

## CA Final Audit- Brahmastra!!

New Module Question Pocket Notes- It covers all module questions as per new version of May 25 attempt onwards...

CA Pragnesh Kanabar- Senior Audit faculty with experience of 10+ years.

Sure Shot Questions are asked from ICAI Module. So please go through these pocket notes that have summarized answers with main key words used by examiner to give marks.

To know more about us- please visit [www.theauditacademy.com](http://www.theauditacademy.com)

This is Part I of ICAI Module question pocket notes containing all module descriptive questions related to Auditing standards. If you like our effort then do leave a comment on our youtube channel 'The Audit Academy'- <https://www.youtube.com/channel/UC57hM1jeO3KdRQSQx71C> Q

Q.N.	Ch.	Question	Main Part of the Answer
1.	1	ABC & Associates, Chartered Accountants has a policy to accept the clients wherein the risk evaluation is conducted with respect to the Company and the promoter. XYZ Limited approached ABC & Associates. Promoter of XYZ Limited is a close associate and family friend of Mr. A, Managing Partner of ABC & Associates. XYZ Limited is in news in the previous year for certain inquiries from the regulatory authorities in relation to certain matters. The existing auditor of XYZ Limited has resigned and has created a casual vacancy. XYZ Limited is ready to offer 25% more than the existing fees and has approached ABC & Associates for appointment as Auditor. Mr. A has strong recommendation to the Firm to accept the audit. Firm? What is your understanding of the functioning of the tone at the top of the Firm ABC & Associates, Chartered Accountants? What are the considerations one should exercise to uphold Quality o	<b>SQC-1- Client Acceptance Procedure concept.</b> <b>2 issues</b> → Doubt over integrity of the client (as the questions says there are regulatory inquiries) and Doubt over maintenance of Independence (Mr. A is a close associate and family friend of the Promoter).  Commercial considerations should not override quality of the work.
2.	1	MNP & Co., a firm of auditors, is appointed by a bank to conduct stock audit of a borrower. It deposes one of its paid Chartered accountant employees, Sudhanshu, to conduct above said stock audit. He leverages it as an opportunity to prevail upon the client to get the accounts	<b>SQC-1- Code of ethics are violated.</b>  Quality control policies should be documented and communicated with the firm's personnel.

		audited from their firm. He also assures the client of a clean stock audit report without adverse comments as a quid pro quo. Is approach of Sudhanshu proper? How does it reflect upon quality control system of firm?	Firm has failed in educating firm's personnel about QC.
3.		CAM is introduced to a prospective client in a social function. He assures to visit office of CAM very soon in relation to professional work. During discussions over a cup of coffee next week, it transpires that there was a search by Enforcement Directorate in his premises about a month back resulting in recovery of huge sum of cash. The income tax department had also searched his premises in relation to bogus capital gains on penny stocks. Lamenting poor quality of services provided by his present auditor, he offers appointment as tax auditor of his five family-owned firms to CAM in lieu of handsome fees. What are the factors to be evaluated by CAM if he wants to take up the engagement?	<b>SQC-1 establishes policies and procedures for client acceptance and continuance.</b> Firm should evaluate Integrity of the client before accepting. In the given case, there are serious doubts over integrity of the client. Commercial considerations do not override the quality of the work.
4.		GVN & Associates are auditors of a listed company involved in "fin-tech" sector. The engagement team is stuck up with some issue pertaining to a particular Ind AS applicable to the company. They have framed a query and sent to ICAI for expert opinion on the matter. The issue was resolved upon receipt of expert opinion. Since expert opinion was provided by ICAI, engagement team was of the view that appointment of engagement quality control reviewer has lost its relevance. Do you agree?	<b>SQC-1 and SA 220</b> EQCR in listed entities is a mandatory requirement. Expert opinion of ICAI pertains to issue of interpretation. ICAI expert opinion does not substitute the requirement to appoint EQCR.
5.		RST & Co., a firm of Chartered accountants, are auditors of a listed company engaged in manufacturing of heavy machinery components. The audit report for year 2021-22 also included report on matters listed in CARO, 2020. While reporting under clause vii(a) of the said order relating to regularity of undisputed statutory dues by the company, the auditors have commented that company is "generally regular" in depositing statutory dues to appropriate	<b>Such type of reporting is not qualitative. It is not as per SA 220.</b> One of the objectives of the auditor, as per SA 220, is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and regulatory and legal requirements.

		authorities. Is above reporting qualitative and in line with requirements of SA-220?	
6.		PQR & Associates are statutory auditors of a listed company. There arose an issue during the course of audit relating to related party transactions. The engagement partner wants to consult engagement quality control reviewer on this matter during the course of audit process itself. Can he consult with engagement quality control reviewer? Discuss	<b>SQC-1 EQCR.</b> It is important to maintain objectivity of EQCR and hence, Eng. Partner may consult EQCR in a manner so as not to compromise his objectivity.
7.		Beta Private Limited has approached a firm of Chartered accountants to assist them in preparation of FS and issue a compilation report in this regard. Does CA firm have responsibility in relation to quality control for above said engagement? Discuss with reasons.	<b>SQC-1 applicability.</b> SQC-1 applies to all types of engagement including SRS (standards on related services). In the given case engagement relates to SRS 4410 and hence SQC-1 is applicable.
8.		Ramanujan, a CA final student, feels that engagement file in audit engagement should be ready prior to issue of audit report. Discuss whether Ramanujan's view is in order.	<b>SQC-1 Assembly of audit file.</b> Firm should establish policies and procedures to assemble the audit documentation in a timely manner (within 60 days from the date of auditor's report)
9.		BNE & Co. are in midst of audit process of a listed company. During the course of audit, an issue arose relating to revenues from contracts with customers in terms of Ind AS 115. The engagement partner took a certain stand. However, engagement quality control reviewer recommended otherwise after review. The engagement partner is not willing to accept recommendations of reviewer. How can the stalemate be ended?	<b>SQC-1 and SA 220- Differences of opinion.</b> Matter should be resolved as per firm's policies and procedures. For e.g.- Consulting with other practitioners, regulatory body etc.
10.		MB & Associates is a partnership firm of Chartered Accountants which was established seven years back. The firm is getting new clients and has also, been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates	<b>SQC-1 Client Acceptance procedure.</b> Evaluate integrity of the client before acceptance. Matters to be considered: 1) Business reputation of client, 2) Attitude of Client's Mgmt and TCWG, 3) Reasons for non-reappointment of previous firm etc.

		about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1.	
11.		SPS & Associates, Chartered Accountants, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified and commenced providing software solutions in "e-commerce" in India as well as in certain African countries. SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. SPS & Associates does not possess the necessary expertise and infrastructure to carry out the audit of these diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw.	<p><b>SQC-1 Client continuance and withdrawal policies and procedures.</b> Firm shall evaluate whether firm has necessary capabilities, time and resources to do so.</p>
12.		PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to reappointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA R is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA R noted that the promoters' brother is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates and is planning to provide some accounting services to one of the associate companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in the automotive sector. Elaborate the matters to be considered by PQR Associates with respect to	<p>1) <b>SQC-1 Acceptance and Continuance of Client Relationships- 3 points</b>- evaluate integrity of client; cctre- competence, capabilities, time, resources and expertise to perform audit; evaluating compliance with ethical requirements.</p> <p>2) Additionally, firm should obtain such information as it considers necessary.</p> <p>3) If there are issues and firm has accepted audit then firm shall document how issues have been resolved.</p> <p>4) SA 220- EP shall evaluate threats to independence.</p> <p>Connect the case with the above theory.</p>

		acceptance & continuance of client relationships considering the above issues.	
13.		<p>CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associates is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects which would be looked into by CA Giri as an EQCR in relation to the engagement? Upon completion of the review, CA Giri has identified certain issues with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest ways of resolving the differences of opinion between CA Giri and the engagement partner.</p>	<p><b>SA 220/SQC-1- Role of EQCR to review</b></p> <p>a) Compliance with independence of audit team  b) Whether team has taken proper consultation  c) Selected documents to review significant judgments and conclusions derived by the team.</p> <p><b>If there are differences in opinion between EP and EQCR-</b> report can be signed only after resolving differences. It shall be resolved as per firm's policies e.g. consult another practitioner, regulatory authority etc.</p>
14.		<p>TPX &amp; Co., Chartered Accountants, is a large audit firm. It maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by engagement team. How do you view the above situation from the point of view of quality control system in audit firm? Analyse.</p>	<p>The firm is required under SQC 1 to establish policies that ensure the <b>confidentiality, integrity, accessibility, and retrievability of engagement documentation</b>. In this case, the failure to scan or cross-reference physical files with electronic records suggests inadequate documentation controls, risking the integrity and completeness of audit files. Proper procedures, including scanning and indexing paper documents, are essential to preserve data integrity and meet <b>the 60-day assembly deadline</b>. <b>There is a risk of non-compliance.</b></p>
15.		<p>Pine &amp; Associates is the statutory auditor of BB Ltd., a listed company and started its operations 6 years ago. The fieldwork during the audit of the FS of the company for the year ended 31st March, 2024 was completed on 1st May, 2024. The auditor's report was dated 15th May, 2024. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 18th May, 2024. The engagement partner had completed his reviews in entirety by 12th May, 2024. Comment.</p>	<p>According to SA 220, the engagement partner is responsible for ensuring audit reviews follow firm policies. For listed entities, EP shall determine whether EQCR has <b>been appointed, discuss significant matters with them, and not date the audit report until the EQCR is complete</b>. As per SA 700, the audit report must be dated only after sufficient evidence has been obtained. <b>Timely completion of the EQCR helps ensure significant issues are addressed before finalizing the audit report.</b></p>
16.	2	<p>My Décor Limited, presently engaged in manufacturing of fabrics, wants to set up a new plant for manufacturing of special kind of fabric</p>	<p><b>SA 240- Fraud Risk factor- Risk of fraudulent financial reporting.</b></p>



		<p>providing an altogether different texture and feel. This kind of fabric has become a hit with retail customers. The company needs to set up plant for manufacturing the above kind of fabric involving huge capital outlays to stay competitive in the market. You are auditor of the company and find that company's revenue has increased in financial year 2022-23 to ` 1000 crore from ` 750 crore in last year. By the time, you started the audit, there was no change in plant capacity and information regarding need to set up new plant has become known to you during inquiry of company's personnel. Discuss, how you should proceed to deal with above situation, as auditor of the company, paying special attention to risk of material misstatement due to fraudulent financial reporting?</p>	<p>In the given case study- it highlights the need for the company to set-up a new plant which involves huge capital expenditure and therefore it creates excessive pressure on the mgmt. to be involved in fraudulent financial reporting. Mgmt may inflate its revenues to get financing.</p> <p>Auditor should perform analytical procedures and computer assisted audit techniques to identify unusual revenue transactions.</p>
17.		<p>CA. Ridhima, internal auditor of Track Store Limited, has pointed out following deficiencies in internal control of the company, in her reports: -</p> <p>[i] Receivables are not reconciled at stipulated intervals.</p> <p>[ii] Customers are provided a credit limit based upon their track record. However, no review of customer credit limits is undertaken at required intervals. The statutory auditor of the company finds that no action has been taken by the company on the said deficiencies pointed out in reports of internal auditor. What does above situation allude to statutory auditor of company?</p>	<p><b>SA 240- Fraud Risk Factor concept.</b></p> <p>Failure to remedy significant deficiencies in internal control on a timely basis shows ignorant attitude of the mgmt. which is a fraud risk factor for misstatements related to fraudulent FR.</p>
18.		<p>FAS Insurance Brokers Limited is a leading online insurance intermediary. During the year, Director General of GST Intelligence (DGGI) has issued notice to the company for allegedly creating fictitious invoices for "marketing and sales services" amounting to ` 50 crores in favour of non-life insurance companies. The premises of company were also searched during the year by DGGI officials. The matter was also informed to IRDAI by DGGI for violation of</p>	<p><b>SA 250- Additional procedures to be performed when non-compliance is identified or suspected.</b></p> <p>In the given case study→ non-compliance is suspected. Hence, auditor should:</p> <ol style="list-style-type: none"> <li>1) Obtain understanding of the nature of the act.</li> <li>2) Evaluate its possible effect on the FS.</li> </ol>

		norms and regulations in this regard. Does above situation has any bearing on your responsibilities as statutory auditor of the company? Outline briefly in context of possible non-compliance with laws by the company.	3) Discuss the matter with mgmt. and TCWG. If they don't provide SAAE then obtain legal advice.
19.		CA. Vallabh Sundar is auditor of a leading private sector bank. "IT Systems and controls" is under his consideration to be reported as "Key audit matter" in audit report of the bank due to high level of automation and complexity of the IT architecture and its impact on the financial reporting system. At what time he should communicate such identified "Key audit matter"? What are relevant considerations in this regard and their usefulness?	<p><b>SA 701 and SA 260.</b></p> <p>Timing of Communicating KAM and need of such Communication with TCWG</p> <p>A) Timing:</p> <p>1) Preliminary views about KAM- communicated at the beginning of audit</p> <p>2) Further discussion of KAM discuss along with audit findings</p> <p>B) Need:</p> <p>It helps TCWG in better understanding of KAM and basis of auditor's opinion for such matters.</p>
20.		Four audit firms viz. GPR & Co., MKS & Co., CY & Associates and DES & Associates have been appointed for conducting statutory audit of KNB Bank, a public sector bank in accordance with nature. regulatory guidelines. The professional work was divided by audit firms on the basis of zones of bank. However, work relating to "IT Systems and controls" was not allocated by them due to its very While planning for the above common work area, it was decided to test IT general controls, application controls and IT dependent manual controls. Planned key audit procedures relating to this common area also included testing design and operating effectiveness of controls over "computer operations including back-up, batch-processing and data centre security". The actual audit procedures pertaining to "testing controls over batch processing" were performed by team of DES & Associates. In case work in relation to above audit procedures is not performed professionally by DES & Associates, discuss where responsibility for such lapses would lie in line with SA 299?	<p><b>SA 299- Responsibility division of Joint Auditors.</b></p> <p>A) Jointly responsible for appropriateness of Nature, timing and Extent (NTE) of planned audit procedures agreed among them. Responsibility of individual execution lies with the the concerned joint auditor</p> <p>B) In the given case study- planning is appropriate but execution of DES and Associates is improper.</p> <p>C) Therefore only DES and Associates would be liable.</p>

21.		A, B and C are joint auditors of a company. B is of the opinion that there are material misstatements in FS of a company which, if accounted for, would turn profit reflected in FS for ` 25 crore to a loss of ` 5 crore. He, therefore, wants an adverse opinion to be expressed in audit report. However, A and B do not concur with his views and are inclined to accept management's version. Is B required to go by majority opinion of 2-1?	<p><b>SA 299- Differences of opinion amongst the Joint Auditor</b></p> <p>A) If joint auditors are in disagreement with respect to opinion or any other matter in audit report then they shall express their opinion in a separate audit report. There is no rule of majority.</p> <p>B) In the separate audit report they should refer to each other's report in 'Other Matter Para'.</p>
22.		CA. Shelly Goel is offered appointment as auditor of RUTE Limited, a listed company. The audit committee of the company wants her to justify independence in relation to company through proper communication. Although she has ensured that there are no threats to her independence, she feels requirement of audit committee to be beyond its purview. What is your opinion in this regard?	<p><b>SA 260- Communicate in writing about independence in case of listed entities.</b></p> <p>Content of such declaration</p> <p>A) A statement that all engagement team, firm and others in the firm, network firm have complied with Independence</p> <p>B) Disclose all relationships between firm/network firm and the entity. (TOTAL FEES EARNED BY AUDIT AND NON-AUDIT SERVICES TO SUCH ENTITY)</p> <p>C) Safeguards (corrective action) have been applied to maintain independence</p>
23.		You are auditor of a social media company. Of late, government has tightened noose around companies operating in this segment by bringing in a maze of regulatory legislations to protect interests of users. How you can proceed to verify that company is compliant with new regulatory requirements? Besides, what does above situation underscore to you as an auditor?	<p><b>A) SA 240- Fraud Risk Factor. Strict Laws can damage financial stability creating pressure on mgmt.</b></p> <p>B) SA 250- Verify systems and procedures to comply with regulatory requirements</p>
24.		Discuss why the potential effects of inherent limitations of an auditor's ability to detect material misstatements described in SA 200 are far greater in respect of non-compliance with laws and regulations?	<p><b>SA 250- Auditor's responsibilities w.r.t verifying compliance with laws and regulations in audit of FS. Inherent limitations are greater because</b></p> <p>a) O- Operational laws may not be captured by FR system of the entity</p> <p>b) I- Intentionally mgmt. may conceal non-compliance</p> <p>c) L- Legal determination- whether an act is non-compliance or not may be subject to judicial proceedings.</p>



25.		MN & Associates are the statutory auditors of ABC Ltd. for the FY 2021-22. During the course of audit, the engagement partner, Mr. Manohar notices a misstatement resulting from a suspected fraud that brings into question the audit team's ability to continue performing the audit. How should the audit team deal with the situation?	<p><b>SA 240- Withdrawal from the engagement due to fraud:</b></p> <p>a) Consider whether it is appropriate to withdraw if withdrawal is legally permitted</p> <p>b) Discuss the reasons of withdrawal with mgmt. and TCWG</p>
26.		CA Anand is the engagement partner for the audit assignment of NHT Ltd. engaged in manufacture of Iron and Steel bars. The company has its plants in the state of Sikkim. While verifying the wages record of the company, CA Anand found that maximum of the labour employed in the plants of the company was child labour. He questioned the management of the company about the same to which the management replied that looking into the compliance of such law is outside his scope of financial audit. Give your comments with respect to such situation.	<p><b>SA 250- When non-compliance with other laws and regulations can indirectly have a material effect on the FS.</b></p> <p>In the given case study → Child labour laws → Non-compliance can have a material effect on the FS and therefore it is not outside the scope of audit of FS. If mgmt. does not show the effect of non-compliance → Modify opinion → Either qualified or adverse opinion.</p>
27.		Magnet Interiors Ltd. is a listed company engaged in the manufacture of office furniture. The company has its activities divided into four geographic regions. The company has appointed two joint auditors, namely, AB & Co. and CD & Co. to conduct the joint audit of the FS of the company for the year ending 31.03.2023. The engagement partners from both the firms, CA Amar and CA Chetanya along with their audit teams had a meeting to discuss the areas of the work to be divided and their respective responsibilities. Explain the responsibilities of the joint auditors with respect to such joint audit.	<p><b>SA 299- Responsibilities of Joint Auditor.</b></p> <p>Joint/Common responsibility for following areas:</p> <p>a) Undivided audit work</p> <p>b) planning NTE of the procedures of common audit areas</p> <p>c) Matters brought to notice by one JA and agreed by other</p> <p>d) examining Presentn and discl. of FS as per statute.</p> <p>e) ensuring Audit report complies with law and SA.</p>
28.		MNO Ltd. gets its accounting data processed by a service organisation. CA Riya is the statutory auditor of MNO Ltd. CA Riya wants to obtain an understanding as to how MNO Ltd. is using the services of the service organisation. What all understanding should she obtain?	<p><b>SA 402- using service organization (SO)</b></p> <p>Risk Assessment procedure to be performed by USER auditor → Obtain an understanding of → SIM RELATES to Contract → S- Significance and nature of the services provided by SO, I- Interaction between user entity (UE) and SO, M- Materiality of the transactions processed by SO,</p>

			R- Relationship between UE and SO, C- Contractual terms between UE and SO.
29.		<p>UVW &amp; Associates are the statutory auditors of Moon Ltd., a listed company, for the financial year 2022-23. CA Udhav is the engagement partner for the audit assignment. He was of the understanding that as per the requirement of one of the SAs he has a responsibility to communicate following matters to those charged with governance:</p> <p>(a) The auditor's responsibilities in relation to the financial statement audit.</p> <p>b) Planned scope and timing of the audit.</p> <p>c) Auditor independence</p> <p>Which of the matters is not included in the list prepared by CA Udhav. Discuss such matter in detail.</p>	<p><b>SA 260- Matters to be communicated with TCWG. 4 matters. In the given case → Missing matter is Significant findings from Audit → Content of such matter 'WO MARD'</b></p> <p>M- Matters discussed with mgmt..</p> <p>A- Accounting practices qualitative aspects</p> <p>R- Report modifications</p> <p>D- Difficulties encountered, if significant.</p> <p>W- WRs that auditor wants from TCWG</p> <p>O- Other matter, if any.</p>
30.		<p>Studio Ltd. appointed RST &amp; Associates and XYZ &amp; Co. as joint auditors for conducting the audit for the year ending on 31st March 2024. During the audit, it was observed that there is a significant understatement in the value of trade receivables. The trade receivable valuation work was looked after by RST &amp; Associates, however, there was no documentation outlining the division of the work between the joint auditors. Comment on the above situation with respect to the allocation of responsibilities among joint auditors as per relevant Standards on Auditing.</p>	<p><b>SA 299- Refer Q27.</b></p> <p>+</p> <p>The joint auditors shall also discuss and <b>document the nature, timing, and the extent of the audit procedures</b> for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to TCWG.</p> <p>in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor</p> <p>RST &amp; Associate will be held responsible for the same as <b>trade receivable valuation work was looked after by RST &amp; Associates only</b>. Also there is a violation of SA 299 due to no documentation of the work allocated.</p>
31.		<p>During the audit of Indo limited, CA Harish observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Indo Limited used a service organisation to record transactions and process related data. What factors should CA Harish consider regarding the nature and extent of activities undertaken by service organisation so as to determine whether</p>	<p><b>SA 402- Risk Assessment procedure.</b></p> <p>Same as Q28.</p>

		those activities are relevant to the audit and, if so, to assess their effect on audit risk. Discuss with reference to the relevant Standards on Auditing.	
32.		<p>Happy Hospital is a very renowned hospital for Orthopedic Surgeries in Mumbai having sophisticated infrastructure. Happy Hospital has started using a novice system which includes complete record of Indoor Patient i.e. their diagnosis, their treatment, their medications, their billings, and receipts thereon which is developed and managed by CT Contractors. CA Z is a statutory auditor of Happy Hospital. CA Z came to know about this system while auditing. CA Z is concerned whether the controls at CT Contractors Associates are operating effectively or not. For this purpose, CA Z demanded from CT Contractors, an assurance report from a practicing chartered accountant about their opinion on the description of CT Contractor's system, and the effectiveness of the control. Which type of report should be obtained by CA Z in terms of relevant Standard on Auditing? What aspects are to be considered by CA Z in using such assurance report as audit evidence that controls at CT Contractors are operating effectively?</p>	<p><b>SA 402 r.w. SAE 3402</b></p> <p><b>Using the work of Service Auditor.</b></p> <p>Type 2 Report = Report providing assurance on DDO- Design, description and operating effectiveness of the controls at Service organization.</p> <p>Can user auditor rely on type 2 report as audit evidence? User auditor shall evaluate: a) Date, b) Period covered, c) Whether such report provides SAAE d) Whether TOC performed by service auditor are relevant?</p>
33.		<p>FAB Limited is availing the services of Atiya Private Limited for its payroll operations. Payroll cost accounts for 63% of total cost for FAB Limited. Atiya Limited has provided the type 2 report as specified under SA 402 for its description, design, and operating effectiveness of control. Atiya Private Limited has also outsourced a material part of payroll operation M/s RST &amp; Associates in such a way that M/s RST &amp; Associates is sub-service organization to FAB Limited. The Type 2 report which was provided by Atiya Private Limited was based on carve-out method as specified under SA 402. CA Akram while reviewing the unmodified audit report drafted by his assistant found that, a reference has been made to the work done by the service auditor. CA Akram hence asked his assistant to remove such reference and modify report accordingly. Comment whether CA Akram is correct in removing the reference of the work done by service auditor?</p>	<p><b>SA 402- referring to the work of service auditor in audit report.</b></p> <p>The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so.</p> <p>If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.</p> <p>the user auditor shall modify the opinion if the user auditor is unable to obtain SAAE regarding the services provided by SO that are relevant to audit of user entity.</p>

34.		<p>Arihant Ltd. was engaged in the business of owning and managing hotels and resorts, selling tourism packages and performing airline bookings for corporate and individuals. It appointed Upadhyay &amp; Co. as its statutory auditor for the financial year 2023-24. While planning the audit, the audit team decided that the risk of improper revenue recognition from hotel business should not be treated as a fraud risk. This conclusion was based on the assessment of earlier years, wherein no fraud was identified in revenue recorded from such business. While testing the internal financial controls over the process of revenue recognition, it was identified that the controls are not properly designed to mitigate the risk of fraud and risk of improper revenue recognition. As a result, the audit team decided to perform additional substantive testing. However, the audit team still were to the conclusion that there is no risk of fraud in revenue recognition. During the course of substantive testing, it was identified that the management did not account for revenue received from corporate hotel bookings amounting to ` 43 crore. These amounts were partially received in the company's bank accounts and partially received in the CFO's personal account. The amounts received in the bank account of the company were disclosed as advances received against the future bookings. In the light of above scenario, kindly guide the statutory auditors with respect to their responsibility relating to fraud in an audit of a financial statement.</p>	<p><b>SA 240- Presuming risk of fraud in revenue recognition.</b></p> <p>While performing RAP- the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. when there is a complex revenue structure or when there is lack of controls on revenue recognition, then there is a high probability of fraud risk in revenue recognition.</p> <p>Sec 143(12) of Companies Act, 2013- Duty to report fraud.</p>
35.	3	<p>XWL Limited was engaged in dealing in commodity futures trading based in Surat. CA P, based at Delhi, was auditor of the company. The auditor did not even once visit office of the company and failed to understand the nature of business of the company. All the papers and account books were received on emails and audit was concluded.</p> <p>There were also included in his working papers checklists which had a requirement of test checking of cost of raw material consumed &amp; cost of stores and spares. There was nothing in his working papers showing understanding of</p>	<p><b>SA 300- Auditor should plan audit to perform it effectively.</b> Auditor shall establish audit strategy that guides development of audit plan. Auditor shall document a) Audit strategy, b) Audit Plan and c) Significant changes to plan and strategy.</p> <p>In the given case → auditor didn't plan and document as given above.</p>

		nature of business of company. What does it reflect upon planning of audit by CA P?	
36.		CA. Pradyuman is planning for audit of a listed company headquartered in NOIDA. While doing this exercise, he has made a list of various procedures intended to be performed by him during the course of audit. He has further made up his mind to decide about sample size at time of performing various planned procedures. Is above approach proper?	SA 300- Planning includes a description of nature, timing and extent of audit procedures. Sample size means 'Extent' of procedures and therefore it should be determined at planning stage.
37.		CA. Nikita is conducting audit of a leading society engaged in promoting awareness regarding usefulness of internet among the disadvantaged sections of society through easily understandable means and methods. The society is also registered under FCRA, 2010 for receipt of foreign contributions. During the course of audit, she embarked upon extensive procedures relating to verification of receipt of foreign contributions to rule out "round-tripping" in comparison to procedures originally thought of. She is documenting various procedures performed by her including relevant audit findings. However, she doesn't not feel need for putting into writing about how she planned the whole exercise. Does she require refreshing of her knowledge?	SA 300- Documentation of a) Overall audit strategy- record of key decisions b) audit plan- description of NTE of procedures c) Significant changes to audit strategy and audit plan Nikita has not followed the above requirement.
38.		CA. Sourabh is engagement partner conducting statutory audit of BBI Bank for SBT & Associates. The bank has 1034 branches spread all over the country which are audited by branch auditors. In respect of one large branch audited by a branch auditor, there were errors in NPA classification of many advances which were not pointed out by branch auditor in his report through memorandum of changes and NIL memorandum of changes was reported electronically. During overall review of FS of bank by statutory auditor, the above said errors did not come into light. The statutory auditor had also called soft copies of internal inspection report and concurrent audit reports of above branch as part of overall review procedures. However, these reports did not point towards	SA 600- Using the work of another auditor. Principal Auditor is not responsible for the work entrusted to other auditors, except in the circumstances which should have aroused his suspicion about reliability of the work performed by other auditors.  PA shall state clearly in his report the extent of financial information audited by other auditors.  In the given case → CA Sourabh is not responsible.



		any irregularities in such accounts. Would statutory auditor of bank be liable for above lapses? What precautions have to be taken by him while expressing opinion considering possibilities of such situations?	
39.		CA. Keshavraj is conducting statutory audit of a listed company "Live with Nature Limited". The company is engaged in producing environment-friendly niche products for new-born babies. There is also a well-functioning internal audit department in the company. On perusal of internal audit reports, he finds that not only verification of inventories was attended by internal auditor at regular intervals during the year, workings were also made in respect of inventory valuation as at year end. He has also attended inventory count at end of financial year and no prima facie adverse inferences were drawn by him. However, on going through inventory reports, he gathers that inventories are being held for considerably long period before being sold. The internal audit reports have not taken this aspect into consideration. Should he choose to rely upon inventory valuation work performed by internal auditor?	<p><b>SA 610-</b> Using the work of Internal Auditor. If Risk of Material Misstatement (RoMM) is high then external auditor shall perform more of the work directly and use less of the work of Internal Auditor.</p> <p>In the given case → RoMM is high and therefore external auditor should directly perform the procedures.</p>
40.		CA. Amboj, a practicing chartered accountant has been appointed as an internal auditor of Textile Ltd. He conducted the physical verification of the inventory at the year-end and handed over the report of such verification to CA. Kishore, the statutory auditor of the Company, for his view and reporting. Can CA. Kishore rely on such report?	<p><b>SA 610- Evaluating the adequacy of the work performed by Internal Auditor.</b></p> <p>CA Kishore shall first evaluate OCA of the Internal Auditor (Objectivity, competence and approach) and then perform procedures such as inquiry, reperformance etc. to evaluate adequacy of the stock audit done by Internal Auditor.</p>
41.		While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements?	<p><b>SA 540- Audit of estimates- Risk Assessment procedure-</b> Auditor shall obtain an understanding of ATM- AFRF governing estimates, T- Transactions, events and conditions leading to new/revised estimates, M- Making of accounting estimates by mgmt. considering MECCA- Method? Expert? C- Changes? C- Controls? A- Assumptions?</p>

42.		<p>KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct audit for the financial year 2022-23. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuarial reports. However, Mr. X agreed to Mr. Y's actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y's actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma. Explain the responsibility of auditors, in case, report made by Mr. Y's actuary, later on, was found faulty.</p>	<p><b>SA 299- Joint Audit</b></p> <p>a) Responsibility division- discussed in earlier questions</p> <p>b) Differences of opinion- discussed in earlier questions</p> <p>c) If Mr. Z issues separate report then he will not be held liable in this case.</p> <p>d) Mr. X and Mr. Y can be held liable if they have not verified the adequacy of the work performed by the actuary as per SA 620.</p>
43.		<p>A &amp; Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan?</p>	<p><b>SA 300- Planning an audit of FS- factors to be considered- 1) AFRF? 2) Applicable law? 3) Terms of Engagement? 4) Materiality? 5) Areas requiring special attention?</b></p>
44.		<p>As an auditor of garment manufacturing company for the last five years, you have observed that new venture of online shopping has been added by the company during current year. What factors would be considered by you in formulating the audit strategy of the company?</p>	<p><b>Factors to be considered in establishing overall audit strategy- 'Character of reporting team resulted in resources'</b> 1) Characteristics of the engagement that define the scope, 2) Reporting objectives, 3) Team's efforts 4) Results of preliminary engagement activities, 5) Resources required</p>
45.		<p>During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.</p>	<p><b>SA 220/SQC-1-</b></p> <p>a) Responsibilities of Eng. Partner in relation to Independence- Obtain information from firm/network firm to identify circumstances that create threat to independence.</p> <p>b) Responsibilities of EQCR- to evaluate whether team has complied with independence policies of the firm.</p> <p>Therefore, EQCR is correct.</p>

46.	<p>AKJ Ltd is a small-sized 30 years old company having business of manufacturing of pipes. Company has a plant based out of Dehradun and have their corporate office in Delhi. Recently the company appointed new firm of Chartered Accountants as their statutory auditors. The statutory auditors want to enter into an engagement letter with the company in respect of their services but the management has contended that since the statutory audit is mandated by law, engagement letter may not be required. Auditors did not agree to this and have shared a format of engagement letter with the management for their reference before getting that signed. In this respect management would like to understand that as per SA 210 (auditing standard referred to by the auditors), if the agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement, what should be included in terms of agreed audit engagement letter?</p>	<p><b>SA 210- Terms of Engagement- Contents of Letter of Engagement- OSAMA report</b></p> <ul style="list-style-type: none"> <li>a) Objective Scope</li> <li>b) Auditor's responsibilities</li> <li>c) Mgmt's responsibilities</li> <li>d) AFRF</li> <li>e) Expected form and content of audit report</li> </ul>
47.	<p>A private company is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc) included in the prior period FS and their subsequent re-estimation for the purpose of the current period. The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.</p>	<p><b>SA 540- Review of outcome of prior period estimates:</b></p> <p>The auditor shall review the outcome of accounting estimates made in prior period and it's subsequent re-estimation for the purpose of current period. It helps auditor</p> <ul style="list-style-type: none"> <li>- in identifying and assessing RoMM in current period</li> <li>- in assessing effectiveness of mgmt's estimation process.</li> </ul>
48.	<p>X Ltd had a net worth of INR 1300 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were</p>	<p><b>SA 620- Factors suggesting need for a detailed agreement with the expert:</b></p> <ul style="list-style-type: none"> <li>a) Expert has access to confidential information</li> <li>b) Matter is highly complex</li> <li>c) No past experience with the expert</li> <li>d) Significance of expert's work is high</li> </ul>

		new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise.	Hence, auditor shall enter into a formal agreement with the expert in the given case study.
49.		Cineplex, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe, shops, pubs etc. located in the complex. Its other income includes advertisements exhibited within/outside the premises such as hoardings, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises. Cineplex appointed your firm as the auditor of the entity. Being the head of the audit team, you are, therefore, required to draw an audit programme initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points relating to such complex.	<b>Audit Programme of Movie theatre complex- Income and expenditure</b> a) read MOA/AOA b) Verify income from sale of tickets (expand this into 2-3 points) c) Income from advertisement d) Income from cafeteria and parking charges e) Payment to film distributors f) Repairs and Maintenance
50.	4	CA. R is conducting statutory audit of a Divisional office (DO) of a public sector insurance company. On going through delegation of powers laid down by company's head office, it is noticed that surveyors in claims under property insurance policies beyond estimated amounts of `30 lac are to be appointed by Divisional Claims Committee (DCC). However, on going through surveyor appointment details of 10 such claims during the year, 5 instances have come to his notice where above delegation of powers has not been followed and appointments were made by Divisional manager in place of DCC. In the beginning, the auditor had assessed risks of material misstatement to be low. Describe why above finding would change auditor's assessment in relation to above.	<b>SA 315- Evaluation of internal control influences auditor's assessment of RoMM. RoMM includes control risk.</b> In the given case study it is obvious that controls are not operating effectively. This makes auditor believe that control risk needs to be revised. Revision of control risk may lead to revision of RoMM.
51.		You have recently been appointed as an auditor of NGO working in the field of "upholding democracy" for the first time. The last year accounts of NGO were unaudited and its	<b>Components of Audit Risk.</b>

		activities were limited at a small scale. However, it is only in the current year that NGO has received substantial donations including foreign funds. The said NGO is also crowdfunding its donations. The government has now legislative power to cancel FCRA certificate of NGO. Since it is working in field which encompasses political and social fields, accusations and counter-accusations are flying thick and fast. What factors you may consider for assessing audit risk?	<p>a) Inherent Risk- NGO working in political-cum-social field with foreign contributions and unaudited PYFS. Hence, inherent risk is high.</p> <p>b) Control Risk- NGO was operating at small scale and received huge donations in CY but NGO may not have formal controls to deal with it.</p> <p>c) Detection Risk- It is Initial Audit Engagement and therefore auditor may not have detailed understanding which increases detection risk.</p>
52.		<p>RK Living Limited is engaged in manufacturing and processing of textile fabrics. It purchases its raw material from a company based in Silvassa taxable @ 12%. It takes about 3-4 days for raw materials to reach the company's plant. Recently, the company has revamped its internal control system for recording its transactions. You have also assumed charge as head of internal audit department of the company few days before. It is noticed that information system requires booking of purchases in purchase ledger and stock records from date of purchase invoice only. How you would deal with above matter as internal auditor of the company?</p>	<p><b>Internal controls and Internal Audit.</b></p> <p>Internal Audit involves critical appraisal (examination) of functioning of an entity with a view to suggest improvements and provide assurance to mgmt. regarding design, implementation and operating effectiveness of the control.</p> <p>In the given case → controls are improper as it may show stocks as received whereas it could be in transit.</p>
53.		A company as part of its internal control set up has a system under which quarterly budgeted targets in respect of sales are analysed with respect to actual performance achieved. It also involves fixing responsibilities of different product departmental heads and taking timely correction. In case of product departmental heads not achieving quarterly budgeted targets, they have to give a detailed justification for the same and also lay down how shortfalls would be compensated in ensuing quarters. Identify and explain component of internal control alluded to in above scenario.	<p><b>SA 315- Components of Internal Control- 5 components.</b></p> <p>In the given case the component being discussed is 'Control Activities'. Out of the various control activities, this case study discusses 'Performance Reviews'. It involves analyses of actual performance vs budget.</p>
54.		CA. S is statutory auditor of a listed company. On reviewing internal controls of the company, he is of the view that there can be possible situations where insurance premiums for keeping insurance policies current in respect of	<p><b>Sa 265- Deficiency in internal control exists</b> when the necessary control is missing or it is implemented in a manner that is unable to prevent or detect and correct misstatement on</p>



		<p>various assets of company may have become due and payable but internal control systems established by the company may not be able to capture it. Elaborate how he should proceed to deal with the above matter.</p>	<p>a timely basis. Auditor shall determine whether a deficiency is a significant deficiency or not.</p> <p>In the given case the deficiency is a significant deficiency.</p> <p>As per SA 265- significant deficiency should be communicated in writing with mgmt. and TCWG.</p>
55.		<p>CA. B was appointed as the auditor of ABC Limited for the financial year 2022-23. During the course of planning for the audit, CA. B intends to apply the concept of materiality for the FS as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose. What benchmark should be adopted by CA. B, if ABC Limited is engaged in:</p> <p>(i) the manufacture and sale of air conditioners and is having regular profits.</p> <p>(ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic.</p>	<p><b>SA 320 – Determining materiality and selection of benchmark.</b></p> <p>Auditor shall determine materiality level for FS as a whole after selection of appropriate benchmark. Factors to be considered are: 1) Elements of FS, 2) Attention of users, 3) Nature of entity 4) Finance structure 5) Volatility (fluctuation) of the benchmark.</p> <p>In the given case</p> <p>i) PROFIT BEFORE TAX WILL BE A PROPER BENCHMARK</p> <p>ii) IN CASE OF LOSS- Turnover or Net assets can be a proper benchmark.</p>
56.		<p>What are the components of an internal control framework?</p>	<p><b>SA 315- Components of Internal Control- 5 Components. CRIC-Monitor</b></p> <p>C- Control Environment</p> <p>R- Risk Assessment process of the entity</p> <p>I- Information system relevant to FR</p> <p>C- Control Activities</p> <p>M- Monitoring the Control System.</p>
57.		<p>During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system.</p>	<p><b>SA 265- Communicating significant deficiencies in Internal control with mgmt. and TCWG.</b></p> <p>Contents of Such communication (also called as letter of weaknesses or mgmt. letter):</p> <p>i) Description of the deficiency and its potential effect. and</p> <p>ii) Sufficient information for mgmt. and TCWG to understand that auditor is not responsible for expressing an opinion on effectiveness of internal controls.</p>

58.		Explain briefly the Flow Chart technique for evaluation of the Internal Control system.	<b>SA 315- Flow chart is graphic</b> presentation of each part of the entity's internal control system. It provides best concise form of explanation. It is important to study the features and flow of the system before developing flow chart.
59.		As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose?	<b>SA 315- Control objectives to be achieved by accounting controls:</b>  Whether all transactions are recorded? Real? Properly valued? Properly posted? Timely recorded?
60.		New Life Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which basis system of control has been violated? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management.	<b>SA 315- Internal Check-</b> no single person can through a transaction and record every aspect thereof.  In the given case → there is violation of segregation of duties.  General conditions pertaining to internal check- 1) No single person should have complete control over a transaction 2) Mandatory rotation of staff duties  3) Mandatory leave atleast once a year  4) Same person shouldn't have physical custody of assets and accounts.
61.		Compute the overall Audit Risk if looking to the nature of business there are chances that 40% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 75%. At his part the Auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk.	<b>Audit Risk = IR * CR * DR</b>  IR = 40%  CR = (100-75) = 25%  DR = (100-60) = 40%  Therefore AR = 0.4*0.25*0.4 = 0.04 i.e. 4%  IR = Inherent Risk  CR = Control Risk  DR = Detection Risk
62.		ST Ltd is a growing company and currently engaged in the business of manufacturing of tiles. The company is planning to expand and diversify its operations. The management has increased the focus on the internal controls to	<b>SA 315- Risk Based Audit</b>  3 steps  1) Risk Assessment (write basics of SA 315)

		ensure better governance. The management had a discussion with the statutory auditors to ensure the steps required to be taken so that the statutory audit is risk based and focused on areas of greatest risk to the achievement of the company's objectives. Please advise the management and the auditor on the steps that should be taken for the same.	<p>2) Risk Response (write about Test of Controls and Test of details)</p> <p>3) Reporting (write basics of SA 700 series)</p>
63.		Y Co. Ltd. has five entertainment centers to provide recreational facilities for public especially for children and youngsters at 5 different locations in the peripheral of 200 kilometers. Collections are made in cash. Specify the adequate system towards collection of money.	<p><b>Control system over selling and collection of tickets</b></p> <p>(i) Printing of tickets (2-3 lines)</p> <p>(ii) Ticket Sales (2-3 lines)</p> <p>(iii) Daily Cash recon (2-3 lines)</p> <p>(iv) Daily banking (2-3 lines)</p>
64.		The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Explain.	<p><b>SA 315- Components of Internal Control- Control Environment</b> → Work culture of honesty and integrity created by mgmt. and TCWG → Communicate and enforce integrity and ethical values. For e.g. management actions to eliminate incentives that may make an employee/manager commit fraud.</p>
65.		Your engagement team is seeking advice from you as engagement partner regarding steps for risk identification. Elaborate.	<p><b>SA 315- Steps for Risk Identification</b></p> <p>a) Assess the significance of the RoMM</p> <p>b) Determine the likelihood for assessed Risk</p> <p>c) Consider the impact of risk on each assertion</p> <p>d) Document the assertions that are effected</p>
66.		<p>BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2019-20. In order to review internal controls of the Sales Department of the company, you visited the Department and noticed the work division as follows:</p> <p>(1) An officer was handling the sales ledger and cash receipts. (2) Another official was handling dispatch of goods and issuance of Delivery challans.</p>	<p><b>SA 315- Concept of Internal Check discussed in earlier questions.</b></p> <p>In the given case, company has not done proper division of work as</p> <p>i) the receipts of cash should not be handled by the official handling sales ledger and</p> <p>ii) delivery challans should be verified by an authorised official other than the officer handling despatch of goods.</p>

		<p><b>(3) One more officer was there to handle customer/ debtor accounts and issue of receipts.</b></p> <p><b>As an internal auditor, you are required to briefly discuss the general condition pertaining to the internal check prevalent in internal control system. Do you think that there was proper division of work in BSF Limited? If not, why?</b></p>	
67.		<p><b>While assessing the impact of uncorrected misstatements in the audit of MINI Builders Private Limited, Mr. Gautam encountered a significant issue related to the calculation of materiality on revenue. The initial materiality calculation was based on estimated figures provided by the management. Management, to estimate full-year revenue, extrapolated the sales for 11 months to arrive at a figure for 12 months. However, given the nature of MINI Builders as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged. The actual sales for the last month deviated significantly from the estimated sales due to an unexpected slowdown in project completions. As a result, the last month's actual sales represented only 30% of the estimated sales. Now, Mr. Gautam is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Gautam in the light of relevant Standards on Auditing.</b></p>	<p><b>SA 450- Evaluation of uncorrected misstatements.</b></p> <p>Auditor shall reassess materiality before evaluating the impact of uncorrected misstatements in light of the entity's actual financial results.</p> <p>The determination of materiality under SA 320 often relies on estimates of the entity's financial results, given that the actual results may not be known during the early stages of the audit. Hence, The determination of materiality under SA 320 often relies on estimates of the entity's financial results, given that the actual results may not be known during the early stages of the audit.</p> <p>If the re-assessed materiality is lower than the previously calculated amount, evaluate the impact on NTE of audit procedures.</p>
68.		<p><b>Deepti &amp; Co., Chartered Accountants, during the audit of Magma Ltd. found that certain machinery had been imported for the production of a new product. Although the auditors have applied the concept of materiality to the FS as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard?</b></p>	<p><b>SA 320- Revision of materiality</b></p> <p>The auditor shall revise materiality in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.</p> <p>If the re-assessed materiality is lower than the previously calculated amount, evaluate the impact on NTE of audit procedures</p>
69.		<p><b>AMRO Ltd. is a manufacturing and trading Company of leather goods since last 10 years. You are the internal auditor of the company for the year 2023-24. In order to review internal</b></p>	<p><b>Internal Check system. Check Q60. Same answer.</b></p> <p>General conditions pertaining to internal check.</p>

		<p>controls of the company, you visited the departments and noticed:</p> <p>i) The head of procurement, Mr. Amit, has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.</p> <p>ii) The company's staff has been working in the same roles for over five years without any rotation. The finance manager, Mr. Sachin, in particular, has never had his duties rotated since joining the company.</p> <p>iii) The store manager, Mr. Gupta, who is responsible for maintaining the inventory, also keeps the inventory records.</p> <p>a) Briefly discuss the general conditions pertaining to the internal check system to be ensured by you as an auditor.</p> <p>b) Do you think that general conditions pertaining to the internal check system are violated in the given situation?</p>	
70.	5	<p>During the course of the audit of TK Home Private Limited, a recognized export house engaged in manufacturing of T-shirts under brand name of "TK". CA Tripti is verifying export revenues of the company for the year 2022-23. She has verified transactions entered in "Export Sales" account maintained in accounting software from relevant export invoices. The export sales are being made on payment of IGST, for which a refund is automatically credited in the account of the company after the goods are shipped. On enquiring from internal audit staff regarding the recognition of export revenues, she is told that export sales are recognised for the year on the basis of "Bills of Lading". However, she is not convinced with such a response and feels that the same does not appear to be proper. She finds that three export invoices bearing dates in the month of March 2023 having a value of ₹ 75.00 lacs have not been recognized in export revenue on the ground that bills of lading for these invoices were issued in the month of April 2023. Discuss from what sources she can obtain reliable audit evidence in this regard. How can she challenge management's assertion regarding</p>	<p><b>SA 500- Audit Evidence</b></p> <p>She can obtain reliable audit evidence by going through GST returns filed by the company on GST portal and correlating the same with e-way bills. She can obtain audit evidence about how company has reflected its export sales in its GST returns and whether export sales pertaining to three invoices having value of ₹ 75.00 lacs are reflected in such returns. Further, e-way bills generated on the portal would provide evidence that goods have moved out of the company's premises.</p> <p>Conclusion- Export revenue should be booked when the goods are moved out of the company's premises itself. 'Bill of lading' should not be the point of booking.</p>



		the completeness of export revenues for the year 2022-23?	
71.		<p>CA Prabhjot has planned observing the physical count of inventories at the plant of a company located in remote area in the state of Uttarakhand as part of a statutory audit exercise as at close of year ending 31st March 2023. He has already informed the management of his intention to reach the plant site by evening of 29th March 2023. He plans to inspect inventories, observe the counting process and perform test counts among other matters. The management has made all necessary arrangements to facilitate the above exercise. However, an agitation in Himalayan hills has started on 28th March 2023 for the promulgation of a strict law relating to the conversion of agricultural land for commercial use. Many civil society groups are participating in the agitation. NH-7 leading to the plant site is blocked by protestors. The plant is not accessible through any other mode. The blockade is lifted after one month when state government announced the formation of a committee to look into protestors' demands. Does the above case highlight to a situation of "impracticability of attendance" at inventory counting in terms of requirements of SA 501? How should the auditor proceed in above situation?</p>	<p><b>SA 501- SAAE about existence and condition of inventory.</b> This situation does not highlight impracticability of attendance. It shows that auditor was unable to attend on the scheduled date due to unforeseen circumstances. Auditor should visit on an alternate date and perform test counts and perform procedures on intervening transactions (reconciliation).</p>
72.		<p>On reviewing legal expenses account of Zed Ltd., CA. Sunitha, auditor of company, finds that legal fees amounting to ₹ 10 lac was paid to B. George, a reputed lawyer, during the year 2022-23. On inquiry with management regarding the purpose of such expenditure, evasive reply was received from management stating that a lot of work is performed by the said lawyer on behalf of the company. However, no specific details were provided. She finds it proper to correspond directly with the lawyer. She obtains the address and mail id of the lawyer from his professional services bill. She shoots off an inquiry letter asking for the nature and status of litigation claims against the</p>	<p><b>SA 501- SAAE about completeness of litigation and claims.</b></p> <p>If ROMM is high then auditor may seek direct communication with entity's external legal counsel. It done through a letter of inquiry prepared by the management and sent by the auditor.</p> <p>Therefore, Sunitha's intention is correct but approach is wrong.</p>

		company on her letterhead. Is her approach proper? Irrespective of the merits of the approach followed by her, what she is trying to achieve by corresponding with lawyer of the company?	
73.		<p>On going through FS and records of “TS Ltd.,” during the course of statutory audit, CA Tanmaya finds that substantial inventories of the company consisting of mast lighting poles remain with “Super Industries” for certain finishing works. While planning audit procedures, he had planned about seeking confirmation from “Super Industries” regarding existence and condition of such mast lighting poles belonging to TS Ltd. lying with them as on 31st March, 2023. However, the premises of “Super Industries” were raided by DGGI officials (Director General of GST Intelligence) in connection with the busting of a fake billing scam. The proprietor of the firm was arrested in November 2022 and came out on bail in the month of March 2023. The details of proprietor and his firm were flashed prominently in local newspapers of the city where company is located. CA. Tanmaya also belongs to the same place. Discuss how he should proceed in the above matter as auditor of TS Ltd.</p>	<p><b>SA 501- SAAE about existence and condition of inventory- Inventory under the custody and control of a 3rd party is material- then</b></p> <p>A) Obtain confirmation or B) Perform inspection with other procedures or Both.</p> <p>Examples of other procedures:</p> <p>Sending another auditor, inspecting documents held by 3<sup>rd</sup> party etc.</p> <p>In the given case- doubt over integrity of 3<sup>rd</sup> party and therefore perform additional procedures.</p>
74.		<p>As auditor of Groom Limited, you have sent positive confirmation requests to 30 creditors of the company in March 2023. All of the creditors in informal sector are small concerns. You choose to does not raise any hassles in the matter. send positive confirmation requests to all the above parties at their business addresses stated on respective bills after discussing the matter with CFO of the company. The CFO is cooperative and</p> <p>Responses to confirmation requests are received within a week's time. Your articled clerk informs you that out of above 30 creditors, GST registrations of 25 concerns have been cancelled during financial year 2022-23 itself by collating information from GST portal. He further informs you that there are no fresh registrations</p>	<p><b>SA 505- Reliability of responses to confirmation request.</b> If auditor determines that response to a confirmation request is not reliable then auditor shall evaluate the effect on assessment of relevant RoMM, including Risk of Fraud, and on other audit procedures.</p> <p>In the given case → it raises questions on reliability of the responses.</p> <p>Factor creating doubt → response has not come from the originally intended confirming party.</p>

		pertaining to PANs of these parties. How you would proceed to deal with the situation as auditor of the company?	
75.		CA M. Hussain is appointed auditor of a firm for year 2022-23 on 31st July, 2022. The accounts of firm were unaudited in year 2021-22. The firm had material inventories reflected in its FS even as on close of 31st March, 2022. He is performing audit procedures, including attending physical inventory count as on 31st March, 2023. However, there is a lingering doubt in his mind regarding opening inventories reflected in FS. Does there exist any responsibility on his part in such a situation?	<p><b>SA 510- Initial audit engagement- verification of opening balances</b>→ obtain SAAE whether opening balances contain misstatements that can materially affect current period's FS.</p> <p>In the given case→ As the PYFS are unaudited→ Auditor can verify opening inventory by performing an inspection in the current date and reconciling it to opening inventory.</p>
76.		CA. Ritesh Deshpande has drawn some samples during the course of audit of a manufacturing company for testing controls as well as for tests of details. On the basis of the samples selected, he reaches an erroneous conclusion that access controls on applications are less effective. Further, on the basis of samples selected, he concludes erroneously that work-in progress inventories amounting to ` 5 crore in FS are materially misstated. Outlining the above risk involved, discuss how it is going to affect his audit of the company.	<p><b>SA 530- Sampling Risk Concept. Type 2 Sampling Risk-</b> a) In case of TOC→ may conclude Controls are less effective than they actually are. b) may conclude In case of TOD→ material misstatement exist when in fact it does not.</p> <p>In the given case→ Type 2 SR→ auditor will have to spend additional time &amp; resources to establish that his initial conclusions were incorrect. It affects audit EFFICIENCY.</p>
77.		“Living Well Private Limited” is engaged in the manufacturing and export of floor coverings. Such products are labour-intensive and do not require much of capital investment in machinery. The company has no plans to diversify in other product lines. Its directors are also holding significant interest in another company “My Living Private Limited” engaged in manufacturing of blankets using capital intensive machinery. During the course of the audit of “My Living Private Limited”, it was noticed by you that the company has sold machinery of `1 crore to “Living Well Private Limited” during the year. The transaction has been done at normal market rates applicable to such used machinery. How do you view the	<p><b>SA 550- Significant Related Party Transactions outside the normal course of business</b>→ Significant RoMM area→ auditor should verify CAA- Contract whether it has business rationale, Authorization and Approval.</p> <p>In the given case→ there is NO business rationale for the transaction outside the normal course of business indicating fraudulent FR or misappropriation of assets.</p>

		above transaction as auditor of “My Living Private Limited”?	
78.		<p>Coccyx Ltd. supplies navy uniforms across the country. The company has 3 warehouses at different locations throughout the India and 5 warehouses at the borders. The major stocks are generally supplied from the borders. Coccyx Ltd. appointed M/s OPAQE &amp; Co. to conduct its audit for the financial year 2022-23. Mr. P, partner of M/s OPAQE &amp; Co., attended all the physical inventory counting conducted throughout the India but could not attend the same at borders due to some unavoidable reason.</p> <p>You are required to advise M/s OPAQE &amp; Co.,</p> <p>(I) How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained?</p> <p>(II) How is an auditor supposed to deal when attendance at physical inventory counting is impracticable?</p>	<p><b>SA 501- SAAE for existence and condition of inventory</b> → i) Audit procedures- ‘E-TOI’</p> <p>Evaluate mgmt’s instructions</p> <p>T- Test count</p> <p>O- Observe counting</p> <p>I- Inspect Inventory</p> <p>ii) Attendance is impracticable due to threat to safety or inaccessible location or government restrictions → Perform alternate audit procedures by inspecting documents of sale/purchase → SAAE is N.A then modify opinion (Q/D)</p>
79.		<p>GHK Associates, Chartered Accountants, conducting the audit of PBS Ltd., a listed company for the year ended 31.03.2023 is concerned with the presentation and disclosure of segment information included in Company's Annual Report. GHK Associates want to ensure that methods adopted by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework. Guide GHK Associates with 'Examples of Matters' that may be relevant when obtaining an understanding of the methods used by the management with reference to the relevant Standards on Auditing.</p>	<p><b>SA 501- SAAE for presentation and disclosure of Segment Information.</b> Example of matters that may be relevant in obtaining an understanding: CAPS</p> <p>C- Comparison with budgets</p> <p>A- Allocation of assets and costs among segments</p> <p>P- Prior period- is it consistent with prior period?</p> <p>S- Sales, transfers and charges between segments</p>
80.		<p>Chintamani Ltd appoints Chintan &amp; Mani as statutory auditors for the financial year 2022 2023. Chintan &amp; Mani seem to have different opinions on Audit approach to be adopted for audit of Chintamani Ltd. Mani is of the opinion that 100% checking is not required and they can rely on Audit Sampling techniques in order to</p>	<p><b>SA 530- Sampling result:</b></p> <p>Auditor shall evaluate</p> <p>i) Results of sample</p> <p>and</p>

		<p>provide them a reasonable basis on which they can draw conclusions about the entire population. Chintan is concerned that whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.</p> <p>You are required to guide Chintan about his role if audit sampling has not provided a reasonable basis for conclusions about the population that has been tested in accordance with SA 530.</p>	<p>ii) Whether sampling has provided a reasonable conclusion on population.</p> <p>If auditor concludes that sampling has not provided reasonable conclusion then</p> <p>a) Request mgmt. to investigate identified misstatements</p> <p>b) Modify NTE of the further audit procedures</p>
81.		<p>During the audit of Star Ltd. a company engaged in the production of paper, the auditor received certain confirmation for the balances of trade payables outstanding in the balance sheet through external confirmation by "Negative Confirmation Request". In the list of trade payables, there are number of small balances except one which is an old outstanding of ` 20 lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation.</p>	<p><b>SA 505- Types of Confirmation requests and Results of External Confirmation</b></p> <p>A) Positive confirmation vs Negative confirmation to be explained</p> <p>B) For that one old balance- if confirmation is not received then perform alternate procedures by verifying invoices, payment entries, goods inward etc.</p>
82.		<p>Mr. Atharv, while conducting the audit of Black Mountain Mining Ltd., which is involved in phosphate mining, decided to engage an auditor's expert to assess environmental liabilities and site clean-up costs. Black Mountain Mining Ltd. re-appointed Mr. Aman as an independent expert for this task. For the past five years, the management has consistently re-appointed Mr. Aman. He calculated the environmental liabilities for both completed mining sites and sites scheduled for closure in the near future, including provisions for clean-up costs. Management accepted his assessment. Mr. Atharv, after performing the inquiries with management, was of the opinion that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. Hence, there is no need to raise a question on the objectivity of Mr. Aman or on his work performed for the company. However, the audit partner was of the opinion that the audit team needs to evaluate the objectivity of an expert engaged by the entity,</p>	<p><b>SA 500- Using the work of Management's expert.</b></p> <p>Evaluating objectivity of such expert- discuss with management and that expert any interests and relationships that may create threats to the expert's objectivity.</p> <p>E.g. Financial interests, business and personal relationships, provision of other services. Company re-appointed Mr. Aman for this engagement as an independent expert. Audit team is of the view that objectivity of independent expert cannot be questioned however audit partner had a contrary view. Threat to objectivity, created by being an employee of the entity, will always be present.</p>



		<p>irrespective of the fact that he was appointed as an independent expert.</p> <p>Guide the audit partner and Mr. Atharv with respect to requirements pertaining to evaluating the objectivity of the management expert.</p>	
83.		<p>While conducting the statutory audit of Tasty Foods Limited, CA. Careful has planned attendance at physical inventory count of the company from 29th March to 31st March 2024. The company is engaged in the business of extracting rice from paddy grains and caters to domestic as well as international market particularly in Gulf region. It has its plant spread in an area of about 20 acres located in National Capital Region (NCR). Paddies contained in jute bags of nearly standard sizes is purchased from dealers/agents. It is stored in heaps on pallets (kind of wooden structures) in an open area covered by protective sheets and in steel silos (silos are huge steel containers with measuring strain gauges) in company's premises.</p> <p>The company mainly produces three rice brands viz. "Raja" and "Shehzada" (both for the domestic market) and "Badshah" (for the international market). The process of obtaining rice from paddy consists of various steps like cleaning of paddy, removing outer husk layer from paddy grains to obtain brown rice, whitening, polishing, grading and sorting, packaging which is accomplished by means of various types of machineries installed in plant. The company's management has prepared a set of instructions and procedures to be followed for recording and controlling results of company's physical inventory counting which are listed as under: -</p> <ul style="list-style-type: none"> <li>- The physical inventory count process is to be supervised by a responsible officer of company responsible for storage functions.</li> <li>- There should be no disturbance to the routine process of receiving goods and despatch during the counting time period.</li> <li>- Counting process is to be undertaken by constituting different teams of 3 members each for counting/verifying raw material, work in progress and finished goods.</li> <li>- Paddy in steel silos is to be estimated using their capacity.</li> </ul>	<p><b>SA 501- Inventory Audit procedures</b></p> <p>The set of instructions and procedures given in the case scenario are incomplete and not properly followed, which are discussed as under:</p> <ul style="list-style-type: none"> <li>A) inventory count process should be supervised by a responsible officer of the company (finance department)</li> <li>B) During inventory count process, inward and outward movement of goods should not be allowed</li> <li>C) Count sheets should contain description of products in accordance with inventory records</li> <li>D) management's instructions are silent on how paddy lying in open is to be counted and verified</li> <li>E) Quantities of work in progress should be estimated at each stage of production</li> <li>F) There is no instruction regarding damaged or obsolete stock items particularly in the case of finished goods</li> </ul>

		<p>- Quantity of work in progress is to be estimated considering plant capacity as whole.</p> <p>- The responsible officer should ensure that stocks have been counted/verified in all areas. Before proceeding to attend physical inventory count process of company, evaluate management's instructions and procedures sent to CA Careful as stated above. You may suggest modification, addition or removal of such instructions to ensure effective count process.</p>	
84.	6	<p>“Move Fast Limited” is engaged in the manufacturing of shoes and slippers located in Bahadurgarh in Haryana. Due to unprecedented rains in the area in the month of September 2022, many areas of the town got inundated due to the choking of sewer systems. As a result of the above, the company's premises located in town were also affected, resulting in damage of stocks. The company has lodged a claim with the insurance company for `1 crore, and the same is shown as a claim receivable as of 31st March 2023, as the claim was not settled at year end. The insurance surveyor appointed in the case submitted a report to the insurance company recommending a claim of `45 lacs in the month of April 2023. The company has also given its consent for the same, and the settled amount of `45 lacs was transferred to the bank account of the company on 15th May 2023. You have just finished performing substantive procedures of the company by the end of May 2023. Is there any responsibility cast upon you as auditor of the company in the above situation?</p>	<p><b>SA 560- subsequent events before the date of auditor's report</b></p> <p>Apply logic of IND AS 10.</p> <p>In the given case- Adjusting event of Rs. 45 Lakhs as claim filed during FY 22-23 has been settled in May 23.</p> <p>FS should be adjusted reflect this particular event as per AFRF.</p>
85.		<p>CA Anuj is the auditor of a listed company, and he is in the midst of conducting an audit of the said company for the financial year ending 31st March 2023. At a meeting of the Board of Directors held on 17th April 2023, a dividend of `1 crore is proposed to equity shareholders @ `10/- per share, and such a proposal has a good chance of being approved in the AGM of the company to be held after few months. His audit procedures are near completion. He is contemplating finalizing the audit report by 31st</p>	<p><b>SA 560- Subsequent event and IND AS 10.</b></p> <p>It is an example of condition that arose after the reporting period.</p> <p>There is no obligation to pay as on 31<sup>st</sup> March 23.</p> <p>Adjustment is not required but a disclosure should be given in notes to accounts.</p>

		July 2023. Is there any responsibility thrust upon him as auditor of the company?	
86.		<p>CA. Somya is auditor of a company engaged in rearing of poultry birds and obtaining eggs therefrom. The company has performed very well since its incorporation in 2013. Its sales had also grown and the company had expanded its market from the native northern state of promoters to far-flung areas in eastern parts of country. However, since last two years, company's fortunes have nosedived. First, due to the effects of the pandemic and then due to recurrent outbreaks of bird flu thrice in a span of two years. The company's sales have dipped from around `50 crores to `10 crores. Further, a major part of its livestock was also wiped off during bird flu. She is not optimistic about the going concern assumption followed by management. The management now wants to start with new batches of birds. The earlier working capital facilities of the company granted by bank have also been restructured to support the business. She was informed that the repayments of restructured working capital term loans are to begin from ensuing year. No fresh credit facilities have been granted by the bank. The company also plans longer credits from animal feed suppliers. The company plans to take additional measures to prevent the safety of live stocks, including aggressive vaccination, preventive health check-ups, and more frequent visits of veterinary staff. The villagers in surrounding areas have accused the company of spreading air pollution. The management has prepared a cash flow forecast for her examination. Discuss the approach to be adopted by her in examining the "going concern" assumption keeping in view above with specific reference to cash flow forecast.</p>	<p><b>SA 570- Responding to the indicators of material uncertainty i.e. Further Audit Procedures.</b></p> <p>Events or conditions that may cast significant doubt on the entity's ability to continue as going concern have been identified. Auditor shall obtain SAAE whether Material uncertainty exists or not.</p> <p>Auditor should ask mgmt. to prepare an assessment of entity's ability to continue as going concern and future business plan. IF entity has prepare a cash flow forecast, auditor should verify- 1) Reliability of supporting data and 2) Reasonableness of the assumptions.</p> <p>Now, practically write in 3-4 lines what she should examine in the given case study.</p>
87.		<p>CA Sooraj finds that key financial ratios of a company, like current ratio, debt-service coverage ratio, inventory turnover ratio, and trade receivables turnover ratio, are in red and have deteriorated considerably as compared to</p>	<p><b>SA 570- Going concern assumption is inappropriate</b> → mgmt. is expected to adjust FS accordingly → show balances at NRV and disclose the inappropriateness of going concern assumption adequately.</p>

		<p>last year. The company is also not able to pay to its creditors on time. The company is requesting time and again to its bankers to grant additional credit facilities, but bankers are not listening. There have been significant losses to the company due to the lack of response of the company's products in the market. As a result of it, many products are sold at below cost price. There have been situations where the company is not able to pay the salaries of staff on time. All these negative findings have led him to conclude that the use of going concern as the basis of accounting is not appropriate. He brings this matter to the knowledge of CFO of the company. What is reporting duty cast upon him in such a scenario? The CFO informs him that the management, in turn, is ready to include in the disclosures the inappropriateness of its use of going concern assumption of accounting. How should it impact the auditor's opinion in case management itself discloses the inappropriateness of its use of going concern assumption of accounting now?</p>	<p>In the given case → only disclosure of inappropriateness of going concern assumption will be misleading → adverse opinion due to material and pervasive impact.</p>
88.		<p>Following is a written representation given by RES Limited to its statutory auditors i.e. M/s CTK &amp; Associates for audit of financial year 2022-23. The audit was completed and report dated 31.7.23 was issued. Point out, if there is any, anomaly in written representation reproduced below.</p> <p>15th April, 2023</p> <p>To</p> <p>CTK &amp; Associates Chartered Accountants</p> <p>Dear Sir,</p> <p>This representation letter is provided in connection with your audit of the FS of RES Limited for the year ended March 31, 2023 for the purpose of expressing an opinion as to whether the FS give a true and fair view in accordance with the applicable accounting standards in India. We confirm that (to the best of our knowledge and belief, having made such</p>	<p><b>SA 580- Form and Content of Written Representation</b></p> <p>Date of WR shall be as near as practicable to but not after the date of auditor's report.</p> <p>In the given case → Date is too early. It should be near 31<sup>st</sup> July 2023 i.e. the date of auditor's report.</p> <p>15<sup>th</sup> April dated WR may not provide supporting evidence that subsequent events have been appropriately adjusted.</p>

		<p>inquiries as we considered necessary for the purpose of appropriately informing ourselves): (15 matters as required by the auditor)</p> <p>Signed by Chief Financial Officer</p>	
89.		<p>Ramadhan &amp; Co., are the Auditors of XYZ Company Ltd., for the year ended on 31/03/2023. The Audit Report for that year was signed by the Auditors on 04/05/2023. The Annual General Meeting was decided to be held during the month of August 2023. On 06/05/2023, the Company had received a communication from the Central Government that an amount of ` 5800 crore kept pending on account of incentives pertaining to Financial Year 2022-23 had been approved and the amount would be paid to the Company before the end of May 2023. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognised in the Audited FS in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the FS of the Company for the Financial Year ended on 31/03/2023. On 08/05/2023, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report on the FS for the year ended on 31/03/2023. Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors.</p>	<p><b>SA 560- Subsequent Events- Category II- Facts that become known to the auditor after the date of auditor's report but before the date of issue of FS.</b></p> <p>Main theory- 3 points</p> <ol style="list-style-type: none"> <li>1) Discuss the matter with mgmt. and TCWG</li> <li>2) Determine whether FS need amendments and if so,</li> <li>3) Inquiry how mgmt. intends to address the matter in the FS.</li> </ol> <p>If mgmt. amends then carry out necessary procedures and revise the audit report. New auditor's report shall not be dated before the date of approval of revised FS.</p>
90.		<p>M/s Airlift Ltd., carrying on the business of Passenger Transportation by air is running into continuous financial losses as well as reduction in Sales due to stiff competition and frequent break down of its own aircrafts. The FS for the Year ended on 31/03/2023 are to be now finalized. The Management is quite uncertain as</p>	<p><b>SA 570- Going Concern- There are events or conditions that may cast significant doubt on the entity's ability to continue as going concern.</b></p> <p>In the given case → conclude that there is a material uncertainty but GC assumption is appropriate → Mgmt provides adequate</p>



		to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad situation. Till the study is completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the "Going Concern" would suitably be disclosed in notes to accounts. State the reporting requirement if any, in the Independent Auditor's Report in respect of this matter.	disclosure in the Notes→ Auditor shall describe it in MURG Para.
91.		<p>PRSH &amp; Co is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2000 crores and profits are INR 190 crores. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the FS and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of and period covered by written representation in view of SA 580.</p>	<p><b>SA 580- Form and Content of WR</b></p> <p>Date of WR- discussed in earlier questions.</p> <p>Sometimes auditor may obtain WR during the course of audit for specific matter.</p> <p>Period covered- WR for all periods referred to in the auditor's report.</p>
92.		CA Shobit is conducting an audit of XYZ Ltd. for the year 2023-24. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2024. However, it becomes known to CA Shobit	<p><b>SA 560- subsequent event between the date of the FS and the date of the auditor's report</b></p> <p>evidence of conditions that existed at the date of the FS and requires adjustment in FS.</p>

		that one of overseas buyers has made a legal claim against the company on 1st June 2024 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2023. The management of the company has decided to agree to an out of court settlement of ` 4 crore to protect its reputation. The FS of the company are silent on this issue. Discuss, how, CA Shobit should proceed to deal with above issue.	IF appropriate adjustments are not made then he should consider impact on audit report.
93.		<p>CAN is carrying out an audit of restated FS of BQR Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CAN is planning to issue an Audit Report on 5th August, 2024 covering these restated FS. Before issuing the audit report, CAN requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period.</p> <p>How would CAN deal with the above situation as per relevant Standard on Auditing?</p>	<p><b>As per SA 580, written representations are necessary audit evidence, and the auditor's report cannot be dated before them. As per SA 560, the written</b> representations are dated as near as practicable to, but not after, the auditor's report. Written representations are for all periods referred to in the auditor's report, and current management's absence during prior periods does not diminish their responsibilities. Therefore, CAN should take written representation letters for 2022-23 and 2021-22 also. If not provided, the auditor shall discuss with management, re-evaluate their integrity, and take appropriate actions as per SA 705.</p>
94.		<p>Mudit &amp; Associates is appointed as Statutory Auditors of GRF Private Limited for the financial year 2023-24. The company is into the business of Health Club, Fitness Centre and gym costumes. CAM is the Engagement Partner for the audit assignment. CAM observed the following points while auditing:</p> <p>i) Customer's base is reducing continuously due to tough competition and discount war existing in the market.</p> <p>ii) Payments of creditors are delayed and made with overdue interest.</p> <p>iii) Company has not been able to pay the salaries of staff and trainers on time.</p> <p>iv) Key financial ratios of the company, like current ratio, debt-service coverage ratio, are in the red and have deteriorated considerably as compared to last year.</p> <p>v) The company has requested its bankers to provide it with additional working capital credit</p>	<p><b>SA 570- Further Audit Procedures</b></p> <p><b>As per SA 570</b>, if events or conditions may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain SAAE to determine whether or not a material uncertainty exists by performing additional procedures.</p> <p>These include requesting management to make its assessment, evaluating management's plans, evaluating the reliability of underlying data and support for assumptions in forecasts, considering additional facts, and requesting written representations</p> <p><b>In the given case, CAM should follow audit procedures such as review</b> of management's assessment, examine and challenge cash flow forecasts and assumptions, review events after the reporting period, analysis of key financial ratios and compliance with loan agreements,</p>

		<p>facilities of ` 1.5 Crores, but bankers are not considering the company's proposal favorably. What audit procedures should be followed by CA M considering the above circumstances as per SA 570 - "Going Concern"? How auditor should deal if the use of going concern basis of accounting is appropriate, but a material uncertainty exists, and adequate disclosure of material uncertainty is made in the FS?</p>	<p>review of efforts to secure financing, and assess the impact of operational challenges.</p> <p>Further, if adequate disclosure is made, the auditor shall express an unmodified opinion and include a section "Material Uncertainty Related to Going Concern" to draw attention to the note and state that the auditor's opinion is not modified.</p>
95.		<p>The audit report of Rare (P) Ltd for F.Y. 2023-24 was issued by SRM &amp; Co. on 23rd July, 2024. However, a case was filed against Rare (P) Ltd on 9th August, 2024, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2024, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM &amp; Co. Mr. Rishabh discussed the said matter with the management, and it was determined to amend the FS for F.Y. 2023-24. Further, Mr. Rishabh inquired how the management intended to address the said matter in the FS to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.</p> <p>The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report.</p> <p>In the context of aforesaid case-scenario, please answer to the following questions: -</p> <ol style="list-style-type: none"> <li>Whether Mr. Rishabh on behalf of SRM &amp; Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?</li> <li>Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the FS?</li> </ol>	<p><b>SA 560- Category 2 and 3 subsequent event. 3 point audit procedure</b></p> <ol style="list-style-type: none"> <li>Discuss the matter</li> <li>whether fs need amendment</li> <li>How mgmt. intends to address this matter?</li> </ol> <p>In the given case, Mr. Rishabh discussed the matter with management, determined to amend the FS, and inquired how management intended to address it. Thus, Mr. Rishabh has properly adhered to his responsibilities in accordance with SA 560.</p>
96.	7	<p>The auditors of a listed company have affirmed in their audit report communication of significant audit findings including significant deficiencies in internal control of the company identified to those charged with governance. Where are such matters included in audit report</p>	<p><b>SA 700- Forming an opinion on the FS.</b></p> <p>Communication of such matters is covered under "Auditor's responsibility for audit of FS" para of audit report.</p>

		<b>of a listed company? Also dwell upon importance of such communication.</b>	Such communication assists TCWG in fulfilling their responsibility to oversee the FR process.
<b>97.</b>		<p><b>Below is draft extract of audit report of a listed company.</b></p> <p><b>Para (A) below reflects certain matter stated in audit report communicated with CFO of company and</b></p> <p><b>Para (B) is in nature of auditor's response to said matter.</b></p> <p><b>(A) The Company recognizes revenues when the control of goods is transferred to the customer at the net consideration which the Company expects to receive for those goods from customers in accordance with contracts terms and conditions. The terms of sales arrangements based on the terms and conditions of relevant contract and nature of discount and rebates create complexities that require judgment in determining revenues.</b></p> <p><b>(B) We read the Company's revenue recognition policy and assessed its compliance in terms of Ind AS 115 "Revenue from contracts with customers". We assessed design and tested the operating effectiveness of internal controls related to sales and rebates/discounts. We tested on a sample basis that revenue has been recognized in the proper period with reference to the supporting documents including confirmations from customers.</b></p> <p><b>From description given above, identify what auditors are trying to report and under what heading such matter should be reflected in audit report of the company?</b></p>	<p><b>SA 701- Factors to be considered in Determining KAM. "Significant REET"</b></p> <p>Significant Risk of MM area</p> <p>Significant estimates/ judgments with high uncertainty</p> <p>Significant Events and Transactions during the course of audit.</p> <p>Revenue recognition policy is a significant risk and judgment area and hence it becomes a KAM as per SA 701.</p>
<b>98.</b>		<b>PTD Limited is engaged in business of executing construction contracts for its clients. There are non-current receivables outstanding in FS of the company as on 31st March, 2023 for `500 crore.</b>	<p><b>SA 706- EOM para is used in audit report when</b></p> <p>a) Matter → items presented or disclosed in FS &amp;</p>

		<p>Such amounts represent claims raised by the company on its clients relating to cost overruns necessitated due to delays caused by clients, change in work specifications and related matters. Besides negotiations, the company has also gone for arbitration in some of the said cases. The management of company has considered above amounts to be fully recoverable as stated in notes to accounts.</p> <p>CA. Piyush, auditor of the company, has relied only upon management representation in this regard. Besides, he has decided to include the said matter in “Emphasis of Matter” Paragraph in audit report. How do you view decision to include above matter in “Emphasis of Matter” Paragraph by auditor of the company?</p>	<p>b) Opinion is not modified wrt such matter &amp;</p> <p>c) Matter → fundamental to users’ understanding of FS</p> <p>d) Matter is not a KAM</p>
99.		<p>CA Sameer is the statutory auditor of Tram Fram Ltd. for the FY 2022-23. While concluding the audit CA Sameer decided to issue an unmodified opinion, though he also concluded that a material uncertainty exists with respect to the company’s ability to continue as a going concern on account of a pending litigation related to labour laws. He is of the view that the company has made appropriate disclosures with respect to such pending litigation in the notes to accounts annexed to the FS of Tram Fram Ltd. for the FY 2022-23. Explain how CA Sameer will deal with the above situation in his auditor’s report (draft the relevant portion of the auditor’s report.)</p>	<p><b>SA 570- MURG Para</b></p> <p>We draw attention to Note 10 in the FS, which indicates that the outcome of a litigation on account of labour laws is pending in case of the company during the year 31 March, 2023. As stated in Note 11, this event or condition, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.</p>
100.		<p>Give an illustration in the below case</p> <p>Presentation in the auditor’s report if the auditor has determined there are no key audit matters to communicate</p>	<p><b>‘Key Audit Matters’</b></p> <p>[Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] We have determined that there are no [other] key audit matters to communicate in our report.]</p>
101.		<p>XYZ Ltd. is a company engaged in the manufacture of cranes. CA Sudhir is the statutory auditor of the company for the FY 2022-23. The company has taken long term funding for fixed capital requirements and</p>	<p><b>SA 570- Material uncertainty related to Going Concern.</b></p> <p>Mgmt should disclose in notes to accounts</p>



		<p>short-term funding for its working capital requirements. During the course of audit, CA Sudhir found that the company's financing arrangements are about to expire and the company is unable to re-negotiate or obtain the replacement financing. As such the company may be unable to realize its assets and discharge its liabilities in the normal course of business. Notes to accounts annexed to the FS discuss the magnitude of financing arrangements, the expiration and the total financing arrangements; however, the FS do not include discussion on the impact or the availability of refinancing. Thus, the FS (and notes thereto) do not fully disclose this fact. What kind of opinion should CA Sudhir issue in case of XYZ Ltd.?</p>	<p>A) Material uncertainty and plans to overcome such uncertainty.</p> <p>B) Entity may not be able to realise assets and discharge liabilities in normal course of business.</p> <p>If mgmt. :</p> <p>a) Discloses relevant but incomplete facts then Qualified opinion</p> <p>or</p> <p>b) Discloses irrelevant facts or omits the disclosure then Adverse opinion.</p> <p>In the given case → Relevant but incomplete disclosure → Qualified opinion</p>
102.		<p>ABC Ltd. is a company engaged in the manufacture of iron and steel bars. PP &amp; Associates are the statutory auditors of ABC Ltd. for the FY 2022-23. During the course of audit, CA Prakash, the engagement partner, found that the Company's financing arrangements have expired and the amount outstanding was payable on March 31, 2023. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The FS (and notes thereto) do not disclose this fact. What opinion should CA Prakash express in case of ABC Ltd.?</p>	<p><b>SA 570- Theory same as above question</b></p> <p>Conclusion in the given case → Mgmt has omitted disclosure making FS Pervasively misleading → Adverse opinion.</p>
103.		<p>MNO Ltd. is a power generating company having its plants in the north eastern states of the country. For the FY 2022-23, M/s PRT &amp; Associates are the statutory auditors of the company. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated FS. That is, the auditor was also</p>	<p><b>SA 705- Modified opinion.</b></p> <p>Disclaimer of an opinion when possible effect of undetected misstatements are material and pervasive.</p> <p>Drafting Disclaimer</p> <p>Disclaimer</p>

		unable to obtain audit evidence about the financial information of a joint venture investment (in XYZ Ltd.) that represents over 90% of the entity's net assets. What kind of opinion should the statutory auditors issue in such case?	(We do not express an opinion on...) Basis for Disclaimer (explain the case study)
104.		CA Yash is the statutory auditor of Lakshmi Vardhan Limited for the FY 2022-23. In respect of loans and advances of ₹55,00,000/- given to Sarvagya Private Limited, the Company has not furnished any agreement to CA Yash and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. What kind of opinion should CA Yash give in such situation?	<b>SA 705- Modified opinion.</b> SAAE is N.A.--> possible effect is material but not pervasive- Qualified opinion. Drafting Qualified Qualified opinion (We ..... Except for) Basis for qualified opinion (Explain the case study)
105.		In the financial year 2022-23, MSD Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the FS of the company do not disclose this fact. What kind of opinion should the statutory auditor of MSD Ltd. issue in such circumstances?	<b>SA 570- Material uncertainty which is not disclosed in the FS</b> Discussed in earlier questions.  Adverse opinion as there is total omission of the fact related to material uncertainty.
106.		CA Abhimanyu is the statutory auditor of PQR Ltd. for the FY 2022-23. During the course of audit CA Abhimanyu noticed the following:  1. With respect to the debtors amounting to ₹150 crores, no balance confirmation was received by the audit team. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The Company has created a provision for doubtful debts to the tune of ₹25 Cr. during the year under audit. The Company has stated that the provision is based on receivables which are older than 36 months, which according to the audit	<b>SA 705- modified opinion</b>  In the given case → SAAE is N.A. and the possible effect of undetected misstatement is material and pervasive.  Disclaimer of an opinion  Drafting Disclaimer  Discussed earlier.

		<p>team is inadequate and as such the audit team is unable to ascertain the carrying value of trade receivables.</p> <p>2. Further, in respect of Inventories (which constitutes 40% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the Company has not maintained adequate inventory records at the factory. The audit team was unable to undertake the physical inventory count as such the value of inventory could not be verified.</p>	
107.		<p>In respect of the audit of BDS Ltd., the statutory auditor of the company noticed some matters. The statutory auditor wants to draw the user's attention towards such matters, though his opinion is not modified in respect of such matters. Draft the relevant paragraphs of the audit report for the following matters:</p> <p>1) The company has a plan to resume its construction activities with respect to one of its thermal power project, The activity of such power plant was suspended in the FY 2020-21. The thermal power project comprises of the plant and equipment amounting to `5.95 crore and capital work in progress of `147.50 crore.</p> <p>2) The FS of 5 branches are included in the Standalone FS of BDS Ltd. whose FS reflect total assets of `90 crores as at 31.03.2023 and total revenue from operations of `40 crores for the year ended on that date. The FS of these branches have been audited by the branch auditors.</p>	<p><b>SA 706- EOM and OM para</b></p> <p>1) This matter is EOM para (discussed in earlier questions)</p> <p>2) This matter is OM Para.</p> <p>Explain the extent of FI audited by other auditor and included in the FS of the entity.</p> <p>Title of this para can be OM or any other appropriate heading.</p>
108.		<p>Under the applicable Standards on Auditing, in what circumstances does the report of the statutory auditor require modifications? What are the types of modifications possible to the said report?</p>	<p><b>SA 705- Modification to the opinion</b></p> <p>Explain the theory behind Qualified, Adverse and Disclaimer.</p>
109.		<p>Write a short note on Emphasis of matter paragraph in Audit Reports</p>	<p><b>Discussed earlier</b></p>

110.		Write a short note on Certificate for Special Purpose vs. Audit Report.	<p>A) Certificate:</p> <p>i) written confirmation of the accuracy of the facts does not involve any estimate or opinion</p> <p>ii) Report:</p> <p>formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor's opinion on such matter.</p>
111.		<p>Compare and explain the following:</p> <p>(i) Reporting to Shareholders vs. Reporting to those Charged with Governance</p> <p>(ii) Audit Qualification vs. Emphasis of Matter.</p>	<p><b>(i) Reporting to Shareholders- Sec 143 of Companies Act, 2013</b></p> <p>Reporting to TCWG- SA 260</p> <p>(ii) Discussed earlier.</p>
112.		<p>“When the auditor modifies the audit opinion, the auditor shall use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the Opinion section.” As an expert you are required to brief the special considerations required for expressing:</p> <p>(a) Qualified Opinion;</p> <p>(b) Adverse Opinion and</p> <p>(c) Disclaimer of Opinion.</p>	<p><b>Special considerations while expressing qualified opinion and adverse opinion (gets covered in above questions- explain theory and drafting)</b></p> <p>Special Considerations while expressing disclaimer:</p> <p>1) (Explain drafting disclaimer)</p> <p>2) Opinion para → Instead of ‘We have audited’ we will write ‘We have been engaged to audit’</p> <p>3) No KAM in such report</p> <p>4) Auditor's responsibility para will have only 3 points.</p>
113.		ADKS & Co LLP are the newly appointed statutory auditors of PKK Ltd. During the course of audit, the statutory auditors have come across certain significant observations which they believe could lead to material misstatement of FS. Management has a different view and does not concur with the view of the statutory auditors. Considering this the statutory auditors are determining as to how to address these observations in terms of their reporting requirement. Please advise.	<p><b>SA 705 deals with modified opinion.</b></p> <p>In the given case auditor may</p> <p>i) Qualified opinion</p> <p>ii) Adverse opinion</p> <p>iii) Disclaimer of an opinion.</p>

114.	<p>KPI Ltd is a joint venture of KPI Inc, a company based in US, and OPQ Ltd, a company based in Japan (hereinafter referred to as ‘JV partners’). KPI Ltd was registered in India and is operating as a marketing support company for KPI Inc. All the costs of KPI Ltd are incurred in India and entire revenue of KPI Inc is generated in USD. The entire funding requirements of KPI Ltd are taken care of by the JV partners. Since KPI Ltd is based in India, hence it is also required to get its FS audited.</p> <p>The company appointed new auditors for the audit of the FS for the year ended 31 March 2023 after doing all appointment formalities wherein auditors are required to ensure compliance with Standards on Auditing and Internal Standards on Auditing. As an expert you are required to advise the auditor about the requirements regarding auditor’s report for audits conducted in accordance with both Standards on Auditing issued by ICAI and International Standards on Auditing.</p>	<p><b>SA 700- Auditor reports as per SAs and International SAs both in the audit engagement.</b></p> <p>Auditor can write in the audit report that audit has been performed in accordance with SAs along with International SAs(with country’s name) only if</p> <p>a) There is no conflict in the concepts of opinion/EOM/OM Para and</p> <p>b) Audit report includes atleast the paras that are covered in SA 700.</p>
115.	<p>TUV Ltd. is a company engaged in the business of manufacture of spare parts. Saroj &amp; Associates are the statutory auditors of the company for the FY 2022-23. During the course of audit, CA Saroj noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of TUV Ltd. ended for an unforeseeable time period. When discussed with the management, CA Saroj was told that the company is in the process of identifying new customers for their products. CA Saroj understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly reflected in the FS of TUV Ltd. for the FY 2022 23. How should CA Saroj deal with this matter in the auditor’s report for the FY 2022-23?</p>	<p><b>SA 570- Material uncertainty related to going concern.</b></p> <p>Mgmt has provided adequate disclosure and hence there will be no modification to the opinion but auditor will have to explain it in MURG para.</p> <p>MURG drafting</p> <p>a) Reference to the notes explaining material uncertainty</p> <p>b) State that these events cause Material uncertainty over going concern and auditor’s opinion is not modified with respect to such matter.</p>



116.	<p>Sun Moon Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Jharkhand and Odisha. During the FY 2022-23, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Sun Moon Ltd. This happened in the month of December 2023 and as such entire power generation process of Sun Moon Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the company. There were delays in the of payment of wages and salaries and the banks from whom the company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the company. Further, when discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the FS of Sun Moon Ltd. What course of action should the statutory auditor of the company consider in such situation?</p>	<p><b>SA 570- Going Concern</b></p> <p>GC assumption is inappropriate and mgmt. has not amended the FS.</p> <p>Therefore entire FS is pervasively misleading.</p> <p>Adverse opinion.</p> <p>(explain the case study properly in exams)</p> <p>Clause (xix) of CARO 2020- auditor has to comment based upon financial ratios and ageing analysis whether there is a material uncertainty on entity's ability to meet its liabilities.</p>
117.	<p>CA Omkar is the statutory auditor of Sabhyata Ltd. for the FY 2022-23. The company is engaged in the business of manufacture of floor tiles. During the course of audit, CA Omkar obtained certain audit evidence which were not consistent with the affirmation made in the FS. Discuss as to how CA Omkar should deal with the situation in the auditor's report.</p>	<p><b>SA 705- modified opinion.</b></p> <p>IF SAAE is available and material misstatements exist then modify opinion- either qualified or adverse opinion.</p>
118.	<p>Neptune Ltd. is a company that holds significant investments in a portfolio of equity securities. Due to a decline in market value, the company's investments have suffered a notable diminution in value. For the financial year ended 31st March 2023, the audit report of Neptune Ltd. included a qualification regarding the non-provision of ₹ 70 lakh for the diminution in the value of these investments. As the auditor for the</p>	<p>As per SA 710, when the auditor's report on the prior period included a qualified opinion, a disclaimer of opinion, or an adverse opinion and</p> <p>a) the matter is resolved and properly accounted for or disclosed, the auditor's opinion on the current period need not refer to the previous modification.</p> <p>b) If the matter is unresolved, the auditor shall modify the opinion on the current period's FS</p>

		<p>financial year 2023-24, how would you report in the following situations:</p> <p>i) If the company does not make a provision for the diminution in the value of investments in the year 2023-24?</p> <p>ii) If the company makes an adequate provision for the diminution in the year 2023 24?</p>	<p>and in the Basis for Modification paragraph shall either refer to both the current and corresponding figures when effects are material or explain the modification due to effects on comparability.</p>
119.		<p>During the course of audit of PEC Limited, CA Guru has reason to believe that a fraud involving ₹ 75 lakhs has been committed in the company by its employees. Is CA Guru under statutory obligation to report the above matter to Central government by filing prescribed form on MCA Portal? How should he proceed to report above said matter?</p>	<p><b>Sec 143(12) read with clause xi of CARO 2020.</b></p> <p><b>In case of fraud involving less than ₹ 1 crore, the auditor shall report the matter to the audit committee or to the Board. Auditor has obligation to report fraud under clause (xi) of paragraph 3 of CARO, 2020.</b></p>
120.		<p><b>Discuss the reporting responsibilities of statutory auditor in the following situations for year 2023-24 under CARO, 2020:</b></p> <p>i) In the financial year 2023-2024, Candy Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the company sought to acquire an adjacent plot of land owned by Mr. Sidhant, who is also a director of Candy Ltd. Initially hesitant to sell, Mr. Sidhant was persuaded to transfer his property to the company in exchange for a larger plot owned by Candy Ltd. This plot, located on a nearby street, is double the size of Mr. Sidhant's land. Satisfied with the exchange, Mr. Sidhant agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorised representatives and Mr. Sidhant. The registration of the properties was completed by December 31, 2023.</p> <p>ii) On 15th May, 2023, a TDS survey was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income Tax Act, 1961. The survey team pointed out certain lapses regarding non-deduction of tax at source and subsequently Deputy Commissioner of Income Tax (TDS) raised a demand of ₹ 25 lacs on the company treating it as "assessee in default". The company has not deposited demand raised and filed appeal against impugned order on 01st March, 2024 under e-appeals scheme with JCIT (Appeals).</p>	<p>i) The auditor is required to report the transaction as per <b>Clause (xv) of Para 3 of the CARO, 2020.</b></p> <p>As per <b>Clause (xiii) of Para 3 of the CARO, 2020</b>, auditor should report whether all transactions with the related parties are in compliance with <b>sections 177 and 188 of Companies Act.</b> Candy Ltd. has entered into <b>non-cash transactions</b> with one of the directors, <b>Mr. Sidhant</b>, during the year. Thus, the auditor to report the same as per <b>Clause (xv) and Clause (xiii) of Para 3 of the CARO, 2020.</b></p> <p>As per <b>Clause (vii)(b) of Para 3 of CARO, 2020</b>, the auditor is required to report where <b>statutory dues</b> have not been deposited on account of any dispute. In the given situation, the <b>survey team</b> pointed out <b>non-deduction of TDS</b> and demand raised by <b>DCIT (TDS)</b>. The company has filed appeal against order of <b>DCIT (TDS)</b> raising a demand of ₹ 25 lacs with <b>JCIT (Appeals)</b>. Therefore, these are <b>disputed statutory dues</b> and should be reported in <b>Clause (vii)(b) of Paragraph 3 of CARO, 2020.</b></p>

121.	<p>Fancy Limited is a foreign company providing software support services having its Branch Office at Delhi. During the year 2023-24, Fancy Limited incorporated a subsidiary Nancy Private Limited in Gurgaon. For furtherance of objectives, Fancy Limited entered into a Business Transfer Agreement dated 5th October 2023 with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited on a going concern basis effective from 01st April, 2023. Further necessary approval from regulatory authorities is also received on 20th December, 2023 for such transfer. Fancy Limited promised that it shall provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited.</p> <p>During the year 2023-24, Delhi Branch of Fancy Limited have prepared its FS on the basis that the Branch Office does not continue to be a going concern and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the FS. Delhi Branch has incorporated above matter in detailed form in Note XX to the FS.</p> <p>You are the statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24. According to you, Delhi Branch has correctly disclosed about the matter in Note XX to the FS regarding management's intention to close the operations of the branch office. Further you have obtained sufficient appropriate audit evidence concerning audit and on the verge of finalization of audit report.</p> <p>Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard.</p>	<p><b>SA 570- Going Concern- When Going concern assumption is inappropriate and management have made all adjustments- Unmodified opinion and report in emphasis of matter para.</b></p> <p>Question relates to drafting and hence there cannot be any summary. You have to read the para drafting.</p>
122.	<p>You are appointed as a Statutory Auditor of SDA Limited for the year 2023-24 in the place of CA T. During the audit you found an order dated 01.05.2023 under section 148 of the Income-tax Act, 1961 wherein tax of ₹ 50 lakhs were demanded owing to undisclosed cash sales of ₹ 150 lakhs for the financial year 2020-21</p>	<p><b>CARO 2020</b></p> <p>The auditor is required to report under <b>Clause (viii) of Paragraph 3 of CARO, 2020</b> for <b>undisclosed income</b> not recorded in the <b>books of account</b>, and under <b>Clause (xviii)</b> for the <b>resignation of CA T</b>, the auditor of <b>SDA Limited</b>,</p>

		<p>which was accepted by the company and the applicable tax was paid by the Company during the year 2023-24. The company has not recorded such undisclosed income in their books of account during the year 2023-24. On further inquiring the matter with CA T, you came to know that CA T resigned due to non-recording of such transaction by the company. Is there any reporting responsibility cast on you regarding the above matters under CARO, 2020 for the year 2023-24?</p>	<p>due to <b>non-recording</b> of such income during 2023-24.</p>
123.		<p>While conducting audit of CGX Limited, a listed company, for year 2023-24, CA Srishti notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under: -</p> <ul style="list-style-type: none"> <li>i) Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates- ` 3.50 crores</li> <li>ii) Liabilities for capital goods were written back on account of defects in machinery supplied by creditors- 2.00 crores</li> </ul> <p>The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on FS would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstandings were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability. She is contemplating inclusion of above matters under "Key audit matters" in audit report. Analyse the situation threadbare.</p>	<p><b>Ind AS 37 read with SA 705:</b></p> <p>The company <b>unilaterally wrote back liabilities</b> without <b>negotiating a release</b>, which is <b>against the conceptual framework</b> under Ind AS. CA Srishti, restrained from sending <b>external confirmations</b> under SA 505, should apply <b>professional skepticism</b>, perform <b>alternative procedures</b>, and consider <b>modification of opinion</b> under SA 705 due to <b>material misstatement</b> or <b>scope limitation</b>. Including the matter as a <b>Key Audit Matter</b> is <b>not appropriate</b> under SA 701 when a <b>modified opinion</b> is required.</p>
124.		<p>Naresh &amp; Co., Chartered Accountants, have been appointed Statutory Auditors of Suchi Ltd. for the F.Y. 2023-24. The audit team has completed the audit and is in the process of preparing audit report. The management of the company has also prepared draft annual report. The audit in-charge was going through the draft annual report and observed that the company has included an item in its Annual Report indicating a downward trend in market prices of</p>	<p><b>SA 720- Material misstatement of other information.</b></p> <p>As per SA 720, if the auditor concludes that there is a <b>material misstatement</b> in the <b>other information</b>, the auditor shall <b>request management to correct</b> it. If management refuses, the matter must be <b>communicated to those charged with governance</b>. The auditor is</p>

	<p>key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in FS has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who in reply said that auditors are not covered with such disclosures made by the management in its annual report, it being the responsibility of the management.</p> <p>Do you think that the partner is correct in his approach on this issue?</p> <p>Discuss the Auditor's duties with regard to reporting with reference to the relevant Standards on Auditing.</p>	<p>concerned with such disclosures, and the contention of the partner is incorrect.</p>
125.	<p>Nandini Ltd., a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2023-24 appointed Vasu &amp; Co. as their statutory auditors. During the audit, Vasu &amp; Co. identified that Nandini Ltd. received a show cause notice from the National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Nandini Ltd. was dumping toxic solid waste, without treating it, on the nearby grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation carried out by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd.. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the penalty of an amount of ` 700 crore. The unaudited profit for the financial year 2022-23 of Nandini Ltd. was ` 49 crore and the unaudited turnover was ` 120 crore. Upon inquiry it was identified that Nandini Ltd. has disclosed this matter in the FS by way of footnote, the extract of which is provided below:</p> <p>“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company’s legal department has assessed and found that the judgment would be in favour</p>	<p><b>SA 250 read with SA 570 read with Sec 143(3)(j)</b></p> <p>As per <b>SA 250</b>, the auditor must evaluate <b>laws and regulations</b> fundamental to business operations, and perform inquiries and inspect <b>regulatory correspondence</b>.</p> <p>Under <b>section 143(3)(j)</b>, the auditor must report if the company has disclosed the <b>impact of pending litigations</b>.</p> <p>As per <b>SA 570</b>, if <b>material uncertainty</b> exists regarding <b>going concern</b> and <b>disclosure is not made</b>, the auditor shall issue an <b>Adverse opinion</b> under <b>SA 705</b>.</p> <p>Since <b>Nandini Ltd.</b> received a <b>show cause notice</b> exceeding its <b>net profit and turnover</b>, with no proper disclosure, <b>Vasu &amp; Co.</b> must report under <b>SA 570, section 143(3)(j)</b>, and issue an <b>Adverse opinion</b></p>



		<p>of the company. Accordingly, no provision has been created for such notices.”</p> <p>In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter.</p>	
126.		<p>BPMR and Associates, a renowned audit firm in the field of CA practice for the past three decades, was appointed to conduct the statutory audit of Rexlon Ltd., an unlisted company engaged in the business of paper manufacturing. The firm decided to commence the audit for the recently concluded financial year. After making significant progress in the audit, the auditors made the following observations:</p> <p><b>Observation 1:</b> The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.</p> <p><b>Observation 2:</b> Due to the flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material.</p> <p>You are required to advise whether BPMR and Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported?</p>	<p><b>Observation 1</b> – As per <b>SA 706</b>, since the <b>flood</b> and resulting <b>losses</b> were disclosed and <b>fundamental</b> to users’ understanding, the auditor shall include an <b>Emphasis of Matter Paragraph</b>.</p> <p><b>Observation 2</b> – Due to <b>loss of records</b> from the <b>flood</b>, and <b>absence of duplicate records</b>, the auditor couldn’t obtain <b>sufficient appropriate audit evidence</b>. As per <b>SA 705</b>, since the matter is <b>material but not pervasive</b>, the auditor shall issue a <b>Qualified opinion</b>.</p>
127.	8	<p>CA Lalita is auditor of a company. She is also offered professional work of audit of FS prepared specifically for meeting requirements of a loan agreement for the same period. She chooses to accept work and has made up her mind to disclose this fact in “Other matter Paragraph” in audit report to be issued by her for this specific engagement. Is her approach proper?</p>	<p><b>SA 800- Audit of SPFS</b></p> <p>In the given situation, the approach of CA Lalita is proper.</p>
128.		<p>CA Lakshmi has prepared a draft audit report for FS of X Ltd. prepared in accordance with financial reporting provisions of a contract with Y Ltd. She has drafted an unmodified opinion to</p>	<p><b>SA 800- Audit of SPFS</b></p> <p>Reporting considerations</p> <p>2 alerts required</p>

		be given in audit report. Besides, she has also drawn attention in draft audit report to Note “A “to the FS which describes the basis of accounting (under the heading “Basis of accounting”). How she should ensure that report would not be misused? Draft a suitable para to be included in the report for this purpose.	<p>1) Purpose of FS- EOM para can be used for it.</p> <p>2) Restricting the use/distribution of the audit report- Above EOM Para can be extended to include this disclosure.</p> <p>Para should be titled as Basis of Accounting and Restriction on Distribution and Use</p>
129.		CA M. Surya is auditor for FS of an entity prepared in accordance with financial reporting provisions of a contract. He is also offered audit of trade receivables appearing in above FS. Can he accept such engagement? Discuss brief outline of his audit approach in such a situation.	<p><b>SA 800- Audit of SPFS</b></p> <p>SA 805- Audit of single FS or specific element of FS</p> <p>Yes CA M. Surya can accept such audit of trade receivables along with audit of complete set of FS.</p> <p>Approach should be based upon 2 SAs → SA 800 and SA 805.</p>
130.		CA G is offered appointment for audit of trade payables of FS of a company. However, FS prepared under Companies Act, 2013 are audited by CA Jignesh. Discuss why it would be practically difficult for CA G to perform such an audit.	<p><b>SA 805- Audit of specific element of FS.</b></p> <p>IF auditor is not the auditor of complete set of FS then he may not have complete understanding of the entity and its accounting records. The work involved may be disproportionate to the scope of work and hence it could be practically difficult to perform such audit.</p>
131.		CA Madhur is auditor of a company and has issued audit report dated 15th June of a particular year. The audit report on summary FS derived from such audited FS is dated 15th July of that particular year. Discuss whether there exists any additional reporting responsibility for auditor in such a situation in respect of audit report on summary FS.	<p><b>SA 810- Report on Summary FS.</b></p> <p>Subsequent Events in case of Summary FS.</p> <p>Date of audit report on complete set of FS- 15<sup>th</sup> June 2024</p> <p>Date of Summary FS- 15<sup>th</sup> July 2024</p> <p>Auditor is not responsible for events occurring after 15<sup>th</sup> June 2024 while reporting on summary FS.</p>
132.		Consider that the audit report on FS issued by CA Madhur for above said company contains qualified opinion. Can he issue an unmodified opinion on summary FS derived from audited FS? Discuss.	<p><b>SA 810- Reporting on Summary FS</b></p> <p>If auditor has given qualified opinion on complete set of FS then auditor can provide clean opinion on Summary FS but auditor shall disclose the fact in the report on summary FS that he has given a qualified opinion on complete set of FS.</p>

133.		CA P is auditor of a company responsible for auditing complete set of FS. He intends to express adverse opinion on complete set of FS considering conclusions drawn by him during course of audit. He is also auditing trade receivables of company for the same period in a separate engagement. Can he express unmodified opinion in respect of trade receivables? If so, discuss those circumstances.	<p><b>SA 805- Audit of specific element of FS.</b> If auditor has expressed adverse opinion on complete set of FS then then same auditor cannot express a clean opinion on specific element of FS unless all 3 conditions given below are satisfied</p> <p>A) SA 805 report should not be published along with audit report on complete set of FS &amp;</p> <p>B) Such specific item does not form major part of complete set of FS &amp;</p> <p>C) Such opinion is not prohibited by laws.</p>
134.		List out few factors affecting auditor's determination of the acceptability of the applied criteria before accepting audit of summary FS.	<p><b>SA 810- report on summary FS. Acceptability of applied criteria- factors to be considered:</b></p> <p>a) Nature of the entity</p> <p>b) Users of the summary FS</p> <p>c) Purpose of summary FS</p> <p>d) should Not be misleading</p>
135.		SA 800 deals with special considerations applicable in respect of audit of FS prepared in accordance with special purpose framework. Explain, by giving examples, meaning of special purpose framework.	<p><b>SA 800- Audit of SPFS</b> Examples of special purpose framework: FS prepared for RCC</p> <p>a) Regulator's needs</p> <p>b) Creditor's need</p> <p>c) Contractual need. E.g. for investor or lender</p>
136.		CA Y is auditor of a company. He has expressed adverse opinion on audited FS. What additional points he has to keep in mind while expressing opinion on summary FS derived from such audited FS?	<p><b>SA 810- report on summary FS- reporting requirements.</b> IF adverse opinion on audited FS then auditor shall state the following:</p> <p>a) auditor's report on complete set includes adverse opinion</p> <p>b) matter giving rise to adverse opinion- basis para</p> <p>c) it is inappropriate to express opinion on summary FS.</p>
137.		CA Y is the auditor of Stekk Ltd., a company that recently faced material misstatements in its financial records, leading to an adverse opinion on the audited FS for the financial year 2023-24. Now, the management of the company has	<p><b>SA 810- Adverse opinion on complete set of FS. When the auditor's report contains an adverse opinion or disclaimer of opinion, the report on the summary FS shall:</b></p> <p>-State the presence of the adverse opinion or disclaimer;</p>

		prepared summary FS derived from the audited FS and requested CA Y to express his opinion on these summaries. What additional points should CA Y consider when expressing an opinion on these summary FS?	-Describe the basis for that opinion; and -State that it is inappropriate to express an opinion on the summary FS.
138.		Mr. BK has been engaged by XYZ Ltd. to report on summary FS derived from the FS audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment. Guide him the factors affecting auditor's determination of the acceptability of applied criteria as per relevant Standard on Auditing.	As per SA 810, before accepting an engagement, the auditor shall determine whether the <b>applied criteria</b> are <b>acceptable</b> . Factors include: – The <b>nature of the entity</b> , – The <b>purpose</b> of the summary FS, – The <b>information needs</b> of intended users, and – Whether the criteria result in statements that are <b>not misleading</b> .
139.		When auditor's report on the audited FS contains a qualified opinion, but the auditor is satisfied that the summary FS are a fair summary of the audited FS, in accordance with the applied criteria, which other matters shall the auditor's report on the summary FS contain in addition to elements of auditor's report described in SA 810? If summary FS are not a fair summary of the audited FS, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor's opinion on summary FS?	i) When the auditor's report contains a <b>qualified opinion</b> but the <b>summary FS</b> are a <b>fair summary</b> , the auditor's report on the summary shall: a) <b>State</b> the inclusion of a <b>qualified opinion</b> , <b>Emphasis of Matter</b> , <b>Other Matter</b> , <b>Material Uncertainty Related to Going Concern</b> , <b>key audit matters</b> , or an <b>uncorrected material misstatement</b> of other information; and b) <b>Describe</b> the <b>basis</b> and <b>effect</b> of these matters on the <b>summary FS</b> .  ii) If the <b>summary FS</b> are <b>not consistent, in all material respects, with or are not a fair summary of the audited</b> FS, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary FS.
140.	9	A company asks you to carry out process of confirmation of its accounts receivables having balances in excess of `10 lacs as per its books of accounts at the close of the year. The work to be performed only involves preparing and sending confirmation requests to such parties, analysis of variations on receipt of confirmations and submission of a report in accordance with professional standards. What points have to be kept in mind for inclusion in report specifically for such engagement?	<b>SRS 4400- The described engagement is an agreed-upon procedures engagement.</b> Form and Content of report:  A statement describing that a) It is an agreed upon procedure b) It is not an assurance engagement c) Identification of financial information for which AUP has been performed d) Listing of procedures agreed upon and performed e) Restricting use of report to only those parties who have agreed to the procedures.

141.		During the course of performing a compilation engagement in accordance with SRS 4410, it becomes known to you that client had suffered a theft loss of `100 lacs of its inventories over a period of time at a storage location visited infrequently. A claim was lodged by the client with insurance company which was repudiated due to certain technical reasons relating to coverage of policy. The client has not preferred a complaint or an appeal against said repudiation. The amount is reflected under the head “current assets” in trial balance of the client. Discuss, how you should proceed to deal with the matter?	<b>SRS 4410- Compilation engagement.</b>  Material misstatement identified.  Request mgmt. and TCWG to amend the FS or allow practitioner to make necessary adjustments. IF mgmt. and TCWG refuse to do so then withdraw from the engagement and inform reasons of withdrawal to mgmt. and TCWG.
142.		List out few intended purposes of a “compilation engagement.”	<b>SRS 4410- Purpose of Compilation engagement</b>  a) Mandatory purpose- for filing the financial information with regulator  b) Not mandatory purpose: i) Internal use ii) to satisfy the requirements of a contract.
143.		A Chartered Accountant is offered appointment for a compilation engagement to be performed under SRS 4410. Is he required to comply with ethical requirements of Code of Ethics? Discuss briefly.	<b>SRS 4410- Compilation engagements.</b>  Compliance with ethical requirements- Yes he shall comply with fundamental principles of professional ethics and code of ethics of the ICAI. However, independence is not a mandatory requirement.
144.		How do “related services” differ from assurance engagements?	Assurance- It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is reduced.  Related services- to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.
145.		Discuss main documentation requirements to be taken care of by a practitioner while performing a compilation engagement under SRS 4410?	<b>Record of</b>  a) Significant matters during the engagement



			<p>b) Reconciliation record between compiled financial information and underlying records</p> <p>c) copy of final version of the compiled financial information for which mgmt. and TCWG have accepted their responsibility</p>
146.		<p>CA. P has been appointed to compile the financial information of X Limited. CA P is confused whether he should apply the same procedures which are required to be applied to conduct an audit or there are some other procedures to discharge the duties under such an engagement. Define the characteristics of Compilation Engagement. What should be the approach of CA P for performing the Engagement ?</p>	<p><b>SRS 4410- Explain compilation engagement- assisting the client in preparation and presentation of financial</b> information using financial and accounting expertise and issuing a compilation report thereon.</p> <p>Approach of CA P:</p> <p>U CARD → Understand; Compile; Reconcile; Discuss significant matters; Acknowledgement by mgmt. and TCWG about final version.</p>
147.		<p>MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit engagements and do not have exposure to compilation engagements. Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differs from assurance engagements. Give your views on the applicability of SQC 1 to this engagement.</p>	<p><b>SRS 4410</b></p> <p>As per SRS 4410, a compilation engagement involves applying accounting and financial reporting expertise to assist management in preparing financial information, but it is not an assurance engagement. The practitioner does not verify accuracy or completeness or provide an audit opinion. SQC 1 applies to compilation engagements as part of Engagement and Quality Control Standards.</p>
148.		<p>Brown Enterprises Limited has huge funds locked up in its trade receivables standing at around ` 100 crores as on 31st December, 2023. The management of the company wants to evaluate the validity of the trade receivables to ensure reliability of financial reporting at the year end. The accounts department has provided a list of trade receivables to the management containing about 1000 names, their balances and contact/communication details spread in different parts of the country. The company's management has requested CA Kamna to take up this assignment and prepare a report for management in accordance with professional standards. Despite not being statutory auditor of the company, she decides to accept the above engagement.</p>	<p><b>SRS 4400</b></p> <p><b>The situation</b> involves an <b>agreed-upon procedures</b> engagement under <b>SRS 4400</b>, where the auditor reports <b>factual findings</b> based on <b>specified procedures</b>. The practitioner <b>need not be the auditor</b> of the entity's financial statements. Therefore, it was <b>proper for CA Kamna</b> to accept the engagement.</p> <p>While reporting under <b>SRS 4400</b>, CA Kamna should include:</p> <ul style="list-style-type: none"> <li>• A statement that the procedures are <b>not an audit or review</b>, and <b>no assurance is expressed</b>.</li> <li>• A statement that if additional procedures were performed, <b>other matters might have come to light</b>.</li> <li>• A statement that the report is <b>restricted to</b></li> </ul>

		<p>a) By explaining the nature of engagement described above, discuss whether it was proper for her to accept such engagement.</p> <p>b) While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope?</p>	<p>agreed parties.</p> <ul style="list-style-type: none"> <li>• A statement that the report relates <b>only to specified elements</b> and <b>not to the financial statements as a whole</b>.</li> </ul>
149.		<p>You have been appointed to compile the FS of Kings &amp; Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly understated, and the company has failed to apply applicable standards. On pointing out the same, the partners of Kings &amp; Company inform you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment.</p>	<p>As per <b>SRS 4410</b>, if <b>management fails to provide necessary information</b> or <b>refuses required amendments</b>, the practitioner must <b>withdraw from the engagement</b> and <b>inform management and those charged with governance</b>. If <b>withdrawal is not possible</b>, the practitioner must assess their <b>professional and legal responsibilities</b>. Also, management must <b>acknowledge responsibility</b> for the final compiled information.</p>
150.	10	<p>Roma Limited has entered into a contract with Dorma Limited. There is a condition in the contract by virtue of which Roma Limited is required to get its FS reviewed for a year on a quarterly basis in accordance with the financial reporting provisions of the contract. Can Roma Limited get its FS reviewed from a professional accountant in practice?</p>	<p>The above FS are prepared in accordance with special purpose framework as per requirements of a contract. It can also be reviewed by a professional accountant in practice &amp; review report may be issued as per SRE 2400</p>
151.		<p>You are conducting a review of the FS of a company. It is gathered upon inquiry that there is a possibility of material misstatements in FS. Discuss, how you would proceed further in the matter under SRE 2400.</p>	<p><b>SRE 2400- Possibility of material misstatement in case of review of FS:</b></p> <p>Perform additional procedures to conclude whether FS are materially misstated or not.</p> <p>Additional procedures will depend upon practitioner's judgment. E.g. Additional inquiry, analytical procedure, TOD or confirmation.</p>
152.		<p>During review of quarterly results of a company of which you are auditor, it is gathered on inquiries made that there has been a major fire in fabric processing plant of the company during the quarter. It has resulted in massive disruption in operations of the company. Worse still, machinery and inventories of plant were uninsured due to carelessness of concerned staff leading to substantial losses. The matter has been disclosed in interim financial information</p>	<p><b>SRE 2410- Quarterly financial information reviewed by auditor-</b> material uncertainty over going concern- if matter has been appropriately disclosed in the interim FI then report under EOM Paragraph of review report.</p>

		appropriately. Discuss, how you would proceed to deal with the same in review report?	
153.		CA. Seerat is conducting review of the quarterly financial information of a company of which she is also auditor. She believes that it is necessary to make a material adjustment to the quarterly financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. She has communicated the matter to CFO and audit committee. However, no response was received even after waiting for a reasonable time. What are the options available to her?	<b>SRE 2410- Options available when mgmt. and tcwng do not make material adjustments that are required</b>  A) Modify conclusion or B) Possibility of withdrawing from engagement or C) Possibility of resigning from the appointment to audit annual FS.
154.		Discuss why “inquiry” is important as an audit procedure in an engagement to review FS.	<b>SRE 2400- Importance of inquiry while performing review engagement.</b>  i) it provides primary source of evidence ii) it helps in understanding the entity, risk assessment etc. iii) It helps in exercising prof. skepticism attitude iv) Responses to inquiries is also an integral part of review.
155.		CA. Aditya Jain is auditor of a listed company. He is also required to carry out quarterly review of FS of company in terms of regulatory requirements. He is already well-versed with business of company and has deep understanding of the company. Discuss, any five procedures, by which he can update his understanding of the company for carrying out quarterly review.	<b>SRE 2410- Updating understanding of the entity and its environment</b>  a) Read the PY audit documentation b) Read most recent FS and comparable Interim FS c) Inquire of the mgmt. about effect of changes, if any. d) Considering Previous audit findings- significant risk areas etc.
156.		What is significance of “date of report” in a review report?	It means as on that date  a) All the statements described under FS as per AFRF have been prepared and b) Those with recognized authority have asserted that they have taken responsibility for the FS.
157.		CA. Pankaj Chaturvedi has issued a review report dated 28.7.2022 for financial results of a	The auditor should inquire whether management has identified all events up to the

		company for quarter ending 30.6.2022. Describe his responsibility, if any, for events occurring from 1.7.2022 till date of review report in accordance with SRE 2410.	date of the review report that may require adjustment to or disclosure in the interim financial information.
158.		A review of FS includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern. Enumerate the steps to be taken by the practitioner for the same.	<b>SRE 2400- Going Concern</b> A review of <b>financial statements</b> includes consideration of the entity's <b>ability to continue as a going concern</b> . If doubt arises, the practitioner shall: <ul style="list-style-type: none"> <li>(a) <b>Inquire of management</b> about <b>plans</b> and their <b>feasibility</b>;</li> <li>(b) <b>Evaluate the results</b> to decide if the <b>going concern basis</b> is appropriate or if the <b>financial statements</b> are <b>materially misstated</b>;</li> <li>(c) <b>Consider management's responses</b> with all relevant information from the <b>review</b>.</li> </ul>
159.		GAK Limited has compiled the interim financial information, as per the Listing agreement requirements, and submitted it to the auditors for their review. CA Reena has been assigned on the engagement to review the interim financial information of GAK Limited. Based on the inquiries and other review procedures carried out, CA Reena assessed that GAK Limited has been facing continuous working capital shortages. No financial institutions or banks are ready to lend additional funding limits to GAK Limited, since the company has been continuously incurring losses for over 3 years and the company has defaulted payment of loan instalments & interest over the last one year and operations have been curtailed significantly. Under such circumstances CA Reena, who is doing the review for the first time, noted that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties. Given the situation, please advise CA Reena, what kind of review report is required to be issued? If, GAK Limited has disclosed information relating to material uncertainty, can CA Reena give a clean report? Discuss.	<b>SRE 2410- If a material uncertainty about going concern</b> is found and <b>adequately disclosed</b> , the auditor adds an <b>Emphasis of Matter</b> paragraph. If <b>not adequately disclosed</b> , the auditor must give a <b>Qualified</b> or <b>Adverse conclusion</b> and <b>refer to the uncertainty</b> in the report.
160.		In a review engagement performed under SRE 2400, practitioner relies mainly on certain procedures. Naming such procedures, discuss the importance of these procedures in a review engagement.	<b>In a review, the practitioner focuses on inquiry and analytical procedures to obtain sufficient appropriate evidence.</b> <b>Inquiry</b> includes seeking information from <b>management</b> about matters like <b>accounting estimates, related parties, fraud, going concern, and non-monetary transactions</b> .

		Practitioner's report containing outcome of review engagement in form of "conclusion" also contains a description of a review of FS and its limitations. Which statements in this respect are to be included in the practitioner's report in accordance with SRE 2400?	<p>Evaluating <b>responses</b> and applying <b>professional skepticism</b> are integral.</p> <p><b>Analytical procedures</b> involve assessing whether <b>accounting data</b> is adequate and help in <b>identifying inconsistencies</b>, <b>understanding the entity</b>, and providing <b>corroborative evidence</b>.</p> <p><b>Report:</b></p> <p><b>A review of financial statements is a limited assurance engagement.</b></p> <p>(1) It is conducted under this <b>SRE</b>;</p> <p>(2) The practitioner <b>makes inquiries</b> and <b>applies analytical procedures</b>, and <b>evaluates evidence</b>;</p> <p>(3) Procedures are <b>substantially less</b> than an <b>audit</b>, so no <b>audit opinion</b> is expressed.</p>
161.	11	A company has approached CA. Hemant for an assurance report in respect of prospective financial information of a project. On going through the project details, it is noticed that depreciation reflected on proposed fixed assets to be acquired in prospective financial information has been calculated in accordance with provisions of the Income Tax Act. No disclosure is made in this respect too. How the matter should be proceeded with?	<p><b>SAE 3400- PFI has a information which is materially misstated.</b> If presentation and disclosure is not adequate then either qualified or adverse or consider withdrawal from the engagement.</p>
162.		Bansi Group is a leading institution running prestigious post graduate courses in the field of management. Its FS are audited by an independent auditor. Before the start of this such matters to Easy Solutions Limited. academic session, the Board of the institution had outsourced its entire process of inviting student applications, submission of applications, and collection of application fees including late fees and The auditors of Bansi Group want to be sure about the design and operating effectiveness of controls at Easy Solutions Limited. What should be the nature of the report to be provided by auditors of Easy Solutions Limited specifically for use by Bansi Group and its auditors in this regard in terms of SA 3402?	<p><b>SAE 3402- Type 2 report by service auditor contains</b></p> <p>Reasonable assurance on</p> <p>a) Description of the system prepared by SO fairly presents the system</p> <p>b) Design of the controls of SO is suitable</p> <p>c) Operating effectiveness of the controls implemented by SO.</p>
163.		The management of S Ltd. requests you to accept an engagement to report on the compilation of pro forma financial information	<p><b>SAE 3420- Engagements to report on proforma financial information</b></p>



		to be included in a prospectus. In light of SAE 3420, what factors you will consider regarding the company acknowledging and understanding its responsibility in this matter before accepting engagement?	<p>Factors to be considered about mgmt.'s responsibility- they should acknowledge their responsibility towards</p> <p>a) Adequately disclosing applicable criteria</p> <p>b) Compiling proforma financial information</p> <p>c) Providing Practitioner with access to all relevant information</p>
164.		Ayurda Ltd. is a fast-growing and award-winning SaaS software company which is headquartered in Mumbai. It also has offices in the UK and provides cloud-based professional services automation (PSA) software solutions to professional services organizations around the world. They want to engage you to provide an assurance report for one of its major clients over the controls it operates as a service organisation. Can you provide such an assurance report?	<p><b>Assurance report can be provided under SAE 3402.</b></p> <p>Explain objective of service auditor as per SAE 3402.</p>
165.		Discuss the significance of Pro forma financial information included in prospectus of a company.	<p><b>SAE 3420</b></p> <p>Financial information together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if even had occurred at an earlier date.</p> <p>Proforma FI is used in offer documents to illustrate the impact as discussed above.</p>
166.		Discuss the term "Pro forma adjustment" under SAE 3420.	<p><b>SAE 3420-</b></p> <p>Proforma adjustments are adjustments done to unadjusted financial information that illustrate the impact of a significant event or transaction as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration</p>
167.		The practitioner shall not accept the compilation engagement unless the practitioner has agreed to the terms of engagement with management, and the engaging party if different. In view of the above, mention the responsibilities of the	<p>The practitioner shall not accept the compilation engagement without agreement on the terms of engagement.</p> <p>Management's responsibilities include:</p>

		management to be agreed on for the compilation engagement in accordance with SRS 4410.	<p>(i) Preparing financial information in accordance with an acceptable financial reporting framework;</p> <p>(ii) Internal control design, implementation, and maintenance;</p> <p>(iii) Ensuring accuracy and completeness of records and information; and (iv) Making judgments for preparation and presentation, with possible assistance from the practitioner.</p>
168.		<p>STAR Limited has outsourced its payroll processing functions to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.</p> <p>The auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions throughout the year. In this regard, they require an assurance report from auditors of Little Solutions Private Limited.</p> <ol style="list-style-type: none"> <li>Why the auditors of STAR Limited require an assurance report from the auditors of Little Solutions Private Limited? Which Engagement and Quality Control Standard casts such kind of responsibility upon the auditor?</li> <li>Which type of report should be provided by the auditors of Little Solutions? Justify with reasons.</li> <li>State matters on which opinion is to be provided by the auditors of Little Solutions.</li> </ol>	<p><b>SA 402 read with SAE 3402- Type 1 and Type 2 report</b></p> <p>Auditors of a <b>user entity</b> aim to:</p> <ol style="list-style-type: none"> <li>Understand the <b>services</b> of the <b>service organisation</b> and their effect on <b>internal control</b> to assess <b>risks of material misstatement</b>, and</li> <li><b>Design and perform audit procedures</b> responsive to those risks.</li> </ol> <p>As per <b>SA 402</b>, auditors of <b>STAR Limited</b> require a <b>type 2 report</b> from auditors of <b>Little Solutions Pvt. Ltd.</b>, in accordance with <b>SAE 3402</b>, to ensure the <b>description, design and operating effectiveness of controls</b> throughout the year. <b>Type 2 report</b> covers <b>description, design and operating effectiveness</b>, while <b>type 1 report</b> covers only <b>description and design</b>.</p> <p>Auditors of <b>Little Solutions Pvt. Ltd.</b> would state whether, in all <b>material respects</b>, based on <b>suitable criteria</b>:</p> <ul style="list-style-type: none"> <li>The <b>description</b> fairly presents the system designed and implemented;</li> <li>The <b>controls</b> were <b>suitably designed</b> throughout the period; and</li> <li>The <b>controls tested</b> operated <b>effectively</b> to achieve the <b>control objectives</b> throughout the period.</li> </ul>
169.		Mr. Vineet, an auditor, has been approached by Qub Ltd. to examine the prospective financial information of the company. What factors should an auditor consider before accepting an engagement to examine prospective financial information, and under what conditions should the auditor decline or withdraw from such an engagement? Additionally, what steps should be taken to formalize the terms of the engagement?	<p><b>SAE 3400- The auditor should not accept or withdraw if assumptions are clearly unrealistic or the information is inappropriate for its intended use.</b> Auditor considers reliance on historical financial information and must agree on terms of engagement through an engagement letter.</p> <p>Before accepting an engagement to examine prospective financial information, the auditor</p>

			considers: Intended use? Distribution? Assumptions? Elements? Period?
170.		SAE 3400 explains that prospective financial information can take the form of a forecast, a projection, or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400.	<p><b>Prospective financial information may be a forecast, projection, or both.</b></p> <p>A forecast is based on best-estimate assumptions—events and actions management expects.</p> <p>A projection uses hypothetical assumptions or a mix of best-estimate and hypothetical assumptions.</p> <p>Prospective financial information is future-oriented and speculative, so an opinion on whether results will be achieved cannot be expressed.</p>
171.		You are engaged by M/s Viva Limited to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state. The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you while determining the nature, timing, and extent of examination procedure to be applied in the review of the same?	<p><b>SAE 3400- Examination procedures- factors to be considered</b></p> <p>(a) <b>Knowledge</b> from previous engagements,</p> <p>(b) Management's <b>competence</b>,</p> <p>(c) <b>Likelihood of material misstatement</b>,</p> <p>(d) Effect of <b>management's judgment</b>,</p> <p>(e) <b>Sources of information</b>, <b>adequacy</b>, and <b>reliability</b> of data (including from <b>third parties</b>),</p> <p>(f) <b>Stability of entity's business</b>, and</p> <p>(g) <b>Engagement team's experience</b> with the <b>business, industry</b>, and <b>reporting</b> on prospective financial information.</p>