review Control wherein 20 executives had to prepare the sales invoice & Mr. Darshan - Sales Manager, had to review & authorise all the invoices. It was observed that on many occasions, Mr. Darshan had more than 1000 invoices to authorise in a single day. Further, he has frequently asked 2 senior most executive to review pending invoices & he has relied on them by directly giving his authorization on the invoice. It was observed that Mr. Darshan did not take any leave during the entire year. It was observed that Mr. Darshan's performance bonus was linked with number of invoices authorised by him. In addition, Mr. Darshan was the sole authority to approve the sales commission & sales discount which was to be applied by the customers.

The audit team has set ₹ 30 crore as materiality based on 1% of Turnover. For selecting the samples, Mr. Santosh – Audit Executive, used the below mentioned formula:-

Ledger Balance \* 100

Materiality \* 365 days

Mr. Santosh selected 30 samples for the verification of above mentioned "Review Control". It was observed that out of 30 samples, 20 samples had irregularities in invoices which was clearly due to improper functioning of review control. The amount of irregularity in 20 invoices amounted to ₹ 4 crore. The auditor still issued the clean audit report & took the written representation letter from the management for efficient implementation of Internal Financial Controls.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Is the Control "Designed" appropriately?		B
	(a)	No, because there are irregularities amounting to ₹ 4 crore in the samples selected by Auditors.	
	(b)	No, because Mr. Darshan's performance bonus is linked with number of invoices authorised.	
	(c)	No, because there are no leave taken by Mr. Darshan during the entire year.	
	(d)	Yes. 'Review Control' is designed appropriately.	
2.	Is the Control "Implemented" effectively?		A
	(a)	No, because Mr. Darshan delegates his work of review to other executives who are senior in experience.	
	(b)	No, because Mr. Darshan is heavily burdened with excessive work.	
	(c)	No, because Mr. Darshan is authorized to finalize sales commission & sales discount.	
	(d)	Yes. 'Review Control' is implemented appropriately.	

3.	In the above case, to whom should M/s Bright Moon LLP report first?		C
	(a)	To ROC.	
	(b)	To CG u/s 143(12) of Companies Act, 2013 as the impact in above case is more than ₹ 1 crore.	
	(c)	To Those Charged with Governance.	
	(d)	To Shareholders as they are the appointing authority.	
4.	How samples are to be selected for the purpose of verification of Internal Financial Control?		D
	(a)	Monetary Unit Sampling.	
	(b)	Sampling based on Materiality.	
	(c)	Sampling based on probability of default of the control.	
	(d)	Sampling based on frequency of functioning of control.	
5.	In the current scenario, how should M/s Bright Moon LLP report?		D
	(a)	Clean Report with Other Matter paragraph.	
	(b)	Clean Report with Emphasis of Matter paragraph.	
	(c)	Clean Report with reporting in Key Audit Matter.	
	(d)	Qualified Report (both main report & ICFR report).	

## INTEGRATED CASE STUDY - 21

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 & 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 & books of accounts closing balance. The management considered it to be an immaterial amount & wrote it off through "Miscellaneous Profit & 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 & increase in number of invoice cancellation instances & 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 & sales process through Kochi warehouse. The management gave the following response to the auditor:

1. The physical verification takes place every six months & the warehouse keeper is responsible for physical verification & sending records back to the head office.
2. Because of low operations in past years the warehouse keeper himself takes care of invoicing & 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 & inventory as per physical verification in descending order.

The auditor decided to visit the Kochi warehouse & conduct the root cause analysis & 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 & 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 & the books.

On this information, the management has asked auditor that why this was not brought into notice last year & whether the audit not conducted properly then. Further, a consultant was appointed by the management for the overview of internal controls with regard to verification of inventory & suggest recommendations.

Based on the above facts, answer the following:-

1.	In the view of the above case scenario, which according to you is the correct statement:	C
(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 was not in the sampling materiality level & 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 & errors must be identified with the statutory audit.	
2.	Which components of audit risks are represented in the aforesaid scenario?	B
(a)	Inherent Risk & Control Risk — Inherent risk due to its nature of business or operations & Control risk due to inappropriate design & ineffective implementation of internal controls.	
(b)	Control Risk & Detection risk- Control risk due to inappropriate design & ineffective implementation of internal controls & audit detection risk due to possibility of auditor not identifying risk of misstatement.	
(c)	Fraud risk due to nature & size of operations & high likelihood of fraud due to its significance.	
(d)	Risk of Error because there was error in the presentation in the FS last year.	
3.	Which Internal Control seems to have been compromised as the root cause here?	C
(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 & Documents leading to non- recording of correct inventory value.	
4.	Which Segregation of Duties aspect seems to have been compromised here?	C
(a)	Authorization, Execution & Record keeping.	
(b)	Authorization, Execution & Custodian.	
(c)	Execution, Custodian & Record keeping.	
(d)	Custodian, Record keeping & Authorization.	

## INTEGRATED CASE STUDY - 22

Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2031. Total Deposits of the bank on 31.03.2030 was ₹ 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2030-31 are PK & Associates, CAs. The audit manager of the firm while reviewing advances has noticed the following:

- The Advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue since November 2031.
- As on 20.04.2031, 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 01.02.2031. The sanction letter read as follows:

"The Facility shall be used for Repayment of Unsecured Loans of Promoters - ₹ 10 crore & 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 2031-

- Land Purchased for New Office : ₹ 4 crore;
- Development & 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 2031 is ₹ 60 crore.

Mr. P (Partner in PK & Associates) also acts as Surveyors & Loss Assessors under Insurance Act, 1938. However he has not intimated or taken permission from the Council of ICAI.

AK & Co, have not included a report on CARO in their statutory auditor report for FY 2030-2031 for Royal General Insurance Co. Ltd.

Based on the above facts, answer the following:-

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?	C
	(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
	(a) Mr. X.	
	(b) Mr. Y.	
	(c) Both Mr. X & Mr. Y.	
	(d) Neither Mr. X nor Mr. Y.	
3.	Whether the acting of Mr. P as a Surveyor & Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of CA Act, 1949?	B
	(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.	Is AK & Co right in not including a report on CARO in their Statutory Auditor Report?	A
	(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.	

## INTEGRATED CASE STUDY - 23

CA D was a practicing CA in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd., a listed entity, which was involved in the business of manufacturing of motor cars for FY 2030-31. CA D was appointed as joint auditor along with CA T & CA P. They have divided the responsibility for conducting audit in accordance with SA 299. As the company has huge amount of property, plant & equipment, it was decided that all 3 auditors will verify the records relevant to property, plant & equipment. While forming an opinion, CA D was having a different opinion on property, plant & equipment but CA T & CA P were having same opinion. CA D wants to qualify capitalisation of post- acquisition costs incurred on machinery whereas CA T & CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common audit report which is in accordance with the opinion of CA T & CA P.

While assessing the applicability of CARO, 2020, CA D found that issued share capital of Giant Motors Ltd. is ₹ 500 crore along with ₹ 30 crore of calls which are being unpaid as they are receivable from retail investors. In the month of July 2030, Giant Motors Ltd. forfeited shares of worth ₹ 10 crore. There were no reserve & surplus as it was

transferred to parent entity. Also, along with equity shares of ₹ 300 crore, there was preference share capital of ₹ 200 crore. CA T while reporting under clause (vi) of CARO, 2020 did not report anything under clause (vi) of CARO 2020 as the government has not ordered Giant Motors Ltd. to conduct cost audit for its books of account. Hence CA T did not report anything under clause (vi).

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Can you please guide whether CA D really needs to go with the opinion formed by CA T & CA P or not?	D
	(a) CA D will have to go with the opinion formed by majority auditors.	
	(b) CA D can add a separate audit opinion paragraph in the common audit report & the same should be highlighted in emphasis of matter paragraph.	
	(c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in emphasis of matter paragraph.	
	(d) CA D can altogether issue a separate audit report & reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.	
2.	What should have been CA D's opinion on applicability of CARO, for FY 2030-31 assuming forfeited shares are not included in equity share capital?	A
	(a) CARO will be applicable as paid up share capital & reserves are ₹ 480 crore which is more than ₹ 1 crore.	
	(b) CARO will be applicable as paid up share capital & reserves are ₹ 480 crore which is more than ₹ 10 crore.	
	(c) CARO will be applicable as paid up share capital & reserves are ₹ 280 crore which is more than ₹ 1 crore.	
	(d) CARO will be applicable as paid up share capital & reserves are ₹ 280 crore which is more than ₹ 10 crore.	
3.	Was the approach followed by CA T for not reporting under clause (vi) of CARO, 2020 correct?	C
	(a) Yes, as reporting under said clause is required only if the Giant Motors Ltd. were ordered by government to conduct cost audit u/s 148(1).	
	(b) Yes, reporting under this clause is only applicable to entities involved in production of electricity.	
	(c) No, Clause (vi) should be reported irrespective of whether Giant Motors Limited has been ordered to conduct cost audit by the CG or not.	
	(d) No, should be reported only if there is any discrepancy found while examining the cost records.	

## INTEGRATED CASE STUDY - 24

Sambhav Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Sambhav Limited appointed Mr. Dharam, Mr. Paras & Mr. Anant as its central joint auditors for the year 2031-32. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Sambhav Limited issued appointment letter as well as engagement letter to all of them. But Mr. Dharam was not clear on some point so he requested Sambhav Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective & scope of audit, responsibilities of auditor & identification of framework applicable. It also contains the reference to expected form & content of report from all three joint auditors.

During the year Sambhav Limited has acquired another bank called Aadi 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 ₹3 crore, determination of amount of minority interest of ₹ 75 lakh & some intra-group transaction adjustment of ₹ 22 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Sambhav Limited & Aadi Limited which was of 45 lakh.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Paras. But Mr. Paras 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. Dharam. While performing audit on compliance with SLR requirements Mr. Dharam used 12 odd dates in different months of fiscal year. Mr. Dharam with his professional judgment used the below mentioned days:

Month	Day of month	Day
April	3rd	Saturday
May	10th	Monday
June	16th	Wednesday
July	9th	Friday
August	27th	Friday
September	2nd	Thursday
October	29th	Friday
November	2nd	Tuesday
December	1st	Wednesday
January	9th	Sunday
February	7th	Monday
March	6th	Sunday

Mr. Anant was entrusted with responsibility for calculation of Demand & time liability. On 31st March 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 & unadjusted deposit for agency business of ₹ 6 crore.

Wife of CA Dharam was also a Chartered Accountant & was actively involved in purchase & sale of shares. She purchased 500 shares of Sambhav Limited of ₹ 100 each for ₹ 9,00,000. All the required communication were made among the joint auditors & 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.

On the basis of the abovementioned facts, you are required to answer the following MCQs

1.	List down all the months whose date has been selected inappropriately by CA Dharam for calculation of SLR compliance?	B								
	<table><tr><td>(a)</td><td>January, February &amp; March</td></tr><tr><td>(b)</td><td>July, August &amp; October</td></tr><tr><td>(c)</td><td>June, July &amp; October</td></tr><tr><td>(d)</td><td>May &amp; November</td></tr></table>	(a)	January, February & March	(b)	July, August & October	(c)	June, July & October	(d)	May & November	
(a)	January, February & March									
(b)	July, August & October									
(c)	June, July & October									
(d)	May & November									
2.	While calculating SLR compliance of Sambhav Limited, what will be value of demand & time liability as on 31st March?	C								
	<table><tr><td>(a)</td><td>191 crore</td></tr><tr><td>(b)</td><td>200 crore</td></tr><tr><td>(c)</td><td>197 crore</td></tr><tr><td>(d)</td><td>185 crore</td></tr></table>	(a)	191 crore	(b)	200 crore	(c)	197 crore	(d)	185 crore	
(a)	191 crore									
(b)	200 crore									
(c)	197 crore									
(d)	185 crore									
3.	Will CA Dharam be disqualified after his wife purchased 500 shares for ₹ 9,00,000?	B								
	<table><tr><td>(a)</td><td>Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ₹ 1,00,000 market value.</td></tr><tr><td>(b)</td><td>Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 1,00,000 face value.</td></tr><tr><td>(c)</td><td>Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 10,00,000 market value.</td></tr><tr><td>(d)</td><td>Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.</td></tr></table>	(a)	Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ₹ 1,00,000 market value.	(b)	Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 1,00,000 face value.	(c)	Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 10,00,000 market value.	(d)	Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.	
(a)	Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ₹ 1,00,000 market value.									
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(c)	Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 10,00,000 market value.									
(d)	Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.									

4.	Which of the following statement is true?	D
(a)	For giving the effect of merger, permanent consolidation adjustment of 397 lakh & current period consolidation adjustment of 45 lakh was made.	
(b)	For giving the effect of merger, permanent consolidation adjustment of 420 lakh & current period consolidation adjustment of 22 lakh was made.	
(c)	For giving the effect of merger permanent consolidation adjustment of 442 lakh.	
(d)	For giving the effect of merger, permanent consolidation adjustment of 375 lakh & current period consolidation adjustment of 67 lakh was made.	
5.	In the given situation whether audit engagement letter issued by Sambhav Limited?	B
(a)	Engagement letter issued specify the identification of framework applicable, whereas as per SA 210, it should not specify identification of framework applicable.	
(b)	Engagement letter issued doesn't specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.	
(c)	Engagement letter issued specify the expected form of report, whereas as per SA 210 it should not contain the expected form of report.	
(d)	There was no discrepancy in the engagement letter issued.	

## INTEGRATED CASE STUDY - 25

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 annual turnover & profit of the company for the last 3 years are given below:

Year ended	Turnover (₹ in crore)	Profit (loss) before tax (₹ in crore)
31-03-2029	527.21 (Audited)	50.16
31-03-2030	301.37 ( Audited)	01.25
31-03-2031	104.13 ( provisional)	(10.25)

The company is using conventional method for extraction of oil from spices. This requires more human intervention & hence, 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 F.Y.s due to competition.

A new competitor viz, Natural Extracts Ltd, had come in the market during the year 2029 & by the end of March, 2030, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows whole range of automated extraction method, thus, minimizing manual steps & reducing cost of labour.

In order to reduce cost of production & 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 lac. The company approached SA Bank Ltd for a term loan of ₹ 80 lac which would be repaid in 5 years. On 28-12-2030, the bank had sanctioned the loan; & disbursed ₹ 40 lac till 31st March, 2031.

MINSAN Ltd has appointed M/s Check & Check, CAs, as auditors of the company at its AGM held on 18-09-2030 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2030-2031 in February, 2031 & completed the work by the end of May, 2031. The audit team submitted following findings to the engagement partner:

- ➔ PX Ltd, one of the material suppliers, filed a case against the company on 12 -09-2030 for a compensation of ₹ 3 crore.
- ➔ 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 2030 -31 due to outbreak of Novel Corona Virus (COVID-19) & subsequent lockdown thereof.
- ➔ Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous & waste Management Rule.
- ➔ Three incidence of fraud noticed (Total ₹ 1.02 crore)- fraud committed by the Purchase manager ₹ 85 Lakh, by Accounts manager ₹ 15 Lakh & by a cashier ₹ 2 lac.

As an auditor of MINSAN Ltd for the year 2029-30, answer the following questions based on the facts given in the above paragraph:

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?	D								
	<table><tr><td>(a)</td><td>Analysis &amp; discuss with the management of the company to find out whether installation of new plant &amp; machinery would enable the company to reduce cost of production.</td></tr><tr><td>(b)</td><td>Inquire the company's legal counsel regarding existence of legal litigation &amp; claim against the company, reasonableness of management assessments of their outcome &amp; estimate of their financial implication.</td></tr><tr><td>(c)</td><td>Evaluating management's future plan &amp; strategy to increase market share of product.</td></tr><tr><td>(d)</td><td>Analysis &amp; discuss the company's cash flow &amp; profit of the previous years with the projected accounts.</td></tr></table>	(a)	Analysis & discuss with the management of the company to find out whether installation of new plant & machinery would enable the company to reduce cost of production.	(b)	Inquire the company's legal counsel regarding existence of legal litigation & claim against the company, reasonableness of management assessments of their outcome & estimate of their financial implication.	(c)	Evaluating management's future plan & strategy to increase market share of product.	(d)	Analysis & discuss the company's cash flow & profit of the previous years with the projected accounts.	
(a)	Analysis & discuss with the management of the company to find out whether installation of new plant & machinery would enable the company to reduce cost of production.									
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(c)	Evaluating management's future plan & strategy to increase market share of product.									
(d)	Analysis & discuss the company's cash flow & profit of the previous years with the projected accounts.									
2.	Company has made an estimate for allowance of debtors @5%. Some FS items cannot be measured precisely but can only be estimated. The nature & 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 & higher risk as per SA 540?	A								
	<table><tr><td>(a)</td><td>Judgments about the outcome of pending litigation with PX Ltd against the company.</td></tr><tr><td>(b)</td><td>Estimates made for inventory obsolescence that are frequently made &amp; updated.</td></tr><tr><td>(c)</td><td>A model used to measure the accounting estimates is well known &amp; the assumptions to the model are observable in market place.</td></tr><tr><td>(d)</td><td>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 &amp; the actual outcome.</td></tr></table>	(a)	Judgments about the outcome of pending litigation with PX Ltd against the company.	(b)	Estimates made for inventory obsolescence that are frequently made & updated.	(c)	A model used to measure the accounting estimates is well known & the assumptions to the model are observable in market place.	(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 & the actual outcome.	
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(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 & the actual outcome.									
3.	The company in the notes accompanying its FS disclosed the existence of 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 FS 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 auditor is satisfied with the conclusions reached by the management & this matter is fundamental to the reader of FS?	D								
	<table><tr><td>(a)</td><td>Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized &amp; issue a qualified opinion.</td></tr><tr><td>(b)</td><td>Include in the Basis for Adverse opinion paragraph &amp; issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.</td></tr><tr><td>(c)</td><td>Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter &amp; issue a disclaimer opinion.</td></tr><tr><td>(d)</td><td>Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized &amp; to where relevant disclosures that fully describe the matter can be found in the FS.</td></tr></table>	(a)	Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized & issue a qualified opinion.	(b)	Include in the Basis for Adverse opinion paragraph & issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.	(c)	Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter & issue a disclaimer opinion.	(d)	Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized & to where relevant disclosures that fully describe the matter can be found in the FS.	
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(b)	Include in the Basis for Adverse opinion paragraph & issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.									
(c)	Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter & issue a disclaimer opinion.									
(d)	Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized & to where relevant disclosures that fully describe the matter can be found in the FS.									
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 & regulations that may have a material effect on the FS. 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?	C								
	<table><tr><td>(a)</td><td>Understand the nature of the act &amp; circumstances in which it has occurred &amp; obtain further information to evaluate the possible effect on the FS.</td></tr></table>	(a)	Understand the nature of the act & circumstances in which it has occurred & obtain further information to evaluate the possible effect on the FS.							
(a)	Understand the nature of the act & circumstances in which it has occurred & obtain further information to evaluate the possible effect on the FS.									

	(b)	Discuss the matter with management & if they do not provide sufficient information; & if the effect of non-compliance seems to be material, legal advice may be obtained.	
	(c)	Monitoring legal requirement & compliance with code of conduct & ensuring that operating procedures are designed to assist in the prevention of non-compliance with law & regulation & report accordingly.	
	(d)	Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment & reliability of written representation & take appropriate action.	
5.	The company had availed some amount of loan for new plant & machinery during the year under audit. Out of the total loan sanctioned an amount of ₹ 25 lac 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 in instead. State which of the reporting option would be correct.		C
	(a)	State the fact in 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 & 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 CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.	
	(d)	State the fact in 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.	

## INTEGRATED CASE STUDY - 26

CA Firms - Tink & Co., Llyods & Co. & Manohar & Co., respectively, were appointed as the joint auditors for conducting the statutory audit for the F.Y. 2030 -31 of Anitya Ltd.

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

Sr. 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 & also it was not required by any statute.
2	Certain misstatements affected information to be included in 'Management Discussion & Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the FS as a whole & 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 FS.
3	For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures & 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 SAAE but as it had not obtained such confirmation & 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 of opinion in case of Tink & Co. & 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.

Manohar & Co. was initially appointed as a joint auditor in Anitya Ltd. for 5 years term with other two auditors but it gave its resignation as an auditor to the company on 20th October, 2031, due to the reason of having differences of opinion with other joint auditors. Manohar & Co. filed the required statement with respect to its resignation on 27th

November, 2031, with Anitya Ltd. as well as the Registrar, respectively. The Board of Directors of Anitya Ltd. appointed Namo & Co. as a joint auditor in place of Manohar & Co. which was later approved by members in the general meeting of the company.

Namo & 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 & Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

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
(a)	No, as such reference was not relevant to an understanding in the final audit opinion & 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 FS.	
(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?	D
(a)	No, as such item shall be as a misstatement only in the case of test of controls & 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 & test of details.	
(c)	No, as such item shall be treated as a deviation in the case of test of controls & test of details.	
(d)	No, as such item shall be treated as a misstatement only in the case of test of details & 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?	B
(a)	No, because in such a case the auditor should have enquired the reasons for the same from the management in writing & 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 & the auditor's opinion in accordance with SA 705.	
(c)	No, because in such a case the auditor should have obtained & 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 Namo & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?	B
(a)	No, as the communication through registered post acknowledgment due could not be done, Namo & 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 Namo & 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, Namo & 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.	

## INTEGRATED CASE STUDY - 27

QRP Lifecare Private Limited, (the 'Company' or 'QRP'), is engaged in the pharmaceuticals. The Company is based in Hyderabad & has an annual turnover of ₹ 400 crores.

One of the directors of the Company did not give declaration to the Company u/s 164(2) of the Companies Act 2013 as at 31 March 2031. The auditors of the Company have completed their audit of the FS for the year ended 31 March 2031 & are awaiting this declaration. But the management is of the view that they will not be able to receive this declaration. All other directors have given the required declarations & the auditors have also verified that.

QRP had given an advance amounting to ₹ 50 crores to its subsidiary, RPS Ltd (RPS), on 12 January 2027 for carrying out certain projects. The net worth of the subsidiary has eroded substantially as on 31 March 2031 & looking at the future projections there is no certainty in terms of the profitability of the subsidiary.

QRP has a subsidiary, SPS Ltd (SPS), in UK. The company has outstanding trade receivables amounting to ₹ 10 crores from SPS. QRP has observed that there have been some FEMA non-compliances on the part of QRP but the management has an action plan which they have initiated & on the basis of which management is sure that the non-compliance would be done good & there would be no penalty on the company. In case the penalty arises, the impact would be significant for QRP. The auditors of QRP have evaluated this matter by involving a regulatory matters expert & also agree with the management's view.

QRP was using a customized ERP package upto 31 March 2030. However, with effect from 1 April 2030, QRP moved on SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP are of the view that for the F.Y. ended 31 March 2031, being the first year of SAP implementation, no work on IT controls would be required & they are also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past where the IT controls in the first year of ERP implementation were very weak.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?	D
(a)	Auditors may perform some alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act.	
(b)	If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality.	
(c)	There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on.	
(d)	Auditors would need to report this matter in their main report.	
2.	How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?	C
(a)	In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS.	
(b)	In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS.	
(c)	In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.	
(d)	In respect of QRP, auditors of QRP would need the management to include a note in the FS of QRP explaining about the recoverability of advances from RPS.	
3.	Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?	B
(a)	Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge.	

	(b)	Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the FS.	
	(c)	Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material.	
	(d)	Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty & that may have some taxation impact for the Company.	
4.	QRP has been preparing consolidated FS but they do not consolidate FS of SPS every year. This is because the F.Y. followed by SPS is January to December as against April to March followed by QRP. The auditors have also been fine with this position of the management of QRP year on year. Please suggest.		A
	(a)	QRP needs to prepare consolidated FS by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated FS.	
	(b)	QRP needs to prepare consolidated FS by also consolidating SPS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated FS.	
	(c)	QRP's management's view is right because SPS is a foreign company & hence no consolidation may be done while preparing consolidated FS in India.	
	(d)	Auditors of QRP should have done materiality assessment in respect of non-consolidation of SPS in the consolidated FS. The auditors should ask the management to include a note in the consolidated FS & also take management representation letter for the same.	
5.	Do you agree with the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation & evaluating qualification in IFC report. What would be your suggestion here?		B
	(a)	The auditors have precedence on the basis of which they have formed a view & that is completely acceptable. However, the auditors would need to document this properly in their audit files.	
	(b)	The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.	
	(c)	The auditors have precedence on the basis of which they have formed a view & that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their FS in respect of first year of SAP implementation.	
	(d)	The auditors have precedence on the basis of which they have formed a view & that is fine as far as they don't want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their FS in respect of first year of SAP implementation.	

## INTEGRATED CASE STUDY - 28

M/s QS & Associates, CAs, a Chennai based audit firm had taken up the following assignments for the F.Y. 2029-30:

- ➔ The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. Certain shareholders of the firm opposed the appointment & later the problem was solved.
- ➔ Statutory auditor of M/s FGH (P) Limited company, having paid up capital of ₹ 112 lakhs & a negative balance of ₹ 15 lakhs in reserves. After a long discussion between the auditors & the management of the company with respect to the applicability of CARO 2020, both of them arrived at a conclusion.
- ➔ During the year, the company had also received few other assignments with respect to valuation for purpose of direct taxes, actuarial valuation services, cost audit of a private limited company, etc. However, since the firm was not having enough expertise from its side with respect to those kinds of assignments, they could not accept the same. As a result of this, the partners of M/s QS & associates decided to induct three new partners into the firm. The new partners included:
  - Mrs. E, an engineering graduate from IIT Madras

<ul style="list-style-type: none"><li>▪ Mr. C, a member of The Institute of Cost &amp; Works Accountants of India</li><li>▪ Mr. A, an architect &amp; member of Indian Institute of Architects.</li></ul>										
1.	Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, CAs?	B								
	<table><tr><td>(a)</td><td>They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty.</td></tr><tr><td>(b)</td><td>They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.</td></tr><tr><td>(c)</td><td>They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor.</td></tr><tr><td>(d)</td><td>They are not guilty of any professional misconduct.</td></tr></table>	(a)	They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty.	(b)	They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.	(c)	They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor.	(d)	They are not guilty of any professional misconduct.	
(a)	They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty.									
(b)	They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.									
(c)	They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor.									
(d)	They are not guilty of any professional misconduct.									
2.	Whether CARO is applicable to M/s FGH (P) Limited? If so, why?	D								
	<table><tr><td>(a)</td><td>No. Since as per para 1 of CARO 2020, it is not applicable to any private limited company.</td></tr><tr><td>(b)</td><td>Yes. Since the paid-up share capital of the company exceeds ₹ 1 crore, CARO is applicable.</td></tr><tr><td>(c)</td><td>Yes. Since the total of paid-up share capital &amp; reserves of the company exceeds ₹ 1 crore in absolute terms.</td></tr><tr><td>(d)</td><td>No. Since the total of paid-up share capital &amp; reserves of the company does not exceeds ₹ 1 crore.</td></tr></table>	(a)	No. Since as per para 1 of CARO 2020, it is not applicable to any private limited company.	(b)	Yes. Since the paid-up share capital of the company exceeds ₹ 1 crore, CARO is applicable.	(c)	Yes. Since the total of paid-up share capital & reserves of the company exceeds ₹ 1 crore in absolute terms.	(d)	No. Since the total of paid-up share capital & reserves of the company does not exceeds ₹ 1 crore.	
(a)	No. Since as per para 1 of CARO 2020, it is not applicable to any private limited company.									
(b)	Yes. Since the paid-up share capital of the company exceeds ₹ 1 crore, CARO is applicable.									
(c)	Yes. Since the total of paid-up share capital & reserves of the company exceeds ₹ 1 crore in absolute terms.									
(d)	No. Since the total of paid-up share capital & reserves of the company does not exceeds ₹ 1 crore.									
3.	As per CA Act, what can you infer from the addition of three new partners in M/s QS & associates?	D								
	<table><tr><td>(a)</td><td>The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs (i.e. Guilty for partnership with all three of them).</td></tr><tr><td>(b)</td><td>The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs or a member of professional body (i.e. Guilty for partnership with Mrs. E &amp; Mr. A alone, who are Engineer &amp; Architect respectively).</td></tr><tr><td>(c)</td><td>The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs or a member of professional body (i.e. Guilty for partnership with Mr. A, an Architect).</td></tr><tr><td>(d)</td><td>The firm is not guilty of any professional misconduct.</td></tr></table>	(a)	The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs (i.e. Guilty for partnership with all three of them).	(b)	The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs or a member of professional body (i.e. Guilty for partnership with Mrs. E & Mr. A alone, who are Engineer & Architect respectively).	(c)	The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs or a member of professional body (i.e. Guilty for partnership with Mr. A, an Architect).	(d)	The firm is not guilty of any professional misconduct.	
(a)	The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs (i.e. Guilty for partnership with all three of them).									
(b)	The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs or a member of professional body (i.e. Guilty for partnership with Mrs. E & Mr. A alone, who are Engineer & Architect respectively).									
(c)	The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than CAs or a member of professional body (i.e. Guilty for partnership with Mr. A, an Architect).									
(d)	The firm is not guilty of any professional misconduct.									

## INTEGRATED CASE STUDY - 29

CA & Co. CAs have been appointed as the auditors of ZXC company. The company has obtained a license from the CG for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around ₹ 50 lakhs. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the F.Y. 2031-32, the following observations with respect to the company were made by the auditors:

- ➔ The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to ₹ 1.50 crores approximately.
- ➔ Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2030.

As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order. However, the management of the company was against the decision of the auditors & insisted that the observations need not be reported. After several discussions between the auditors & the management, CA & Co. decided not to report the issues.

CA & Co. CAs, were also acting as auditors for another company, LS Ltd. & KD Bank Ltd. During the course of audit of LS Ltd, there was a difference of opinion between the management & 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) The effect on audit of significant transactions that took place in the financial year.
- (ii) Areas of high risk as assessed & reported by management's expert.

(iii) Significant auditor judgment relating to areas in the financials that involved significant management judgment. During the audit of KD Bank Ltd., the auditors & the management had a certain difference of opinion as to the amount & the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

- ➔ 59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ₹ 29 lakhs were overdue for more than two years.
- ➔ 73 (guaranteed by Government of India) agricultural loan accounts amounting to ₹ 25 lakhs were overdue for more than two years.
- ➔ 6 corporate loans accounts (guaranteed three each by Government of India & Government of Delhi) amounting to ₹ 25 lakhs for each company were overdue for more than three & a half months.

Based on the above facts, answer the following -

1.	Is the decision of CA & Co. of not reporting the issues of ZXC in CARO 2020 justified? If so, under what reason?	B
(a)	No. CARO 2020 is applicable to ZXC & hence the same has to be reported under clause (i) of CARO.	
(b)	Yes. CARO 2020 is not applicable to ZXC & hence the same need not to be reported.	
(c)	No. As per SA 240, the auditor has to maintain professional skepticism when it comes to issues in the area of fixed assets & hence the same has to be reported.	
(d)	Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.	
2.	What is the total amount of loans that should be classified as NPA by KD Bank?	D
(a)	₹ 79 lakhs	
(b)	₹ 100 lakhs	
(c)	₹ 204 lakhs	
(d)	₹ 104 lakhs	
3.	Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?	A
(a)	Guarantee given by KD Bank on behalf of constituents located in Myanmar.	
(b)	A percentage of the total bills purchased by KD Bank.	
(c)	Claims against the bank acknowledged as debt.	
(d)	Unpaid salary of ₹ 5 lakhs to 5 staff of KD bank Ltd., who are currently undergoing a court trail.	
4.	As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the following areas should CA & Co. take into account to determine "Key Audit Matter"? (i) The effect on audit of significant transactions that took place in the financial year. (ii) Areas of high risk as assessed & reported by management's expert. (iii) Significant auditor judgment relating to areas in the financials that involved significant management judgment.	C
(a)	(i) & (ii)	
(b)	(ii) only	
(c)	(i) & (iii)	
(d)	(i), (ii) & (iii)	

### INTEGRATED CASE STUDY - 30

PQR Ltd., is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of GDP Ltd. The total shareholding of GDP Ltd. includes the following:

- ➔ The Government of Puducherry & Government of Delhi each hold 19% of the paid-up share capital,
- ➔ The Government Gujarat's share is 13.5%.

On 27th August 2031, Mr. JJ, the auditor of PQR Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of FDI & Co. CAs as statutory auditors of PQR Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms & conditions of appointment as auditors, FDI & Co. agreed to do the following:

- ➔ Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company (however Mr. JJ had agreed to charge only ₹ 45,000/-),
- ➔ Select & recruit personnel, conduct training programmes for & on behalf of PQR Ltd.

As far as FDI & Co. CAs are concerned, Mr. F, who is one of the partners of the firm (NOTE- Mr. F does not sign the financials of PQR Ltd.) had borrowed a sum of ₹ 3.89 lakh from GDP Ltd. He had also purchased goods worth ₹ 1.09 lakh from the company which was in ordinary course of business, at arm's length price. Both the sum borrowed & the cost of the goods bought are not yet paid by Mr. F. Another partner of the firm, Mr. I, who is also responsible for signing the financials statements of PQR Ltd. was also engaged in the teaching profession during his free time approx. 2 to 3 hours daily.

Upon hearing about the efficient services provided by FDI & Co. CAs, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer & 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 ₹ 101/-.

Based on the above facts, answer the following:-

1.	To whom should have Mr. JJ informed about his resignation? What could be the possible consequence for his non-compliance?	D
(a)	He should have informed the registrar & PQR Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 2 lakhs.	
(b)	He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than ₹ 50,000/-.	
(c)	He should have informed the registrar & FDI & Co. As a consequence of his failure, he is liable to a fine of ₹ 500 per day for each day of failure.	
(d)	He should have informed the registrar & comptroller & auditor general. As a consequence of his failure, he is liable to a fine of ₹ 45,000/-.	
2.	With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of PQR Ltd.?	A
(a)	It is valid since the indebtedness is within prescribed limits.	
(b)	It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakhs.	
(c)	It is valid since Mr. F is not signing the financials of PQR Ltd.	
(d)	It is valid since the indebtedness is not with PQR Ltd.	
3.	Which among the below are permitted as per Chartered Accountants Act, 1949? (i) Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company. (ii) Select & recruit personnel, conduct training programmes for & on behalf of PQR Ltd. (iii) Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession during his free time approx. 2 to 3 hours daily.	C
(a)	(i) & (ii)	
(b)	(iii) only	
(c)	(ii) & (iii)	
(d)	(i), (ii) & (iii)	
4.	With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.? ➔ To charge fees as percentage of Net Profits, or ➔ To charge fees of ₹ 101/-.	C

(a)	(i) Only
(b)	(ii) Only
(c)	Either (i) or (ii)
(d)	Neither (i) nor (ii).

### INTEGRATED CASE STUDY - 31

Mr. Tushar Jalani is a CA as well as CMA, who is working as an internal auditor in Gomez Realty Ltd. on full-time employment basis. In his visiting card, he has mentioned that he is a CA as well as Cost Accountant. During the month of May, 2030, he was approached by the director of the company, Mr. Kunal Surpan, to write his personal books of accounts from F.Y. 2030 -31 onwards & also to file his Income Tax Return which was accepted by Mr. Tushar.

Vedya & Co. was appointed as the statutory auditor of Gomez Realty Ltd. from F.Y. 2028 -29 onwards for five consecutive years. However, during F.Y. 2030-31, it did not offer itself for reappointment as an auditor of such company owing to certain professional reasons & communication with respect to the same was made to the relevant authorities.

Kesar & Associates was then appointed as the statutory auditor of Gomez Realty Ltd. for F.Y. 2030 -31 & Mr. Raj Kesar was appointed as the engagement partner for the said assignment. Brother of one of the partners of the said firm holds 18% share in Badhra & Co., since 2027, & who is also a CA by profession.

Mr. Raj decided to take direct assistance from Mr. Tushar in accordance with the procedure re as prescribed in SA 610 & in that connection he inquired about the fraud risks in the organization from him. Prior to taking such direct assistance, Mr. Raj communicated the same to the relevant authority in the company & also that he directed, supervised & reviewed the work performed by Mr. Tushar.

On the basis of the abovementioned facts, you are required to answer the following MCQs

1.	Whether Mr. Tushar can be held guilty under Part-I of First Schedule to the CA Act, 1949?	B
(a)	No, as he is not a member in practice.	
(b)	Yes, as per Clause (7) he can be held guilty.	
(c)	No, as it is permitted for member to mention such designations in his visiting card.	
(d)	No, provided he has been permitted to do so.	
2.	Whether it was appropriate for Mr. Raj to take direct assistance from Mr. Tushar for the matter as aforesaid?	B
(a)	No, as it tantamount to taking direct assistance of internal auditor for making significant judgments in the audit.	
(b)	Yes, as inquiry is allowed to be done & having a discussion with respect to the said matter is not appropriate.	
(c)	No, as it tantamount to taking direct assistance of internal auditor relating to higher assessed risks of material misstatement.	
(d)	No, as it tantamount to taking direct assistance of internal auditor relating to decisions the external auditor makes in accordance with SA 610 regarding the internal audit function & the use of its work or direct assistance.	
3.	In accordance with SA 610, with what SA, respectively, Mr. Raj would have made communication for taking direct assistance of Mr. Tushar & also directed, supervised & reviewed the work performed by him?	D
(a)	As per SA 580 & SA 500 respectively	
(b)	As per SA 260 & SA 240 respectively	
(c)	As per SA 265 & SA 220 respectively	
(d)	As per SA 260 & SA 220 respectively	
4.	To which authorities, Vedya & Co. would have made the communication & whether there was any obligation on part of Kesar & Associates with respect to such communication made?	C

	(a)	Vedya & Co. would have made the communication to the ICAI & to the management for circulation among the shareholders of Gomez Realty Ltd. However, it was not obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.
	(b)	Vedya & Co. would have made the communication to the ICAI only & it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.
	(c)	Vedya & Co. would have made the communication to BOD of Gomez Realty Ltd. & the ICAI & it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.
	(d)	Vedya & Co. would have made the communication to the ICAI only & it was obligatory for Kesar & Associates to obtain a copy of such communication before making communication with the outgoing auditor relating to its appointment.

### INTEGRATED CASE STUDY - 32

Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for F.Y. 2030-31 as an engagement partner on behalf of Verma & Associates having six partners out of which four are CAs & two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

Upshaant Ltd. changed its employee remuneration policy from 1st April, 2030, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2031, the company obtained an actuarial valuation for leave encashment liability. As & when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it & obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable.

Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling & maintenance system of the company. Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness.

Mr. Sunil, based on the audit evidence available, narrowed his range for the purpose of evaluating the management's point estimate on particular items which required accounting estimates to be made as disclosed in the balance sheet of the company.

The FS of Upshaant Ltd. for F.Y. 2030-31 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the FS described in the relevant note to the FS.

Apart from receiving his remuneration as a partner in Verma & Associates, Mr. Sunil also received a sum of ₹ 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	For what type of control in inventory handling & maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing?		B
	(a)	Application control	
	(b)	Automated control	
	(c)	Process Level control	
	(d)	Entity Level control	
2.	Whether Mr. Sunil is permitted to hold license as a life insurance agent?		A
	(a)	Yes, general permission has been granted by the Council of the ICAI for the said purpose.	
	(b)	Yes, if specific permission has been obtained by Mr. Sunil for the same.	
	(c)	No, it is not permitted for a CA to do so as per recent Decisions of Ethical Standards Board.	
	(d)	License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession.	

3.	Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet?	B
	(a) To be equal to or less than materiality in order to cover all reasonable outcomes.	
	(b) To be equal to or less than performance materiality in order to cover all reasonable outcomes.	
	(c) To be equal to or less than materiality in order to cover all possible outcomes.	
	(d) To be equal to or less than performance materiality in order to cover all possible outcomes.	
4.	Whether due to amendment in audit report, its date need to be changed & what other alternative was available to Verma & Associates with respect to such amendment in FS?	D
	(a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.	
	(b) Original Date of audit report will remain unchanged & additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph.	
	(c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.	
	(d) Original Date of audit report will remain unchanged & additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.	
5.	What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?	C
	(a) Provision should be created each time when the company makes provident fund contribution.	
	(b) Provision should not be created because as & when the employees availed leave encashment, the provident fund contribution was made.	
	(c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation.	
	(d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.	

### INTEGRATED CASE STUDY - 33

M/s Audit & Co. were appointed as internal auditors of M/s Manufacturing Limited, whose shares were held by Mr. F, Mrs. F, Mr. S & Ms. D in equal proportion.

CA Senior & his articled assistant Mr. Junior were a part of the team which was looking after the above assignment. As a part of the work, Mr. Junior was required to take care of the P2P internal controls established to ensure the three-way match is properly functioning. Being new to internal audit, he asked for help from a fellow team member regarding the above matter.

After completion of the audit, the firm submitted its report directly to the Board of Directors of the company. A copy of the same was also sent to the company's statutory auditors. The report had clearly mentioned that the existing internal audit system in the company was not commensurate with its size & nature of business.

Following this, the company offered the assignment of Tax Audit to M/s Audit & Co. itself. All the partners were happy to accept the offer, except CA New, an ex-articled assistant & newly inducted partner of the firm. He was of the opinion that if the above offer was accepted, it would lead to professional misconduct under the CA Act. However, despite his advice, the firm went on to accept the offer.

After the above incident, CA New resigned from the firm & started his own practice as a sole proprietor. Few days after the resignation of CA New, the following things happened:

- M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts & consideration given to the appropriateness of the area of distribution of the magazine.
- CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number & addresses of Social Networking sites.

1.	Assuming yourself to be a fellow team member of Mr. Junior, explain him what is a three-way match internal control involved in P2P process.	D
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	(a)	Matching of Purchase order, Sales order & Invoice raised to ensure all ordered quantity of intended goods have been invoiced & proper control over quantity of inventory is maintained.	
	(b)	Matching of Sales order, Goods delivery note & invoice to ensure all ordered quantity of intended goods have been delivered & invoiced accordingly.	
	(c)	Matching of Sales order, Invoice & Payment receipt details to ensure all ordered quantity of intended goods have been invoiced & payment for the same is received.	
	(d)	Matching of Purchase order, Goods receipt note & invoice to ensure all ordered quantity of intended goods have been received & invoiced accordingly.	
2.	Assuming yourself to be the statutory auditors of the company, would you need to mention about the details in the internal audit under CARO 2020? If yes, under what clause should it be mentioned?		A
	(a)	The above matter should be reported under clause (xiv) of CARO 2020	
	(b)	The above matter need not be reported under CARO, but it shall be reported under Emphasis of Matter Paragraph as per SA 706.	
	(c)	The above matter should be reported under clause (xviii) of CARO 2020	
	(d)	The above matter should be reported under clause (xv) of CARO 2020	
3.	From the above information that M/s Manufacturing Limited appointed an internal auditor, what could you infer about their Paid-up share capital, outstanding deposit & turnover?		C
	(a)	Paid up share capital of ≥ 40 crore Outstanding deposits > 20 crore; Turnover ≥ 190 crore	
	(b)	Paid up share capital of ≥ 25 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 100 crore	
	(c)	Paid up share capital of ≥ 50 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 200 crore	
	(d)	Paid up share capital of ≥ 45 crore Outstanding deposits ≥ 15 crore; Turnover > 100 crore	
4.	Will accepting the Tax Audit offer lead to professional misconduct? If yes, as per which clause?		B
	(a)	No. There will be no professional misconduct on the firm, if it accepts the offer.	
	(b)	Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 4 of Part I of Second Schedule read along with Council Guidelines.	
	(c)	Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 12 of Part I of First Schedule.	
	(d)	Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 2 of Part I of Second Schedule read along with Council guidelines.	
5.	Comment on following incidents (i) & (ii) discussed in the scenario from the perspective of Professional Ethics as per the CA Act. (i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts & consideration given to the appropriateness of the area of distribution of the magazine. (ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number & addresses of Social Networking sites.		B
	(a)	Incident (ii) makes CA New guilty of professional misconduct, since he is advertising for seeking partnership	
	(b)	Neither of the incidents violate any provisions of CA Act. Hence, there is no professional misconduct.	
	(c)	Incident (i) makes M/s Audit & Co. firm guilty of professional misconduct, as the advertisement is published in newspaper other than that issued by the Institute.	
	(d)	Incident (ii) makes CA New guilty of professional misconduct, since he has provided the addresses of his social networking sites.	

### INTEGRATED CASE STUDY - 34

M/s Head Limited, had recently issued right shares for all the existing shareholders. The total proceeds collected amounted to ₹ 200 crore, out of which 50 % was planned to be used for construction of a new factory next to the

existing one & the balance was to be used for working capital purpose. However, due to the Covid-19 pandemic, the proposed factory work was affected & hence the company decided to park 9% of the specific fund in a debt mutual fund instead of keeping it idle. Similarly, the company decided to park 11% of the working capital fund in government securities.

Mr. C then decided to induct Mr. J, a newly qualified CA as a partner in his firm. After this, the firm got an audit assignment from M/s Bank Limited. Mr. C consulted with his partner whether to accept the offer. Mr. J told that he has a loan (amounting to 75% of FD) against fixed deposit (of ₹6.8 lakh) in the said bank & feared that they cannot accept the offer. However, Mr. C told that since the loan is against fixed deposit there is no problem in taking up the offer, but he didn't want to force Mr. J in giving his acceptance. Therefore, the offer was dropped.

Few months later, Mr. C passed away & the whole firm was managed by his partner Mr. J. The legal representative of Mr. C (Mrs. C) quoted the partnership agreement clause regarding the right of legal representative of the deceased partner to receive share of profit from the firm & requested for such share of profit. However, Mr. J informed that there is no such provision as per the CA Act & denied to share any profits/ revenue from the firm. Agitated by the decision of Mr. J, Mrs. C filed a complaint with the ICAI against Mr. J.

1.	Assuming yourself as the auditor of Head Limited, what would be your stand on reporting the deviation in utilization of funds under CARO 2020?	C
(a)	There is no need to report the matter under CARO, since such deviations were due to Covid -19 pandemic.	
(b)	The matter should be reported under CARO, under clause (xi)(a)	
(c)	The matter should be reported under CARO, under clause (x)	
(d)	The matter should be reported under CARO, under clause (xvi)(b)	
2.	In the above case, is the act of Mr. J to deny share of profits to legal representative of Mr. C right? What is the relevant provision of the CA Act which you need to refer in this case?	A
(a)	Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 2 of Part I of First Schedule of CA Act.	
(b)	Mr. J has all right to deny the share of profit since it shall lead to professional misconduct. The relevant provision to be considered here is clause 2 of Part I of First Schedule of CA Act.	
(c)	Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 4 of Part I of First Schedule of CA Act.	
(d)	Mr. J is correct in denying the share of profit. Though the same is mentioned in the agreement, it is against the provisions of CA Act. The relevant provision to be considered here is Clause 1 of Part II of Second Schedule.	
3.	Had the firm accepted the audit assignment of Bank Limited, would it have led to invalid appointment as per the Companies Act, 2013? If yes, under what provision?	B
(a)	No. As explained by Mr. C, since the loan was against a fixed deposit (loan against a collateral) appoint of the firm would not be void had they accepted the offer.	
(b)	Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(ii) of the Companies Act, 2013.	
(c)	Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(iii) of the Companies Act, 2013.	
(d)	Yes. The acceptance of the offer would have led to professional to invalid appointment of the firm as per the section 141(3)(c)(ii) of the Companies Act, 2013.	

### INTEGRATED CASE STUDY - 35

HF Limited – ND, a Non-Banking financial company which is exclusively into housing finance business completed one month of operations. They approached their auditor M/s UVW & Co. Chartered Accountants to know about the process to apply for certificate of registration u/s 45 IA of RBI Act. After calculating the net owned funds (which stood at ₹ 249 lakh) & considering other details, the company was told that they need not apply for the certificate.

After the completion of the financial year, UVW & Co. started the statutory audit. During the course of the audit, the management disagreed on the following matters - The company had revalued a particular class of its asset (no intangible asset was revalued). The carrying value before revaluation was ₹ 77 lakh & the value post revaluation was ₹ 84.70 lakh. The auditors wanted to mention the same along with the amount of change in CARO.

MC Limited approached UVW & Co. for providing few management & consultancy services for their company. The offers given by the company was:

- (i) Inventory management, material handling & storage
- (ii) Personnel recruitment & selection
- (iii) Tax representation & advice concerning tax matters

Mr. U, the senior partner of the firm was not consulted while deciding to respond to the above offers made by MC Limited. Hence, he resigned from the partnership & went into practice as a sole proprietor. Since Mr. U was having an interest in the field of merchant banking, he applied & obtained a registration as category IV merchant banker under SEBI's Rules & Regulations. Upon obtaining the same, he was approached by HF limited, who wanted to go for a capital issue. Mr. U accepted the offer. The offer document & advertisements regarding the capital issue prominently displayed the name & address of Mr. U, under the caption 'Advisor to the Issue'. It was later found that Mr. U was guilty of professional misconduct because of the above incident.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	Why the auditor advised HF Limited – ND, a Non-Banking financial company not to apply for certificate u/s 45 IA ?	D
(a)	Since the company is Non-Deposit taking NBFC, there is no need to apply for certificate of registration.	
(b)	The company needs to completed one year of operations before applying for the certificate.	
(c)	Net owned funds are below the stipulated limit of ₹ 250 lakh, hence the company need not apply for certificate.	
(d)	The company falls under exempt category as notified by RBI.	
2.	Is the auditor's decision to report issue I given in the situation correct? What is the reason?	A
(a)	Yes. Since the revaluation of asset has brought a change of 10% in the carrying amount, the same shall be reported in CARO, including the amount.	
(b)	No. The reporting requirement under CARO relates to physical verification of assets, record maintenance, etc. only. It does not require the details of revaluation to be provided.	
(c)	No. Since no intangible asset is revalued, the above matter need not be reported.	
(d)	No. Since the revaluation of asset has not reduced the carrying value, the same need not be reported.	
3.	Assuming all responsibilities & protocols being fulfilled properly, from the above case scenario, what can you infer about the appointment of M/s UVW & Co. as auditors for HF limited?	C
(a)	They were appointed by Shareholders.	
(b)	They were appointed by Empanelment Committee.	
(c)	They were appointed by Board of Directors.	
(d)	They were re-appointed as auditors.	
4.	In the above case of Mr. U, which act of his could have led to professional misconduct?	D
(a)	Obtaining registration as category IV merchant banker.	
(b)	Allowing the caption 'Advisor to the Issue' in the offer document & advertisement.	
(c)	Accepting the offer of HF limited without communicating the same to their auditors.	
(d)	Allowing his name & address to be displayed prominently in the offer document & advertisement.	

### INTEGRATED CASE STUDY - 36

While preparing the FS for the year ended on 31 March 2032, ABC Limited, a listed entity, provided the below information:

Excerpt of Standalone Balance sheet of ABC Ltd as of 31 March 2032

(in ₹ Lakhs)

Particulars	Note No	As on 31.03.2032	As on 31.03.2031
(i) Equity & Liabilities			
Current liabilities			
(a) Financial Liabilities			
(ii) Trade Payables: -	10		
(A) total outstanding dues of micro enterprises & small enterprises; &		300	
(B) total outstanding dues of creditors other than micro enterprises & small enterprises.		210	
(iii) Other financial liabilities (other than those specified in item (c))			

## Note 10: Ageing of Trade Payables

Particulars	Ageing of Trade Payables (₹ in Lakhs)					
Ageing	Less than 3 Year	3-5 Years	More than 5 Years	Total Non- MSME Trade Payables	MSME Trade Payables	Total Trade Payables
Undisputed	100	50	30	180	160	340
Disputed	10	20	0	30	40	70
Total	110	70	30	210	200	410

## Additional Information:

- Mr. A while performing the statutory audit of ABC Ltd identified that the total trade payables reported in the Balance Sheet as of 31 March 2032 & the amount reported in Note 10: Ageing of Trade Payables are different. Upon inquiry, management informed that the difference between both amounts is the Intercompany Trade Payables which is eliminated as part of consolidation Adjustment. Hence, there was no requirement to show intercompany Trade Payables in the ageing schedule. Mr. A accepted the explanation & did not perform any further procedures to validate the explanation.
- When Audit Committee inquired with Mr. A as to how they have verified & validated the segregation of the trade payables, Mr. A replied that they purely relied upon the management representation as there was no alternate procedure available to gather SAAE to validate the said information. Moreover, they informed the management that they have not qualified their audit opinion as they have relied in true faith upon management representation.
- While performing the audit procedure to validate the Trade Payables ageing, Mr. A identified that management has calculated the due date of trade payables from the end of 180 days from the date of transaction. Mr. A found it appropriate based on the conservative approach.
- Mr. A did not qualify his audit opinion on the FS prepared for the period ending on 31 March 2032 on any grounds. Also, Mr. A specified that :
- “The FS for the year ended on 31 March 2032 give a true & fair view of the state of affairs of the company, comply with the accounting standards notified u/s 133 & are in the form provided for the company in Schedule III of the Act”

While preparing the audit report Mr. A, provided the following information in Key Audit Matters.

Key Audit Matters	How our audit addressed KAM
While auditing the Trade Payables, the auditor identified that the trade payables balance includes ₹ 100 lakh payable to the intercompany which is aged more than 3 years. Upon Inquiry with management, it was identified the same amount is not paid on account of a dispute with respect to commercial terms. However, no such amount was outstanding as receivable in the accounts statement shared by Intercompany. The amount was already written off by such an Intercompany in past years.	We have relied upon the assessment performed by the management with respect to the litigation & disputed Trade Payables Balance. Moreover, the amount is not material & hence no further procedure other than obtaining management representation was performed on the said balance.

- Other than the disputed trade payables disclosed, there were claims against the company which were not yet acknowledged as debt. The aggregate amount & exposure for such claims were ₹ 25 Lakh. As per an expert hired

by the management, no amount is required to be provided in books of accounts as in all the claims there are high chances that the decision will be in favour of the company.

7. Following were the materiality levels decided by the auditor for the current period's audit :

- ➔ Overall Materiality: ₹ 50 Lakh;
- ➔ Performance Materiality: 5 Lakh;
- ➔ Materiality for Aggregate Uncorrected Misstatement: ₹ 1 Lakh.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	In the given situation whether Mr. A will be held guilty of professional Misconduct.	C
	(a) Yes, Mr. A, is guilty of professional misconduct under Clause 7 of Part I of First Schedule	
	(b) Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of First Schedule	
	(c) Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of the Second Schedule	
	(d) No, Mr. A is not guilty of professional misconduct as he has performed all the audit procedures appropriately	
2.	Whether FS given in the scenario are in confirmation with the requirements of Division II of Schedule III?	D
	(a) Yes, the FS are in confirmation with requirements mentioned in Division II of Schedule III.	
	(b) No, management should have eliminated the Intercompany Trade Payables balance from the amount disclosed in the Standalone Balance Sheet. This will bring Note 10: Ageing Schedule & Standalone Balance Sheet in alignment.	
	(c) No, Management should not have disclosed the disputed trade payables less than 3 years as these trade payables are still under the period of limitation as per Limitation Act & they should not be disclosed in FS.	
	(d) No, management should have added the Intercompany Trade Payables balance to the ageing schedule. This will bring Note 10: Ageing Schedule & Standalone Balance Sheet in alignment.	
3.	In continuation to MCQ no 2, what is an appropriate way to report the above-mentioned issues?	A
	(a) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed trade payables. Moreover, he should have modified or issued an adverse opinion as FS were not in confirmation with requirements of Division II of Schedule III.	
	(b) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the intercompany trade payables. Moreover, he should have been unmodified as FS were not in confirmation with requirements of Division II of Schedule III.	
	(c) Mr. A should have expressed an unmodified opinion as per SA 700, as he was able to obtain all the explanation & information required & sought by him. Moreover, he should have modified it as the Cash Flow Statement was not in confirmation with the requirements of Division II of Schedule III.	
	(d) Mr. A should have reported matters related to Trade Payables Ageing as a qualification in Key Audit Matters, as he was not able to obtain all the explanation & information required & sought by him.	
4.	Whether the reporting performed by Mr. A related to intercompany trade payables under the paragraph/section of Key Audit Matter in the audit report appropriate? Select from the below option to support your answer.	B
	(a) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the FS of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 as a result of the matter.	
	(b) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the FS of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit	

		Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 as a result of the matter.	
	(c)	Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, the auditor shall report the matter in Key Audit Matters in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from material misstatement or the auditor is unable to obtain SAAE to conclude that the FS as a whole are free from material misstatement.	
	(d)	The auditor shall express an adverse opinion & report the said matter in Key Audit Matter Para when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material & pervasive to the FS. In the current case, the auditor has appropriately disclosed the said matter in Key Audit Matter Paragraph.	
5.	As per the expert appointed by the Auditor, the exposure for the company can be ₹ 20 lacs as in past in similar cases, the judgment was delivered against the company. However, the management of ABC Limited was of the view that when management has already hired an expert, then there is no need to hire another expert by the auditor. Seeking your advice, kindly guide the auditor by selecting the below option, & what next steps should perform.		A
	(a)	The auditor shall design & perform audit procedures in order to identify litigation & claims involving the entity which may give rise to a risk of material misstatement. Also, if expertise in a field other than accounting or auditing is necessary to obtain SAAE, the auditor shall determine whether to use the work of an auditor's expert. Hence auditor can appoint his expert to validate the assumption & estimate performed by the management's expert.	
	(b)	The auditor shall rely upon the work performed by the management's expert. Management expert will be equivalent to the auditor's expert & hence no other expert is required to be appointed.	
	(c)	The auditor shall not rely upon the management's expert unless he evaluates the adequacy of the expert's work for the auditor's purposes, including the relevance & reasonableness of that expert's findings or conclusions, & their consistency with other audit evidence. Although in the current case, there is no consonance between the management's expert's findings & other audit evidence, the auditor is still required to rely upon the findings of the management's expert.	
	(d)	The auditor shall rely upon the management's expert without evaluating the adequacy of the expert's work for the auditor's purposes, including the relevance & reasonableness of that expert's findings or conclusions, & their consistency with other audit evidence. Hence auditor is required to rely upon the findings of management's expert in the current case.	

### INTEGRATED CASE STUDY - 37

ComTeK Limited, a top 1000 listed entity on the BSE by market capitalization for the past two years, sells IT & 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 & contribute 30% of the company's revenue. Further, the amount of payment is within the approved limit & 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 & does 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 such payments. However, the MD denied making any such video call.

The CFO & 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 & made from the laptop not owned by the company. The hackers had gained access to the CFO's laptop & have obtained bank details & its authorisation information. The company filed a police complaint & 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 judgments made by management related to the known security incidents. The auditor made inquiries with Risk Management team & with the Chief Information Officer to understand their assessment of the cybersecurity risk & 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 about the level of detail & 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 & 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 & other for the benefits all stakeholders interested in a company's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators & policy-makers.

On the basis of the above mentioned facts, you are required to answer the following MCQs:

1.	In the given case, cyber-attack encountered by the company is known as:	A
	(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:	D
	(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 & 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 incidence 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 & endorsed by SEBI. The Company Secretary is of the view that Integrated Report is mandatory for a listed entity. Which of the following is correct in this regard?	B
	(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) & roof top solar equipment in the balance sheet. In the Integrated Report patents & solar equipment should be disclosed respectively as:	C
	(a) Financial Capital & Manufactured Capital.	
	(b) Natural Capital & Financial Capital.	
	(c) Intellectual Capital & Natural Capital.	
	(d) Human Capital & Intellectual Capital.	
5.	Can the auditor accept the system audit as offered by the ComTeK Limited?	A
	(a) Yes, the statutory auditor can accept the assignment of system audit, provided it did not involve any scrutiny/review of financial data & information.	
	(b) Yes, the statutory auditor can accept the assignment of system audit, provided it involves any scrutiny/review of financial data & 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 & information.	

### INTEGRATED CASE STUDY - 38

MNO 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, MNO Ltd. operates with two manufacturing plants & a comprehensive distribution network that spans across India. Remarkably, MNO 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 & Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards.

M/s KP & Co. were the statutory auditor in the previous year & resigned from the role of statutory auditor. M/s JKL & Co. has been appointed as a statutory auditor of MNO Ltd. in the FY 2023-24. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of 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 assessment of going concern, however the management did not provide the same. Despite following up, the management did not provide the requested assessment. As a result, the auditor documented the request & 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 & Auditors) Rules, 2014 in the main audit report.

Apart from above facts, the several important financial information of MNO 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 above facts, answer the following MCQs

1.	As per the requirement of SA 570, how auditor should deal in the matter of unwillingness of management to provide for the assessment relating to going concern?	D								
	<table><tr><td>(a)</td><td>Auditor should report such matters in the section of Key Audit Matter.</td></tr><tr><td>(b)</td><td>The auditor should properly document evidence relating to asking management &amp; its subsequent follow up with the management for assessment on going concern &amp; accordingly should express unmodified opinion.</td></tr><tr><td>(c)</td><td>Auditor should report such matters in Emphasis of Matter Paragraph Section.</td></tr><tr><td>(d)</td><td>Auditor should express modified opinion in his audit report.</td></tr></table>	(a)	Auditor should report such matters in the section of Key Audit Matter.	(b)	The auditor should properly document evidence relating to asking management & its subsequent follow up with the management for assessment on going concern & accordingly should express unmodified opinion.	(c)	Auditor should report such matters in Emphasis of Matter Paragraph Section.	(d)	Auditor should express modified opinion in his audit report.	
(a)	Auditor should report such matters in the section of Key Audit Matter.									
(b)	The auditor should properly document evidence relating to asking management & its subsequent follow up with the management for assessment on going concern & accordingly should express unmodified opinion.									
(c)	Auditor should report such matters in Emphasis of Matter Paragraph Section.									
(d)	Auditor should express modified opinion in his audit report.									
2.	As per SA 501, what is the correct audit procedure to be followed regarding the existence & condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?	B								
	<table><tr><td>(a)</td><td>The auditor should rely on the management explanation regarding the inventory lying with the third party.</td></tr><tr><td>(b)</td><td>The auditor should request confirmation from third party as to the quantities &amp; condition of the inventory held with them or perform inspection or other audit procedures as appropriate.</td></tr><tr><td>(c)</td><td>The auditor should verify the inventory lying with the company.</td></tr><tr><td>(d)</td><td>The auditor should take written representation only from the management regarding the inventory lying with the third party.</td></tr></table>	(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 & 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.	
(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 & 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 MNL Ltd., under clause 3(xvii) of Para 3 of CARO, 2020 on account of losses during the year under consideration.	C								
	<table><tr><td>(a)</td><td>₹ 4.92 Crore</td></tr><tr><td>(b)</td><td>₹ 1.97 Crore</td></tr><tr><td>(c)</td><td>₹ 2.95 Crore</td></tr><tr><td>(d)</td><td>₹ 11.47 Crore</td></tr></table>	(a)	₹ 4.92 Crore	(b)	₹ 1.97 Crore	(c)	₹ 2.95 Crore	(d)	₹ 11.47 Crore	
(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 & 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.	D								
	<table><tr><td>(a)</td><td>Only (i)</td></tr><tr><td>(b)</td><td>Only (iii)</td></tr><tr><td>(c)</td><td>Only (i) &amp; (iii)</td></tr><tr><td>(d)</td><td>(i), (ii) &amp; (iii)</td></tr></table>	(a)	Only (i)	(b)	Only (iii)	(c)	Only (i) & (iii)	(d)	(i), (ii) & (iii)	
(a)	Only (i)									
(b)	Only (iii)									
(c)	Only (i) & (iii)									
(d)	(i), (ii) & (iii)									

### INTEGRATED CASE STUDY - 39

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 & 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 & 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 & Exchange Board of India's (SEBI) Listing Obligations & 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 & trustworthiness among investors & stakeholders.

M/s SDS & Co. thoroughly obtained the knowledge & background of the company, including an understanding of the legal & regulatory requirements applicable to the company.

During the audit of the financial statements, 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, & 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 & subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important & required 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 above facts, answer the following MCQs

1.	<p>Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: -</p> <p>(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</p> <p>(ii) In respect of loans &amp; advances in the nature of loans, whether the schedule of repayment of principal &amp; payment of interest has been stipulated &amp; whether the repayments or receipts are regular;</p> <p>(iii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 &amp; if so, whether the registration has been obtained.</p> <p>(iv) Whether the company has provided any loans, guarantee or provided security to any other entity.</p> <table><tr><td>(a)</td><td>Only (i) &amp; (iii)</td></tr><tr><td>(b)</td><td>Only (i), (ii) &amp; (iii)</td></tr><tr><td>(c)</td><td>Only (i) &amp; (ii)</td></tr><tr><td>(d)</td><td>Only (i), (ii) &amp; (iv)</td></tr></table>	(a)	Only (i) & (iii)	(b)	Only (i), (ii) & (iii)	(c)	Only (i) & (ii)	(d)	Only (i), (ii) & (iv)	B
(a)	Only (i) & (iii)									
(b)	Only (i), (ii) & (iii)									
(c)	Only (i) & (ii)									
(d)	Only (i), (ii) & (iv)									
2.	<p>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 &amp; Co.?</p> <p>(i) The auditor needs to report such matters in the other matter paragraph in the main audit report.</p> <p>(ii) The auditor needs to report such matter in the emphasis of matter paragraph.</p> <p>(iii) The auditor shall be responsible for obtaining sufficient &amp; appropriate audit evidence that the opening balances does not contain any material misstatement.</p> <table><tr><td>(a)</td><td>Both (i) &amp; (iii)</td></tr><tr><td>(b)</td><td>Both (ii) &amp; (iii)</td></tr><tr><td>(c)</td><td>Only (ii)</td></tr><tr><td>(d)</td><td>Only (i)</td></tr></table>	(a)	Both (i) & (iii)	(b)	Both (ii) & (iii)	(c)	Only (ii)	(d)	Only (i)	A
(a)	Both (i) & (iii)									
(b)	Both (ii) & (iii)									
(c)	Only (ii)									
(d)	Only (i)									
3.	<p>In the given case, what is the reporting requirement in relation to SA 250, on the part of auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?.</p> <table><tr><td>(a)</td><td>The auditor is required to report such matters in the main audit report under the head other matter paragraph section only.</td></tr><tr><td>(b)</td><td>The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only.</td></tr><tr><td>(c)</td><td>Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.</td></tr><tr><td>(d)</td><td>Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.</td></tr></table>	(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.	C
(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.									

### INTEGRATED CASE STUDY - 40

CA Ram & CA Lakshman are close friends & 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 back of the same, they both decided to conduct a joint training session for their clients on GST & 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 & will lead to disciplinary action from ICAI.

The partner of M/s AK & Associates is a close friend of CA Ram. The firm was involved in an audit of a listed company which was required to submit Business Responsibility & 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 & a detailed energy consumption plan which it had devised for the upcoming years. Since CA Ram 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 Ram's name to the post of becoming a member in the Board of Management of KYC Co-operative Bank, a Primary (Urban) Co-operative Bank & a client of AK & Associates. Upon hearing the same, CA Lakshman requested Ram not to take up the post as it would lead to professional misconduct.

CA Ram was acting as an internal auditor of PL 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. Ram was observing the business model & the way in which the company was operating for quite some time, & he was keen on investing in the company. As a result, he decided to invest in the company's shares & 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 Lakshman got to know about this information, & he immediately urged Ram to resign from the being the internal auditor of PL Technologies Private Limited, for the reason that an internal auditor cannot hold any shares in the company, & it will lead to professional misconduct & also failure to comply with the provisions of the Companies Act, 1949. However, Ram did not accept the argument of Lakshman, & he said that nothing will happen because of him acquiring 9.75% shares in the company & continuing to act as its internal auditor.

CA Lakshman was the statutory auditor for GH Finance Private Limited, a NBFC head quartered in India. The company's treasury department had undergone changes in the recent past & 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 Lakshman who was also into equity research advisory apart from CA practice, to support the company & the members of its treasury department for a brief period by giving Investment Advisory Services, to ensure efficient utilization & management of the funds of the company. Before committing anything on the offer, CA Lakshman wanted to consult with CA Ram as to whether the service requested by the NBFC can be performed by him.

Based on above facts, answer the following MCQs

1.	Whether the act of conducting joint training session on GST by CA Ram & Lakshman & sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?	D
(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 Ram & Lakshman are guilty of professional misconduct.	
(b)	Yes, CA Ram & Lakshman 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 Ram can influence clients of CA Lakshman & 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.	
(d)	No, as per the recent decisions of Ethical Standards Board, it is permissible for 2 or more CA in practice collectively to have joint training session for their clients on GST, & 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
(a)	The details of the emission forms part of the Essential Indicators & need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator & is considered as optional disclosure.	
(b)	Both the details of the emission & future energy consumption plans form part of the Essential Indicators & needs to be mandatorily disclosed in the BRSR.	

	(c)	The details of the emission are a Leadership Indicator & is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator & 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 & 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?		B
	(a)	Principle 1 – Ethics, Transparency & Accountability	
	(b)	Principle 6 – Protection & Restoration of Environment	
	(c)	Principle 4 – Respect for Stakeholder's Interests & Responsiveness	
	(d)	Principle 7 – Influence on Public & Regulatory Policy	
4.	By accepting the offer to become a member of the Board of Management of KYC Co-operative Bank, do you think that CA Ram would be held guilty of professional misconduct?		C
	(a)	Yes. As per clause 11 of Part I of First Schedule CA Ram 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 Ram 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 Ram would not be held guilty of professional misconduct if he accepts the offer.	
	(d)	Yes. CA Ram would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Ram is getting this offer as a reciprocation for helping AK & Associates.	
5.	In the given case, it is mentioned that CA Lakshman is a practicing CA & is also engaged as an Equity Research Advisor. Do you think that CA Lakshman will be held guilty of professional misconduct as per the provisions of the Chartered Accountant Act, 1949?		A
	(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 Lakshman 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 Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.	
	(c)	A CA in practice cannot be an Equity Research Advisor, for his existing clients or for any other person. Hence, CA Lakshman 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 Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.	

## INTEGRATED CASE STUDY – 41

Tom Ltd. is in to the business of manufacturing & distributing of Toys for the past 25 years. Since inception, the company is having its own in-house dedicated internal audit department, having team of competent & qualified chartered accountants, headed by the Chief Internal Auditor, who with systematic & 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 & in respect of substantive procedures involving limited judgment. Due to time constraints & 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 & Goodwill impairment assessment. Accordingly, M/s Deva & Co.

are in the process of determining in which areas & to what extent internal auditors can be used & 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 & assessing the risks of material misstatement through understanding the entity & its environment & during the course of performing the audit procedures finds that the company is holding significant bank accounts & 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 & adjust the excess or deficit against next following months deposit & the difference of the said amount always remains insignificant.

Based on above facts, answer the following MCQs

(Nov 2024)

1.	Issue identified by Deva & Co., with regard to holding significant bank accounts & having branch operations in tax-haven jurisdictions & significant related party transactions is a fraud risk factor. What is the condition created by that fraud risk factor & what fraud does it result in?	C								
	<table><tr><td>(a)</td><td>The risk factor creates a rationalization for the fraud &amp; results in a misstatement due to fraudulent financial reporting.</td></tr><tr><td>(b)</td><td>The risk factor creates an incentive/ pressure for the fraud &amp; results in a misstatement due to misappropriation of assets.</td></tr><tr><td>(c)</td><td>The risk factor creates a perceived opportunity for the fraud &amp; results in a misstatement due to fraudulent financial reporting.</td></tr><tr><td>(d)</td><td>The risk factor creates a perceived opportunity for the fraud &amp; results in a misstatement due to misappropriation of assets.</td></tr></table>	(a)	The risk factor creates a rationalization for the fraud & results in a misstatement due to fraudulent financial reporting.	(b)	The risk factor creates an incentive/ pressure for the fraud & results in a misstatement due to misappropriation of assets.	(c)	The risk factor creates a perceived opportunity for the fraud & results in a misstatement due to fraudulent financial reporting.	(d)	The risk factor creates a perceived opportunity for the fraud & results in a misstatement due to misappropriation of assets.	
(a)	The risk factor creates a rationalization for the fraud & results in a misstatement due to fraudulent financial reporting.									
(b)	The risk factor creates an incentive/ pressure for the fraud & results in a misstatement due to misappropriation of assets.									
(c)	The risk factor creates a perceived opportunity for the fraud & results in a misstatement due to fraudulent financial reporting.									
(d)	The risk factor creates a perceived opportunity for the fraud & results in a misstatement due to misappropriation of assets.									
2.	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 & its adjustment against next months' deposit leaving the insignificant difference of ESI amount?	A								
	<table><tr><td>(a)</td><td>The company consistently follows the method of payment in respect of ESI collections &amp; the difference between the total dues &amp; lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited &amp; hence not to be reported.</td></tr><tr><td>(b)</td><td>Depositing of ESI collections &amp; the arrears of ESI dues cannot be considered as statutory dues under CARO 2020 &amp; hence not to be reported.</td></tr><tr><td>(c)</td><td>Lumpsum deposit of estimated ESI amount &amp; adjusting excess/deficit against following months' deposit shall be considered as dues payable &amp; hence to be reported under CARO 2020.</td></tr><tr><td>(d)</td><td>Even though the difference between the total dues of ESI &amp; lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited &amp; hence to be reported under CARO 2020.</td></tr></table>	(a)	The company consistently follows the method of payment in respect of ESI collections & the difference between the total dues & lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited & hence not to be reported.	(b)	Depositing of ESI collections & the arrears of ESI dues cannot be considered as statutory dues under CARO 2020 & hence not to be reported.	(c)	Lumpsum deposit of estimated ESI amount & adjusting excess/deficit against following months' deposit shall be considered as dues payable & hence to be reported under CARO 2020.	(d)	Even though the difference between the total dues of ESI & lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited & hence to be reported under CARO 2020.	
(a)	The company consistently follows the method of payment in respect of ESI collections & the difference between the total dues & lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited & hence not to be reported.									
(b)	Depositing of ESI collections & the arrears of ESI dues cannot be considered as statutory dues under CARO 2020 & hence not to be reported.									
(c)	Lumpsum deposit of estimated ESI amount & adjusting excess/deficit against following months' deposit shall be considered as dues payable & hence to be reported under CARO 2020.									
(d)	Even though the difference between the total dues of ESI & lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited & hence to be reported under CARO 2020.									
3.	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 & 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.	B								

	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	
4.	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:	C
(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 & 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.	

### INTEGRATED CASE STUDY – 42

M/s HVM & Co. is a firm of Chartered Accountants based in Chennai. CA M, CA V & CA H are the partners of the firm. The firm is engaged in various assignments including Audits & its engagement partners who were handling their respective assignments for the financial year 2023-24 dealt with the following issues raised during & 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 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 & other circumstances as additional information in his report with those charged with the governance.

Financial statements of VED Ltd. for the year ended on 31 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 & gave approval to include this amount in the Financial statements of the company for the Financial Year ended on 31 March, 2024 & 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 & value of certain Machineries. The management gave a certificate to prove the existence & 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 & 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 & he has joined as a visiting faculty for teaching financial management & accounting subject. The management of the HT institute of professional studies is highly satisfied with his teaching skills & 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 above facts, answer the following MCQs

(Nov 2024)

1.	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	D
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	ended on 31st March, 2024 by amending the accounts, CA H shall consider the following procedures. Identify the incorrect procedure from the following:									
	<table><tr><td>(a)</td><td>Carry out the audit procedures necessary in the circumstances on the amendment.</td></tr><tr><td>(b)</td><td>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 &amp; the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.</td></tr><tr><td>(c)</td><td>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.</td></tr><tr><td>(d)</td><td>Modify the opinion as required by SA 705 &amp; then provide the auditor's report.</td></tr></table>	(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 & 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 & then provide the auditor's report.	
(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 & 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 & then provide the auditor's report.									
2.	<p>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.</p> <p>Select the correct option in terms of professional code of conduct.</p> <table><tr><td>(a)</td><td>CA M can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.</td></tr><tr><td>(b)</td><td>CA M cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.</td></tr><tr><td>(c)</td><td>CA M can accept the statutory assignment as he does not have any substantial interest in the HT Institute of professional studies.</td></tr><tr><td>(d)</td><td>CA M cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949.</td></tr></table>	(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.	B
(a)	CA M can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.									
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(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.									
3.	<p>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 SA260. Following are the circumstances for which communication with those charged with governance is required..</p> <p>Help CA V in getting identified incorrect circumstance from the below mentioned circumstances.</p> <table><tr><td>(a)</td><td>When the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.</td></tr><tr><td>(b)</td><td>When the auditor consider 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.</td></tr><tr><td>(c)</td><td>When a material uncertainty related to going concern is reported in accordance with SA 570.</td></tr><tr><td>(d)</td><td>When there are no key audit matters to be communicated in accordance with SA 701.</td></tr></table>	(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 consider 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.	D
(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 consider 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.									
4.	<p>Since there arose a doubt on the management representation &amp; considering the responsibilities of M/s HVM &amp; Co to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:</p> <table><tr><td>(a)</td><td>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.</td></tr><tr><td>(b)</td><td>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.</td></tr><tr><td>(c)</td><td>In the case of identified inconsistencies between one or more written representations &amp; audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate &amp;, if not, revise the risk assessment &amp; determine the nature, timing &amp; extent of further audit procedures to respond to the assessed risks.</td></tr><tr><td>(d)</td><td>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.</td></tr></table>	(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 & audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate &, if not, revise the risk assessment & determine the nature, timing & 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.	B
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(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.									

**INTEGRATED CASE STUDY – 43**

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) During the course of audit, you, as the Engagement partner, have been asked by the GM to calculate CRAR. For this purpose, you have referred to the Master circular on "Prudential Guidelines on Capital Adequacy & Market Discipline- New Capital Adequacy Framework (NCAF)", which provides the guidelines to be followed by banks for capital adequacy.

You are informed that the basic approach of capital adequacy framework is that a bank should have sufficient capital to provide as table resource to absorb any losses arising from the risks in its business. You have observed that Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument. For supervisory purposes capital is split into two categories: Tier I & Tier II, representing different instruments' quality as capital.

You have calculated Eligible total capital funds comprising -

1. Tier I capital of Share capital 200 Crore. & disclosed reserves 20 Crore.
2. Tier II capital of Other Reserves 30 Crore. & subordinated debt 20 Crore.

The Risk weighted assets constitute 25 Crore; while Off-balance sheet items are ₹5 Crore.

- (ii) As a part of the scope, the audit firm has been asked to find out the correct position of Demand & Time liabilities of Maha Bank. DTL balance as on 30th September, 2024 was Rs. 50,000 Crore which included the following –

		₹ Crores
(i)	Paid up capital	27000
(ii)	Reserves	1650
(iii)	Credit balance in Profit & Loss account	1210
(iv)	Loan taken from RBI	575
(v)	Refinance taken from EXIM bank & NHB	480
(vi)	Part amounts of recoveries from the borrowers in respect of debts considered bad & 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 & kept in sundry deposits for funded facilities	80

- (iii) 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 & got itself registered as non-banking financial company NBFC with the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31 March 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification & regulation like Capital requirements, Government standards, Prudential regulations, etc. based on four layers that are defined based on their size, activity & 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
- (v) The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit check-list.
- (vi) 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 & extent of audit including the constitution of audit team & 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 & 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 & 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.

(Nov 2024)

1.	Based on facts given in para (ii), you are required to Compute Demand & Time Liabilities (DTL) balance as on 30th September, 2024.	D
	(a) ₹ 18000 crore	
	(b) ₹ 19360 crore	
	(c) ₹ 18790 crore	
	(d) ₹ 18880 crore	
2.	Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM)	A
	(a) Audit programme	
	(b) Evidence	
	(c) Audit Questions	
	(d) Data collection & Analysis Method	
3.	Based on facts given in para (i), you are required to arrive at the correct percentage of Capital Risk Adequacy Ratio for the Maha Bank Limited	A
	(a) 10%	
	(b) 10.80%	
	(c) 8.33%	
	(d) None of the above	
4.	Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -	C
	(a) Top Layer	
	(b) Upper Layer	
	(c) Middle Layer	
	(d) Base Layer	

## INTEGRATED CASE STUDY – 44

M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2043-44. 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 & Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. & Soccer Ltd. are M/s XYZ & Associates.

Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards & 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 & 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, 2044, 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 2042-43.

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

Based on the above facts, answer the following: -

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?	B
	(a) The auditor should give a disclaimer of opinion.	
	(b) The auditor should give an adverse opinion if the impact is material & 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 2042-43 in the current year financial statements, what are the auditor's reporting responsibility for the same?	C
	(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?	D
	(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?	C
	(a) This is implied responsibility of management & is presumed in an audit of financial statements & 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 & 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?	B
	(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 & 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
	(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.	

### INTEGRATED CASE STUDY – 45

Maulik & Javeri Associates is a Firm of CAs that provides assurance services to many companies, including listed companies. The Firm have 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, & continuance of client relationships & specific engagements based on the 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 FS & included an assessment of the firm's quality control system. The reviewer decided to discuss the following with the audit team members:

1. The reviewer enquired about the roles & responsibilities of CA Maulik. CA. Maulik explained that the engagement team is comprised of him as the engagement partner & other professionals, including the engagement in-charge. CA. Javeri was the engagement control quality reviewer. As the engagement partner, he was responsible for the direction, supervision & performance of the audit engagement in compliance with professional standards & applicable legal & regulatory requirements; & the auditor's report being appropriate in the circumstances take responsibility for reviews being performed in accordance with the Firm's review policies & procedures. He also explained that he has already completed 7 years as an engagement partner & 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.
2. The reviewer enquired about the roles & responsibilities of CA. Javeri, the engagement control quality reviewer. CA. Javeri explained that the EQCR plays an important role in the quality control process of an audit & 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, & considerations for carrying out effective EQC reviews. Specifically, in this engagement, CA. Javeri explained that he has rich experience in handling direct & indirect tax matters & was selected by CA. Maulik. There was no formal letter confirming his selection as EQCR. The listed company had significant GST litigations. CA. Javeri ensured that he was involved in forming the audit team's judgments relating to these litigations, including making relevant provisions. CA. Javeri confirmed that the EQC review was conducted in periodic intervals, & the engagement team had resolved all the observations raised during the EQC review.
3. The reviewer enquired about the areas that require discussion with management/ TCWG or areas that require significant efforts. CA. Maulik 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 & required significant judgement & 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.

4. The reviewer enquired about the rationale for material difference between the amount of revenue stated in the FS & the corresponding amount in the Board report included as a part of the Annual Report. CA. Maulik explained that auditors are required to comment on the true & fair view of the FS & 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 & 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 & the audited FS does not require any consideration. However, as good governance, CA. Maulik has obtained a reconciliation of the amount of revenue between the Board Report & the FS.

Based on the abovementioned facts, you are required to answer the following MCQs -

1.	Whether the selection of EQCR is as per the requirements of SQC 1?	C
(a)	No. EQCR's objectivity was not maintained since it was selected by the engagement partner, & no formal communication was made regarding such selection.	
(b)	Yes. CA. Javeri 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 & made decisions for the engagement team.	
(d)	Yes. CA. Javeri 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.	In the given situation, which threat will be created if CA. Maulik serves for the assurance engagement over a long period of time?	C
(a)	Self-interest threat.	
(b)	Self-review threat.	
(c)	Familiarity threat	
(d)	Intimidation threat	
3.	Can CA. Maulik serve another year as the engagement partner?	D
(a)	Yes. The Companies Act, 2013 do not provide for mandatory rotation of engagement partner.	
(b)	No. SEBI (Listing Obligations & Disclosure Requirements) Regulations require mandatory rotation of engagement partner after completion of 5 years each.	
(c)	Yes. Since permitted as per Firm policies.	
(d)	No. Existing engagement partner of a listed company cannot serve as engagement partner beyond 7 years.	
4.	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
(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. Judgmental 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.	
5.	Whether CA. Maulik should consider the Board Report or not as the audit report was already issued:	B
(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.

### INTEGRATED CASE STUDY – 46

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 & 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 & 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 & with banks for additional cash credit up to INR 40 Crore, which is already approved by the board. However, management is pursuing further actions & 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 & 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 & 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 & Services Tax (GST) & 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 & employees' state insurance amounting to INR 2 Crores & INR 1 Crore, respectively, currently that are under litigation. The disputes are pending before the Income-tax Appellate Tribunal & the Employees' State Insurance Court. These arrears & disputes were acknowledged by the management but as at the year end they remain unresolved.

Based on the above facts, answer the following: -

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?	C
(a)	The internal audit team's competence & objectivity in evaluating management's experience.	
(b)	Management's integrity & whether their experience translates into appropriate accounting estimates.	
(c)	The complexity of the transactions & the degree of subjectivity in measuring the percentage of completion.	
(d)	Whether the revenue recognition policy is appropriate for the company's business & consistent with the applicable financial reporting framework.	

2.	Based on the above case scenario & 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?	B								
	<table><tr><td>(a)</td><td>Conclude that no material uncertainty exists because the board has approved plans to raise additional capital.</td></tr><tr><td>(b)</td><td>Evaluate management's plans to raise additional capital, including their feasibility &amp; the likelihood of their success in mitigating the going concern concerns.</td></tr><tr><td>(c)</td><td>Request written representations from management &amp; those charged with governance regarding their plans for future actions &amp; the feasibility of these plans.</td></tr><tr><td>(d)</td><td>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.</td></tr></table>	(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 & the likelihood of their success in mitigating the going concern concerns.	(c)	Request written representations from management & those charged with governance regarding their plans for future actions & 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.	
(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 & the likelihood of their success in mitigating the going concern concerns.									
(c)	Request written representations from management & those charged with governance regarding their plans for future actions & 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?	B								
	<table><tr><td>(a)</td><td>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.</td></tr><tr><td>(b)</td><td>Report both disputed &amp; undisputed statutory dues in the CARO 2020 report under Para 3(vii)(a) &amp; (b), as required by the CARO 2020 provisions.</td></tr><tr><td>(c)</td><td>Consult with legal counsel to determine the specific reporting requirements for disputed &amp; undisputed statutory dues under CARO 2020.</td></tr><tr><td>(d)</td><td>Discuss the matter with management &amp; obtain their agreement to report both disputed &amp; undisputed statutory dues in the CARO 2020 report.</td></tr></table>	(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 & 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 & undisputed statutory dues under CARO 2020.	(d)	Discuss the matter with management & obtain their agreement to report both disputed & undisputed statutory dues in the CARO 2020 report.	
(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 & 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 & undisputed statutory dues under CARO 2020.									
(d)	Discuss the matter with management & obtain their agreement to report both disputed & undisputed statutory dues in the CARO 2020 report.									

### INTEGRATED CASE STUDY – 47

Arpan Films Ltd. is a distributor of movies in the state of West Bengal. The company has a significant interest in other operating segments & 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 & investment in start-up entities. The Group was founded jointly by Mr. Rishu (the Group Managing Director) & Mr. Prashant, an old confidant of Mr. Rishu.

Unfortunately, Mr. Rishu met with an accident & expired. His untimely death rattled the entire Group & 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 & the Group. The appointment of Mr. Vishu enraged Mr. Prashant, & 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 & manipulation of financial statements. Considering the gravity of the allegations, the existing auditor of the Parent Company tendered his resignation. The Board appointed Shubh & Laabh LLP as the new auditors. Shubh & Laabh LLP informed the previous auditor over the phone & accepted the appointment.

After 5 months, Shubh & 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 & 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 & 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. & accordingly have issued an unmodified audit opinion on the financial statements of the current year. The financial statements & 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, & 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 & 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 & 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:

1.	Is Shubh & Laabh LLP guilty of professional misconduct for accepting the audit of Arpan Films Ltd.?	D
(a)	Yes, Shubh & Laabh LLP are guilty of professional misconduct. The email response of the previous auditor does not include reasons for their resignation.	
(b)	Yes, Shubh & Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh & Laabh LLP should have intimated its appointment as auditor to the previous auditor through registered post (instead of sending an email).	
(c)	Yes, Shubh & Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh & Laabh LLP should not have intimated its appointment by telephone.	
(d)	Yes, Shubh & Laabh LLP are guilty of professional misconduct. As a matter of professional courtesy, Shubh & 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 & Laabh LLP have to compulsorily rely on the financial statements/ audit report of the auditor of Neel Ltd. while auditing the consolidated financial statements?	B
(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 & not for the purpose of preparing consolidated financial statements.	
3.	Management of Arpan Films (Parent Company) reconciled its balances with the customers & vendors at an interim period. Shubh & Laabh LLP also decided to send independent requests to the customers & 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 & 7% of vendors, were selected to obtain external confirmations. Is the sampling strategy appropriate?	A

	(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 & not statistical based.	
	(c)	Inappropriate. Considering the underlying audit risk, external confirmation from all customers & vendors should have been obtained.	
	(d)	Inappropriate. Rely on confirmations obtained by management & 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.)?		C
	(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 & settlement period are excessive & 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 & 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
	(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 & unmodified to the extent it relates to the remaining part of the Group.	

### INTEGRATED CASE STUDY – 48

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

Considering the nature, size & extent, the company has appointed M/s KAP & Co. & 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 & 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 & carried out relevant audit procedures & 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 & 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 & replacing its old practices. The adoption took a span of 4 months & was successfully completed on Dec 3rd, 2023. The previous

software did not have an audit trail feature & 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 & 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 & Borrowings from Financial Institution	₹ 72 lakhs
3.	Turnover	₹ 154 lakhs
4.	Reserve & Surplus	₹18.36 lakhs

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

(RTP May 2025)

1. Mr. K, the engagement partner of M/s KAP & Co, failed to maintain any documentation of the whole verification process & did not perform impairment testing on the PPE at the end of the financial year. Select the appropriate option as per SA 299.		A
(a)	Mr. K is severally responsible for his own actions & 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 & 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 & 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?		C
(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 & 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 & 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 & relied upon the work of Internal Auditor, without keeping any documentation. Which of the following is correct as per SA 610?		A
(a)	Mr. B can rely on the work of the Internal Auditor. However, he must first discuss with Internal audit function & also evaluate the adequacy of work of Internal Auditor & must document the same regarding the evaluation of work of Internal Auditor.	
(b)	Internal Auditor has already performed audit procedure on the P2P Process & hence the Statutory Auditor can rely on the work without any further audit procedure & documentation.	
(c)	Audit procedure & the scope of Internal Audit are altogether different from Statutory Audit & therefore, the Statutory Auditor cannot use the work of Internal Auditor.	
(d)	Internal Auditor has already performed audit procedure on the P2P Process & 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.	
4. Considering the above case, whether reporting under CARO, 2020 will be applicable to ABC Private Ltd.?		C
(a)	No, since the company is a private limited company.	
(b)	No, since the company is in the business of acquisition of shares & 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. & auditor of ABC Private Ltd. should be reported in:		D
	(a)	Emphasis of Matter Paragraph.	
	(b)	Key Audit Matter Section.	
	(c)	Going Concern Paragraph.	
	(d)	Other Matter Paragraph.	

## INTEGRATED CASE STUDY – 49

CA Mridul, a practicing CA, 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 & advanced technology in the electronic products sector. He has publicly advocated the proposed policy in TV debates, articles in business newspapers, & 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 FS, 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
<b>Total Provision for NPA</b>		<b>5.00 crores</b>

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

Based on the above facts, answer the following:

1.	Which of the following statements is likely to be correct in regard to PQT Limited?	C
	(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
	(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
	(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) & has provided ₹ 2.00 crores. What is the shortfall in provisioning as per RBI norms?		A
	(a)	₹ 0.40 crores	
	(b)	₹ 1.00 crores	
	(c)	₹ 0.80 crores	
	(d)	No shortfall	

### INTEGRATED CASE STUDY – 50

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 & 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 & their effect & 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 & 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 & operational inefficiencies. The company's cash flow statements reveal recurring negative cash flows, & its interim financial statements show a significant decline in profitability. Additionally, Purple Pvt. Ltd. has defaulted on loan covenants, & 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, & reducing operational costs. However, no formal documentation supporting these plans has been provided yet.

M/S FILE & Co. have identified the events & conditions in the case of Purple Pvt. Ltd. which cast significant doubt on the entity's ability to continue as a Going Concern, & auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty exists & 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, & enforceability of arrangements to provide or maintain financial support, both from related/third parties & the assessment of the financial ability of such parties to provide the promised support as immaterial.
- (iii) Evaluate the assumptions underlying cash flow, profit, & other relevant forecasts, considering historical accuracy & current market conditions.
- (iv) Considering whether existing facts & 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, & 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 & issue a modified audit opinion without further evidence.

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 & 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 & 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 questions:

(May 2025)

1.	Which of the following actions is not required as part of the auditor's documentation for the identified misstatements of DEAF Ltd. ?	A
	(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, & the basis for that conclusion.	
2.	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 Ltd. ?	B
	(a) (i), (ii), (iii), (iv)	
	(b) (i), (ii), (iv), (vi)	
	(c) (ii), (iii), (iv), (vi)	
	(d) (iii), (iv), (v), (vi)	
3.	Which of the following statements is most appropriate in the context of the roles of QRB & NFRA?	C
	(a) QRB is empowered to review the quality of audit services for both Crypto Ltd. & 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 & QRB have overlapping jurisdiction for listed entities, & either body can independently investigate Glitch Ltd.	
4.	Which of the following options is correct regarding the classification & treatment of the identified misstatements of DEAF Ltd. under relevant Standard on Auditing?	D
	(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 an 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 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 6 lakhs to entire 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 population is a projected misstatement.

## INTEGRATED CASE STUDY – 51

M/S TAG & Associates, a Chartered Accountant firm was appointed by Comptroller & 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 & 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 & 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. Understand the entity/programme
2. Defining the objective & the scope of audit
3. Deciding audit approach
4. Developing audit questions
5. Determining audit criteria
6. Establishing timetable & resources
7. Preparing Audit Design Matrix
8. Assessing audit team skills & 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 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 & conditions.
- Mr. S suggested a method which involves review of the systems in place for planning, conducting, checking & 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 & properly applied & recoverability of advances is recognized in their valuation.
- Advances are disclosed, classified & described in accordance with recognized accounting policies & practices & relevant statutory & regulatory requirements.
- Appropriate provisions towards, advances are made as per RBI norms, 'accounting standards & 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), & creditors for calculating the Drawing Power

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

On the basis of the above details, you are required to answer the following questions - (May 2025)

1.	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 & in such cases sampling techniques are required to be used ?	B
	(a) Mr. P	
	(b) Mr. Q	
	(c) Mr. R	
	(d) Mr. S	
2.	<p>The following audit procedures are undertaken by the audit team in relation to audit of advances of the Indore Main branch :</p> <p>(i) Examine existence, enforceability &amp; valuation of securities in respect of securities requiring registration.</p> <p>(ii) Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.</p> <p>(iii) Examine whether system laid down in bank for review/renewals of advances is being followed.</p> <p>(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 &amp; SMA2 borrowers from the bank &amp; same can be considered for selection of problematic accounts.</p> <p>(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.</p> <p>From the above, identify the audit procedures that Mr. Y should focus upon.</p>	C
	(a) (i), (ii), (iii)	
	(b) (ii), (iv), (v)	

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

## INTEGRATED CASE STUDY – 52

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 & consumer products industries. The company's portfolio includes memory, SSDs, motherboards, power adapters, & 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; & 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 & adequately presented & 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 & 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 & 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 & 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, & 35 do not respond.
2. One response to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead & 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, & 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 & 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 & 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 & facilitating communication between the expert & 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.

On the basis of the above details, you are required to answer the following questions -

(May 2025)

1.	Based on SA 530, which of the following is the most appropriate response for the auditor in handling these situations while performing sampling tests & procedures ?	D
(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 & 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.	
2.	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 & reliable audit evidence in accordance with relevant Standard on Auditing ?	C
(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, & 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.	

3.	<p>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 ?</p> <p>(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.</p> <p>(b) Ensure that the nature, scope, and objectives of the expert's work are agreed upon in writing, including the timeline for deliverables.</p> <p>(c) Identification of specific partners or staff, who will liaise with the auditor's expert, &amp; procedures for communication between that expert &amp; the entity, assists timely &amp; effective communication, particularly on larger engagements.</p> <p>(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.</p>	A
4.	<p>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 ?</p> <p>(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.</p> <p>(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.</p> <p>(c) Assume the opening balances are immaterial since the predecessor auditors, M/S JK Associates issued a modified opinion &amp; focus only on current year's transactions.</p> <p>(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.</p>	B