



CA FINAL

MCQ BOOK



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Ravi Taori (AIR)
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PREFACE

It gives me immense pleasure in presenting our **CA Final Audit MCQ Book**.

CA Final exam paper on “Advanced Auditing, Assurance and Professional Ethics” will contain 30 marks of objective based questions.

This book covers all MCQs issued by ICAI from 2018 to 2025.

- New Syllabus ICAI Study Material.
- ICAI MCQ Booklet Recent Edition.
- RTPs (Till Sep 25)
- MTPs (Till May 25)

This book has the following salient features:

- More than **690+** MCQ's issued by ICAI have been included and are rearranged chapter wise.
- Book includes **Integrated case study based MCQ's** issued by ICAI.

From inception to consummation, this project requires dedicated work, deep thinking and hours of continuous desktop work. My immense gratitude to my parents and family for their continuous support, which encourages me to accomplish my work. I also extend my heartfelt gratitude to the efforts of people for bringing this project into reality. I am thankful to **CA Vaishnavi, CS Rajni, Vaibhav, Kunal, Shivani, Gayatri, Tejashree, Shubhangi** for their support and sincere efforts in publishing this May/Nov 2024 Edition of MCQ Book.

I hope that students will be immensely benefitted with this book. However, there is always scope for improvement. I will be grateful to the students for their valuable feedback for improvement of this book. Please email us at support@auditguru.in or Message/WhatsApp on 9322011915

Happy Studying!!!!

CA RAVI TAORI

Special Thanks to Snehal Taori Ma'am for her important contribution in making this book.

For technical & other admin queries contact 9322011915 between 11am to 6pm

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INDEX

CH 01

Quality Control

Part-01 SQC 1	01-01
Part-02 SA 220	01-03

CHAPTER 02

General Auditing Principles & Auditors Responsibilities

Part-0 Core Audit Process	NA
Part-01 SA 240	04-05
Part-02 SA 250	06-07
Part-03 SA 260	08-08
Part-04 SA 299	09-09
Part-05 SA 402	10-10

CHAPTER 03

Audit Planning, Strategy & Execution

Part-01 APSE (Incl SA 300)	11-13
Part-02 SA 600	14-15
Part-03 SA 610	16-16
Part-04 SA 620	17-17
Part-05 SA 540	18-18
Part-06 SA 520	19-21
Part-07 SA 450	NA

Link for Chapter-wise Mapping Of Case Study Based MCQs

https://docs.google.com/spreadsheets/d/1BJOSD-2uNsPm_KdB9oXD01RcSNqdQwkvISQoU7GNEiA/edit?gid=1763512659#gid=1763512659

CHAPTER 04

Materiality, Risk Assessment & Internal Control

Part-01 MRI	22-22
Part-02 SA 265	23-23
Part-03 SA 315 - (RISK)	24-26
Part-04 SA 315 - (ICS)	27-28
Part-05 SA 320	29-30
Part-06 SA 330	31-34

CHAPTER 05

Audit Evidence

Part-01 SA 500	35-36
Part-02 SA 501	37-38
Part-03 SA 505	39-42
Part-04 SA 510	43-43
Part-05 SA 530	44-46
Part-06 SA 550	47-48

CH 06

Completion and Review

Part-01 SA 560	49-49
Part-02 SA 570	49-50
Part-03 SA 580	51-51

CHAPTER 07

Reporting

Part-01 SA 700	52-52
Part-02 SA 701	53-55
Part-03 SA 705	56-60
Part-04 SA 706	61-62
Part-05 SA 710	63-64
Part-06 SA 720	65-65
Part-07 Provisions of Companies Act 2013	66-67
Part-08 CARO 2020	68-71

CH 08

Specialised Areas

Part-01 SA 800	72-72
Part-02 SA 805	72-72
Part-03 SA 810	72-72

CH 09

Audit-related Services

Part-01 SA 4400	73-73
Part-02 SA 4410	73-73

CH 10

Review of Financial Information

Part-01 SA 2400	74-74
Part-02 SA 2410	74-74

CH 11**Prospective Financial Information
& Other Assurance Services**

Part-01 SA 3400 75-75

Part-02 SA 3402 75-75

Part-03 SA 3420 75-75

CH 12**Digital Auditing & Assurance**

Part-01 Digital Auditing & Assurance 76-77

CH 13**Group Audits**

Part-01 CFS 78-83

CH 14**Special Features of Audit of Banks &
Non-Banking Financial Companies**

Part-01 Audit of Banks 84-88

Part-02 NBFC 89-93

CH 15**Overview of Audit of Public Sector Undertakings**

Part-01 PSU 94-95

CH 16**Internal Audit**

Part-01 Internal Audit 96-107

CH 17**Due Diligence, Investigation & Forensic Audit**

Part-01 Due Diligence	108-112

Part-02 Investigation	112-115

Part-03 Forensic Audit	115-115

CH 18**Emerging Areas: Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance**

Part-01 SDG & ESG	116-116

CHAPTER 19**Professional Ethics & Liabilities Of Auditors**

Part-01 Introduction	117-118

Part-02 First Schedule	119-121

Part-03 Second Schedule	122-122

Part-04 Council Guidelines	123-123

CH 20**Integrated Case Studies**

Part-01 Case Study	124-286

01. Quality Control

Part 1—SQC 1

SQC.1	S25R
	VMC & Co., a firm of Chartered Accountants, has been auditing the financial statements of Reyox Ltd., a listed company, for the past 10 years. CA Rajat, an engagement partner, has led the audit team throughout this period. A recent quality control review raised concerns regarding a familiarity threat, as CA Rajat had developed a close relationship with key management personnel of the client. Which of the following would be the most appropriate course of action for VMC & Co. to mitigate the threat of independence and objectivity in this case as per SQC 1 in this scenario?
	a) Continue with the same engagement partner, as long as documentation evidences independence in mind and appearance. b) Appoint a second partner to assist CA Rajat, but allow him to continue as the lead engagement partner. c) Rotate the engagement partner and appoint another qualified partner to lead the audit engagement. d) Request Reyox Ltd. to change their finance team to reduce familiarity threats from the client's side.

Part 2--SA 220

220.1	N19R/SM21/SM22
	VKPL & Associates, a firm of Chartered Accountants, have been operating for the last 5 years having its office in Gurgaon. The firm has staff of around 25 persons with 3 Partners. The firm has been offering statutory audit, risk advisory and tax services to its various clients. The major work of the firm is for taxation services. The audit partners also discussed that the firm needs to work significantly to improve the quality of the services they offer and that would also help the firm to grown its business. Considering this objective, the firm started training programmes for the staff which were made mandatory to be attended. During one of the training programmes on quality, a topic was discussed regarding the information that should be obtained by the firm before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. It was explained that the following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate (as per SA 220): (i). The integrity of the principal owners, key management and those charged with governance of the entity. (ii). The qualification of all the employees of the entity. (iii). Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources. (iv). The remuneration offered by the entity to its various consultants. (v). Whether the firm and the engagement team can comply with relevant ethical requirements; and (vi). Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship. We would like to understand from you which of the above-mentioned points are relevant for the topic under discussion or not?
	a) i, ii, iv and v. b) ii, iv, v and vi. c) iii, iv, v and vi. d) i, iii, v and vi.

220.2	SM22
	PMP Ltd is an associate of PMP Inc., a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures. The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2020. For the financial year ended 31 March 21, the auditors made some changes in their audit team. While the audit partner remained the same, the field in charge has been replaced as the field in charge who was engaged in the audit of the financial statements for the year ended 31 March 2020 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client. The audit team commenced the work for audit of the year ended 31 March 21 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understand of the client and after assessing the comments of the EQCR did not find those relevant. The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?
	a) The changes in the audit team were not appropriate except for the field in charge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI). b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner. c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report. d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.
220.3	M24R
	Bansal Arora & Co., a Chartered Accountants firm, is currently performing an audit for Wool Ltd., a sizable manufacturing company. Mr. Bhavesh Bansal, an experienced audit engagement partner, holds the responsibility of ensuring that the audit engagement aligns with the professional standards, adheres to regulatory requirements, and complies with the legal obligations. His duties encompass the overall supervision, direction, and the final issuance of the audit report. While conducting the audit, the engagement team encounters a complex issue pertaining to the valuation of the company's inventory. Within the team, there are difference of opinions on how to address this matter, resulting in a contentious situation. What is Mr. Bhavesh's responsibility in this situation? (a) Mr. Bhavesh shall adhere to the firm's policies only for addressing and resolving differences of opinion. (b) Mr. Bhavesh should secure management's representation concerning the valuation and proceed with further audit procedures. (c) Mr. Bhavesh should ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm. (d) Mr. Bhavesh should communicate the issue to the client's management for resolution

Answers

Part 1—SQC-1

SQC.1	c

Part 2--SA 220

220.1	d
220.2	a
220.3	c

Ch 02. General Auditing Principles and Auditor's Responsibilities

Part 1 – SA 240

240.1	S19M
	If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall- - Withdraw from the engagement immediately. - Report to Audit team regarding withdrawal. - Determine the professional and legal responsibilities applicable in the circumstances. - Ask the management for his withdrawal
240.2	N19M/M23M
	You are the audit senior in charge of the audit of Swandive Co, and have been informed by your audit manager that during the current year a fraud occurred at the client. A payroll clerk sets up fictitious employees and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional frauds have taken place in the wages department. Which of the following audit procedures would be undertaken during the audit of wages as a result of the manager's assessment of the increased risk of fraud? - Discuss with the payroll manager the nature of the payroll fraud, how it occurred, and the financial impact of amounts incorrectly paid into the payroll clerk's bank account. - Review the supporting documentation to confirm the total of the fraudulent payments made and assess the materiality of this misstatement. - Review and test the internal controls surrounding setting up of and payments to new joiners to assess whether further frauds may have occurred. - Review the legal action taken by the management against the payroll clerk who was involved in the fraud and see whether he is punished for his actions. - Audit procedures 1,2,3 - Audit procedures 2,3,4 - Audit procedures 1,3,4 - Audit procedures 1,2,4
240.3	M21M/SM22/N23M
	During the conduct of audit, it was found that the management has intentionally made material misstatements in the several items of the financial statements to deceive the users of the financial statements, to reduce the pressures of meeting market expectations and to increase the reputation of the company. What would be the implications on the auditor's report if no adjustments are made to the financial statements regarding the misstatements made by the management? - The auditor would issue a qualified audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph. - The auditor would issue an adverse audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph. - The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Adverse Opinion' paragraph below the opinion paragraph. - The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

240.4	SM23
Which of the following is not a fraud risk factor?	
a) Dominant influence of the owners b) Expensive lifestyle c) Fraud risk due to the nature of the industry d) Floating of a new SPV itself	
240.5	SM23
Which of the following best describes the method that Mr. Bharose Lal can indulge to commit fraud?	
a) Concealing and not disclosing facts that could affect the amounts recorded in financial statements. b) Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity. c) Causing an entity to pay for goods or services not received. d) Using undisclosed business partners to misappropriate funds in the garb of making a business transaction and thus siphoning off the funds.	
240.6	S25R
During the audit of Tripti Chemicals Ltd., the auditors, Dishu & Co., identified unusual fluctuations in revenue while performing analytical review procedures. Upon further inquiry, they detected a misstatement in revenue recognition, which appeared to have been intentionally made by senior finance personnel. Although management contended it was a one-time error, the auditors suspected of potential fraud. In accordance with the Standards on Auditing, what would be the most appropriate course of action for the auditor?	
(a) Rely on management's assurance and proceed with issuing an unmodified audit opinion. (b) Perform additional analytical procedures only if the misstatement is material. (c) Evaluate whether the misstatement indicates fraud, reassess the risk of material misstatement due to fraud, and consider implications for audit evidence and management representations. (d) Immediately withdraw from the audit engagement without performing further procedures.	

Part 2 – SA 250

250.1	M19M
	KJA Ltd is in the business of consultancy services. The business of the company has been growing significantly and considering the nature of business, it becomes subject to various laws and regulations. Compliances have also increased because of this and management has found this very difficult to keep in pace with the changing regulatory requirements. The statutory auditors of the company, Shilpa & Associates, have considered compliance with laws and regulations as a significant risk for the purpose of their audit. Auditors had a audit planning meeting with the management and management has understood that it will be their responsibility including those charged with governance to ensure that the company's operations are fully compliant with the provisions of various laws and regulations. This may also have an impact on the reported amounts and disclosures in the financial statements of the company. Management is planning to ensure full compliance and may implement policies and procedures, wherever required, to assist in the prevention and detection of non-compliance with laws and regulations. Please suggest among the following which one will not be a policy/ procedure to be implemented to assist in the prevention and detection of non-compliance with laws and regulations in accordance with SA 250? - Maintaining a register of significant transactions of the company with comparison to particular industry and a record of complaints. - Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. - Developing, publicizing and following a code of conduct. - Instituting and operating appropriate systems of internal control.
250.2	SM22/ M23R/N24M
	M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2020-21. While conducting the audit, CA Aman, the engagement partner noticed the following: • Payments of various fines and penalties • Unusual cash payments • Payments to various government employees not supported by any document • Notices received from various regulatory authorities. • Heavy payments to legal counsels. CA Aman should consider the above as indicative of: - Doubt on Internal Controls of PQR Ltd. - Doubt of non compliance to laws by PQR Ltd. - Doubt on the accounting system of PQR Ltd. - Doubt on the going concern assumption of PQR Ltd.
250.3	M22M
	M/s Sati and Associates were appointed as the statutory auditors of Power King Limited for the audit of financial year 2021-22. Power King Limited has a power generating plant in Sikkim. At the time of accepting the engagement, it was decided among the engagement partner (CA Sati) and the management that since CA Sati and his team is doing the audit of a client having power plant in Sikkim for the first time, it will be the duty of the management to update the audit team regarding all the taxes and statutes applicable to units situated in Sikkim. Which of the following is correct in this regard? - The engagement team, being the auditor of Sikkim based power plant for the first time can always rely on the management's information and can work accordingly. - The engagement team should understand the Power King Limited business environment and should obtain knowledge about the laws and statutes applicable in this case. - The engagement team should not accept the audit of such power plant situated in Sikkim of

	which he has no prior knowledge. (d) The engagement team can very well accept the audit of Power King Limited and with respect to aspects related to Sikkim law he can give disclaimer of opinion, if required.
250.4	M22M
	Shripal Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?
	(a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement. (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained. (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly. (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action
250.5	M22M
	CA Praveen is appointed by KSN Ltd. for the year 2023-24. While verifying payroll data of the company, it has come to his notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers. With respect to the auditor's observation relating to the matter of child labour, which is the most appropriate course of action for him to proceed in this matter?
	(a) CA Praveen should ignore the matter as it will not affect financial statements. (b) CA Praveen must report the matter to the concerned government department. (c) CA Praveen should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment. (d) CA Praveen should express a modified opinion in the audit report.

Part 3 – SA 260

260.1	SM22 / N21M
	Ms. Kee, the engagement partner of Best Hospitality Limited's audit team did not perform the necessary communication with those charged with governance over some critical issues identified during the course of the audit. Moreover, when management identified that the engagement partner has not communicated to those charged with governance of the Best Hospitality Limited, they also chose not to communicate. Upon identification of this issue, the personnel charged with governance inquired with management and auditors as to why there was no communication of the critical matters to them. Upon such inquiry, Engagement Partner contended that it was the responsibility of Management to communicate first, then only the audit team should communicate. However, Management was of the view that they are not liable to communicate to those charged with governance. As an Engagement Quality Control Reviewer, what will be your opinion? a) The auditor is responsible for communicating matters required by SA 260 to those charged with governance. Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility. b) SAs are not applicable to the management and hence the management was not responsible for communicating the same to those charged with governance. Also, as per SA 260, Auditor can only communicate when management has already informed those charged with governance about the matters. Auditors cannot communicate first without management's communication. c) Communication by management with those charged with governance of matters that the auditor is required to communicate does relieve the auditor of the responsibility to also communicate them if the management has already communicated. Hence, in the current case Management should have communicated as it was their responsibility. d) SA 260 requires the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance which includes matters already communicated by the management of non-material nature. Hence, it was the responsibility of the Auditor to communicate.

Part 4 – SA 299

299.1	N23M
	X, Y and Z are joint auditors of a company engaged in manufacturing of chemicals. They have developed a joint audit plan and identified common areas. Besides, they have also identified and allocated work by signing work allocation documents among themselves. Verification of trade receivables was allocated to Z. Which of the following statements is in accordance with relevant SA in this regard? a) X and Y should necessarily review work performed by Z to ascertain whether work has been actually performed in accordance with Standards on Auditing. b) X and Y should perform tests to ascertain whether work has been actually performed in accordance with Standards on Auditing. c) X and Y are entitled to assume that Z has actually performed work in accordance with Standards on Auditing. d) X and Y are not entitled to assume that Z shall bring to their notice significant observations relevant to responsibilities noticed during the course of the audit.
299.2	M24M
	CA. Arvind and CA. Deepak were jointly appointed as auditors of Pullcord Ltd. to ensure efficient audit and reporting, Arvind and Deepak took the following steps: i. After identification and allocation of work among themselves, the work allocation document was signed by both of them. Since in any case they were jointly responsible, they did not think it necessary to inform those charged with governance about the allocation. ii. They decided to obtain a common engagement letter since their appointment was common. iii. Since their area of work was different, they decided to obtain a separate management representation letter so as not to mix up the matters. Which of the above were not correct in view of SA 299? a) i, ii and iii b) i and iii c) i and ii d) ii and iii

Part 5 - SA 402

402.1	SM19
	DEF Ltd has outsourced its payroll to a third entity (service organization). What should be the basis followed by the auditor of DEF Ltd in respect of audit of payroll?
	a) The auditor should obtain Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organization. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls. b) The auditor may refer to the work of service auditor in his report containing an unmodified opinion and diminish his responsibility for the audit opinion. c) The auditor should obtain Type 1 or Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organization. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls. d) Since the payroll process is outsourced to a service organization, there is nothing much an auditor can do. Auditor should audit the other information for the financial statements and accordingly should issue his opinion
402.2	SM22/M23M
	XYZ Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third party organization and requests for audit access to such data centre. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organisation is regularly being conducted. What the auditor should do?
	(a) Do not ask for anything else since the Third Party is ISO certified. (b) Insist on conducting audit in the Third Party. (c) Take the ISO certificate. (d) Take the Service Organization control audit report to review.

Part 1 - SA 240

240.1	c
240.2	a
240.3	b
240.4	d
240.5	d
240.6	c

Part 2 - SA 250

250.1	a
250.2	b
250.3	b
250.4	c
250.5	c

Part 3 - SA 260

260.1	a

Part 4 - SA 299

299.1	c
299.2	b

Part 5 - SA 402

402.1	c
402.2	d

03. Audit Planning, Strategy and Execution (APSE)

Part 1 - (APSE) Incl SA 300

300.1	SM22/SM21
	AJ Petroleum & Refining Ltd is a Maharatna Central Public Sector Undertaking (PSU) in India having its registered office in Uttranchal. It is engaged in the business of oil refining, pipeline transportation & marketing, exploration & production of crude oil & gas, petrochemicals, gas marketing and other downstream operations. The PSU has global aspirations for which its management is working on various plans/programmes so that the same can be achieved in future. It is also planning to pursue diverse business interests by setting up of various joint ventures with reputed business partners from India and abroad to explore global opportunities. Considering these objectives and other factors, the C&AG directed the performance audit in respect of its certain activities/ functions which has been in progress. Before starting the audit, the detailed scope and composition of audit team was shared with the management of the company and tentative timelines were also given with which the management was fine. However, during the course of the audit the audit team changed its audit programme to achieve the desired objectives which was approved by the competent authority, however, the management was not happy with those changes. The management wants the audit team to conclude the audit with the same scope as this is a special type of audit wherein such flexibility cannot be accepted as that would defeat the purpose of the law. However, the audit team has a different view. Please guide. a) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014. b) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014 and the Ministry of Law. c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority. d) The C&AG should get involved in this matter after taking permission from the Central Government and would require to change the audit team if the scope requires any changes as the same should have been properly assessed by the audit team before commencing the audit.
300.2	M19M
	BVM & Associates is an audit firm that employs large number of audit assistants. CA Mahesh, a partner pays extreme attention to briefing the audit assistants every day while the audit is continuing. All audit assistants are required to document their notes in the daily briefing and accordingly conduct the audit. CA Mahesh has made it very clear that any assistant who does not document the notes taken and the steps taken accordingly will be reprimanded as it will mean that the assistants are not creating their audit programmes on the job. The practice deployed by CA Mahesh can be termed as? a) Unacceptable as CA Mahesh being the auditor should be providing the audit programme and he cannot expect the team to take daily notes instead of performing the audit. b) Appropriate and in line with SA 230 as the audit programme must be prepared on the basis of documentation of auditor's briefing notes. c) Acceptable but incomplete as CA Mahesh has not given any audit programme to the audit assistants to follow. d) Inappropriate as CA Mahesh should not only provide the audit programme but also make sure that audit programme is formally approved by all partners of the firm.
300.3	SM22/N19M
	CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore a deviation from the already set audit strategy is felt necessary. In this case, he should a) Continue with the Audit Plan without considering the Audit Strategy b) Drop the audit and withdraw from the engagement

- c) First Modify the audit strategy and thereafter prepare the audit plan according to the modified strategy.
- d) Devise a new audit plan and then, change the strategy as per the Revised Plan.

300.4	SM21/SM22
AK & Co, a firm of Chartered Accountants, have been operating for the last 6 years. Due to the quality of service offered by the firm, it has made its name and is quite renowned especially in Southern India where its head office is located. The firm has a staff size of 240 including graduates, Chartered Accountants, Management Consultants, Company Secretaries and lawyers. The firm has 3 branches other than head office at Bangalore, Chennai and Pune. The firm has got many clients for statutory audit over the period and ensures that to maintain the quality of work, proper planning is done by each team before starting any engagement. One of the engagement team, picked up for statutory audit of Sun Private Ltd, was involved in the process of planning of audit for the financial year ended 31 March, 2021. The audit for the financial year ended 31 March, 2020 was conducted by a different engagement team. However, the engagement team of Sun Private Ltd for the current year has got the industry experience. The audit team is confused during the planning work and would like to have your views on following points. Please advise by answering one of them.	
a) The engagement team should consult the previous year's engagement team during the course of their planning. b) The engagement team should be independent and hence cannot consult the previous year's engagement team during the course of their planning. c) The engagement team needs to maintain confidentiality and hence cannot consult the previous year's engagement team during the course of their planning. d) Only the Partner who is going to sign the audit report may consult the previous year's audit team.	
300.6	SM21/SM22
Kshitij Private Ltd is a company based out of Kochi having operations primarily in Europe. Because of the nature of the operations of the company, it is required to prepare its financial statements as per International Standards for reporting to the local regulatory authorities over there. Since the business is based in Europe, the audit team is also required to visit the locations wherever the company has offices and is accordingly required to perform certain audit procedures over there. During the audit of this company for the financial year ended 31 March, 2021, the auditors, who had planned their work appropriately and had a large team for conducting the audit, were facing lot of challenges at various stages. They were also required to revisit their materiality level during the course of the work. However, at the time of final reviews when this was discussed with the Audit Partner (Audit In charge), he was not convinced with the approach of the audit team wherein they reassessed their plans continuously resulting in waste of time. In this situation, please advise which one of the following would be correct.	
a) Audit Partner being the senior most team member is right and same thing should be considered by audit team by documenting it in the audit file. b) Audit Partner's view is not correct as the audit team did the right thing. c) Audit Partner was correct, however, during the course of an audit which required visits at various locations it was mandatory. d) Audit Partner's view is not correct because the materiality was revised by the audit team which is a big thing and same should have been considered by the audit partner.	
300.8	SM21/SM22
RJ Private Limited having its office at Bangalore and operations spread across Southern India, had a discussion with its statutory auditors regarding the audit plan and the timelines. In the past years , there have been significant delays in completion of audit work and the	

	management wanted that for the current year, audit should get completed on time. For doing this, the audit team suggested that the information for the purpose of audit should be ready on time and only then the timelines as agreed can be achieved. On the basis of the discussions with the client & the auditors and internal discussions amongst the audit team members, a detailed audit programme was prepared by the audit team for the current year's audit. But the audit team discussed that they will not document this audit programme till the completion of the audit work because at various stages, the work may require changes. If the audit team documents the audit programme then it would create problems later on at the time of assembly of the audit file wherein the audit team would have to show the changes made by them in the audit programme during the course of the audit. You are required to share your views in respect of this understanding and approach of the auditor. - The decision of audit team regarding not documenting the audit programme is very good as this would avoid unnecessary problems of documentation of changes made in the audit programme at the time of assembly of file. - Instead of considering the audit programme, the audit team could have prepared a checklist. In case of a checklist, such problem will not arise. Because in case of a checklist if any changes are made then the final checklist can be kept in the file along with old working checklist used during the audit. - The approach of the audit team not to document audit programme is not correct. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations. - The decision of audit team not to document the audit programme is not correct. Their concern that the changes may arise in the audit programme is valid, however, to take care of that the audit team can take approval from the ICAI later on when those changes will be made. The audit team will have to document the changes and the approval note of the ICAI.
300.9	SM19
	Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement? - Information about integrity of management - Disagreement with management concerning auditing procedures. - Review of internal control system. - Organisation structure (i) and (ii) (ii) and (iii) (i), (ii) and (iii) (i) and (iii)

Part 2 - SA 600

600.1	SM19
	PQR Ltd has three subsidiaries, two associates and five joint ventures. The standalone and consolidated financial statements of PQR Limited are audited by M/s Jain & Co LLP (Group auditors) for statutory reporting in India. The standalone financial statements of other group companies of PQR Ltd are audited by some other audit firms (component auditors). For the purpose of consolidation, the instructions sent by M/s Jain & Co LLP to component auditor's state that the principal auditors would be working on the principle of division of responsibility. The instructions further state that the Group auditor may review selected working papers of the component auditors covering identified areas of emphasis, if required. Considering the local regulatory requirements, the component auditors do not agree to get their working papers reviewed from the Group auditors. Please choose the course of action for the Group auditors in the given case. - As per the Standards of Auditing in India, "When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report would be stating the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited/reviewed by the component auditors have been included in the financial information of the entity." The Group auditor is not required to audit the financial statements of the components. - For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components and hence the Group auditor is required to audit the financial statements of the components. - For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor may either audit the financial statements of the components or review the work of the component auditors. - For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor would be required to review the work of the component auditors. If the component auditors do not provide access to their working papers to the Group auditors, the Group auditors may qualify his auditors report.
600.2	N20M
	"CA Ajay was appointed as the statutory auditor of TUV Ltd. at Delhi. TUV Ltd has a branch office at Pune. A branch auditor, CA Suresh, was appointed to conduct the audit of the Pune branch of TUV Ltd. CA Ajay provided CA Suresh with a questionnaire regarding the details of the branch office of certain specific accounts and balances to be filled in by CA Suresh in which indication of material misstatements are involved. However, CA Suresh denied to fill such questionnaire as he explained that CA Ajay, as the principal auditor has no such right. Which is the relevant SA and which of the following course of action is correct in this regard? - SA 600 is the relevant SA; CA Ajay is correct in asking for information from CA Suresh through a questionnaire. - SA 610 is the relevant SA; CA Suresh is correct in denying filling such questionnaire as a principal auditor can refer to branch auditor's report or other branch records but cannot ask the branch auditor to provide any specific information by filling a questionnaire. - SA 600 is the relevant SA; CA Suresh is correct in denying filling such questionnaire as CA Ajay instead of asking CA Suresh to send the filled-up questionnaire, should himself verify the specific branch details as indication of material misstatement is there. - SA 610 is the relevant SA; CA Ajay should seek management's permission before asking the branch auditor for any information."

600.3	SM22
	Entity P, is audited by a different auditor than the parent entity Q. The principle auditor i.e. the auditor of entity Q, decides to use the work of auditor of component i.e. entity P, in relation to audit of consolidated financial statements. In doing so, he should comply with requirements of:
	a) SA 600 "Using the work of Another Auditor". b) SA 299 "Joint Audit of Financial statements". c) SA 720 "The Auditor's Responsibilities Relating to Other Information". d) SRS 4410 "Compilation Engagements".

Part 3 - SA 610

610.1	N20M/SM22
	"M/s Viaan Viraj & associates are the statutory auditors of ABC Ltd. for the FY 2020-21. The company has a strong internal control team. During the course of audit, CA Viaan, the engagement partner found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Viaan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Gaurank, the Chief Internal Auditor of ABC Ltd. to provide him a report on the wage's expenses across all factories. Which of the following requirements as per SA 610 are required to be fulfilled by CA Viaan prior to using the direct assistance of the Internal Audit Team of the company?"
	a) CA Viaan should obtain written agreement from the management of ABC Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions. b) CA Viaan should obtain written agreement from Mr. Gaurank that his team will keep the matters confidential. c) Both a & b d) CA Viaan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required."
610.2	SM22/M24M
	D.M. Ltd. appointed M/s K.K. & Co., Chartered Accountants as Statutory Auditors. The Statutory Auditors found the internal audit function reliable and effective. The Statutory Auditor assigned the task of assessing the inventory levels of a few branches where the Statutory Auditor believed that there might be some risk of material misstatement to one of the internal auditor Mr. Ryan. Since the Internal Auditor had recently done such assessment as a part of their internal audit program, therefore, the Statutory Auditor believed that they could rely on the former's report. Besides this, because of the paucity of time the Statutory Auditors also requested Mr. Ryan to help them in some paperwork including audit documentation. Before the audit was concluded, Mr. Ryan got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Ryan was not complete. Accordingly, Statutory Auditor further checked the inventory work delegated to the Internal Auditor, however, it was found to be satisfactory. In view of the above case scenario, state which of the following statement(s) hold true:
	a) The working of Internal Audit function was reliable and satisfactory; therefore, the allocation of inventory level work was within the authority of the Statutory Auditor. This was further confirmed by the satisfactory work of Internal Auditor, as found out later. b) The documentation would be considered complete as far as the Statutory Auditor's responsibility is concerned as the missing documentation was because of the oversight of the Internal Auditor. c) Since the Internal Audit had conducted the similar inventory level checking activity recently, therefore, because of familiarity with the audit the Statutory Auditor was right in delegating the same to the Internal Auditor. d) The Statutory Auditors should not have delegated the inventory level checking to the Internal Auditor, as the risk assessed was material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain confidentiality during all the stages of the audit. Therefore, it was wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.

Part 4 - SA 620

620.1	SM19
	X Ltd is in the business of trading of industrial equipment. The Company's operations are based out of India and Germany. For the purpose of hedge, the company has taken forward contracts. The Company is Phase 1 company as per the requirements of Ind AS and hence forward contracts have been fair valued for the purpose of preparation of financial statements. The Company also got its property, plant and equipment fair valued. The Company has shown its fair valuation reports in respect of above items to the auditors. What should be the responsibility of the auditors in this case? a) The auditor may refer to the work of the valuer in his report containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion. b) The auditor may refer to the work of the valuer in his report for forward contracts but not for property, plant and equipment, containing an unmodified opinion and accordingly reduce his responsibility for the audit opinion. c) The auditor may refer to the work of the valuer in his report for property, plant and equipment but not for forward contracts, containing an unmodified opinion and accordingly reduce his responsibility for the audit opinion. d) The auditor may involve his own expert for the purpose of audit of fair valuation of forward contracts and property, plant and equipment. But in any case, he cannot reduce his responsibility for the audit opinion by referring to the work of the valuer in his report.
620.2	N19M/SM22
	An auditor's expert may be either an auditor's internal or an external expert. Which of the following can not be an auditor's internal expert? a) Partner of the Auditor's Firm b) Temporary Staff of the Auditor's Firm c) Permanent Staff of Auditor's Network Firm d) A Prospective CA, soon to join the Auditor's Firm as a Partner.
620.3	M20M
	Which among the following is not a factor for determining the necessity to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence? a) The use of a management's expert by the management in preparing the financial statements. b) The presence of an internal audit function and verification of the subject matter by them. c) The nature and significance of matter including its complexity. d) The risk of material misstatement in the matter.

Part 5 - SA 540

540.1	M22R
	Match the following terms to their definitions: (i) Accounting Estimates 1 The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement. (ii) Estimation uncertainty 2 A lack of neutrality by management in the preparation and presentation of information. (iii) Management bias 3 An approximation of a monetary amount in the absence of a precise means of measurement. (iv) Measurement objective for fair value Accounting Estimates 4 To forecast the outcome of one or more transactions, events or conditions. a) (i)-3, (ii)-1, (iii) - 2, (iv)- 4. b) (i)-2, (ii)-1, (iii) - 1, (iv)- 4. c) (i)-1, (ii)-3, (iii) - 2, (iv)- 4. d) (i)-4, (ii)-1, (iii) - 2, (iv)- 1.

Part 6 - SA 520

520.1	SM19
You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll: - As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees. - One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect. 10% of the employees were promoted and they received a 8% rise in their salaries. Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018. Which of the following are substantive Analytical Procedures to be performed to complete the audit work for wages and salaries of Kapoor Industries? - Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries. - Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies. - Compare the current year total payroll expense to the prior year and investigate any significant differences. - Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements. Option.	
- Analytical procedure 1 and 2 - Analytical procedure 1 and 3 - Analytical procedure 2 and 4 - Analytical procedure 3 and 4	
520.2	SM19
As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co. manufactures tools required for heavy machinery and the year under audit is 31 March 2018. Which further audit procedures would you perform in response to this? - For a sample of purchase invoices around the period end, inspect the dates and compare with the dates of goods received notes and the dates recorded in the purchases and payables to confirm the application of correct cut-off. - Trace a sample of shipping documentation to purchases invoices and into the purchases and payables ledger. - For a sample of purchase transactions recorded in the ledger, vouch the purchase invoice back to supplier orders and shipping documentation. - For a sample of purchase invoices, examine for proper classification into purchase accounts. Option	
- Procedure (1) and (2) - Procedure (1) and (3) - Procedure (2) and (4) - Procedure (3) and (4)	
520.3	SM19
The basic assumption underlying the use of analytical procedures is:	
It helps the auditor to study relationship among elements of financial information.	

- b) Relationship among data exist and continue in the absence of known condition to the contrary
- c) Analytical procedures will not be able to detect unusual relationships.
- d) None of the above

520.4	SM19												
The draft financial statements of Tex Co for the year ended 31 March 2018 show the following information: <table> <tr> <td></td><td style="text-align: right;">Rs.</td></tr> <tr> <td>Revenue</td><td style="text-align: right;">52,00,000</td></tr> <tr> <td>Cost of sales</td><td style="text-align: right;">37,00,000</td></tr> <tr> <td>Gross profit</td><td style="text-align: right;">15,00,000</td></tr> <tr> <td>Trade receivables</td><td style="text-align: right;">18,00,000</td></tr> <tr> <td>Trade payables</td><td style="text-align: right;">10,00,000</td></tr> </table> The auditor has confirmed the trade payables payment period with the Tex Co staff as 98 days during the current year. This was compared with the payment period with the last year records and found out there has been a decrease of 20 days in average. Which of the following audit procedures will provide the auditor with the assertion of valuation of trade payables at the year end? a) Review the trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits. b) For a sample of vouchers, inspect supporting documentation, such as authorized purchase orders. c) Test transactions around the year end to determine whether amounts have been recognized in the correct financial period. d) Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year.			Rs.	Revenue	52,00,000	Cost of sales	37,00,000	Gross profit	15,00,000	Trade receivables	18,00,000	Trade payables	10,00,000
	Rs.												
Revenue	52,00,000												
Cost of sales	37,00,000												
Gross profit	15,00,000												
Trade receivables	18,00,000												
Trade payables	10,00,000												

520.5	SM21/SM22
ZOV is a private limited company engaged in the business of mining. The company's operations are fairly large, and its turnover is INR 4,000 crores on an annual basis. Due to the nature of the business and the size of the company, the company has appointed a firm of Chartered Accountants as its statutory auditors who have the relevant experience of the industry in which the company has been operating. During the course of the audit of the financial statements for the year ended 31 March 2021, the audit team had various observations which resulted in many adjustments in the financial statements of the company and that was also appreciated by the CFO of the company. At the time of final reviews of the audit team, the audit partner requested working paper on final analytical procedures from the engagement team, however, the engagement team explained that they performed substantive testing procedures which also resulted in some adjustments and the same was incorporated in the final set of financial statements given to the audit partner for the review and accordingly there was no need to perform final analytical procedures. Audit partner was not convinced with this and requested the engagement team to perform this procedure. Considering that the timeline to conclude the audit was approaching, the audit partner also requested the CFO that the audit team would need some more time to perform final analytical procedures. CFO was very impressed with the engagement team and agreed for the time, but he also told the audit partner that work of the team was excellent and hence the audit partner should avoid these additional procedures. You are requested to give your view in respect of this matter as per SA 520. a) The explanation of the audit team was correct. After doing substantive testing which also resulted in audit adjustments, there was no need to perform final analytical procedures. b) The suggestion of CFO should have been considered by the audit partner as the CFO was observing the work of the engagement team and hence, he could assess that better than the audit partner. c) The requirement in view of the audit partner was valid. The conclusions drawn from the	

	results of final analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. d) The audit team did the right thing by not performing final analytical procedures, however, one additional procedure in that case should have been - obtain the document containing the analysis performed by the client on the financial statements. This document is required to be assembled in the audit file.
520.6	SM19
	One of your team members has taken leave for her final exams due in 15 days. She was working on the accruals balance of Karce & Co which could not be completed before she went on study leave. The audit manager has asked to complete the task on accruals. For the current year ended 31 March 2018, there has been an increase in the accruals by 15% as compared to the previous years. Which of the following procedures should be performed to determine if the accruals are accurate, valued and allocated correctly? a) Test transaction around the year end to determine whether amounts have been recognized in the correct financial period. b) For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct. c) Confirm payment of net pay per payroll records to cheque or bank transfer summary for the accruals on salaries. d) (d) For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.

Part 1 – SA 300

300.1	c
300.2	c
300.3	c
300.4	a
300.6	b
300.8	c
300.9	a

Part 2 - SA 600

600.1	a
600.2	a
600.3	a

Part 3 - SA 610

610.1	c
610.2	d

Part 4 - SA 620

620.1	d
620.2	d
620.3	b

Part 5 - SA 540

540.1	a

Part 6 – SA 520

520.1	d
520.2	b
520.3	b
520.4	d
520.5	c
520.6	b

04. Materiality, Risk Assessment and Internal Control (MRI)

Part 1 – MRI

MRI.1	(SM23)
	In the given case scenario, the main factor giving rise to risk of material misstatement is: a) The expensive lifestyle of owners. b) Appointment of an auditor having experience in unearthing of frauds c) The deteriorating financial condition of the owner's business. d) The vulnerability and dependence of the foreign partner on the local partner.
MRI.2	N23M
	Speak Ltd. is showing a commission expense of ₹ 2 crore during the month of October 2023. The auditor has made an effort to understand the business process that makes up this financial statement line item as to how it is initiated, recorded, approved, posted and reported. During this exercise, he finds that there is a difference of ₹ 1,50,000/- in the commission recorded as per the Sanchar Software (source) and commission as reflected in SAP accounts (destination). What is the kind of risk assessment carried out by the auditor in the given case? a) It is an evaluation of risks and controls at process level. b) It is a direct entity level control evaluation. c) It is an indirect entity level control evaluation. d) There is no risk assessment as such carried out by the auditor.
MRI.3	M25M
	Mukund 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. Which basic system of control has been violated? a) Proper Authorization of Transactions. b) Segregation of Duties. c) Physical Control over Assets. d) Independent Internal Verification.

Part 2 - SA 265

265.2	M20M/SM22
	"A significant deficiency exists in the process of flow of approval of travel re-imbursements of the officials. This was communicated in the previous year to those charged with Governance and no remedial action was taken on the same so far. The auditors are of the opinion that it need not be communicated again. Is the opinion of the auditors on not to communicate the deficiency in internal control reported in the previous year correct?" a) Yes, the auditor is not required to communicate the same again as it is the duty of the management and those charged with governance to maintain the internal control system. b) No, the current year's communication may repeat the description from previous communication or simply reference the previous communication. c) Yes, the auditor is not required to communicate the same again as written representation is being obtained from management and those charged with governance that they are responsible for maintaining internal control. d) No, it needs to be communicated again but an oral reminder to those charged with governance on the matter may suffice. "
265.3	N21M/SM22
	Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon: I. Nature, size and complexity of the entity II. Nature of the significant deficiencies identified III. Estimated time required by management to resolve the deficiency IV. Fees charged from the client a) I and II. b) I, II and III. c) III and IV. d) Only II.

Part 3 - SA 315-(RISK)

315.3	SM19
	For a given level of audit risk, the acceptable level of detection risk bears _____ relationship to the assessed risks of material misstatement at the assertion level.
	a) direct. b) Inverse c) Either (a) or (b) d) none of the above
315.5	SM21/SM22
	Raj Private Limited is engaged in the business of retail and has its retail outlets concentrated towards Northern India. Currently, the company has 59 outlets and the plan of the management is to take this to at least 100 over the next 2 years. The company is audited by Raj & Associates, a firm of Chartered Accountants, who have been operating for over 20 years, however, they don't have much experience in the retail sector. Because of this fact the audit team decided to plan efficiently for the audit of the financial statements of the company for the year ended 31 March 2021, being their first year of audit. During the course of risk assessment by the auditors, it was discussed that the company is operating in an industry where the operations are not very complicated and mostly the processes are known to all. Considering the same they decided that assessment of inherent risk should not be done for this company as that would be inefficient. However, the auditors will take due care of the control risks. The same assessment was deliberated upon and after lot of discussions it was finalized like this. In the given situation, please advise which one of the following would be correct.
	a) The assessment of audit team is correct. b) The assessment of audit team is wrong considering the fact that this is a private company wherein such assessment is not possible. c) The assessment of audit team is wrong for this company. d) The assessment of audit team is correct considering the fact that this has been thoroughly discussed.
315.8	S19M
	Which of the following best suits the description – "The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls."
	a) Inherent Risk b) Detection Risk c) Control Risk d) None of the above.
315.11	SM21/SM22
	SK Private Limited is a medium-sized company having operations in Jharkhand. The company manufactures some parts and sells that to various dealers on ex-works basis. The financial statements of the company are prepared as per Ind AS and internal financial controls report is also applicable on the same. During the course of audit of the financial statements for the year ended 31 March 2021, the management of the company had a detailed discussion with the auditors for audit planning. Further it was also decided that any observations of the auditors should also be discussed with the management before conclusion by the audit team which was not done in the past years. Considering this, the auditors started the risk assessment and requested the management to share their documentation for the same on which the management said that they don't have any risks and if the auditors come across any such thing they can discuss that with the

	management. But the auditors were not convinced with the view of the management and the same thing has happened in the past years as well. You are required to provide your inputs to resolve this matter. a) The requirement of the audit team is not correct. b) The view of the management is correct because of the applicability of Ind AS. c) The view of the management is correct because of the applicability of internal financial controls reporting. d) The view of the management is not correct.
315.12	SM21/SM22
	Kshitij Private Ltd is a company based out of Noida having operations in India and Dubai. The company's operations in Dubai have increase over the last 2 years and the management is earning very good profits. Because of the profits, the management also planned that they should now focus on strengthening of internal controls of the company and for that purpose they have discussed with the statutory auditors to carry out the audit for the financial year ended 31 March 2021 very rigorously. The report on internal financial controls is also applicable to the company and hence the auditors during the course of their work asked for Risk-control matrices from the company. During the year ended 31 March 2020, Risk-control matrix was not available with the company and was prepared in a draft manner and the same was shared with the audit team during that year and the auditors completed their work on the basis of that. However, for the year ended 31 March 2021, the auditors would like to have robust documentation and are not ready to accept the same Risk-control matrices. In the given situation, please suggest what should be the course of action. a) The request of audit team is correct, and the management should provide that. b) The requirement of audit team is not justified considering the fact that last year same documentation was used by them. c) The requirement of audit team is not justified considering the fact that it's a private company and auditor anyways is required to perform rigorous audit procedures. d) In case of a private company on which internal financial controls report is required, the auditor is not allowed to take any Risk control matrix from the management. Seems to be an ethical issue.
315.13	SM19
	Teamsg International Co is a manufacturer of electrical equipment. It has factories across the country and its customer base includes retailers as well as individuals, to whom direct sales are made through their website. The company's year-end is 31 March 2018. You are an audit supervisor of Suraj & Co and are currently reviewing documentation of Teamsg's internal control in preparation for the interim audit. In the past six months Teamsg has changed part of its manufacturing process and as a result some new equipment has been purchased, however, there are considerable levels of plant and equipment which are now surplus to requirement. Purchase requisitions for all new equipment have been authorized by production supervisors and little has been done to reduce the surplus of old equipment. Which of the following control can be recommended to address the internal control deficiency in the respect of the acquisition of new equipment and treatment of the old equipment? a) Regular review of the data on the unused equipment on the master file by a responsible official and the review to be evidenced. b) Supplier statement reconciliations should be performed monthly for all suppliers and these should be reviewed by a responsible official. c) Capital expenditure authorization levels to be established. Production supervisors should only be able to authorize low value items, any high value items should be authorized by the board. d) Observe the review process by senior factory personnel, identifying the treatment of any old equipment.

315.14	SM19
	You are an audit supervisor of Swaminathan & Associates and are currently planning the audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 and the forecast profit before tax is Rs25.26 Lakhs. At the beginning of the year, Zonal purchased a patent for Rs. 5.3 lakhs which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, the entity borrowed Rs. 4.5 lakhs from the bank which is repayable over five years. Which of the following is a response to the audit risk identified by you in planning the audit for the reporting year?
	a) The audit team need to agree the purchase price to supporting documentation and to confirm the useful life is five years. Recalculate the amortization charge to ensure the accuracy of the charge and that the intangible is correctly valued at the year end. b) The company has borrowed Rs.4.5 lakhs from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure. c) In accordance with Ind AS 38 Intangible Assets, the patent should be included as an intangible asset and amortized over its five-year life. d) Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.
315.15	SM22/M21M
	The acceptable detection risk needs to be _____ in order to reduce the audit risk to _____ in the area of inventories management and handling.
	a) low in order to reduce audit risk to an acceptably high level. b) high in order to reduce audit risk to an acceptably high level. c) low in order to reduce audit risk to an acceptably low level. d) high in order to reduce audit risk to an acceptably low level.

Part 4 - SA 315-(ICS)

315.1	SM19
	Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities? a) Authorization. b) Performance reviews. c) Information processing. d) All of the above
315.4	SM19
	PR Co. designs and manufactures specialised furniture for offices in and around the city of Mumbai. The revenue has been gradually increasing over the last few years. The main concern for PR Co is finding creditworthy customers who will make the payment on due dates. You are assigned as the audit team member to test the controls in sales and purchase system of the entity. The year end of the entity is 31 March 2018. One of the control objectives of the sales system of PR Co is to ensure that goods and services are sold to creditworthy customers. Which of the following control activities would assist the entity in achieving this objective? a) All sales orders above Rs.10 lakh is based on authorized price lists. b) Credit limits for all the customers are checked before sales orders are accepted. c) Overdue debts are chased each month by the credit controller. d) The aged-debt listing is reviewed by the finance director of PR Co on a monthly basis.
315.6	SM19
	The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses? a) You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions. b) You observe that there is an existence of a software program for virus prevention. c) You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards. d) You identify that there are physical protection devices in use for hardware, software, and library facilities.
315.7	SM19
	This year you were included in the audit team with portfolio of few not-for- profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital? a) Timecard clocking in to ensure that the employees including resident doctors are only paid for those hours worked. b) Strict controls over the authorization of overtime to ensure it is only worked where really needed. c) There are any restrictions imposed by the objectives and powers given by hospital's governing

	documents.
	d) A recognized plan of the organization's structure clearly showing the areas of responsibility and lines of authority and reporting.

315.10	#Unique	SM21/SM22
	RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. It is a subsidiary of RIM GmbH, based out of Germany. During the financial year ended 31 March 2021, the company carried out a detailed physical verification of its inventory and property, plant and equipment. During the year, various other activities were carried out to increase efficiency in operations and reductions of costs. The statutory auditors of the company started their audit work from April 2021 and requested for a documentation on changes in processes and activities during the year as well as any resultant impact of the same on management controls. The management of the company told the auditors that all such documentation is maintained by the parent company as this is a closely held private company and even though internal financial controls reporting is applicable on this company, the parent company is taking due care of each and every process. The auditors did not agree with the views of the management. Please advise both the management and the auditors.	
	a) The auditors should look for documentation as per Sarbanes Oxley in this case. b) The auditors are correct in this case and the management should provide the required documentation. c) The auditors are correct in this case and the management should provide the required documentation. However, in case the parent company is covered by Sarbanes Oxley then it can be ignored by the auditors. d) The management is correct.	

315.16		SM22/N23M
	The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2020-21. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?	
	(a) Are authorized signatories for purchases limited to elected officials? (b) Are payments approved only on original invoices? (c) Does authorized officials thoroughly review the documents before signing cheques? (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?	

315.17		SM22
	Adequate design and effective implementation of Internal Controls may not lead to the identification of:	
	(a) Frauds and errors. (b) Design and Implementation gaps in Processes. (c) Abuse by Process Owners. (d) Segregation of Duties.	

Part 5 - SA 320

320.1	SM19
	The profits of XYZ Ltd was Rs. 1000 crores for the financial year ended 31 March 2018. While planning the audit of the financial statements of XYZ Ltd, the auditor determined the materiality of Rs. 50 crores. The materiality was taken as 5% of profits of XYZ Ltd. During the course of audit, on becoming aware of information during the audit t, audit adjustments were passed which resulted in significant decline in the profits of XYZ Ltd. Post audit adjustments, the profits reduced to Rs. 500 crores. Because of the changes in profits of the company, the materiality may get reduced to Rs. 25 crores. XYZ Ltd is a large size company having a turnover of Rs. 20,000 crores for the financial year ended 31 March 2018. Considering the size of the company, the auditor believes that materiality amount should not go below Rs. 50 crores as that would result in significant increase in their work and the work of the auditor may not get completed within the required timelines. Accordingly, the auditor wants to change the basis of materiality by increasing the percentage of profits or taking revenue as the basis for computation of materiality. In the given situation, which one of the following options is correct? a) Considering the size of the company, the auditor may be appropriate in changing the basis of materiality to save his work. b) The basis of materiality cannot be changed to save the increased work of auditor if there has been additional information which resulted in decline of profits during the course of audit. c) The auditor need not change the materiality basis. He can complete his audit using the materiality of Rs. 50 crores which was determined initially by him while planning the audit. d) Since the profits of XYZ Ltd have got reduced due to audit adjustments, the same cannot be considered to be the basis for computation of materiality. Materiality has to be based on management computed numbers.
320.2	SM22
	Judgements about materiality are made in the light of surrounding circumstances, and are affected by: a) The auditor's perception of the financial information needs of users of the financial statements. b) Both the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement. c) The size or nature of a misstatement. d) The company's control environment.
320.3	M22M
	The amount of materiality initially determined needs to be revised as the audit progresses: a) If there is a delay in the audit. b) 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. c) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a higher amount (or amounts) initially. d) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a lower amount (or amounts) initially.
320.4	N23M
	"Performance materiality" means the amount or amounts set by the auditor at ____ than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements _____ materiality for the financial statements as a whole. a) higher, exceeds.

	b) less, exceeds. c) less, falls below. d) higher, falls below.

CA Ravi Taori
9096000033

Part 6 - SA 330

330.1	SM19
	The audit work of Amrut & Co is underway for the year ended 31 March 2018. Your audit manager asked you to look at the completeness of trade payables. The supplier statement balance for one of entity's supplier PR Co showed a difference of Rs.62,000 higher than recorded in the payable's ledger balance. Which of the following audit procedures should be performed in relation to the balance with PR Co to determine if the payables balance is understated? - Inspect the goods received note to determine when the goods were received. - Inspect the purchase order to confirm it is dated before the year end. - Review the post year-end cashbook for evidence of payment of the invoice. - Send a confirmation request to PR Co to confirm the outstanding balance.
330.2	SM19
	The main operations of PT Co are conducting training programs for the newly qualified commerce graduates to make them ready for the jobs available. The company owns a 2- storey building in the centre of the city, where they could attract lot of students for the courses offered. Currently, the trainings are provided in-house. PT has plans to expand and offer online courses as well. You are the audit senior for PT Co for the year ended 31 March 2018 and in charge of audit work on non-current assets. New furniture and white boards have been purchased during the current year. The total non-current assets shown in the financial statements stands at Rs.289.5 lakhs. Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets? - Ensure disposals are properly accounted for and recalculate gain/loss on disposal - Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with Ind AS 16 Property, Plant and Equipment - Review the repairs and maintenance expense account for evidence of items of a capital nature. - Review board minutes of PT for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register - Agree a sample of additions included in the non-current assets register to purchase invoice and cash book. Mainly the new furniture purchased during the year by PTCO. - Review physical condition of non-current assets for any sign of damage. - Audit Procedures 1, 2, 5 and 6 - Audit Procedures 1, 3, 4 and 6 - Audit Procedures 2, 3, 4 and 5 - Audit Procedures 3, 4, 5 and 6
330.3	SM19
	The year-end audit of your client Alpha Co began shortly after the reporting period 31 March 2018. Alpha Co deals in manufacture and retailer of stationery items. Last year, you had worked on the non-current assets. This year you requested your manager to give you the work on revenue. You have been given a list of procedures to carry out on revenue and you have decided to prioritise those which deal with the key assertion of occurrence. The revenue for the current year has increased by 10% from the previous year. Which of the following substantive procedures provide evidence over the OCCURRENCE assertion for revenue? - Compare the reported revenue figure to the budget and to the previous year, investigating any significant differences. - Select a sample of goods despatched notes (GDNs) and agree to invoices in the sales day book. - Select a sample of invoices from the sales day book and agree to GDNs of Alpha Co - Select a sample of invoices and recalculate the invoiced amount agreeing to price list shared by the finance director of Alpha Co. Option - Procedure 1 and 3

- b) Procedure 1 and 2
- c) Procedure 2 and 4
- d) Procedure 3 and 4

330.4	SM19
Top Pizzas Co-operates a large chain of fast-food restaurants. You are an audit supervisor of Shivam& Associates and are currently preparing the audit programmes for the audit of Top Pizza's financial statements for the year ended 31 March 2018. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed. One of the issue was on Property, plant and equipment of the entity In the past Top Pizza has received negative press reports over the condition of its fast-food restaurants, with comments suggesting they are old fashioned and tired looking. Therefore, during the year, the company undertook a full review of all its assets and carried out extensive refurbishments to the majority of its restaurants. This review resulted in a significant amount of ageing fixtures and fittings being disposed of and a significant amount of capital expenditure was invested in all remaining restaurants. Which of the following is not a substantive procedure to be used by the auditor to obtain sufficient and appropriate audit evidence on property, plant and equipment?	
a) Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings. b) Select a sample of additions and agree cost to supplier invoice to confirm valuation. c) Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Top Pizza. d) Review the evidence for recalculation of depreciation charge on the additions and disposals made in the year of acquisition according to the company policy.	
330.5	SM19
You are an audit manager of DC & Co and you are currently responsible for the audit of Beauty pal Co, a company which develops and manufactures health and beauty products and distributes these to wholesale customers. Its draft profit before tax is Rs.43 lakhs and total assets are Rs.38 lakhs for the financial year ended 31 March 2018. The final audit is due to commence shortly, and the following matter has been brought to your attention: Beauty pal Co has a large portfolio of property, plant and equipment (PPE). In January 2018, the company carried out a full review of all its PPE and updated the useful lives, residual values, depreciation rates and methods for many categories of asset. The finance director felt the changes were necessary to better reflect the use of the assets. This resulted in the depreciation charge of some assets changing significantly for this year. Which of the following substantive procedure should the auditor perform to obtain sufficient and appropriate audit evidence in relation to matter of depreciation on property, plant and equipment?	
a) Review the capital expenditure budgets for the next few years to assess whether the revised asset lives correspond with the planned period until replacement of the relevant asset categories. b) Inspect non-current asset accounts for a sample of purchases to ensure they have been properly allocated. c) Consider whether the proceeds on disposals of PPE are reasonable and recalculate the profit or loss disposal. d) For a sample of fully depreciated assets, inspect the register to ensure no further depreciation is charged.	

330.6	SM19																																					
You are the middle of the audit of one of your client Amy & Co for the year ended 31 March 2018. Following is the bank reconciliation statement for the month end 31 March 2018.																																						
<table><tr><th>Particulars</th><th>Rs</th><th>Rs</th></tr><tr><td>Balance per bank statement 31 March 2018</td><td></td><td>1,35,111.00</td></tr><tr><td>Add: deposits outstanding30 March (ref 112)</td><td>1,10,222.00</td><td></td></tr><tr><td>31 March (ref 113)</td><td>25,000.00</td><td><u>1,35,222.00</u></td></tr><tr><td></td><td></td><td>2,70,333.00</td></tr><tr><td>Less: outstanding cheques 240</td><td>20,250.00</td><td></td></tr><tr><td>272</td><td>12,300.40</td><td></td></tr><tr><td>274</td><td>25,000.00</td><td></td></tr><tr><td>276</td><td>21,345.25</td><td></td></tr><tr><td>280</td><td>19,000.00</td><td></td></tr><tr><td>281</td><td>22,200.00</td><td><u>1,20,095.65</u></td></tr><tr><td>Balance per bank in the general ledger 31 March 2018.</td><td></td><td><u>1,50,237.35</u></td></tr></table>			Particulars	Rs	Rs	Balance per bank statement 31 March 2018		1,35,111.00	Add: deposits outstanding30 March (ref 112)	1,10,222.00		31 March (ref 113)	25,000.00	<u>1,35,222.00</u>			2,70,333.00	Less: outstanding cheques 240	20,250.00		272	12,300.40		274	25,000.00		276	21,345.25		280	19,000.00		281	22,200.00	<u>1,20,095.65</u>	Balance per bank in the general ledger 31 March 2018.		<u>1,50,237.35</u>
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Which of the following procedures would not be followed to verify the bank reconciliation statement?																																						
a) Verify by checking paying-in slips that the uncleared banking’s (deposits outstanding – ref (112 and 113) were paid in prior to the year end, and review whether they cleared quickly after the year end. Any that have not cleared soon after the year end should be investigated. b) Verify that the year-end balance per the general ledger according to the reconciliation (Rs.1,50,237.35) agrees with the general ledger account balance at 31 March 2018 and that this has been properly reflected in the financial statements. c) Scrutinize the cash book and bank statements before and after the period end for exceptional entries or transfers which have a material effect on the balance shown to be in hand. d) Agree the balance per bank statement at 31 March 2018 as shown on the reconciliation (Rs.1,35,111.00) to the bank statement and to the amount for that account shown on the bank letter.																																						
330.7	SM19																																					
ASM Motor Cars co. manufactures a range of motor cars and its year end is 31 March 2018. You are the audit supervisor of Khanna & Associates and currently preparing the audit programmes for the year-end audit of ASM. The entity undertakes continuous production of cars, 24 hours a day, seven days a week. An inventory count is to the undertaken at the year end and Khanna & Associates will attend. You are responsible for the audit of work in progress (WIP) and will be part of the team attending the count as well as the final audit. WIP constitutes the partly assembled cars at the year end and this balance is likely to be material. ASM values WIP according to percentage of completion, and standard costs are then applied to these percentages. Which of the following is NOT a substantive procedure the auditor could perform to obtain sufficient and appropriate audit evidence in relation to the valuation of work in progress?																																						
a) Discuss with management how the percentage completions are attributed to WIP. b) Observe the procedures carried out in the count in assessing the level of WIP; consider reasonableness of the assumptions used. c) During the count, verify all the percentage completions if they are in accordance with ASM’s policies. d) Review the level of variances between standard and actual costs.																																						
330.8	M19R/M23M																																					
KJA Ltd is in the business of manufacturing of tiles and sanitary ware. The company has a large inventory every year. Annual turnover of the company is INR 3000 crores. The company has 7 plants across India. The management of the company carries out physical verification of inventory every year at the time of reporting date. During the year ended 31 March 2018, it was found by the management that the inventory sheets of 31 March 2017 did not include five pages containing details of inventory worth INR 24.5 crores. Management has included this inventory in the																																						

	valuation of inventory as of 31 March 2018. Management has also explained that considering the size of the company this may happen at times as the inventory is huge and lying at various locations. Moreover, the amount of the inventory is insignificant if considered as a percentage of revenue or inventory. State how you will deal with this matter as an auditor in the accounts of the company (towards substantive audit procedures and excluding the impact on auditor's assessment under Internal Financial Control Framework) for the year ended 31 March 2018. a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018. b) Management should restate the financials to adjust the error. Otherwise, auditor may modify his opinion on current year's financial statements considering the materiality. c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018. d) Include an emphasis of matter because of the effects or possible effects of the error in the auditor's report for the year ended 31 March 2018.
330.9	N22M
	A branch of ABC Bank was having three staff i.e., one cashier, one officer and one manager. The cashier was responsible for the signing of cash slips, passing entries for cash withdrawals and providing cash to customers. You as a Bank's branch Auditor decided to verify the cash withdrawal transactions and after testing you decided to pass the control over the cash process. Also, there were no observations identified during the testing. Moreover, as the process is present in the branch, work performed by the cashier is not monitored on daily basis. However, on a quarterly basis, certain test checks are performed by an officer of the branch. Internal Audit team reported the said controls over process as operating. You are required to guide whether reporting of the said controls by Internal Audit Team is correct or not a) The controls over the cash process should be reported as operating because no issues were identified during the testing of controls. b) The controls over the cash process should be reported operating as test checks are being performed by officers on a quarterly basis. c) This control should be reported as non-operating because segregation of duties was not present with respect to the processing of payment transactions by the cashier. d) This control should be reported as non-operating as the manager of the branch should have at least 2 officers for test checks of cash transactions and for cash process.

330.9	c

Part 1 - MRI

MRI.1	d
MRI.1	a
MRI.1	b

Part 2 - SA 265

265.2	b
265.3	a

**Part 3 - SA 315-
(RISK)**

315.3	b
315.5	c
315.8	a
315.11	d
315.12	a
315.13	d
315.14	a
315.15	c

**Part 4 - SA 315
(ICS)**

315.1	d
315.4	c
315.6	c
315.7	c
315.10	b
315.16	d
315.17	c

Part 5 – SA 320

320.1	c
320.2	b
320.3	b
320.4	b

Part 6 – SA 330

330.1	a
330.2	a
330.3	a
330.4	d
330.5	a
330.6	c
330.7	b
330.8	b

05. Audit Evidence

Part 1 - SA 500

500.3	SM19
	The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is: a) Sufficiency of audit evidence b) Appropriateness of audit evidence c) Accounting estimates d) Reasonableness of audit evidence
500.5	M19M/SM19
	You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files: • As at 31 March 2017, the company had 350 employees • On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line • On 1 June 2017, all remaining staff received a 5% pay rise. • Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018. The following audit evidence has been gathered relating to the accuracy of wages and salaries for BinghamCo. 1. Proof in total calculation performed by an audit team member. 2. Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries. 3. Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries. 4. Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co. What is the order of reliability of the audit evidence starting with the MOST RELIABLE first? a) Audit evidence - 1, 2, 3, 4 b) Audit evidence - 1, 4, 2, 3 c) Audit evidence - 4, 1, 2, 3 d) Audit evidence - 4, 1, 3, 2
500.6	SM21/SM22
	RIM Private Ltd is engaged in the business of manufacturing of steel having annual turnover of INR 10,000 crores. The company is very capital intensive and has its plants at two locations – Mohali and Hosur. During the year ended 31 March 2021, the company carried out a detailed physical verification of its property, plant and equipment and also reassessed their useful lives by engaging a consultant. The consultant submitted its report to the management on 21 April 2021. The statutory auditors of the company started their audit work from May 2021 and when this information was given to them regarding the physical verification and the reassessment of the useful lives of property, plant and equipment, the auditors told the management that the consultant should have submitted its report to the auditors also independently. Further, in the absence of this direct communication of the report of the consultant to the auditors, the audit team would have to review the work of the consultant which is not efficient, but it cannot be avoided now.

	Management did not agree with both the points of the auditors that the consultant should have shared report with the auditors directly and that the auditors need to review the work of the consultant. The management would like to have your views on this matter. a) The view of the management seems to be correct because there is no such requirement that any consultant of the company should share his report directly with the auditor. Also, when the consultant has already submitted a detailed report, no further review is required on that. b) Both the management and auditors are not correct. The auditor is not supposed to receive the report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not. c) The auditor's requirements are reasonable because he carries duty in respect of audit of financial statements and by not getting report directly from the consultant, he would not know whether it belongs to that consultant or not. And now only because of this lack of proper communication the auditor would have to review the work of the consultant. d) Both management and auditors should find a solution to this problem. The management may request the consultant to send the report to the auditor directly now. On the basis of the same, the auditor can avoid unnecessary procedure related to review of report of the consultant.
500.7	SM22
	You are the audit senior of Tey & Co. are responsible for the audit work to be managed for the fixed assets of the company. Tey & Co. has 4 properties amounting to ` 12.5 crore. One of the important tasks ahead for you is to confirm the ownership of these properties. Which of the following would provide the most persuasive evidence of the ownership? a) To conduct a physical inspection of all the properties located at different areas. b) To ask the management registration documents of these properties and inspect and verify them. c) To check whether all the properties are recorded properly in the fixed asset register and depreciation has been calculated correctly. d) Enquire with the management, if these properties are insured and review the insurance documentation
500.8	M21M
	You are the audit manager of Ranker & Co are responsible for the audit work to be managed for the fixed assets of the company. Ranker & Co has 5 properties amounting to Rs.11.5 crore. One of the important tasks ahead for you is to confirm the ownership of these properties. Which of the following would provide the most persuasive evidence of the ownership? a) To conduct a physical inspection of all the properties located at different areas. b) To ask the management registration documents of these properties and inspect and verify them c) To check whether all the properties are recorded properly in the fixed asset register and depreciation has been calculated correctly d) Enquire with the management if these properties are insured and review the insurance documentation
500.9	SM23
	The objectivity of the management's expert is likely to be lesser if: a) The expert is competent. b) The expert is capable. c) The expert has relevant experience. d) The expert is employed by the entity

Part 2 - SA 501

501.1	M19R
	You have only eight working hours for raw material inventory verification. Based on your observation during these eight hours, you have to form an opinion with respect to the correctness of inventory value calculated by the management. The company uses ERP system for updating and recording raw material inventory. The ERP system of the company has passed all the ITGC checks and inventory rates are calculated by ERP on moving average price (MAP) basis. The company has done ABC analysis of all raw material inventory items and has vast number of items in each category. You will form your opinion based on - Based on ABC analysis, check physical inventory of all "A" class items during allotted time and matching it with ERP stock. - Understand the process of recording of inventory in ERP to ascertain potential weaknesses and checking physical inventory of mostly "A" class items, some "B" class items and some "C" class items. - Check physical inventory of "A" class items as much as possible along with certain "B" class items and certain "C" class items on sample basis in value wise descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours. - Check physical stock of only those items, which have standard packaging so that verification is faster considering the eight-hour time limit.
501.2	SM19
	Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2017-18. While verification of company's inventories as on 31st March 2018 you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties, what is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held, and the stock as disclosed in company's records actually belongs to them? - Ensure that the total stock including the stock with third party tally with the stock register maintained by the company. - Obtain confirmation from the third party/s with whom the inventories of the company are held and reconcile the same with stock register. - Conduct a physical verification of stock maintained with third party/s. - Obtain a written confirmation from the departmental head of the company for the inventories maintained at other places as audit evidence.
501.3	M22M
	M/s Brahmi and Associates have been appointed as the statutory auditor of Prompton Leaves Limited, a manufacturer of gas geysers for the FY 2021-22. During the course of audit, the auditor found that two customer complaints have been filed against the company in the FY 2021-22, for the use of sub standard pipes and wires in manufacture of gas geysers. The gas geyser blasted at high temperature leading to severe injuries to the family of complainant along with damage to their property. They have sought a demand of rupees 10 crore. However, the lawyer of Prompton Leaves Limited believes that such claim is unsustainable as the incident occurred due to short circuit at both the complainants place. The management of Prompton Leaves Limited accordingly did not include any reference to the litigation in the financial statements. The auditor obtained legal advice from some independent lawyer according to whom the outcome of the case is not ascertainable as of now - The statutory auditor should give an unqualified opinion. - The statutory auditor should give an unqualified opinion with Emphasis of Matter paragraph. - The statutory auditor should withdraw from the audit engagement. - The statutory auditor should give a qualified opinion.

501.4	SM23
	Which of the following matters is irrelevant for auditor in planning attendance at physical inventory counts?
	a) Nature of inventory b) The timing of physical inventory counting c) The nature of the internal control related to inventory. d) Whether 100% of inventory is covered in the count
501.5	N23R
	CA. Vishudh is auditor of a company having 15 inventory locations in the country. In view of multiple inventory locations and logistics issues involved, he decides not to attend physical inventory count process of the company. The company management also sends him digital evidence comprising of videos of inventory counting process at different locations as on reporting date with date and time stampings. Besides verifying inventory records, he also performs alternative audit procedures like examining details of subsequent sales of specific inventory items acquired prior to physical inventory counting. Which of following statements is most appropriate in this regard?
	a) The procedure adopted by auditor is in accordance with Standards on Auditing as the auditor has obtained digital evidence with date and time stampings and also performed alternative audit procedures. b) The procedure adopted by auditor is in accordance with Standards on Auditing. However, type of digital evidence obtained, and kind of alternative audit procedures performed do not constitute sufficient appropriate audit evidence. c) The procedure adopted by auditor is not in accordance with Standards on Auditing as auditor can skip attendance at inventory counting only when attending it is unfeasible. d) The procedure adopted by auditor is in accordance with Standards on Auditing as auditor can skip attendance at inventory count due to time, difficulty and logistics issues involved.

Part 3 - SA 505

505.1	SM19
	ALM Ltd. is a trading company engaged in the business of selling readymade garments with a turnover of around Rs. 85 crore in the year 2017-18. Your firm has been appointed as statutory auditors for the year 2018-19. In the process of audit for the half year ending 30th September 2018 your senior has instructed you to verify the debtors of the company. While verifying the same it came to your notice that the company is not taking balance confirmations from the debtors and the balance shown in the books of company is considered final for the preparation of accounts. As a statutory auditor what should be your decision on the debtor's balances: - Statutory auditor should review the internal audit report and ensure as per section 143 of the Companies Act, 2013 that the company has adequate internal financial controls in place. - There is no need to take debtors confirmation as it is immaterial for the purpose of Audit Report. - The auditor is required to take external confirmation independently and wherever the auditor gets negative or no response or the response is doubtful an alternative audit procedure should be followed. - A management representation letter should be obtained by the auditor.
505.2	SM19
	As a Central Statutory auditor of KG Ltd. for the year 2018-19 you need to verify the bank balances for the half year ending 30th September 2018. The company is holding Bank accounts in five different banks, but you found that the bank reconciliation is not complete for some of the bank accounts. When discussed with the management they explained that the number of transactions in these accounts is very huge on daily basis and there are some old entries (existing in the reconciliation statement from the year 2008 and they are not material in nature) so it is difficult to reconcile these bank accounts. As a Central Statutory Auditor what will be your decision: - The unusually old outstanding entries, as are not material in nature, should be removed from reconciliation statement and the balance in books of accounts should be considered as the balance for the balance sheet purpose. - The auditor should confirm the appropriateness of the old outstanding entries by taking bank confirmations for the same to reduce audit risk and obtain a management representation letter on pending reconciliation. - The auditor should disclose the matter in Notes to accounts of the audit report with respect to incomplete bank reconciliation. (d) The auditor should communicate it to those charged with governance as deficiency in internal control.
505.3	M19M/SM22
	BC Ltd. is the business of manpower consulting. The company has a huge cash and bank balance including fixed deposits with banks. During the course of audit of the financial statements of the company for the year ended 31 March 2017, auditors circulated independent bank balance confirmations. The auditors received all the balance (covering fixed deposits) confirmations independently. Auditors observed that the fixed deposits balance as per the independent balance confirmation did not match with the books balances in some cases. Management produced the fixed deposit certificates to the auditors wherein the balances of fixed assets matched with the balances as per the books. How should the auditor deal with this matter? - Auditor should qualify the audit report in respect of differences in book balances of fixed deposits vis a vis independent balance confirmation. - Auditor should consider the fixed deposit certificates produced by the management and basis that any differences in book balances of fixed deposits vis a vis independent balance confirmation should be ignored. - Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be

considered by the auditor which shows various difference. The auditor should obtain balance confirmations again.

- d) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.

505.4

SM19

The audit team has obtained the following results from the trade receivables circularization of Oak Co for the year ended 31 March 2018.

customer	Balance as per sales ledger Rs.	Balance as per customer Confirmation Rs.	Comment
M Co	2,25,000	2,25,000	
N Co	3,50,000	2,75,000	Invoice raised on 28 March 2018
O Co	6,20,000	4,80,000	Payment made 30 March 2018
P Co	5,35,000	5,35,000	A balance of Rs.45,000 is currently being disputed by P Co.
R Co	1,78,000	No reply	

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

a) No further audit procedures need to be carried out in relation to the outstanding balances with M Co and P Co

b) The difference in relation to N Co represents a timing difference and should be agreed to a pre-pre-year end invoice.

c) The difference in relation to O Co represents a timing difference and should be agreed to pre-year-end bank statements.

d) Due to the non-reply, the balance with R Co cannot be verified and a different customer balance should be selected and circularized.

505.6	SM19
Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion a) Right and obligations b) Valuation c) Completeness d) Existence	

505.7	SM22
MNO Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Ajay Vijay & Associates have been appointed as statutory auditors of MNO Ltd. for the FY 2020-21. During the course of audit, CA Ajay, the engagement partner asks the management about the email addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The management of the company asked its sales supervisor to send confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of MNO Ltd. also informed CA Ajay that confirmation with respect to two of its trade receivables namely Sports Star Ltd. and Kids Zone Ltd. won't be available as a dispute between MNO Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA	

	Ajay with all the balance confirmation. With respect to the balance confirmation request, which of the following is warranted as per the requirement of the relevant SA a) CA Ajay should not have relied on the explanation provided by the management with respect to the trade receivables, namely Sports Star Ltd. and Kids Zone Ltd. and he should perform alternative procedures with respect to such trade receivables. b) CA Ajay should have obtained direct response from all other trade receivables instead of sales supervisor receiving direct responses from trade receivables and providing them to the auditor. c) Both a and b. d) CA Ajay should give a qualified opinion as balance confirmation with respect to two trade receivables is not available.

505.8	SM22										
Below is an extract from the list of supplier statements as at 31st March 2021 held by the Company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:											
<table><tr><th>Supplier</th><th>Statement balance '000</th><th>Payables ledger balance '000</th></tr><tr><td>Cete Company</td><td>80</td><td>60</td></tr><tr><td>Lice Company</td><td>185</td><td>115</td></tr></table>	Supplier	Statement balance '000	Payables ledger balance '000	Cete Company	80	60	Lice Company	185	115		
Supplier	Statement balance '000	Payables ledger balance '000									
Cete Company	80	60									
Lice Company	185	115									
The difference in the balance of Cete Company is due to an invoice which is under dispute due to defective goods which were returned on 30th March 2021. Which of the following audit procedures should be carried out to confirm the balance owing to Cete Company? (I) Review post year-end credit notes for evidence of acceptance of return. (II) Inspect pre year-end goods returned note in respect of the items sent back to the supplier. (III) Inspect post year-end cash book for evidence that the amount has been settled.											
a) 1, 2 and 3. b) 1 and 3 only. c) 1 and 2 only. d) 2 and 3 only.											

505.9	N22M									
	Below is an extract from the list of supplier statements as at 31st March 2022 held by the Company and corresponding payables ledger balances at the same date along with some commentary on the noted differences: <table><tr><th>Supplier</th><th>Statement balance ₹ 000</th><th>Payables ledger balance ₹ 000</th></tr><tr><td>Shubh Company</td><td>78</td><td>66</td></tr><tr><td>Labh Company</td><td>235</td><td>205</td></tr></table> The difference in the balance of Shubh Company is due to an invoice which is under dispute due to defective goods which were returned on 30th March 2022. Which of the following audit procedures should be carried out to confirm the balance owing to Shubh Company? (I) Review post year-end credit notes for evidence of acceptance of return. (II) Inspect pre year-end goods returned note in respect of the items sent back to the supplier. (III) Inspect post year-end cash book for evidence that the amount has been settled	Supplier	Statement balance ₹ 000	Payables ledger balance ₹ 000	Shubh Company	78	66	Labh Company	235	205
Supplier	Statement balance ₹ 000	Payables ledger balance ₹ 000								
Shubh Company	78	66								
Labh Company	235	205								
	a) 1, 2 and 3. b) 1 and 3 only. c) 1 and 2 only. d) 2 and 3 only									

505.10	SM23
	External confirmations for receivables are not reliable in which of the following situations:
	a) The response directly received by the auditor b) The confirmation has come from the address of the confirming party c) The confirmation is signed by the plant manager d) The confirmation is positive confirmation
505.11	N24M
	PIHU Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Mohan Sohan & Associates have been appointed as statutory auditors of PIHU Ltd. for the FY 2023-24. During the course of audit, CA Mohan, the engagement partner asks the management about the e-mail addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The management of the company asked its sales supervisor to send a confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of PIHU Ltd. also informed CA Mohan that confirmation with respect to two of its trade receivables, namely Moon Ltd. and Sun Ltd. won't be available as a dispute between PIHU Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA Mohan with all the balance confirmation. With respect to the balance confirmation request, which of the following is warranted as per the requirement of the relevant SA? a) CA Mohan should not have relied on the explanation provided by the management with respect to the trade receivables, namely Moon Ltd. And Sun Ltd. and he should perform alternative procedures with respect to such trade receivables. b) CA Mohan should have obtained direct response from all other trade receivables instead of sales supervisor receiving direct responses from trade receivables and providing them to the auditor. c) Both (a) and (b). d) CA Mohan should give a qualified opinion as balance confirmation with respect to two trade receivables is not available.

Part 4 - SA 510

510.2	SM21/SM22/M20M
	SKJ Private Ltd is engaged in the business of construction. The company has also got some real estate projects few years back on which it started the work in the last 2 years. The annual turnover of the company is INR 600 crores and profits of INR 40 crores. The statutory auditors of the company got rotated by another audit firm due to mandatory audit rotation requirements as per the Companies Act 2013. The new statutory auditors of the company started audit of the financial statements for the year ended 31 March 2021 in May 2021. The audit team also requested the client to provide certain information on the opening balances to perform their audit procedures. Initially the management did not provide any information to the auditors on the opening balances thinking that this is not within the scope of their work, however, after going through the auditing standards, the management agreed and provided the required information. Later on, the audit team also started requesting information for the period from 1 April 2021 to 31 May 2021. With this requirement, CFO of the company got very upset and angry and set up a meeting with the senior members of the audit team. CFO raised a concern that the audit team has not been doing the work properly and has been asking for unnecessary information like information on opening balances and then the information for the period after 31 March 2021. The audit partner explained to the CFO that everything requested by the audit team has been as per the auditing standards, however, CFO said that in the earlier years, the previous auditors never asked for such information. You are requested to give your view in respect of this matter. - The requirement of the auditors for opening balances was valid but for the period after 31 March 2021 is completely wrong as that is out of their scope for the current year's audit. They can ask for those details during the audit of next year. - The concern of the CFO was valid. He has seen the previous auditors not performing such audit procedures and hence the new audit team should also follow the same approach which was followed by previous auditors as that would lead to efficient in audit. - The audit team should set up a meeting with previous auditors wherein it should be assessed why different approach was followed by the previous auditors. On the basis of that discussion with the previous auditors, next course of action should be decided. - The requirement of the auditors for opening balances as well as for the period after 31 March 2021 is valid. After the requirements of SA 510 and SA 560, audit team is required to perform these procedures.
510.3	SM23
	The new auditor planned certain procedures with respect to opening balances. Which of the following procedures is not in accordance with SA 510? - Reading the most recent financial statements and audit report - Where the prior period report is modified, the impact on the current period - Correctly bringing forward of prior period closing balances - Ascertaining whether predecessor auditor had attended physical inventory count

Part 5 - SA 530

530.1	SM19/M19M												
You are an audit senior of Pendse Accountants and are currently conducting the audit of Stalwart Co for the year ended 31 March 2018. Below is an extract from the list of supplier statements as at 31 March 2018 held by the company and corresponding payables ledger balances at the same date along with some commentary on the noted differences: <table><thead><tr><th></th><th>Supplier Statement balance</th><th>Payables ledger balance</th></tr><tr><th></th><th>Rs.</th><th>Rs.</th></tr></thead><tbody><tr><td>AB Co</td><td>90,000</td><td>70,000</td></tr><tr><td>CD Co</td><td>1,85,000</td><td>1,15,000</td></tr></tbody></table> AB Co: The difference in the balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018. CD Co: The difference in the balance is due to the supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in the financial statements until after the year end. The payables clerk has advised the audit team that the invoice was not received until 3 April 2018. The audit manager has asked you to review the full list of trade payables and select balances on which supplier statement reconciliations will be performed. Which of the following statement is correct in respect of including or excluding from your sample? a) Exclude with material balances at the year-end. b) Exclude suppliers which have a high volume of business with Stalwart Co c) Include major suppliers with nil balances at the year-end. d) Include suppliers where the statement agrees to the ledger.			Supplier Statement balance	Payables ledger balance		Rs.	Rs.	AB Co	90,000	70,000	CD Co	1,85,000	1,15,000
	Supplier Statement balance	Payables ledger balance											
	Rs.	Rs.											
AB Co	90,000	70,000											
CD Co	1,85,000	1,15,000											
530.2	SM19												
RK Co is a retailer in stationery items and runs 10 shops in and around South Mumbai. In the audit plan prepared for the current year ended 31 March 2018, you have included statistical sampling method for testing the accounts payable balance. You asked your audit senior to review the results of some statistical sampling testing, which resulted in 20% of the payables balance being tested. The testing results indicate that there is a Rs. 58,000 error in the sample: Rs. 30,000 which is due to invoices not being recorded in the correct period as a result of weak controls and additionally there is a one-off error of Rs. 28,000 which was made by a temporary clerk. What would be an appropriate course of action on the basis of these results? a) The error is immaterial and therefore no further work is required. b) The effect of the control error should be projected across the whole population. c) RK Co should be asked to adjust the payables figure by Rs. 58,000 d) A different sample should be selected as these results are not reflective of the population													
530.3	SM21/SM22												
BDJ Private Ltd was established in 2001 and since then the company's operations have grown significantly. The company is based in Kanpur and has branch offices outside Kanpur. The company is engaged in tours and travels business and because of the nature of the business, it has voluminous transactions. The annual turnover of the company is INR 700 crores. During the audit of the financial statements of the company for the year ended 31 March 2021, the auditors observed wide variation in various details of sales and various expenses as compared to last year. Various balances of trade receivables, loans and advances, statutory liabilities showed significant increase and many balances were found to be non-moving which were aged for more than 3 years. On the basis of the materiality and planned procedures, the audit team requested the client for testing of various samples for sales, expenses etc. The client observed that the number of samples that the team has requested increased as compared to last year and asked the team to cut down on the number of samples so that it is the same number of samples which were tested in the previous years.													

	The audit team did not agree with this and explained various factors which the team had considered for sample selection and the reasons for changes in the samples and also explained the requirements of SA 530 to the client but the client still did not agree. Now there is a situation of deadlock and you are requested to provide your guidance to resolve this matter. a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team. b) The explanation of the audit team is not valid. Referring SA 530 was not correct in this case. The audit team should have explained their entire approach around risk assessment to the client before starting the fieldwork and should have formally shared that with the client in writing. c) In the given situation, the audit team instead of getting into any arguments should cut down the number of samples and should increase their procedures around analytical work. That would resolve the problem. d) The audit team should make a formal request in writing for these details from the client and if the client still refuses then they should report this matter to the audit partner. In that case, the auditing standards require audit partner to check some of the documents which may not be provided by the client to the audit team.												
530.4	SM22												
	Auditors do not normally examine all the information available to them as it would be impractical to do so and using audit sampling will produce valid conclusions. Random selection ensures that all items in the population have an equal chance of selection, e.g. by use of random number tables or random number generators. Block sampling method includes selection of a block or blocks of continuous items from within the organisation. Which of the following selection can be considered as block sampling method? a) Auditor Mr. A divided the trade receivables into 2 groups as: balances above ₹ 20 lakh and balances between ₹ 10 lakh to ₹ 20 lakh and selected different percentage of items from each group. b) Auditor Mr. A determined the starting point as 10 for the list of receivables and selected every 10th balance for receivables thereafter as samples to perform the tests. c) Auditor Mr. A selected sample size as all the high-value balances from the list of trade receivables to ensure that these balances shown are correctly recorded. d) Auditor Mr. A uses a sample of 50 consecutive cheques to test whether cheques are signed by authorised signatories rather than picking 50 single cheques throughout the year.												
530.5	N21M/SM22												
	While auditing Veer Ltd., CA. Vardhman divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata' and started taking a sample from each of them. He treated each stratum as if it was a separate population. He divided the trade receivables balances of Veer Ltd. for the Financial Year 2020-21 into groups on the basis of personal judgment as follows: <table border="1"> <thead> <tr> <th>Sr.No</th><th>Particulars</th></tr> </thead> <tbody> <tr> <td>1</td><td>Balances in excess of ₹ 10,00,000;</td></tr> <tr> <td>2</td><td>Balances in the range of ₹ 7,75,001 to ₹ 10,00,000;</td></tr> <tr> <td>3</td><td>Balances in the range of ₹ 5,50,001 to ₹ 7,75,000;</td></tr> <tr> <td>4</td><td>Balances in the range of ₹ 2,25,001 to ₹ 5,50,000;</td></tr> <tr> <td>5</td><td>Balances ₹ 2,25,000 and below</td></tr> </tbody> </table> From the abovementioned groups, CA. Vardhman picked up different percentage of items for examination from each of the groups, for example, from the top group i.e. balances in excess of ₹ 10,00,000, he selected all the items to be examined; from the second group, he opted for 25 % of the items to be examined; from the lowest group, he selected 2% of the items for examination; and so on from rest of the groups. Which one of the following methods of sample selection is he following? a) Systematic sampling.	Sr.No	Particulars	1	Balances in excess of ₹ 10,00,000;	2	Balances in the range of ₹ 7,75,001 to ₹ 10,00,000;	3	Balances in the range of ₹ 5,50,001 to ₹ 7,75,000;	4	Balances in the range of ₹ 2,25,001 to ₹ 5,50,000;	5	Balances ₹ 2,25,000 and below
Sr.No	Particulars												
1	Balances in excess of ₹ 10,00,000;												
2	Balances in the range of ₹ 7,75,001 to ₹ 10,00,000;												
3	Balances in the range of ₹ 5,50,001 to ₹ 7,75,000;												
4	Balances in the range of ₹ 2,25,001 to ₹ 5,50,000;												
5	Balances ₹ 2,25,000 and below												

	b) Stratified sampling. c) Section sampling. d) Selection sampling.
530.6	M22M
	 approach to sampling has the following characteristics: I. Random selection of the sample items; and II. The use of probability theory to evaluate sample results, including measurement of sampling risk.
	a) Statistical sampling b) Non-statistical sampling c) Stratified sampling d) Haphazard sampling
530.7	N23M
	CA P, as part of a statutory audit exercise, is testing a company's internal controls over purchase orders it places for acquiring capital assets. The company places huge orders for the acquisition of capital assets every year, keeping in view the nature of its business and corresponding requirements. While testing controls in a sample of purchase orders for the acquisition of capital assets, he failed to notice a lack of adherence to certain established parameters for placing such orders. The above situation is indicative of _____
	a) Sampling risk. b) Non-sampling risk. c) Control risk. d) Inherent risk.

Part 6 - SA 550

550.1	SM19/SM22/N21M
	As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence? a) Friend of a family member of a person who has the authority and responsibility for planning. b) Holding debentures in the entity. c) The entity's holding of debentures in other entities. d) The entity's holding of equity in other entities.
550.2	SM19
	XYZ Printers is a medium size printing press with turnover of Rs.100 crore for the financial Year 2015-16. The company buy paper rims for its press from different suppliers. You are the statutory auditor of the company for the year 2015-16 and the management has informed you that the company has bought paper rims from one of the supplier who is related to one of the director of XYZ Printers. What audit evidence do you need to collect for identifying and assessing the risk of material misstatement associated with related party transaction? a) Prior approval of the audit committee/shareholders for the transactions with the supplier, materiality/ significance of the transactions on company's financial statements, agreement entered into with the supplier and internal control for the transactions with the supplier. b) Only the prior approval of the audit committee/ shareholders for the transactions with the supplier is sufficient. c) Check whether the company has formulated any policy on dealing with related party transactions and materiality of transactions. d) As a statutory auditor you should check the internal controls and internal audit reports only
550.3	N20M/SM22
	"M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. for the FY 2020 -21. During the year, the company has entered into some related party transactions. CA Ram, the engagement partner has taken a management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions. Is there any further responsibility of CA Ram with respect to the other procedures to be performed for related party transactions? a) No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter. b) No, there is no further responsibility of CA Ram as the audit firm is responsible for verifying the balances and disclosure of related party transactions. The identification of related party transactions is the responsibility of the management of Venus Ltd. c) Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances, and obtaining merely management representation letter can be considered to be sufficient appropriate audit evidence. d) Yes, the auditor has the responsibility to detect fraud and error with respect to the related party transactions."
550.4	SM22 / N21M
	XYZ & Associate Chartered Accountants were appointed auditors for Weknow LLP. The engagement manager of the audit team, while designing the auditor response to assessed risk, concluded that there are no requirements of the applicable financial reporting framework for disclosing the related party transaction in the Firm's Financial Statement and hence the audit team is not required to perform any audit procedures with respect to identification and disclosure of related party relationship and transaction in financial statement. You as an engagement partner

	guide the engagement manager by selecting the appropriate response from below:	
	a) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions achieve a true and fair presentation and are not misleading. b) If the applicable financial reporting framework establishes minimal or no related party requirements, then the auditor is not required to obtain an understanding of the entity's related party relationships and transactions. c) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, as a whole, are free from all the material related party transactions. d) Because related parties are not independent of each other, hence auditor can obtain the written representation from the Related Party's auditor regarding the accuracy and completeness of the related party transactions disclosed in Firm's Financial Statement. This should only be carried where the applicable financial reporting framework establishes minimal or no related party requirements.	
550.5		SM23
	In the given case scenario, which is the most important red flag for auditor:	
	a) Expensive lifestyle b) Undisclosed related party relationships to siphon off the funds. c) Financial crunch d) The dominant influence of the owners	

550.5

b

Part 1 - SA 500

500.3	b
500.5	b
500.6	b
500.7	c
500.8	b
500.9	d

Part 2 - SA 501

501.1	c
501.2	b
501.3	d
501.4	d
501.5	c

Part 3 - SA 505

505.1	a
505.2	b
505.3	d
505.4	b
505.6	d
505.7	c
505.8	c
505.9	c
505.10	c
505.11	c

Part 4 - SA 510

510.2	d
510.3	d

Part 5 - SA 530

530.1	c
530.2	d
530.3	a
530.4	d
530.5	b
530.6	a
530.7	b

Part 6 - SA 550

550.1	d
550.2	a
550.3	c
550.4	a

06. Completion & Review

Part 1 - SA 560

No Individual MCQ

Part 2 - SA 570

570.1	SM19
	AMS & Co is a computer hardware specialist and has been trading for over 6 years. The company is funded through overdrafts and loans and by several large shareholders. The financial year end is 31 March 2017. AMS had significant growth in business in previous years; however, in the current year a new competitor BOM & Co, has entered the market and through competitive pricing has gained considerable market share from AMS. One of AMS's customers has stopped trading with them and has moved its business to BOM. In addition, a few specialist developers have left the company and joined the new company BOM. AMS has found it difficult to replace these employees due to the level of their skills and knowledge. AMS has just received notification that its main supplier who provides the company with specialist electrical equipment has ceased to trade. Which of the following audit procedures should NOT be performed in assessing whether or not AMS is a going concern? (a) Evaluating management's plans for the future of the business, by finding out from the financial director whether the company has gained any new customers to replace the customers lost. (b) Review board meeting minutes for evidence of progress on recruiting specialist developers to replace the ones who have left to join BOM. (c) Analyze and discuss the entity's last 2 years of financial statements to determine whether it is consistent with the cash flow forecast. (d) Review the correspondence with the shareholders to assess the probability that any of the shareholders choose to increase or sell their investment.
570.2	M19M
	The auditor has determined that there is a significant going concern uncertainty at PQR Ltd. due to the requirement to refinance the company's debt. Discussions with the management and the auditor's evaluation of management's plans for future actions in relation to its going concern assessment have revealed that plans to raise new equity finance are realistic and likely to deal with the problem. Is it appropriate for PQR Ltd. to prepare its financial statements on a going concern basis? a) No, PQR Ltd. cannot prepare its financial statements on a going concern basis because a significant uncertainty exists. b) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, the auditor is required to express a qualified opinion. c) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. No additional disclosure is necessary in the financial statements or the auditor's report. d) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, disclosure of both the nature of the uncertainty and management's plan is required.
570.3	SM19
	The auditor is required to evaluate management's assessment of the entity's ability to continue as a going concern. Certain events/ conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

	If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company. In the given case, which one of the following options is correct? a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date. b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements. c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date. d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements
570.4	M22M
	Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern: a) Net liability or net current liability position. b) Cancellation of company's production license due to change on government policies. c) Non-declaration of dividend to equity shareholders. d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
570.5	SM23
	Which one of the following is not a responsibility of the auditor relating to communicating events or conditions identified that may cast significant doubt on the entity's Going Concern assertion? a) Perform additional audit procedures to identify events/ conditions beyond 12 months from the date of financial statements. b) Whether the events constitute a material uncertainty c) The adequacy of related discloses in the financial statements. d) The implications for the auditor's report
570.6	SM23
	Which of the following is not a financial event/ condition that may cast significant doubt on companies' ability to continue as a going concern as per SA 570? a) Change from credit to cash on delivery model with suppliers b) Arrears or discontinuance of dividend c) Opening of a new chain of hotels by renowned competitor near the entity's area d) Adverse key financial ratios
570.7	SM23
	Please choose the mitigating measure as the management is unable to pay lease rentals. a) Cancel the lease b) Restructure the lease agreement and negotiate for deferment and relief c) Terminate the employees and pay the lessor d) All the above

Part 3 - SA 580

580.1	SM19
	Your firm has been appointed as the auditors of Stuart Limited, a well-established consumer goods manufacturing company. During the audit you were provided with various oral representation during meetings and discussions. While finalizing the audit you requested the management to provide such representations in writing. The management has however informed you that they are not accustomed to providing any representations to the external auditor in writing. The management is of the view that it has provided full access to whatever records, documents and evidence were available with it without any exception and that now it is the auditor's responsibility to correlate the same with the oral representations. What would be your response to the above? a) Agree with management since you have been provided full access to whatever records, documents and evidence were available with management without any exception. b) Document that management gave oral representation in audit working paper and issue unmodified opinion. c) After corroborating the audit evidence, consider this as a scope limitation and then consider to express a qualified opinion or disclaimer of opinion or re-assess the continuation of engagement with the audit client if integrity of the management is in question. d) Give unmodified opinion and include the observation in "other matter" paragraph, stating that the written representations of the concerned matters could not be obtained.
580.2	SM23
	Which of the following is not main pillar of written representations? a) The management responsibility for preparation of financial statement b) Assertion related to completeness c) Assertion related to access to data and information d) Written representation provides sufficient appropriate audit evidence
580.3	SM23
	Written Representation need to be mandatorily obtained from: a) Audit Committee b) Client relationship Managers c) Company Secretary d) CFO

Part 1- SA 560
No Individual
MCQ

Part 2 - SA 570

570.1	b
570.2	d
570.3	a
570.4	c
570.5	a
570.6	c
570.6	b

Part 3 - SA 580

580.1	c
580.2	d
580.3	d

07. Reporting

Part 1 -SA 700

700.1	SM21
	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 financial statements audited. The company appointed new auditors for the audit of the financial statements for the year ended 31 March 2019 after doing all appointment formalities wherein auditors also confirmed their eligibility for appointment including independence. The statutory auditors have completed their audit and did not come up any significant observations. Management of KPI Ltd was also very pleased with the working style of the auditors. When the auditors issued their final audit report, the management observed that the auditors did not state anything related to their compliance in respect of ethical requirements regarding independence etc. Further, the audit report was also silent on the requirement related to auditor's communication with those charged with governance in respect of matters related to planned scope & timing of audit and any significant findings. The management requested that the auditors should revisit their report and should include these points in their report, however, as per the auditors all these communications were already completed by them and hence they were not required to form part of the audit report. On the basis of above mentioned facts, please suggest which of the following should be correct. - The auditing standards do not require the auditors to comment on the points which the management is requesting i.e. ethical requirements or matters related to planned scope & timing of audit or any significant findings etc. However, if the auditor wants to include that on the basis of his agreed terms with the management, he may do so. - The auditing standards require the auditors to comment on the points which the management is requesting i.e. ethical requirements or matters related to planned scope & timing of audit or any significant findings etc. Hence, the auditors should issue rectified report. - The ethical requirements are already completed by the auditors at the time of appointment itself. Since the audit is completed, there is no need to comment on the planned scope & timing of audit. Since there are no significant findings so this communication is also not possible. Hence, the auditors need not revisit their report. - The ethical requirements are already completed by the auditors at the time of appointment itself and there are no significant findings, hence, there is no need to comment on these points. However, the auditors should state that they communicate with those charged with governance regarding the planned scope & timing of audit. Therefore, the auditors should revisit their report.

Part 2 - SA 701

701.1	N19R/SM21/SM22
	RBJ Ltd is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is INR 40,000 crores with profits of INR 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. Outside India, the company is focusing more on US and European markets and the company has been able to establish its good reputation in these markets as well. During the course of the audit, the audit team spends significant time on audit of revenue – be it planning, execution or conclusion. The audit team for this engagement is generally very big i.e. a team of approx. 70-80 members. The company's contracts with its various customers are quite complicated and different. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner. After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein he also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management was quite surprised to understand this from the auditor and did not agree with revenue recognition to be shown as key audit matter in the audit report. As per the management, the auditors didn't have any modification and such a matter getting reported as key audit matter would not go down well with various stakeholders and would significantly impact the financial positions of the company in the market. The auditors were not able to convince the management in respect of this point and there was a difference of opinion. You are requested to give your view in respect of this matter. - The concern of the management is valid. For such a large sized company, such type of matter getting reported as key audit matter is not appropriate. - The assessment of the auditor is valid. Such a matter qualifies to be a key audit matter and hence should be reported accordingly by the auditor in his audit report. - Reporting revenue as key audit matter when the auditor does not have observation in that area leading to any modification in his report, would not be appropriate. - This being the first year of reporting of key audit matters, the auditor should take a soft stand and should avoid reporting such controversial matters in his report.
701.2	M19M
	While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'? - M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters. - SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report. - SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit

	matters to communicate in our report.’ d) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report

701.3	SM21
	LMN & Co LLP is a large firm of Chartered Accountants having its offices based in Delhi, Pune, Chandigarh and Bangalore. The firm has staff of around 300 with 28 Partners. The firm has also created various departments for various services that it offers – statutory audit, risk advisory, mergers & acquisitions, indirect tax and direct tax, where dedicated teams are working who are specialized in those fields. The firm is also considering to create departments on the basis of industry sectors so that the staff can become specialized into specific industries as the same would help in the objective of the firm i.e., to offer best quality service to its various clients. Statutory audit department of the firm has 13 partners across various offices in India out of which 6 are based in Delhi office. The audit team of one of the prestigious clients, KSH Ltd, has concluded that audit where audit partner was AD Jain. As per the agreed timelines, the financial statements and the audit report were planned to be signed on 30 June 2019, however, on 29 June 2019, AD Jain was required to move out of India due to some exigency and would be back to India after a month's time. He was also not accessible during this period. The management of KSH Ltd discussed the matter with another partner of the audit firm, SK Gupta, who eventually signed the audit report on 30 June 2019 even though he was not part of the audit team which was involved in the fieldwork. We would like to understand your views in respect of this matter. After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein he also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management was quite surprised to understand this from the auditor and did not agree with revenue recognition to be shown as key audit matter in the audit report. As per the management, the auditors didn't have any modification and such a matter getting reported as key audit matter would not go down well with various stakeholders and would significantly impact the financial positions of the company in the market. The auditors were not able to convince the management in respect of this point and there was a difference of opinion. You are requested to give your view in respect of this matter. a) The management in such a case should have waited for AD Jain to come back and then get the report signed. The audit report in this case would be considered to be invalid. b) SK Gupta signed the audit report considering the client was prestigious for the firm which was unethical. c) Signing of the audit report as per the agreed timelines by SK Gupta was fine as he was also the audit partner of the firm. d) Signing of audit report by any other person interferes with the concept of clarity of responsibility.

701.4	N20R/M22M
	"Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701: (I) The effect on audit of significant transactions that took place in the FY. (II) Areas of high risk as assessed and reported by management's expert. (III) Significant auditor judgement relating to areas in the financials that involved significant management judgement. As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the above-mentioned areas should CA & Co. take into account to determine "Key Audit Matter"?

	a) (I) & (III) b) (II) only c) (I) & (II) d) (I), (II) & (III)"
701.5	SM22/N21M
	Description of each key audit matter in the "key audit matters section" needs to cover except following aspects: a) Reference to related disclosures, if any, in the financial statements. b) Explanation on the matter given by management. c) How the matter was addressed in the audit. d) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter
701.6	M24M
	An auditor was auditing the quarterly financial results prepared in accordance with Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The financial results are prepared using recognition and measurement norms of Ind AS 34 and include disclosures as prescribed by SEBI. These financial results would be hosted on the website of the entity and the stock exchange. Should the auditor include Key Audit Matters in the audit report on such financial results? a) No, SA 701 applies to audit of complete set of general-purpose financial statements of a listed entity. b) Yes, SA 701 applies to audits of any entity. c) No, SA 701 applies to review of the complete set of general-purpose financial statements of any entity. d) Yes, SA 701 applies to any audit of listed entity.

Part 3 - SA 705

705.1	SM19
	When does an auditor shall modify the opinion in the auditor's report? a) When, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement. b) When, unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. c) (a) and (b) both. d) Either (a) or (b)
705.2	SM19
	A Ltd. is a company in the business of buying and selling modern and contemporary Indian arts. Following are the assets (in millions) of the Company on 31 March 2017: • Fixed assets: INR 10 • Investments: INR 20 • Loans and advances: INR 40 • Inventories: INR 400 • Trade receivables: INR 10 • Cash and cash equivalents: INR 20 The management has not obtained valuation of inventories as at 31 March 2017 from a valuation expert in artforms. The auditors could not perform alternate procedures for valuation of inventories. Therefore, auditors were not able to comment on the carrying value of inventories. However, the auditors were able to obtain sufficient appropriate audit evidence in respect of all other captions of financial statements. The auditors qualified their opinion in the auditor's report. What are your views on auditors qualifying their report? a) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. The auditors may qualify their opinion in the auditor's report considering only one caption of the financial statements could be misstated. b) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should issue adverse opinion. c) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should disclaim their opinion. d) Inventory is considered to be an important component of the financial statements. This is one of the items wherein significant risk may exist from the audit's perspective. Auditor should take cognizance of this fact and accordingly decide his opinion – qualified/ adverse/ disclaimer.
705.3	M19M
	AHKPL Ltd. is an unlisted company in the business of the real estate following Accounting Standards. The company recognizes revenue on the basis of percentage completion as per AS 7. The company has various residential and commercial projects at different locations for which separate profitability statements are prepared by the management. Profitability statements are based on estimated costs of the projects. While reviewing the profitability statements, statutory auditors observed that the profitability of the projects have been fluctuating significantly year on year and the prime reason for that is the change in the estimated costs. As per the auditors, frequent changes are made by the management in the estimated costs to increase the percentage

	completion and through which revenue and profit numbers are manipulated. The auditors are not satisfied with the profitability statements of two major projects which account for 50% of the total turnover of the company. Management tried to explain the auditors saying that the changes would happen because of the dynamics of the industry which have been changing significantly and are unfavourable to the industry as a whole. All of this is leading to changes in the estimated costs. How should the auditors deal with this matter? a) Management's view seems reasonable. Estimated costs are only estimates which are subject to changes and hence the auditors should drop this matter. b) The auditors view seems reasonable and if the management does not agree, the auditors should issue qualified report. c) The auditors should consider the impact of the adjustment on the financial statements and if the impact is pervasive, the auditor should issue adverse opinion. d) The auditors should consider the impact of the adjustment on the financial statements and may take the adjustment to unadjusted entry in the management representation letter and basis that issue a clean report.
705.5	M19M OPP & Co LLP is the statutory auditor of ABBA Private Limited. The company has an annual turnover of INR1000 crores and profits of INR 250 crores. The company is planning to get listed next year. The company appointed OPP & CO LLP as new auditors to have a fresh look on their financial systems so that the financial reporting can be improved wherever required. During the course of audit, the auditors have been facing lot of challenges to obtain sufficient appropriate audit evidence and have discussed the same with the management. Now the auditors are determining the implications. Please suggest which one of the following should not be the implication in respect of this matter. a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion. b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. c) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. d) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, report the matter to the Registrar of Companies.
705.6	SM21/SM22 SKJ Private Ltd has an annual turnover of INR 200 crores and profits of INR 25 crores. The company is engaged in the business of textiles and has fairly stable operations over the years. There has not been much growth in the company in the last few years despite the attempts of the management. Currently the management is more focused towards cost cutting and has been considering all the options to achieve that objective. The statutory auditors of the company have been auditing the financial statements for the last 3 years and have issued clean reports over these years. During the financial year ended 31 March 2021, management got a large project from a new customer which resulted in significant increase in the turnover of the company. However, the profitability of the company did not improve much because the margins in the contract were not high. The statutory

	auditors during the course of their audit of financial statements for the year ended 31 March 2021 (their fourth year of audit) did not agree with the revenue recognition criteria followed by the company. Since the matter was significant, lot of discussions/debates happened between the auditor and the management. But it was finally agreed that the auditors would qualify their audit report. Auditors wanted that the management should explain this matter in detail in the notes to accounts to the financial statement over which the auditors are qualifying the audit report. However, the management had a different view. Management said that if the auditor is qualifying his report then why should the management also highlight that matter in the financial statement and hence refused to include any note for the same. Because of this conflict, audit is not getting concluded. You are requested to give your view in respect of this matter so that the matter gets concluded. a) In the given situation, if the management does not agree to give a note in the financial statements then the auditor should not hold the audit report. However, in such a case, the auditor would need to give disclaimer of opinion in his report instead of qualification. b) The argument of the management seems correct. Auditor cannot do both the things i.e., to qualify and then also get that highlighted in the financial statements. That note would not be beneficial for the users of the financial statements. c) In case of such matters related to revenue recognition, it is always better to give detailed explanation in the notes to accounts to the financial statements. If the explanation is satisfactory then the auditor should also consider giving emphasis of matter instead of qualification. d) The requirement of the auditor is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. In that case, auditor while giving the qualification can give reference to the notes to accounts otherwise the entire matter would form part of the audit report. However, the auditor should not hold his report if the management does not want to give any explanation in the notes to accounts
705.7	SM19/M20M
	The auditor shall express _____ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements a) Adverse b) Qualified c) Disclaimer of opinion d) clean
705.8	SM19/M21M
	Medivision Industries designs and manufactures spectacles. Medivision's year end was 31 March 2018 and its draft financial statements show a profit before tax of Rs.60 lakh. The fieldwork stage for this audit has largely been completed but there are few outstanding issues. On 1 January 2018, Medivision began the commercial production of a new range of lightweight frames which have been proven to keep their shape regardless as to how roughly they are treated. Up to 31 December 2017, the company had correctly capitalised development costs of Rs.45 lakh relating to this project. The directors believe that the new frames will have a product life of three years. The financial statements show development costs at a carrying amount of Rs.45 lakh. Medivision's accounting policy states that it amortises intangible assets on a straight-line basis. The auditor's report for Medivision is due to be signed in the next week or so, and you have been unable to resolve a disagreement with the directors concerning the amortisation of the development costs. The directors have refused to include any amortisation on the basis that sales of the product have not yet commenced. Which of the following options correctly summarizes the impact on the auditor's report if the issue remains unresolved? a) The auditor to provide an 'Unmodified opinion', since the directors are correct not to include

	any amortization on the basis that sales of the product have not yet commenced. b) The auditor to provide an 'Unmodified opinion' with emphasis of matter paragraph about the amortization charge on the capitalized development costs. c) The auditor to provide a Modified opinion - Adverse opinion since having obtained sufficient appropriate evidence, concludes that the misstatement is both material and pervasive. d) The auditor to provide a Modified opinion – Qualified opinion due to material misstatement of not recording the amortization charge on the capitalized development costs, which is material but not pervasive.
705.9	SM22
	CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2020-21. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to Rs. 46 crores (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to Rs. 33 crores (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the material discrepancies just before the finalisation of the audit report for the year ending 31.03.2021. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent. What is correct course of action that CA Kamal should consider in such a situation?
	a) CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2020-21. b) CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor's report. c) CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor's report. d) CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor's report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.
705.10	M21M/M22M
	While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup. How should the auditor deal with this issue?
	a) The auditor should issue a disclaimer of opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence. b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion. c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls. d) The auditor can rely on the SAP data and there is no need for qualification of report.
705.11	M22R/M23M
	Moon Ltd. is a company engaged in the manufacture of iron and steel bars. VP & Associates are the statutory auditors of Moon Ltd. for the FY 2021-22. During the course of audit, CA Vikash, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2022. 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 financial statements (and notes thereto) do not disclose this fact. What opinion should CA Vikash express in the case of Moon Ltd.?
	a) Unmodified opinion. b) Qualified opinion.

	c) Adverse opinion. d) Disclaimer of opinion.

705.12	N23M

Mr. Ishwar was appointed as statutory auditor of a Chennai-based listed company New Limited. For the financial year 2022-23, Mr. Ishwar had signed limited review reports for each quarter, till the quarter ended on 31st December 2022. Owing to his personal commitments and increased workload, he tendered his resignation to New Limited on 30th January 2023 and asked the company to appoint another auditor to issue an audit report for the remaining quarter and the FY 2022-23 as a whole. But the management of the company did not accept the same. Is the management of New Limited right in asking Mr. Ishwar to issue audit report for the last quarter and the FY 2022-23 as a whole, despite his resignation? What could be the reason for the same?

- a) No, only if the auditor resigns after 45 days from the end of a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole.
- b) Yes, if the auditor resigns within 45 days from the end of a quarter, he is obligated to issue audit report for such quarter.
- c) No, only if the auditor resigns after 45 days from the end of a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue an audit report for the financial year as a whole if he resigns during the last quarter.
- d) Yes, Mr. Ishwar is responsible to issue audit report for the last quarter as well as FY 2022-23 since he was the one who had issued the same for the first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during the last quarter.

705.13	M25M

MLP & Co., a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2023-24 for the company RST Ltd. CA. Kushal was the engagement partner for the said assignment. During the ongoing engagement of the audit, at the end of the third quarter, two limited review reports were issued by MLP & Co. Before the issuance of the third quarter's limited review report, the management of the company imposed a limitation on the scope of the audit that CA Kushal considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitations. However, the management refused to remove the said limitation.

What was the responsibility of MLP & Co. with respect to the issue of limited review report at the time of resignation?

- a) Limited Review Report for third quarter was required to be issued.
- b) Limited Review Report for third quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued.
- c) No further Limited Review Report was required to be issued as it was already issued for the second quarter at the time of resignation.
- d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement.

Part 4 - SA 706

706.1	M19M
APP Ltd. is listed on National Stock Exchange in India. Post audit rotation, KYP & Co LLP have been appointed as the statutory auditors of APP Ltd. The company has a pending litigation in respect of service tax matter which has been going on for long time now and exposure of the company towards that litigation is very significant. The new auditors got the exposure of this case evaluated by involving their in-house tax experts who have shared a view that the exposure of the company would be medium. As per the requirements of accounting standards, medium exposure would be considered as a possible impact for which probability is 50%. The company has been disclosing this as a contingent liability in the previous years. However, the new auditors are of the view that this is a significant matter that requires user's attention by disclosing this in the financial statements and it is of such importance that it is fundamental to user's understanding of financial statements. Further there is a material uncertainty in respect of this matter (i.e. demand raised by service tax department).Basis this, auditors want to include Emphasis of matter (EOM) in their report. Management is of the view that since this was not reported by previous auditors as EOM, hence it should not be included by new auditors also and also being a listed company, it is not appropriate to include EOM in the first year of audit by a new firm. Please suggest which of the following is correct. a) EOM should be included by new auditors. b) EOM should not be included by new auditors if the previous auditors have not given that. c) EOM should not be given, however, there should be a disclosure of this matter in the financial statements and also the fact that auditors are in the first year of audit and this matter would require detailed evaluation. d) Auditors should qualify the report instead of EOM.	
706.2	SM19
DSP Chartered Accountants have been appointed statutory auditors of Flakes Private Limited for the year 2016-17. The company's net profit has declined by 5% as compared to previous year in spite of increase in sales. On verification of company's profit & loss account it is noticed that in the current year a huge amount is debited as loss on sale of fixed assets due to which the profits has reduced. The auditor discussed the matter with management and was told that since the lot of fixed assets were lying idle due to their non-working condition, they have been sold at less than their written down value. As an auditor do you think that the fact regarding disposal of assets should be disclosed in auditor's report/ notes to accounts? a) If the assets has been sold as per company's policy and under applicable Financial Reporting framework, then separate disclosure is not required in auditor's report/ notes to accounts. b) As the sale of assets has an impact on profit for the current year, it should be disclosed in the notes to account of the Financial Statements. c) Even if the assets has been sold as per company's policy and under applicable Financial Reporting framework, the auditor should disclose the facts in Emphasis of Matter Paragraph of Audit Report as the loss booked in Profit & Loss account has a material impact on the net profit of the company. d) As the loss on sale of fixed assets is debited in Profit & Loss Account as per Accounting Standard, there is no requirement of disclosure of the same in any report.	
706.3	SM22
If the prior period financial statements were not audited, the auditor shall state the same in. a) Key audit matter section b) Emphasis of matter paragraph	

- c) Going concern paragraph
- d) Other matter paragraph

706.4	N24R
	SMN Limited is a management consultancy firm and in operation for the last 15 years. The company's financial reporting process is sound, and its statutory auditors has issued clean report on the audit of the financial statements of the company since inception. Due to mandatory audit rotation under the Companies Act 2013, MNO & Associates was appointed as the new auditor for the financial year ending 31 March 2024. During the audit, MNO & Associates performed procedures on both the current year's financials and the opening balances. No significant issues have been observed during the audit and the auditors intended to issue a clean report, they included an "Other Matters" paragraph in the draft report, noting that the previous year's financials were audited by a different auditor. The management requested this reference be removed since MNO & Associates audited the opening balances also and such a reference is not required. However, the auditors did not agree with the management. Please advise the auditor or the management whoever is incorrect with the right guidance. a) The contention of the management is valid. After performing all the audit procedures, an auditor should not pass on the responsibility to another auditor by including such references in his audit report. b) Any auditor has two options, either to perform audit procedures on opening balances or given such reference of another auditor in his report. An auditor cannot mix up the things like this auditor has done. It is completely unprofessional. c) In the given situation even if the auditor wants to give such reference, the management and the auditor should have taken approval from the previous auditor at the time of appointment of new auditor. In this case, it cannot be done. d) The report of the auditor is correct and is in line with the Standards on Auditing. An auditor is required to include such

Part 5 - SA 710

710.1	SM19
Auditor's report on prior period i.e. year ended 31 March 2017 included a modified opinion on an unresolved matter. If such matter is not relevant/ immaterial to the current period figures in the financial statements for the year ended 31 March 2018, how should the auditors deal with this matter in his auditors report for the year ended 31 March 2018?	
a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018. b) Modify opinion on current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditor's report for the year ended 31 March 2018. c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018. d) Include an emphasis of matter because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditor's report for the year ended 31 March 2018.	
710.2	N19M/SM20/M23M
While conducting the current year audit of Finco Ltd, the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements. This misstatement was related to recognition of research and development expenditure. The provisions of Ind AS 38 Intangible Assets relating to capitalisation of development expenditure was not applied properly. On this, unmodified opinion had been previously issued. The current auditor verified that the misstatement had not been dealt with as required under Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the current auditor will:	
a) Express a qualified or an adverse opinion in the auditor's report on the current period financial statements modified with respect to the corresponding figures included therein. b) Express an unmodified opinion in the auditor's report on the current period financial statements since it was related to the prior year. c) Express a qualified opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein. d) Express an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.	
710.3	N19R/SM21/N22M
BDJ Ltd is engaged in the business of providing management consultancy services and have been in operation for the last 15 years. The company's financial reporting process is very good and its statutory auditors always issued clean report on the audit of the financial statements of the company. The auditors were required to be rotated due to mandatory audit rotation requirement of the Companies Act 2013. RNJ & Associates, a firm of Chartered Accountants, was appointed as the new auditor of the company for a term of 5 years and have to start their first audit for the financial year ended 31 March 2019. The auditors had a detailed and clear discussion with the management that they will perform their audit procedures in respect of opening balances along with the audit procedures for the financial year ended 31 March 2019. Management agreed with that and the audit was completed as per the plan. The auditors did not have any significant observations and hence they communicated to the management that their report will be clean. Management was quite happy with this and also requested the auditors to share draft report before issuing the final report. In the draft audit report, all the particulars were fine except 'other matters paragraph' wherein the auditors gave a reference that the financial statements for the comparative year ended 31 March 2018 was audited by another auditor. Management asked the audit team to remove this paragraph as the auditors had performed all the audit procedures on opening balances also. But the auditors did not agree with the management. Please advise the	

	auditor or the management whoever is incorrect with the right guidance. a) The contention of the management is valid. After performing all the audit procedures, an auditor should not pass on the responsibility to another auditor by including such references in his audit report. b) Any auditor has two options, either to perform audit procedures on opening balances or given such reference of another auditor in his report. An auditor can not mix up the things like this auditor has done. It is completely unprofessional. c) In the given situation even if the auditor wants to give such reference, the management and the auditor should have taken approval from the previous auditor at the time of appointment of new auditor. In this case, it cannot be done. d) The report of the auditor is absolutely correct and is in line with the auditing standards. An auditor is required to include such reference in his report as per the requirements of the auditing standard.
710.4	M21M/SM22
	CA Ram identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA Ram. Guide CA Ram on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year? a) In accordance with SA 710, CA Ram should give unmodified opinion, but include Other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus. b) In accordance with SA 710, CA Ram should seek legal opinion. c) In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only. d) In accordance with SA 710, CA Ram should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of matter paragraph.

Part 6 - SA 720

720.1	SM22
	In case of audits of listed entities, other information section is required in auditor's report when at the date of auditor's report:
	(a) Auditor has obtained some or all of the other information (b) Auditor has obtained all of the other information (c) Auditor has obtained or expects to obtain the other information (d) Auditor has obtained some of the other information
720.2	SM22/M23M
	In case of audits of unlisted corporate entities, other information section is required in auditor's report when at the date of auditor's report:
	(a) Auditor has obtained some or all of the other information (b) Auditor has obtained all of the other information (c) Auditor has obtained or expects to obtain the other information (d) Auditor has obtained some of the other information

Part 7 - Company Audit

1.CA I	M19R/M23M
ABC Pvt Ltd had turnover of ₹ 39 crores as of 31 March 2018. The Company had taken a loan of ₹ 39 crores from various banks and financial institutions during the year ended 31 March 2018. These loans were paid by the Company before 31 March 2018. The Company is of the view that the auditors' reporting on adequacy and operating effectiveness of internal financial controls (IFC) under Section 143(3)(i) of the Companies Act, 2013 would not be required. The auditors of the Company have a different view. What should be correct option?	
a) The turnover of ABC Pvt Ltd is below required threshold and hence IFC will not be applicable. b) The turnover of ABC Pvt Ltd is below required threshold and loan amount was fully paid before year end i.e., 31 March 2018. Hence IFC will not be applicable. c) The turnover of ABC Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable. d) In the given case because of the repayment of the loan before year end i.e., 31 March 2018, applicability of IFC becomes optional.	
4.CA I	M19M/N20R
FAC Chartered Accountants was appointed as statutory auditors by KMG Ltd. for the audit of their financial statements. During the course of audit, the auditors noticed a fraud of Rs. 120 lakhs done by an officer of the company. The officer sanctioned and made the payment to fake vendors for purchase of fixed assets; however, the assets were not entered in the Fixed Assets Register. The auditor reported the fraud in his audit report to the shareholders of the company presented in the Annual General Meeting but did not mentioned the name of the parties involved. The Board of Directors of the company asked ICAI to take necessary action against the auditor as he has not complied with his duty to report fraud as per Section 143(12) of the Companies Act, 2013. What is the duty of the auditor as per Companies Act in reporting the fraud done by officers or employees of the company?	
a) As per Companies Act, 2013, as the amount of fraud is more than 100 lacs; the auditor should have reported the matter within 2 days of his knowledge to the Board of Directors/ Audit committee of the company seeking their reply or observations within 45 days. After completion of 45 days the auditor should forward his report to the Central Government along with the reply if any received from Board/ Audit Committee. b) As per Companies Act, in the course of audit if the auditor has reason to believe that a fraud has been conducted by the officers or employees of the company, the auditor shall report the matter to the Central Government immediately. c) The auditor's duty is restricted to reporting the fraud to shareholders and he is not required to report the matter to Board of Directors/ Audit Committee/ Central Government. d) The auditor can submit his report on fraud to shareholders but is required to mention the name of the parties involved in fraud, as per Section 143(12) of the Companies Act, 2013.	
5.CA I	SM21
K Pvt Ltd. has been providing marketing support services to its parent company based out of Ireland. The company's operations are not large and have remained stable over the last few years. Recently the parent company was acquired by another company and the new investor wanted to reassess whether the company in India should continue or should be shut down considering the legal compliances. It was advised to the new investor that the company should be converted into LLP. In December 2018, the new management decided that they would get the company converted into LLP and also discussed that matter with their statutory auditors. The management is expecting that the LLP conversion would get completed by February 2019 and wants that the auditors should audit the	

	financial statements of the LLP at the year end because conversion is only an administrative process and hence it would not impact their work.
	a) The management would need to get the financial statements audited from new auditor appointed by CAG in case of LLP. b) The management would need to appoint new auditor and the new auditor can audit LLP at year end in one go – both for the period it was a company and then when it became LLP. c) The auditor of the company should audit the company before its conversion and then the new auditor for LLP would audit LLP separately. d) The auditor of the company should audit the company before its conversion and then the new auditor for LLP would audit LLP separately. But this is a choice available to the auditor.

9.CA I	M19M
	SBC Private Limited appointed Mr. Vijay, Chartered Accountant as auditor of the company for the year 2017-18. While verifying the accounts Mr. Vijay noticed that the company has neither made any provision for accrued gratuity liability nor obtained the actuarial valuation thereon. Mr. Vijay obtained the actuarial valuation and includes the matter in his Audit Report to the Company's Board of Directors mentioning the amount of accrued liability not provided for. The Board agreed with the auditor's observation and the amount of liability quantified by him. But the auditor didn't disclose the same in his audit report to Member's. One of the members raised an objection on the audit report stating that it does not represent a true and fair view as even though the company has not maintained proper books of accounts as per accounting standards, the auditor has not qualified his report. Whether the auditor is required to give a qualified opinion in his report to members on non-provision of gratuity in company's accounts when the same has already been included in the report to Company's Board of Directors? a) As the auditor has already disclosed the matter of non-provisioning in his report to Company's Board of Directors, there is no need to disclose the same in report to Member's u/s 143 of the Companies Act, 2013. b) Non-provisioning for accruing gratuity is in contravention to applicable Accounting Standard (AS-15), therefore the auditor should qualify his report to members through a paragraph on failure of management to quantify the amount of liability. c) The auditor should revise the accounts as per the actuarial valuation obtained by him and the revised accounts only should be presented before the Board of Directors and Members. The auditor is not required to qualify his report. d) U/s 143 of the Companies Act, 2013, the auditor should qualify his report to members only when the matter reported by the auditor is answered in the negative or with a qualification by the Board. In the above case the board agreed with the auditor's observation, so he need not qualify his report.

20.CA I	SM22
	VBN & Associates, chartered accountants are Statutory auditors of Gold Ltd. for the year ended 31st March, 2021. While conducting audit for the year, the auditor have come to know that the fraud amounting to ₹ 2 crore was done by one of the employees. Under Sec 143(12) of Companies Act, 2013, you are required to suggest whether as a statutory auditor, VBN & Associates is required: a) To report fraud to Audit Committee/ Board of Directors of Gold Ltd and in Auditor's Report. b) To report fraud to shareholders of Gold Ltd and no further reporting. c) To report fraud only in Auditor's Report. d) To report fraud to Central Government and in Auditor's Report.

Part 8 - CARO 2020

CARO 1	SM19
	As per CARO, 2020, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained. a) Under Clause (xi) of paragraph 3 of the CARO, 2020, b) Under Clause (xvi) of paragraph 3 of the CARO, 2020, c) Under Clause (xv) of paragraph 3 of the CARO, 2020, d) Under Clause (xiv) of paragraph 3 of the CARO, 2020,
CARO 2	SM19
	As per Clause (i)(c) of Paragraph 3 of the CARO, 2020, the auditor is required to report on: a) whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the required details b) whether the company has entered into any non-cash transactions with directors or persons connected with him c) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated. d) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
CARO 3	M19R/M23M
	DCHI Ltd is in the business of optics and imaging products. It is a wholly owned subsidiary of Japanese company, DCHJ Ltd. DCHI Ltd has many expatriates (Expats) working in the company whose tenure range from 2 to 5 years. During the course of audit of financial statements of the company, the statutory auditors observed that the company has not been deducting and depositing the TDS (tax deducted at source) on salaries of expats. The auditors assessed that the impact of this can be significant as the company has many expats and salary amount is significant. Management explained that TDS on salary of expats would lead to unnecessary hassles to the expats and they serve the company only for a short period. How should the auditors of DCHI Ltd deal with this matter? a) Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should report the same in CARO. b) Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO. c) The auditor should agree to the management's view as the expats are temporary workers and this may not be convenient for the management. d) Since the matter relates to statutory liability only, the reporting requirements do not arise till the time this becomes disputed.
CARO 5	SM19
	LM Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Under which clause of the auditor is required to report a) Under Clause (viii) of paragraph 3 of the CARO, 2020, b) Under Clause (xi) of paragraph 3 of the CARO, 2020, c) Under Clause (x) of paragraph 3 of the CARO, 2020, d) Under Clause (ix) of paragraph 3 of the CARO, 2020,

CARO 6	M19M
	One of your team members has recently qualified as a chartered accountant and joined your team to audit a portfolio of audit clients who are private companies. One of the clients Surrey Pvt. Ltd. is a hotel in the small town near Jaipur. The revenue generated for the current year ended is Rs.10.5 crores and the entity is not a holding or subsidiary of any public company. The owner of the business Mr. Hazelwood runs this family business from last 10 years. Your team member is keen to know whether Surrey Pvt. Ltd is required to comment on the matter prescribed under CARO 2020. Which of your explanations to him are correct? a) The entity's revenue exceeds Rs.10 crores. Hence, no need to comment on the matter prescribed under CARO 2020. b) The entity is not a holding or subsidiary of any public company, hence no need to comment on the matter prescribed under CARO 2020. c) The entity's revenue for the year is Rs.10.5 cr which exceed the limit of Rs.10 cr. Hence, the entity has to provide the comment on the matter prescribed under CARO 2020. d) The entity is not a holding or subsidiary of any public company, hence there is a need to comment on the matter prescribed under CARO 2020
CARO 7	SM19
	Which of the following company is not exempted from reporting under CARO, 2020? a) Banking company. b) Insurance company. c) Company licensed to operate under section 8 of the Companies Act, 2013. d) Private limited company having paid up capital of Rs. 5 crores.
CARO 8	SM22 / N21M
	Kinfin Private Limited had taken overdrafts from three banks (Bank A, Bank B and Bank C) with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution (Financial Institution X) of ₹ 36 lacs. As on 30th October 2020, the management used the overdraft fully of the A & C bank to the tune of ₹ 40 lacs each. However, the overdraft of second bank (Bank B) was not used until 31st December 2021. On 31st December 2021, Management took overdraft of B bank and very next day management paid the overdraft of C bank as the rate of interest charged by Bank C on overdraft facility was 15% whereas, the rate of interest charged by Bank B was 12%. As at 31st March 2022 only overdraft of Bank A and Bank B were used fully, overdrafts of Bank C and Financial Institution X were unused. The paid-up capital and reserves of the company as at that date was ₹ 85 lacs and its revenue for the financial year ended on 31st March 2022 was ₹ 8.95 crore. The management of the company is of the opinion that CARO, 2020 is not applicable to it because turnover and paid-up capital were within the limits prescribed. With respect to the loans, management was of the view that the total outstanding as at 31st March 2022 is less than the prescribed limit. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment. a) The CARO 2020 is applicable to the company as the turnover of the company exceeds the prescribed limit. b) The CARO 2020 is not applicable to the company as the turnover of the company does not exceeds the prescribed limit. c) The CARO 2020 is not applicable to the company as the borrowing of the company does not exceeds the prescribed limit. d) The CARO 2020 is applicable to the company as the borrowing of the company exceeds the prescribed limit

CARO 9	M22M
	While reporting under clause (ii) of Paragraph 3 of CARO 2020, which of the following is correct:
	a) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory. b) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory. c) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory. d) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory

CARO 10	N22R																				
	While auditing with respect to compliance with CARO, 2020, Mr. Omprakash, for additional reporting purpose, observed the following, relevant to Para 3(vii) of CARO, 2020: <table><tr><th>Statutory Dues</th><th>Undisputed Amount (in lakh)</th><th>Date Payable</th><th>Date Paid</th></tr><tr><td>Provident Fund</td><td>1.5</td><td>24th September, 2021</td><td>27th March, 2022</td></tr><tr><td>GST</td><td>2.45</td><td>23rd October, 2021</td><td>24th April, 2022</td></tr><tr><td>Customs Duty</td><td>0.65</td><td>20th September, 2021</td><td>10th April, 2022</td></tr><tr><td>Income Tax Demand for A.Y. 2019-20</td><td>0.55</td><td>18th October, 2021</td><td>Not Paid till date</td></tr></table> Also, a representation was made to GST Department for waiving a penalty of ₹ 1 lakh for late payment of GST demand. What total amount of statutory dues need to be reported by Mr. Omprakash as per Para 3 of CARO?	Statutory Dues	Undisputed Amount (in lakh)	Date Payable	Date Paid	Provident Fund	1.5	24 th September, 2021	27th March, 2022	GST	2.45	23rd October, 2021	24th April, 2022	Customs Duty	0.65	20 th September, 2021	10th April, 2022	Income Tax Demand for A.Y. 2019-20	0.55	18 th October, 2021	Not Paid till date
Statutory Dues	Undisputed Amount (in lakh)	Date Payable	Date Paid																		
Provident Fund	1.5	24 th September, 2021	27th March, 2022																		
GST	2.45	23rd October, 2021	24th April, 2022																		
Customs Duty	0.65	20 th September, 2021	10th April, 2022																		
Income Tax Demand for A.Y. 2019-20	0.55	18 th October, 2021	Not Paid till date																		
	a) 3.10 lakh. b) 0.65 lakh. c) 3.65 lakh. d) 2.70 lakh																				

CARO 11	N22M
	KFIntech Pvt Ltd was having paid-up share capital and reserves of ₹ 150 lakh including paid-up share capital of ₹ 90 lakh at the end of FY 20-21. During FY 21-22, KFIntech borrowed ₹ 80 Lakh from Bank A and ₹ 140 Lakh from Bank B. The amount borrowed from Bank B was repaid during the same FY. For FY 20-21 the turnover of the company was ₹ 1,850 lakh. Select the appropriate option with respect to the applicability of CARO 2020:
	a) CARO 2020 will be applicable as the paid-up capital and reserves exceeding the limit specified in the Order i.e., one crore rupees. b) CARO 2020 will be applicable as the company has paid-up capital and reserves exceeding the limit specified in the Order i.e., one crore rupees and have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year. c) CARO 2020 will not be applicable as the company repaid the amount borrowed from bank B before the end of the financial year and hence, the borrowings do not exceed the limit specified in the Order. d) CARO 2020 will not be applicable as the company will fall under the exemption provided in the Order for Small Company as per section 2(85) of the Companies Act 2013.

CARO 12	N22M/N24R
	CA. A, the auditor of XYZ Limited resigned from the post due to his personal reasons. CA. B was appointed as the subsequent auditor of the company by the Board of Directors. During the conclusion of the audit for the FY, should CA. B mention about CA. A 's resignation in the Companies (Auditor's Report) Order 2020?
	a) Yes. As per clause (xviii) of para 3 of CARO, CA. B should report the resignation of CA. A and state if he has taken into consideration the issues or objections raised by CA. A. b) No. Since the resignation of CA. A is due to his own personal reason, the same need not be reported under CARO. c) Yes. As per clause (xxi) of para 1 of CARO, CA. B should report the resignation of CA. A and state if he has taken into consideration the issues or objections raised by CA. A. d) No. CARO 2020 does not state any requirements to report resignation of auditor. However, the same needs to be mentioned by CA. B in the Audit Report under Other Matter Paragraph, as per SA 706.
CARO 13	N23M
	CA Aarti is in the midst of performing audit procedures in the month of March 2023 for conducting a statutory audit of "Tess Products Private Limited" engaged in manufacturing of footwear products for the year 2022-23. The turnover of the company as per profit and loss account for the immediately preceding financial year is ₹ 35 crores. In the last week of March 2023, she gathered that the turnover of the company during the year 2022-23 would also be just nearing ₹ 35 crores. The company is also registered as a "Small Enterprise" under the Micro, Small and Medium Enterprises Development Act, 2006. Its present paid-up share capital is ₹ 3.50 crores, which has remained unchanged for the past few years. Besides, it is availing and utilizing a working capital credit facility of ₹ 2 crores from a bank during all these years, including the year 2022-23. The company has acquired all shares of a company based in Hong Kong during the year 2022-23. She wants to be sure about the applicability or otherwise of CARO 2020 for suitably planning and directing her audit procedures for year 2022-23. Identify likely correct statement in this regard:
	a) Reporting under CARO, 2020 would not be applicable as it is a small company. b) Reporting under CARO, 2020 would not be applicable as it is registered as a small enterprise under Micro, Small and Medium Enterprises Act, 2006. c) Reporting under CARO, 2020 would be applicable as it is not a small company. d) Reporting under CARO, 2020 would not be applicable as it meets certain threshold criteria prescribed for private companies.
CARO 14	M25R
	Mohini Ltd. paid their arrears of undisputed statutory dues just a day before the date of the audit report. After this, now the auditor believes that only disputed dues need to be reported under the CARO, 2020 as undisputed dues are paid before the date of the audit report. Which of the following is the most appropriate course of action for the auditor in this situation?
	a) The auditor is required to report the disputed statutory dues only in accordance with clause (viii)(b) of Para 3 of CARO, 2020, as there is no requirement to report undisputed statutory dues if they are paid on or before the date of the audit report. b) The auditor is required to report both disputed and undisputed statutory dues in accordance with clause (vii)(a) & (b) of Para 3 of the CARO, 2020. c) The auditor should consult with legal counsel to determine the specific reporting requirements for disputed and undisputed statutory dues under CARO, 2020. d) The auditor should discuss the matter with management and obtain their agreement to report both disputed and undisputed statutory dues in the CARO, 2020 report.

Part 1 - SA 700

700.1	b

Part 2 – SA 701

701.1	b
701.2	c
701.3	c
701.4	a
701.5	b
701.6	a

Part 1 -
COMPANY
AUDIT

1.CA I	c
4.CA I	a
5.CA I	c
9.CA I	d
20.CA I	d

Part 3 - SA 705

705.1	d
705.2	c
705.3	c
705.5	d
705.6	d
705.7	a
705.8	a
705.9	b
705.10	b
705.11	c
705.12	d
705.13	b

Part 2 CARO

CARO 1	b
CARO 2	a
CARO 3	b
CARO 5	d
CARO 6	c
CARO 7	d
CARO 8	d
CARO 9	c
CARO 10	b
CARO 11	d
CARO 12	a
CARO 13	c
CARO 14	b

Part 4 - SA 706

706.1	a
706.2	c
706.3	d
706.4	d

Part 5 - SA 710

710.1	b
710.2	d
710.3	d
710.4	c

Part 6 - SA 720

720.1	c
720.2	a

08. Specialized Areas

Part 1 -SA 800

No MCQ

Part 2 – SA 805

No MCQ

Part 3 – SA 810

No MCQ

09. Audit-Related Services

Part 1 -SA 4400

No MCQ

Part 1 -SA 4410

No MCQ

CA Ravi Taori
9096000033

10. Review of Financial Information

Part 1 - SA 2400

No MCQ

Part 2 - SA 2410

No MCQ

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9096000033

11. Prospective Financial Information and Other Assurance Services

Part 1 - SA 3400

No MCQ

Part 2 - SA 3402

No MCQ

Part 3 - SA 3420

No MCQ

Ch 12 Digital Auditing & Assurance

Part-1 Digital Auditing & Assurance

DAA.1	M24R
	Safe Health Insurance Limited is a company working in the field of health insurance sector. It is now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it. The details are verified by the system against data present in it. Such system has allowed faster processing of claims, error-free data validation and increased customer satisfaction. In respect of situation regarding working of insurance company in health insurance sector, which of following technologies has likely been used? a) Internet of things b) Data analytics c) Robotic process automation d) Power BI
DAA.2	N24M
	Mr. Rajan, the CEO of a mid-sized company, has received an email requesting him to urgently update his account details due to a supposed security breach. The said email, appears to be received from the Company's bank accounts, looks official due to use of bank's logo and branding. Such email also includes a link to a website that resembles the bank's login page. Concerned about the security of the company's finances, Mr. Rajan clicks on the link and enters his login credentials. Later, the company's IT department detects unauthorized access to the company's financial accounts and identifies that the CEO's credentials were compromised. Identify the type of cyberattack that Mr. Rajan fell victim to: a) Smishing b) Whaling c) Spear Phishing d) Vishing
DAA.3	N24M
	CA Rajveer is conducting an audit of a manufacturing company. To streamline the audit process, he uses a sampling tool to select a representative sample of transactions from a large dataset of sales records. He also employs a BOT to cross-check the company's compliance with statutory payments like GST and TDS. While reviewing the financial statements, Rajveer relies on Excel to automate calculations such as variance analysis and trend reports, ensuring the audit is completed on time and meets regulatory requirements. Which type of audit is being described in the above? a) Digital Auditing. b) Auditing Digitally. c) Manual Auditing with technological assistance. d) Traditional Audit.
DAA.4	S25R
	While conducting the statutory audit of a large manufacturing company with multiple warehouses in remote locations, the audit team faced challenges in performing physical stock counts due to logistical constraints. The team decided to adopt an emerging technology that uses sensors and high-resolution cameras to carry out inventory verification without being physically present at the site. Which of the following technologies is most appropriately suited for this purpose?

-
- a) Blockchain.
 - b) Drone Technology.
 - c) Internet of Things (IoT).
 - d) Robotic Process Automation (RPA).
-

Answer

Part 01 -- DAA

DAA.1	c
DAA.2	c
DAA.3	b
DAA.4	b

13. Group Audits

CFS.1	SM20/SM22
	Advik Ltd is an unlisted public company. The company acquired few companies in the last 3-4 years which have been assessed as its subsidiaries/ associates/ joint ventures (hereinafter jointly called as 'components'). The company prepares its condensed consolidated financial statements every quarter to review the performance of the group. In the past years, the company used to get the financials of its components reviewed/ audited on a quarterly basis. AJ & Co LLP is the statutory auditor of parent company and KSH & Associates is the statutory auditor of all the components. Quarterly condensed consolidated financial statements of the group are reviewed by the statutory auditors as per the terms of the engagement letter. AJ & Co LLP has communicated to Advik Ltd that in line with the requirements of the Companies Act 2013, it would also be required to undertake audit/ limited review of all the components which would be consolidated with those of Advik Ltd and for which KSH & Associates are the statutory auditors currently. Management is not agreeing with the same as they don't want to change KSH & Associates as auditors of the components and the requirement mentioned by AJ & Co LLP would lead to duplication of work of auditors as well as the management. Please advise. - In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with SA 600, Using the work of another auditor and hence the requirement of auditor is valid. - In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with the requirements of the Companies Accounts and Audit Rules 2014 and hence the requirement of auditor is valid. - In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is not required to re-perform audit/ limited review of the components and hence the requirement of auditor is not correct. - Management and the auditor need to decide this mutually as this is based on the contractual arrangement between them.
CFS.2	SM21/SM22
	KB Ltd is engaged in the business of construction. It has multiple subsidiaries and associates in India. The company acquired PPP GmbH in Germany on 1 February 2021. The company also obtained control in PPP GmbH on the same date. Its investment in PPP GmbH was of a huge amount. The company has been preparing its CFS over the last few years and this has also become a matter of concern for the company for the year ended 31 March 2021. The management is of the view that consolidation of PPP GmbH would not be required in CFS for the year ended 31 March 2021 because this is the first year of acquisition. However, the auditors have not been agreeing for the same. The timeline of submission of audited financial statements is due in few months' time. In the meantime, the management moved on the consolidation of PPP GmbH taking audited financial statements of PPP GmbH which are available in the GAAP of its local country and GAAP conversion adjustments from its local GAAP to Indian GAAP have been made by the parent company. GAAP conversion adjustments are significant at CFS level. In the meantime, the management has also been consulting whether the consolidation would be required or not also considering the fact that comparative figures in case of PPP GmbH would not be available. Further the auditors have also raised observations regarding the GAAP conversion adjustments over which management has a disagreement. As per the management the auditors are not required to comment on GAAP adjustments because audited financial statements of PPP GmbH have been given to the auditors. Please help to resolve these matters. - Consolidation of PPP GmbH should be done but GAAP conversion adjustments are not required to be audited. - Consolidation of PPP GmbH should not be done and accordingly, GAAP conversion adjustments would not arise. - Consolidation of PPP GmbH should be done, and GAAP conversion adjustments are also

	required to be audited. d) Consolidation of PPP GmbH is a choice of management as the accounting standard does not mandate this. However, in case it is done then the GAAP conversion adjustments would be required to be audited.

CFS.3	SM21/SM22
	VDN Ltd is a medium-sized company engaged in the business of retail. It has two subsidiaries and one joint venture. Both the subsidiaries are larger in size as compared to the parent company. The accounting policies of the parent company, its subsidiaries and joint venture were same. However, during the year ended 31 March 2021, one of its subsidiary, SMA Pvt Ltd changed the method of depreciation of Property, plant and equipment (PPE) to written down value method which is different from the method followed by the parent company i.e., Straight line method. Further this subsidiary also changed the method of valuation from FIFO to Weighted average method which has become different from parent as the parent follows FIFO method. These changes were made by the subsidiary because it reflected the better picture of its standalone financial statements. Now for the purpose of CFS, the auditors have asked the management of parent company to ensure that accounting policies of the group companies should align with that of parent in line with the requirements of accounting standard. But the management of parent and subsidiary company believe that out of three group companies other than parent, only one group company requires this change for the purpose of consolidation and the same should be ignored by the auditors. Please suggest. a) The view of management is correct. b) For CFS, method of depreciation of SMA Pvt Ltd may continue to be different, however, method of valuation of inventory should be aligned with that of the parent. c) For CFS, method of valuation of inventory of SMA Pvt Ltd may continue to be different, however, method of depreciation should be aligned with that of the parent. d) The auditor should get these changes made in the standalone financial statements of SMA Pvt Ltd.

CFS.4	SM21/SM22
	AJ Private Ltd is engaged in the business of retail having annual turnover of Rs. 1,800 crores. The company has a plan to get listed on Bombay Stock Exchange next year. The company has 3 associates, 4 subsidiaries, and 1 joint venture. The company prepares its consolidated financial statements on a quarterly basis for the purpose for internal purposes. The quarterly financials are reviewed by the statutory auditors of the company. The group companies of the parent company have increased in terms of their size looking at the total assets and revenue of the group. For the purpose of audit of consolidated financial statements for the year ended 31 March 2021, management has request the statutory auditors that it would be able to provide management certified accounts of the joint venture as its audit would not get completed on time and even without joint venture, the auditors would be able to cover 75% of the total assets of the group at consolidated level. However, the statutory auditors are insisting that they need to cover at least 80% of the total assets of the group at consolidated level as per the requirements of the Auditing Standards and for that financials of the joint venture should also be audited. Please advise. a) Auditors should accept the management certified accounts of joint venture. b) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Registrar of Companies. c) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Securities and Exchange Board of India, considering the plan to get listed next year. d) Auditors should accept management certified accounts of joint venture provided the revenue of the joint venture is less than 10% of the total revenue of the group.

CFS.5	SM19
	Current period adjustments are those adjustments that are made: a) Only on the first occasion of the preparation and presentation of consolidated financial statements b) Only on the first occasion of the audit of consolidated financial statements c) In the accounting period for which the consolidation of financial statements is done d) None of the above.
CFS.6	SM19
	M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For the purpose of consolidation, WEF Ltd is required to send financial information of the company for the year in the Reporting package comprising of balance sheet, statement of profit and loss, statement of cash flow and notes to accounts. Since WEF Holding Ltd has many group companies across the globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all the group companies. The group companies do not have any provision to change the groupings/ classifications which need to be reported as per the Group accounting manual which is prepared as per the Group's accounting policies. Group follows IFRS. ABC & Co LLP is also required to audit the reporting package of WEF Ltd as per IFRS. During the course of audit, the auditor observed that some classifications are not in line with IFRS, however, due to the limitation of the reporting package no such corrections can be made. How should the auditor deal with this? a) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. b) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. However, the auditor may also include a note separately in respect of the corrections required. c) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor cannot change anything. However, the auditor is required to issue to report as per IFRS wherein the classifications are wrong and hence the auditor should issue qualified report if the amount is material. d) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything. However, the auditor should issue his report as per the Group accounting manual instead of IFRS.
CFS.7	SM19
	The auditor is required to audit a complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS by the management solely for preparation of consolidated financial statements of the holding company. Is the auditor required to include 'Other Legal and Regulatory Requirements' to comment on matters such as maintenance of proper books of accounts, compliance with accounting standards etc. in the audit report? a) Since the auditor is required to audit complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS, it will be mandatory for the auditor to include 'Other Legal and Regulatory Requirements' in his audit report. b) The audit report is not issued pursuant to requirement of section 143 and hence 'Other Legal and Regulatory Requirements' is not required to be included in the audit report. c) The audit report is not issued pursuant to requirement of section 143 and hence some of the requirements related to 'Other Legal and Regulatory Requirements' may be included in the audit report as per the discretion of the management of the Company. d) The auditor may include 'Other Legal and Regulatory Requirements' in the audit report but he would need approval of the Board of Directors for doing so.

CFS.8	M19R/M23M
	IRC Ltd is in the business of construction and infrastructure. The company is listed in India having an annual turnover of INR 2500 crores. The company has various projects offices/ operations in India and outside India. The functional currency of the company and its project offices is INR. The company has five joint ventures and various jointly controlled operations. The company has been audited by Luthra & Associates, a firm of Chartered Accountants, since beginning. During the year ended 31 March 2018, new auditors were appointed as the statutory auditors of the company for the audit of the financial statements for the year ended 31 March 2018. New statutory auditors have raised various points related to the consolidation procedures followed by the company. Management did not agree to the observations of the auditors as they have been following this since many years now and there was no observation of previous auditors in respect of the same. Auditors have highlighted a point that joint ventures have been consolidated by the company in its standalone financial statements. However, management has an argument that those are in the nature of its operations and hence to reflect the true and fair view it would be appropriate to consolidate the same in the standalone financial statements. Please advise as auditors how would you deal with this matter. - Since the matter is related to consolidation, which is more relevant for consolidated financial statements, hence no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018. - Auditor should look at the materiality and conservatism principle. Company has included extra information in the financials which can be considered by the auditors and basis that clean audit report should be given. - Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise, auditor may modify his opinion on current year's financial statements considering the materiality. - As per the requirements of accounting standard, joint venture if consolidated in standalone financial statements should not be consolidated again in the consolidated financial statements. Basis that this point should be dropped by the auditor.
CFS.10	M19R
	WCO Private Ltd is a joint venture of WCO GmbH and MSON Ltd. WCO GmbH is a company based out of Germany and is also listed in Germany. WCO GmbH prepares its financial statements as per IFRS. MSON Ltd is a company based out of India and is also listed in India. MSON Ltd prepares its financial statements as per Ind AS. For the purpose of reporting of financial information to WCO GmbH and MSON Ltd for consolidation purposes, WCO Private Ltd uses reporting package (which comprises of balance sheet, profit and loss and other notes to accounts). WCO Private Ltd prepares its financial statements as per Ind AS. WCO Private Ltd has taken useful life of some fixed assets in its Ind AS financial statements based on their useful lives which is different from the useful lives of similar nature fixed assets taken by WCO GmbH (in line with their accounting policies). The reporting package of WCO Private Ltd is audited before reporting to WCO GmbH. The auditor audits the reporting package which is prepared in line with the Group accounting policies of WCO GmbH and mentions in his report that the reporting package has been prepared as per the Group accounting policies of WCO GmbH. WCO Private Ltd makes an adjustment for changes in useful lives in the reporting package on the basis of Group accounting policies of WCO GmbH. The auditor has asked the management to take same useful lives of fixed assets in the reporting package which have also been taken by them in its Ind AS financial statements. Management has not agreed with the view of the auditor. Please suggest the right course of action. - Position taken by the management is correct. - Position suggested by the auditor is correct and if the management does not agree then auditor may have to modify his report on the basis of materiality. - The matter relates to an estimate (i.e., useful life) which may be subject to changes under different GAAPs and hence auditor should ignore this point. - The report would be for special purpose which should always be a clean report

CFS.11	M19M
Brown Ltd is a holding company with two subsidiaries Black Ltd and White Ltd. You have been given the task of covering the valuation of non-current tangible assets in the consolidated financial statements. You note that Black Ltd and Brown Ltd. adopt straight line method of depreciation for its assets whereas White Ltd, follows written down method for calculating the depreciation. Which of the following adjustment would be considered as correct in respect of the consolidated financial statements preparation?	
a) White Ltd is required to depreciate the assets adopting straight line method of depreciation which is the method adopted by the holding company. b) Brown Ltd is required to make suitable adjustments as to the depreciation charged by White Ltd, at the time of consolidation. c) Brown Ltd and Black Ltd are required to depreciate the assets adopting written down value as to facilitate the harmonization of accounting policies. d) No adjustment is required as there can be different methods of calculation of depreciation for its assets for the group companies	
CFS.12	M19M
NT 22 Group is a large group comprising of 22 subsidiary companies, 14 associate companies and 19 joint ventures. NT Ltd. is the holding company which is also listed on Bombay Stock Exchange and New York Stock Exchange. The Group prepares its consolidated financial statements every quarter for various reporting requirements – SEBI (Stock and Exchange Board of India), Stock Exchanges, Registrar of Companies in India and others. The turnover of the Group is INR 15,000 crores and many of its components have significant operations at standalone level. The Group is audited by one audit firm, Seema & Co LLP. For the purpose of group audit of the current year, the auditors have considered performing testing of journal entries across the group to address the significant risk, however, the auditors are facing challenges to perform this audit procedure across the group because of the volume and limitation of resources. Please suggest the correct options in respect of this matter.	
a) The Group auditors have a choice to test journal entries of the components which is also backed up by the auditing standards. b) The Group auditors must test journal entries of all components. c) The Group auditors need not test journal entries of components requiring analytical response at group level. d) The Group auditors need not test journal entries of components scoped with comprehensive approach.	
CFS.13	N21M/SM21/SM22/M22M/M25M
Rimmi Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion, but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31 March 2021, the company acquired two companies in India and France in September 2020 and January 2021 respectively. The company controls both of these companies as per the criteria's laid down in the Companies Act 2013 as well as the applicable accounting standards. The management started discussions with the auditors regarding the audit wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements (CFS), if they want. Management needs your advice on the same.	
a) Management must prepare the CFS as per the requirements of the Companies Act, 2013. b) Management has a choice not to prepare CFS but should go for that considering that its true performance and financial position can then be demonstrated. c) Management could have prepared CFS if the acquired companies would have completed at least one year post acquisition. d) Management must prepare CFS, but it should include only the company acquired in India.	

CFS.14	SM22/M24R
	BCO Private Limited is operating in India for the last 15 years. It has three group companies - one subsidiary in India and the other two in Ireland and France. All these subsidiaries were acquired one by one and investments were made in these companies gradually i.e. initially control was not obtained and after investment for some period, control was obtained. The statutory auditors have evaluated that all the group companies are significant for the purpose of audit of consolidated financial statements. During the year ended 31 March 2021, the audited financial statements of all the components are available except for French company whose audit got delayed and would not get completed before the release date of CFS of parent company. For the purpose of consolidation, the parent company has provided the audited financial statements of other components. Please suggest what can be the possible situation in respect of financial statements of French company for the purpose of consolidation for the purpose of audit of CFS. a) Since the audit of French company is in progress, its financial statements subject to audit can be considered by auditor of parent company and audited signed financials can be given to auditors even after release of audited CFS as this is matter of documentation only. b) The management should give management accounts to the auditors of CFS and auditor can mention the same point in other matters paragraph in his audit report which is an acceptable approach. c) Auditor should get the financial statements of French company excluded from CFS. d) If the auditor does not receive audited financial statements of French company, he should modify his audit report.
CFS.15	SM22/M21M
	B Limited controls entity C Limited (75%) and entity A Limited (an investment company). Entity B Limited reduced the control of entity C Limited from 75% to 60%. With regard to that certain adjustments were made to account for the change in the shareholding of entity C Limited which is consolidated. These adjustments are known as: a) Memorandum adjustments. b) Current period consolidation adjustments. c) Permanent consolidation adjustments. d) Temporary period consolidation adjustments.

**AUDIT OF
CONSOLIDATED
FINANCIAL
STATEMENTS**

CFS.1	c
CFS.2	c
CFS.3	b
CFS.4	a
CFS.5	c
CFS.6	c
CFS.7	b
CFS.8	c
CFS.10	a
CFS.11	d
CFS.12	c
CFS.13	a
CFS.14	d
CFS.15	c

14. Special Features of Audit of Banks & Non-Banking Financial Companies

Part 01 - Audit of Banks

B.1	SM22/SM21/M19N
	The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March 2019. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019-20. 1. Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill re-discounting. 2. Allahabad branch which started foreign exchange business from February 2019. 3. Rae Bareilly branches whose aggregate deposits were more than 35% of the aggregate deposits of the bank. Sista and Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit. At the Kanpur branch of the bank there were high value cash deposits in one of the current account from April 2019. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2019-20. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2019 itself the auditor noticed that the branch has not filed the requests sent via e-mail to currency chest for the cash remittance. Whether the decision of audit committee to include the three branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines? a) The decision of audit committee is valid as according to RBI Guidelines, all the three branches fulfil the criteria for compulsory concurrent audit. b) Banaras and Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines; however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits of the Bank is not required to be compulsorily covered for concurrent audit. c) As Banaras branch doesn't deal in bill re-discounting, it is not required to be covered under concurrent audit. Allahabad and Rae Bareilly branch are compulsorily required to be covered under concurrent audit as per RBI Guidelines. d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered under compulsory concurrent audit criteria as per RBI Guidelines, but the Banaras and Rae Bareilly branch are covered under compulsory concurrent audit criteria.
B.2	SM22/SM21/M19N
	PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2020-21. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?

	a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly. b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions till the Bank segregates the transactions from its own investments. c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate. d) Auditor should verify that PMS funds are not utilized for lending, inter-bank deposits or deposits to corporate bodies and bills re-discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.
B.3	SM21/M25M
	How the discrepancy of not filing the details of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report?. a) The auditor should report the matter as a major irregularity in his audit report to the management. b) The auditor should verify the details from e-mail sent to currency chest and close the matter. c) As it is a minor irregularity the auditor can ignore the same. d) The auditor should discuss the importance of filing the copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
B.6	SM22/M23M/SM21
	You are the internal auditor of Fair Bank Limited for the year 2022-23 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Agra branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same: a) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software. b) Ensure that all the fixed deposit receipts are attached along with the approved loan documents. c) Discuss the process followed for lien marking with the branch manager. d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.
B.7	SM21
	You have been asked by your senior to verify the high value cash deposits at the Kanpur branch. What parameters/ documents will you verify as the concurrent auditor of the branch? a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only. b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc. c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly. d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.

B.8	SM21/M19M/SM22
	Your firm has been appointed statutory auditor by a Nationalised Bank for the year 2020-21. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2021. While verification you observed that one of the accounts was regularised on 28th March 2021, for which the interest and instalment amount was overdue from the quarter ending 30th September 2020. The account was regularised after the repayment of overdue interest and instalment amounts was done on 26th March 2021. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank. As a statutory auditor will you agree with the Bank's policy? a) As the interest charged in the account was overdue for more than 90days from the end of quarter, it should be classified as NPA and should be considered as substandard asset for the balance sheet as on 31st March 2021. b) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA. c) The auditor should not agree with the Bank's policy to regularize the account before balance sheet date as overdue interest indicates more than normal risk attached to the business. d) Bank can regularize the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.
B.9	M19R/M20M/M23M
	The Advances Bank Ltd. has sanctioned overdraft limit of Rs. 44 crore to ASG Ltd. on the working capital of the company as on 31st March 2015. As per bank norms the drawing power in the overdraft account need to be reviewed on quarterly basis as per the audited stock statement of the company. As a central statutory auditor for the year 2016-17, while verifying the advances for the year ending 31st March 2017, you noticed that the bank has not obtained the stock statement of ASG Ltd. for the two quarters ending 31st December 2016 and 31st March 2017 and no provision of NPA has been made for this account in the financial statements for the year 2016-17. What will be your decision as a central statutory auditor? a) Classify the borrower's account as NPA as the borrower's financial position cannot be determined due to non-submission of stock statement. b) Instruct the bank to obtain the audited stock statement for both the quarters and review the credit limit accordingly. c) As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2017, so the outstanding in the account will be deemed as irregular. d) You should give a qualificatory note in the audit report as per SA700.
B.10	SM22/M23R
	XYZ bank had an NPA account of M/s Glenpark showing recoverable amount of Rs. 55 lakh in the books. It sold the NPA for Rs. 56 lakh. Please select as to which of the following options is the correct accounting: a) Credit the excess of Rs. 1 lakh to profit on sale of assets. b) Let the amount remain in Glenpark account. c) Credit the excess of Rs. 1 lakh to Provision for loss on sale of NPAs. d) Return Rs. 1 lakh to the party purchasing the NPA.
B.11	M21M/SM22
	A bank has some non-interest-bearing staff advances. In the Balance Sheet these should be presented under: a) 'Term loans' under 'Advances'. b) 'Cash Credits, Overdrafts and Loans Repayable on Demand' under 'Advances'. c) 'Advances in India – Others' under 'Advances' Schedule.

	d) 'Others' under 'Other assets.'
B.12	M21M/M22M
	While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:
	a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery. b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates. c) Net credit balance in branch adjustment accounts including these relating to foreign branches. d) Margins held and kept in sundry deposits for funded facilities.
B.13	N22M
	Which of the following statements is INCORRECT?
	a) Inoperative saving and current accounts are a fraud prone area. b) Debit balances in current account are reduced from aggregate demand deposits in balance sheet of a bank. c) Interest accrued but not due on deposits is shown separately under head "Other Liabilities and provisions." d) FCNR deposits are in designated foreign currencies only
B.14	N22M
	Which of the following statements is correct regarding submission of Statutory branch audit report and LFAR of branch signed by the branch Auditor CA. Mahaveer?
	a) Statutory branch audit report is to be submitted to Statutory Central auditors and LFAR is to be submitted to head office of bank directly. b) Statutory branch audit report is to be submitted to Statutory Central auditors and LFAR is to be submitted to RBI directly. c) Statutory branch audit report as well as LFAR are to be submitted to Statutory Central auditors. d) Statutory branch audit report as well as LFAR are to be submitted to head office directly as appointment was made by Head office.
B.15	N21M
	Siddha and Associates, Chartered Accountants has been appointed as the branch statutory auditor of CRR Bank. Auditor identified cases of Advances where primary security is not adequate to cover the margin as stipulated by the Loan covenants. Further no documentation exists to confirm that the collateral security is unencumbered. For the advances not having adequate security, the auditor should:
	a) Mention the cases in the Long Form Audit report only. b) Not mention the cases in the Long Form Audit report. c) Document the cases and discuss with branch management. d) Consider to downgrade the asset as per RBI prudential norms.
B.16	M24M
	During the audit of Good Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:
	• 79 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ₹ 26 lakh were overdue for more than two years.

	93 (guaranteed by Government of India) agricultural loan accounts amounting to ₹ 32 lakh were overdue for more than two years. 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to ₹ 29 lakh for each company were overdue for more than three and a half months. What is the total amount of loans that should be classified as NPA by Good Bank?
	a) ₹ 58 lakh. b) ₹ 145 lakh. c) ₹ 113 lakh. d) ₹ 174 lakh.

B.17	M25R
	Suban Engineering, a borrower of the branch, had fully utilized its sanctioned cash credit limit of ₹ 400 Lacs, with an outstanding balance of ₹ 413 Lacs as of March 31, 2024. The bank classified the account as a Sub-standard Asset. During an inspection, the DGM observed that the borrower's premises were damaged, with no machinery, stock, or other assets present. The borrower was unreachable, and an independent verification of assets confirmed that no mortgaged security was available, except for a piece of land with a realizable value of ₹ 33 Lacs. The bank accepted this report and made a provision considering the account as a Sub-standard Asset. Whether correct classification and provisioning norms have been applied in the account of Suban Engineering?
	a) The account is correctly classified, but provision should be made for hundred percent of the unsecured portion besides making specified provision on secured portion. b) The account should have been classified as Doubtful asset and besides making required provision on secured portion, provision should have been made for hundred percent of the unsecured portion. c) The account should have been classified as Loss asset and full provision should have been made in the books of accounts. d) The account should have been classified as Doubtful asset and full provision should have been made in the books of accounts.

Part 2 - AUDIT OF NBFC

NBFC.1	SM21/SM22/M19N
	CER Ltd is a non-banking financial company and has been operating for the last 10 years. The company is duly registered as per the requirements of the Reserve Bank of India. The company's assets base has been very strong over the years due to its efficient management function. The company is also planning to get listed for which required work is going on. For the financial year ended 31 March 2019, the company has closed its books of accounts and prepared the financial statements for the purpose of statutory audit in a timely manner. The auditors of the company have started their fieldwork. It has been observed by the auditors that the company's various term loans which have been given to various parties have become overdue in terms of instalment including interest for a period of 5 months. As per the auditors these terms loans should be considered by the company for making provision at the rate of 20% of total outstanding amount, however, the management has considered a provision at the rate of 0.30%. Please advise the auditors and the management regarding this matter considering that "Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016" are applicable to this NBFC. a) Provision should be made at 10%. b) Provision should be made 0.30% c) Provision should be made at 20%. d) Provision should be made at 0.40%
NBFC.2	SM22/SM21
	CRE Ltd is a non-banking financial company and registered with the Reserve Bank of India as per the requirements of Section 45-IA of the Reserve Bank of India Act, 1934. The company was established with a net owned fund of Rs. 2 crores. The company's management had a great focus on the internal controls and processes. To make them robust, in the initial years of set up of the company, the management involved consultants who helped the management in setting up those processes and controls. The company's operations have grown considerably over the years and their assets base is huge. The management has in-house function which reviews these processes regularly and any improvements required are actioned upon in no time. With this kind of set up, the management was assured of the functioning of the NBFC as per right principles, however, despite this during the year ended 31 March 2019, the management came across instance of fraudulent encashment through forged instruments and fictitious accounts involving an amount of Rs. 5 lakhs. Though the amount was not significant but still the management discussed the same with the statutory auditors for their knowledge. The statutory auditors after discussion told the management that the management needs to report this matter to RBI with which the management is not comfortable considering the amount involved in this matter and the size of the company. a) Management need not report this matter considering the nature of fraud. b) Management need not report this matter considering the amount involved. c) Management should report this matter to RBI. d) Management should not report this to RBI, however, it will be their responsibility to report this matter to SEBI.
NBFC.3	M19M
	Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) is : a) Not available to depositors of NBFCs b) Available to +D23 depositors of NBFCs c) Available to depositors of Banks d) Not available to depositors of both NBFCs and banks

NBFC.4	SM22/SM21
	Kshitij Ltd is a non-banking financial company other than Nidhi company and is covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". The NBFC has been in existence for the last 11 years and its operations are considerable in size having a net worth of ` 299 crores. The NBFC has new statutory auditors for the financial year ended 31 March 2019. The audit report (including CARO) of the NBFC was clean for the financial year ended 31 March 2018. The company had a planning discussion with the auditors of the company for the financial year ended 31 March 2019 who raised a point regarding the applicability of new set of accounting standards, Indian Accounting Standards (Ind AS), on the NBFC for the financial year ended 31 March 2019 and have asked the management to ensure that its financial statements should be according to that. This comes as a big surprise to the management who had assessed that Ind AS would not be applicable to this NBFC because of the fact that CARO is applicable on this NBFC. There is a big disconnect on this matter between the auditor and the management. Please help by resolving this matter. - Both the management and statutory auditors are not correct because Ind AS is not applicable to any NBFC covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". - Management is correct because Ind AS is only applicable to NBFC which are also a Nidhi company. In this case, CARO being applicable, Ind AS cannot apply to this NBFC. - If the management does not agree with the view of statutory auditors, then they should give adverse opinion in their report and also report this to RBI. - Ind AS would not be applicable for financial year ended 31 March 2019 and hence the view of statutory auditors is not correct.
NBFC.5	SM22/SM21
	NBB Ltd is a non-banking financial company on which provisions of "Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016" are applicable. The company has been accepting as well as holding the public deposits. During the financial year ended 31 March 2017, the company obtained specified credit rating for its fixed deposits from CRISIL. However, during the financial year ended 31 March 2018, the company obtained minimum investment grade for its fixed deposits from ICRA Ltd. During the financial year ended 31 March 2019, no such grade/ rating was obtained. The reports of the statutory auditors for the past years have always been clean. The statutory auditors of NBB Ltd have completed their audit for the financial year ended 31 March 2019 as well and finalizing their audit report. The auditors discussed with the management that for the financial year ended 31 March 2019, they would have to include matter regarding acceptance of public deposits by the company without obtained required specified credit rating during the year ended 31 March 2019. The auditors further explained that even during the year ended 31 March 2018, instead of specified credit rating, the management obtained minimum investment grade which was ignored by them, but it cannot continue for 2 years. The management is of the view that this requirement was fulfilled as the same was obtained in the previous year and for one year if that is not taken then it should be fine. Please advise how to deal with this matter. - It would have been fine if the rating was obtained in the financial year ended 31 March 2018 instead of minimum investment grade. Hence the auditor should report this matter. - It does not make any difference whether rating or grade was obtained. Moreover, the same should have been obtained in the current year also and hence the auditor should report this matter. - It does not make any difference whether rating or grade was obtained. And hence management is correct that only up to last year it was obtained and hence no reporting is required by the auditor on this matter. - If the rating was not obtained in the previous year, it requires that NBFC obtains rating in the current year twice i.e., every half year. Accordingly, it should be reported by the auditor.

NBFC.6	SM22/SM21
	RCE Ltd was set up under the Companies Act 2013 and got itself registered as non-banking financial company with the Reserve Bank of India, fulfilling the required criteria. During the financial year ended 31 March 2021, the company's operations have started. The company's total assets were rupees 298 crores out of which trade receivables, loans receivable in cash, cash and bank balances comprised of rupees 199 crores. During the financial year ended 31 March 2021, the company's operations generated total income of rupees 99.50 crores. The management also did an assessment and observed that income from its financial assets was not much during the year and amounted to only rupees 60 crores. The management is looking at various alternatives to improve its operations, if required, to generate better income in the coming years. Further, the company during the year also accepted and gave demand deposits which have been very efficient for the company. Management has a plan to significantly increase these deposits in the next 2 years as that would help in the overall functioning of the company. In the context of the above, please answer which of the following options would be correct. - The company does not meet the criteria of financial assets and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company. - The company does not meet the criteria of income and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company. - The company meets the criteria of financial assets and income. An NBFC can only accept demand deposits but cannot give demand deposits. Hence in this case, the statutory auditors should report regarding the same. - The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter.
NBFC.7	N19R
	Yuvraj Ltd. is a non-banking financial company other than Nidhi company and is covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". The NBFC has been in existence for the last 11 years and its operations are considerable in size having a net worth of ` 299 crores. The NBFC has new statutory auditors for the financial year ended 31 March 2019. The audit report (including CARO) of the NBFC was clean for the financial year ended 31 March 2018. The company had a planning discussion with the auditors of the company for the financial year ended 31 March 2019 who raised a point regarding the applicability of new set of accounting standards, Indian Accounting Standards (Ind AS), on the NBFC for the financial year ended 31 March 2019 and have asked the management to ensure that its financial statements should be according to that. This comes as a big surprise to the management who had assessed that Ind AS would not be applicable to this NBFC because of the fact that CARO is applicable on this NBFC. There is a big disconnect on this matter between the auditor and the management. Please help by resolving this matter. - Both the management and statutory auditors are not correct because Ind AS is not applicable to any NBFC covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". - Management is correct because Ind AS is only applicable to NBFC which are also a Nidhi company. In this case, CARO being applicable Ind AS cannot apply to this NBFC. - If the management does not agree with the view of statutory auditors, then they should give adverse opinion in their report and also report this to RBI. - Ind AS would not be applicable for financial year ended 31 March 2019 and hence the view of statutory auditors is not correct.

NBFC.8	N19M/ N21M /SM22/N22M/N23M								
	50:50 test determination is popularly used in								
	a) Banking Company b) Insurance Company c) Non-Banking Financial Company. d) Stock Trading Company								
NBFC.9	N20M								
	"During the audit of AMC Finance Ltd, an NBFC, the auditor found that a fraud was committed by its employees amounting to ` 107.80 lac. The management of the company took severe action against the employees and the auditors took all necessary steps to report t the fraud. Which among the following steps auditor should take, with respect to the fraud committed by the employees of thence? a) Report in prescribed form should be sent to Central Fraud Monitoring Cell of RBI within 3 weeks from date of detection of fraud. b) Report in prescribed form should be sent to any Regional Office of Department of Non-banking supervision of RBI within a week from date of detection of fraud. c) Report the matter in prescribed form to the Central government within 21 days from date of detection of fraud. d) Report the matter to the promoters of the company, within 15 days from date of detection of fraud."								
NBFC.10	M22M								
	M/s Vardhman and Associates have been appointed as the statutory auditors of a NBFC (UVW Ltd.) for the financial year 2021-22. The company is required to comply with the Indian Accounting Standards. During the course of audit CA Vardhman found that the company has classified its Assets and Liabilities as financial and non-financial instead of current and non-current. What should CA Vardhman advice the management of NBFC UVW Ltd. in this regard? (a) The management of NBFC UVW Ltd. is correct in classifying the Balance Sheet items as financial and non-financial as per requirement of Division III of Schedule III of Companies Act 2013. (b) The management of NBFC UVW Ltd. is not correct in this regard and should classify the Balance Sheet items as current and non-current as is required by all other companies as per the requirement of the Division III under Schedule III of the Companies Act 2013. (c) The management of NBFC UVW Ltd is right in this regard as the NBFC has the option to classify the balance sheet items either as current and non-current or as financial and non- financial. (d) The management of NBFC UVW Ltd. should classify the Balance Sheet items as current and noncurrent as per the requirement of Division II of Schedule III of the Companies Act 2013 applicable in case of NBFC.								
NBFC.11	N22R								
	CA Z is appointed as a Statutory Auditor of JB Finance Limited (a Non- Banking Financial Company covered under Non-Banking Financial Company — Systematically important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) for the year 2021-22. Following information is available with CA Z with respect to JB Finance Limited as at 31st March, 2022: <table border="1"> <thead> <tr> <th>Particulars</th><th>(in Lakh)</th></tr> </thead> <tbody> <tr> <td>Standard Assets</td><td>700.00</td></tr> <tr> <td>Sub-standard Assets</td><td>200.00</td></tr> <tr> <td>Doubtful Assets (Secured and up-to one year)</td><td>10.00</td></tr> </tbody> </table>	Particulars	(in Lakh)	Standard Assets	700.00	Sub-standard Assets	200.00	Doubtful Assets (Secured and up-to one year)	10.00
Particulars	(in Lakh)								
Standard Assets	700.00								
Sub-standard Assets	200.00								
Doubtful Assets (Secured and up-to one year)	10.00								

Doubtful Assets (Secured and more than three years)	50.00
What will be the total provision required to be made in the books of JB Finance Limited for the year ended 31 March, 2022 for the above stated Assets?	
(a) 49.8 Lakh (b) 47 Lakh (c) 34.8 Lakh (d) 52.8 Lakh	

**Part 1 - Audits
Of Banks**

B.1	b
B.2	b
B.3	d
B.6	b
B.7	c
B.8	d
B.9	c
B.10	c
B.11	d
B.12	c
B.13	b
B.14	c
B.15	d
B.16	c
B.17	c

**Part 2 -AUDITS
OF NBFC**

NBFC.1	a
NBFC.2	c
NBFC.3	a
NBFC.4	d
NBFC.5	b
NBFC.6	d
NBFC.7	d
NBFC.8	c
NBFC.9	a
NBFC.10	a
NBFC.11	a

15. Overview of Audit of Public Sector Undertakings

PSU.1	M19M/M21M/SM21/SM22
	In Case of PSU, Direct Reporting Engagement does not include
	a) Performance audits b) compliance audits c) Financial audits d) Comprehensive Audit
PSU.2	M19M
	A Public Limited Company is having its Head Office at Mumbai and the employees from various branch offices used to visit Mumbai for official meetings. So, the company decided to construct guest house for their employees staying in Mumbai, as the stay in hotel was very expensive. The management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations. The building was ready for use by the year 2015 on which a total expenditure of Rs. 5 crores was done, but it was not used by the employees and they continued to stay in hotel. From the financial 2015-16 onwards the expenses were booked in company's profit and loss account for the upkeep and maintenance of the building and the hotel charges paid for the stay of employees. The company was having a separate internal audit department but one of the director demanded propriety audit to ensure compliance with section 186 of the Companies Act, 2013 and ensure that the transactions represented by books are prejudicial to the interests of the company. Do you think that there is any need for propriety audit?
	a) Propriety audit is not required when the company is already having a separate internal audit department and these areas can be covered in the scope of internal auditors. b) The director has no right to demand propriety audit, as in the case of Public Limited Company only Government is authorized to decide on whether a propriety audit is required or not. c) Propriety audit is concerned with the scrutiny of executive decisions and actions affecting the company's financial and profit & loss situation. So, in the above case it is required as huge expense has been done on construction of building and even then it was not used, which had a major impact on company's profit and loss statement. d) There is no need of propriety audit as the management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations.
PSU.4	SM21/SM22/N23M
	NOP Ltd is a joint venture of Central Government and a private company and is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company. The company is acknowledged for its consumer-friendly practices. Initially it was completely owned by the Government and was running into significant losses but after the joint venture, the aggregate technical and commercial losses of the company showed a record decline. The operations of the company have improved significantly as claimed by the management of the company. The C&AG wants to conduct the performance audit of one of the departments of the company through a subordinate office of Indian Audit and Accounts Department. For this purpose, the audit programme has also been finalized and the Accountant General has intimated the company that the audit would start within a day's time. The company is concerned because the programme which has been received from the Accountant General is quite detailed and would involve significant time. Further the management of the company is quite surprised as to why this audit should be conducted as this is not a company subject to such types of audits as per law. The management of the company would like to have your inputs in respect of this matter. Please guide.
	a) The notice for such type of audit should give reasonable time to the management to prepare

	themselves. Further it should not be a detailed audit requiring significant time of the company. b) The C&AG may conduct such type of audits in respect of NOP Ltd which would get covered in this criterion, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves. c) In case of a joint venture such type of audit cannot be performed as per the Companies Act 2013. The company should write to the Registrar of Companies in respect of this matter and till that time no audit can be started. d) In case of a joint venture such type of audit cannot be performed as per the Companies Act 2013. Further wherever this is applicable that is only for a small period of time. The company should write to the Ministry of Corporate Affairs in respect of this matter.

PSU.5	SM22
	A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by
	(a) Public Accounts Committee (PAC). (b) Committee on Public Undertakings (COPU). (c) Estimates Committee. (d) Public sector Committee.

PSU.6	SM22/M23R/N23M
	You have been given an assignment of audit of IT department of a PSU. A checklist was handed over to you which contained many questions such as, ▪ Are separate usernames and passwords assigned to individual users? ▪ Are periodical changes of passwords ensured? ▪ Are external (offsite) data backups maintained at a place outside the premises? The type of audit being conducted is likely to be:
	(a) Comprehensive audit. (b) Propriety audit. (c) Compliance audit. (d) Financial audit.

PSU.7	N22R
	With respect to audit of public sector undertaking, which among the below is related to propriety audit?
	(a) This audit is carried out by assessing whether activities, financial transactions and information comply in all material aspects, with the regulatory and other authorities which govern the audited entity. (b) This auditing focuses on the areas in which it can add value which have the greatest potential for development. It provides constructive incentives for the responsible parties to take appropriate action. (c) It is an audit under which the C&AG does not really cover again the field which has already been covered. He conducts an appraisal or an efficiency cum performance audit. (d) It stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct. This audit is directed towards an examination of managements decisions in sales, purchases, contracts, etc.

AUDIT OF PUBLIC SECTOR UNDERTAKING

PSU.1	c
PSU.2	c
PSU.4	b
PSU.5	b
PSU.6	a
PSU.7	d

Note: ICAI has changed answer of MCQ **PSU.6** from **Compliance Audit** to **Comprehensive Audit** in Recent Nov 22 MTP
Answer Given here is latest answer.

16. Internal Audit

IA.1	SM19
	AAS Ltd is in the business of fast-food chains. During the internal audit of accruals/ expenses of the company, the internal audit team observed that for some of the entries passed the narration was wrongly written as if the expense is related to the travelling expense. The vouchers were passed by the finance personnel of the company, but no review mechanism was seen for this. Management explained that there is a review mechanism, but this is only about narration of expenses which should not be relevant for the internal auditor. How should the internal auditor deal with this matter?
	a) The Company should perform the review of entries to check such cases and same thing should be reported by the internal auditor. b) The Company's management seems reasonable here. c) This matter should be considered on the basis of materiality. d) Internal auditor should further investigate as this is indicative of fraud.
IA.2	SM19
	ACE Pvt Ltd is a large company and has diverse operations. The company is planning to get listed to raise funds. Over the last years, the company did not use much of technology and with the changing times, the management has also identified the need to bring mechanisms in place to improve upon the use of technology. The internal auditors of the company while review of Business Continuity Planning/ Disaster Recovery Plans observed that the Identified Disaster Recovery Site of the company was in the same seismic zone as the Primary Site. Therefore, the effectiveness of the Disaster Recovery (DR) Plan was not verified. The management discussed this matter with the internal audit team and explained that the present DR plan is to protect against hardware failure and building level exposure. They will plan for city level DR along with Annual Business Plan in another year. Please suggest which one of the following options is correct.
	a) DR plan is not of much relevance and should not be focused upon by the internal auditor in his report. b) DR plan is an outdated plan and in today's scenario it is not required. Hence internal auditor should drop this. c) Absence of Disaster Recovery Site in different seismic zone might lead to failed or delayed recovery of business operations in an event of natural disaster. It is important for the management to plan this and hence internal auditor should also report this. d) Since the management has a plan for DR in near future this matter is not relevant to be reported.
IA.3	M19M
	AFM coaching institute was accepting fees from its students in cash or cheque or online transfer for an amount up to Rs.10000/-, and if the amount of fees is above Rs.10000/- by cheque or online transfer only. In the year 2017 the institute's total fees collection was of Rs.82 crores. Your firm has been appointed the internal auditor by the Institute and during the verification of vouchers for fee receipts you noticed that cash receipts of approximately Rs.5 lakhs were directly credited in bank account instead of routing through cash account. Management explained that since the deposit slips used for fees received in cash or cheque are same, the accountant has erroneously shown them in the bank account, but he has always tallied the cash at day end and those cash receipts were deposited in the bank account same day. Whether the auditor will consider the discrepancy as material for audit report?
	a) The auditor should disclose the fact with his comment in the audit report as it is material for

	giving a true and fair view on financial statements. b) It is not a material discrepancy as the total receipts amount will remain the same and the fees collected in cash are deposited in bank account only. c) The auditor should verify that whether such cash receipts reflect in bank statement on the same day and cash ledger reconciles with the cash book on the respective dates or not. If it is followed, then auditor can include the matter in observation paragraph with his comments else disclose the matter as major internal control lapse. d) Auditor can ask the management to give a representation letter in writing
IA.4	M19M
	An educational institute was collecting fees from their students by cash/ cheque / draft and through net banking. Institute follows the policy to account for the fees received in the year of receipt only and for the cheques or drafts received but not deposited in bank or credited in bank account, should be shown in reconciliation statement. The internal auditor of branches noticed that at some branches only the fees received up to 25th March are accounted for in the same year and the receipts after that date are carried forward to be accounted for in the next financial year. The fees collected in these branches between 25th to 31st March amounted to Rs. 15 lakhs for the year 2017-18 and the collection for the financial year ended 31st March 2018 amounted to Rs. 115 crores. The auditor was of the view that it will not give a true and fair view on institute's revenue for the year. What do you think should be the next step of the auditor?
	a) The branches have accounted for those receipts in the next financial year so the auditor can ignore the observation. b) Auditor should report the matter in Executive Summary paragraph and highlight it as significant internal control lapse. c) Internal auditor can discuss the matter with the management to take a strict action against the branches not following institute's policy. d) Auditor should get the accounts modified and report the matter in action taken report.
IA.5	SM19/M19M
	As an internal auditor of LMN Bank Ltd., you have to verify the vouchers for the quarter ending 30th June 2018 of a branch at Ahmedabad. While verifying the vouchers, your team noticed that many of the bearer cheques processed by the teller have not been stamped as "paid", when discussed with the branch manager he stated the reason as ignorance on the part of official who has been assigned the duty of verifying the vouchers. As an internal auditor, what should be your next course of action:
	a) Considering the matter as immaterial, ignore it for the internal audit report. b) The Branch manager should be advised to rectify the discrepancy and the observation is closed in the internal audit report noting the corrective action taken. c) The matter should be immediately reported to those charged with governance of LMN Bank Ltd. d) Report the matter in Executive summary paragraph of Internal Audit Report as it is a significant internal control lapse.
IA.6	SM19
	ASOP Ltd is in the business of trading and manufacturing of FMCG. The turnover of the company has been increasing; however, the company has not been able to maintain its margins constant which are declining. The internal auditors of the company raised observations on the sales schemes of the company. As per the SOP, all schemes are required to be approved by the CEO of the company. However, per process it was observed that all schemes were approved by Chief Sales and Marketing Officer (CSMO). Review of sample 89 support schemes for the months of May 2018 and June 2018 highlighted that 19% (i.e., 17 schemes) were not approved by the CSMO. Management replied that there is a need for revision of SOP to reflect current paradigm. They shall amend the SOP to reflect the same. Please advise how should these matters be dealt by the internal auditors?

	a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points. b) SOPs are not aligned to on-ground practices followed by concerned officials. SOPs should be updated and till then there should be a mechanism to follow the existing SOP. c) SOPs are not aligned to on-ground practices followed by concerned officials and the same should be reported by the internal auditor. d) Internal auditor should look at the materiality and basis that can ignore this as this will not have much impact.
IA.7	SM19
	BCP Ltd is in the business of manufacturing of cranes. It's a wholly owned subsidiary of a Chinese company and follows policies and procedures of the parent company. The company's annual turnover is INR 1000 crores. The company operates through dealers in India for making sales and pays incentives to them on the basis of delivery-based schemes and other schemes which are introduced from time to time. It was observed by the internal auditors of the company that incentives amounting to INR 10 crores were paid to dealers on account of delivery-based schemes for the month of October 2018. Review of cranes installations for the same period highlighted that incentive amounting to INR 30 lakhs had been paid against invalid claims. This was primarily because of absence of verification of the delivery claims with the installation data. Management replied that disbursement basis 100% verified installations has been defined as per the process. Revision in process has been done to prevent inordinate delays in reimbursements to the dealers. Please advise how should these matters be dealt by the internal auditors?
	a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points. b) The impact of the matter is not significant and hence the same should be dropped. c) Incentive paid against non-genuine claims bear financial implications for the Company. Verified installation data should be taken for considering incentive payout. This matter should be highlighted by the internal auditor in his report. d) Internal auditor should ask the management to take corrective action and basis that drop this point as this is matter which is of financial implication which needs to be considered by the statutory auditors of the company.
IA.8	SM19
	BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2017-18. In order to review internal controls of the sales department of the company you visited the department and noticed the work division as follows: 1. An officer was handling the sales ledger and cash receipts. 2. Another official was handling dispatch of goods and issuance of Delivery challans. 3. One more officer was there to handle customer/ debtor accounts and issue of receipts. As an internal auditor do you think that there was proper division of work? If not, why?
	a) There is proper division of work as the dispatch and sales ledger maintenance work is allotted to different officials. b) Company has not done proper division of work as the receipts of cash should not be handled by the official handling sales ledger. c) Delivery challans should be verified by an authorized official other than the officer handling dispatch of goods. d) Both b and c are correct.

IA.9	SM22/SM21
	RS Ltd was set up by Raj and Shanti in 1992. Initially the name of the company was Rajeev Private Limited. The company is currently into the business of aviation. The company has its head office at Chennai. The company has been in the same business since its incorporation but over the years had to shut down its business 3 times due to operational inefficiencies and resultant losses. In the year 2012, when the company restarted its operations after shutting that down third time, the company got funding from foreign investors. The management of the company increased its focus on the processes of the company and various checks and controls to improve the efficiency of the operations. This gradually resulted in improving the overall business culture of the company and gradually company started earning profits. In the year 2016, the company got converted into public company and got its name changed to RS Ltd. After that the company also tried to get listed on the New York Stock Exchange, but the market was not favourable, and the company instead got listed in India. The company kept increasing its focus on operational efficiencies which was also extended to all other processes of the company, most importantly, financial reporting which was not focused earlier by the management. The company also appointed a large firm of Chartered Accountants, KB & Co, as its internal auditors, who have had specialization in the same sector so that they can help the company to fill the gaps in the processes, wherever required. The company also appointed other consultants to improve on the operations and management functions. During the financial year ended 31 March 2018, the internal auditors of the company raised some observations which were discussed in detail with the management, primarily because the management was not agreeing to some of the points of the internal auditors. Subsequently in the financial year ended 31 March 2019, the management decided to set up its in-house internal audit function along with the CA firm, KB & Co. The idea was to do the work in-house and over the period, KB & Co can move out once the management is confident of the in-house internal audit function. Considering the above-mentioned facts, please provide your suggestions in respect of the following: The Standard Operating Procedures (SOP) for logistics process was not defined from the point of vehicle request received from the sales marketing department up to the bill's verification. The management explained that part of this process was developed, and remaining part was expected within next 3 months.
	- This is more of a documentation and hence not relevant for the management. - Auditor should highlight and report this matter in his report. - The matter which is already under development should not be considered by the auditor. - Management needs to demonstrate the development process further and get this issue closed.
IA.10	SM19
	DPP Ltd is in the business of software and is in growing phase. The company's turnover has been increasing year on year and profit margins are good. The company is also planning IPO in next 2-3 years depending on the market assessment at that point of time. It was observed by the internal auditors of the company that it does not have a documented Segregation of Duty (SOD) Matrix. Access controls were tested on basis of leading practices and following observations were identified: - Users apart from Finance & Accounts team were having access to critical financial transactions. - Users apart from Quality department were having access to Quality Clearance transaction for raw material and finished goods. - Multiple users having access to Purchase Order Approval though it should be confined to

	HODs/Purchase Heads. Management of the company explained to the auditor that the company is new and this may be required for a well-established company. Please advise.
	a) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. Hence there should be a proper SOD matrix. b) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. There should be a process of SOD though it is not necessary to document that. c) Management is right and accordingly it is not relevant for the internal auditor. d) Since currently the operations of the company are running smoothly, there is no need for complicating the internal business environment by setting up SOD matrix.
IA.14	SM19
	KSHTZ Ltd, listed company, is in the business of stainless steel and is more than 50 years old. The company's turnover is INR 11000 crores and has good profit margins which have been improving over the last 2 years. The company is also planning to raise funds in another 5-6 months. The company has SAP as its ERP package. Recently there has been a change in the internal audit team. The new internal auditors observed that there have not been any approved policies and procedure in place in their audit period from 1 April 2018 to 30 September 2018. For e.g. • Information Security Policy and Procedure • Change Management Policy • User Access Management Policy. Also, the policies and procedures do not have any version control, owner and review details, etc. Management of the company explained to the auditor that the company does not require this and hence this point should be ignored. Please advise.
	a) Absence of well-defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees and hence there should be approved policies and procedures in place. b) Absence of well-defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees. There should be a process to follow policies and procedures though it is not necessary to document that. c) Management is right and accordingly it is not relevant for the internal auditor. d) Absence of well-defined and approved policies and procedures has not impacted the company till date and if the management has reasons not to keep this then the same should not be considered by the internal auditor.
IA.16	SM19
	MNO Ltd borrowed an amount of INR 5 crores from a financial institution during the year. The company had existing borrowings of INR 1800 crores from various banks. However, the company took loan from a financial institution for the first time. The rate of interest charged on the new loan was based on market rate of interest and there was no security for this loan. During the course of the internal audit, internal auditor could not find the borrowing agreement for the new loan and raised this point with the management. The management explained that new loan was required for a special purpose for which all other documents are available for auditor to verify – disbursement proof in the bank statements, repayments. However, the agreement was not prepared because the person who arranged the loan from financial institution was known to the company and basis verbal understanding this has been done. Please advise internal auditor.
	a) Internal auditor should report this matter as this can be a serious deficiency.

	b) Because all other proofs are available, internal auditor should ignore this point. c) Internal auditor should report this matter to Reserve Bank of India. d) Considering the insignificant amount of this new loan as compared to total borrowings of the company, this may be ignored by the internal auditor.

IA.17	SM19

	NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle. There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers. Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

	a) Management responses look reasonable and this matter should be dropped. b) The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored. c) Internal auditor need to report this matter. d) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

IA.19	SM22/SM21

	On review of procurement process, it was observed that the system was not enabled to show pending delivery of same material while raising a subsequent purchase order and the guidelines were not defined for review of open purchase orders and long pending orders. Management explained that this was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality etc and they will explore how system driven reporting can be done.

	a) This was an operational challenge and hence out of the purview of internal auditor. b) This related to some system constraints and hence may be ignored by the internal auditor. c) The internal auditor needs to highlight this in his report. d) The management should draw a proper plan to take care of this. In any case there doesn't appear to be any financial impact due to this and hence the same should be ignored.

IA.20	SM19

	ONZ Ltd is in the business of trading of consumer equipment's. The company's turnover is INR 347 crores. The company has not been doing well over the last few years due to which its profitability has gone down significantly. The company charges cartage/freight from its customers. Because there is a huge cost incurred in this respect, the company ensures that this amount is recovered on time. During the performance of the internal audit procedures, the internal auditors of the company found that in some cases freight was charged in the bills manually, rather than through the automated system of generating an invoice. Internal auditor raised this point to the management. The management replied that it happens only in exceptional cases that the freight is charged

	manually on automated generated invoice. How would you deal with this as an auditor?
	a) Internal auditor should report this matter. b) Internal auditor should discuss with management about way forward and drop this point. c) Internal audit observation is not right. d) Internal auditor should ignore on the grounds of materiality.
IA.21	SM19
	OQR Ltd is in the business of manufacturing of tractors and cranes. The company has a policy to provide aftersales services to the customers in respect of its products. Please advise what internal audit procedures should be considered by the internal audit team for the audit of after sales service. (i). Assess replacement trends, nature of failures and replacement policies. (ii). Examine the percentage of replacements of manufacturing defects vis-à-vis off-take. (iii). Examine which type of products/models has a higher failure record and why. (iv) Check whether any particular dealer's failure percentage vis-à-vis his turnover higher than the norm. If so, why. (iv). Check whether there are adequate technical audit on awards of replacement. (v). Evaluate the effectiveness of after-sales service with regard to its scope and consumer satisfaction. Is this service prompt and timely?
	a) i, ii, iii, iv and vi. b) i, iii, iv, v and iv. c) i, ii, iii, iv and v. d) i, ii, iii, iv, v and vi
IA.22	SM19
	Prakash & Co. Chartered Accountants are the internal auditor of Textbook Private Limited, for the year 2016-17. You have been instructed by your senior to check the internal controls for the investments done by the company during the year. While verifying the same you noticed that the property documents, share certificates and other investment documents have been kept in a safe custody locker, whose keys are kept with an authorised official of Accounts Department of the company and none other than that official has access to locker. As an internal auditor do you consider as material weakness in internal controls? If yes, how will you report the matter?
	a) It cannot be considered as material weakness in internal control as the company might not have any other reliable employee within in its staff members. b) The safe custody locker should always be under the control of two authorized officials. Therefore, the auditor should communicate such material weakness to the management or audit committee. c) It is not material weakness to be reported as giving the keys to two or more persons can lead a situation of confusion only. d) The auditor should discuss the observation with the management and there is no need of any written communication.
IA.23	M19M
	Prakash Limited has around 25 branch offices and all the branch offices were on company's own land and building. Company has the Policy that all the original title deeds for land and building owned by the company will be kept in the custody of authorised official at company's head office and a certified copy of the same is kept with the respective branch for verification. You have been appointed as the internal auditor for the branches of the company and during the course of audit you observed that the original title deeds of some of the branch office are kept in the branch under the custody of branch officials itself. What action will you take in such case?
	a) It is not a material discrepancy, so the auditor is not required to take any action in such case. b) The auditor should inform the internal auditor of the Head Office for the compliance of the same. c) The auditor should ask the branch office/official to send original title deed to the authorized

	official at Head Office of the company immediately and submit the Internal Audit Report once the confirmation received from Head office of company. d) As an internal auditor, report the matter in the Internal Audit Report and check for the compliance of the same in the next audit period.

IA.24	SM19
	PRP Ltd is a service company and is in the business of manpower consultancy. The company also has some manufacturing operations based out of Orissa. The annual turnover of the company is INR 1500 crores. The employee base of the company is very big. Please advise what internal audit procedures should be considered by the internal audit team for the audit of labour cost vis-à-vis wages. (i). Comparing the time booked in the booking sheets with clock cards on a sample basis. (ii). For a Piece rated wage job: a. In case of an in-process job, checking that the output booked in the booking sheet is in line with the standard output possible in the stated time. In case of a major variance, enquiring into its justification and authenticity. b. In case of a finished job, checking the output booked in the booking sheet with the actual output generated for the period as per the production sheet. c. In case of variances, enquiring into the same. (iii). In case of a person doing more than one piece - rated job during the period, checking that: Total Time Booked – Overtime Hours = Normal Hours Available in the Period. (iv). Test checking the following with the master lists: a. Grade booked b. Operator code c. Job code. (v). Average Earning Job a. Verifying on a sample basis that the job categorised as “average earning” job does not have any piece rate as per the master file. b. Comparing the standard time required for output booked as per the master file with the actual time booked. In case of a major variance, enquiring into its justification and authenticity. c. Test checking the calculation of wages as per the laid down formula for arithmetical accuracy.
	a) i, ii, iii, iv and v. b) i, ii, iii and iv. c) i, iii, iv and v. d) i, ii, iii and v.

IA.25	M19M
	Rajaram is appointed as internal auditor for a finance company with 15 branches across the states. He needs to conduct a branch visit in the coming week. Based on management inputs and past year audit reports, he has shortlisted four branches. Rajaram is not able to decide which branch visit he should prioritize as an internal auditor. Based on the branch information given below, which branch should Rajaram visit first?
	a) Sonpur – 15 people; two instances of fraud in the last year; regional manager presents in the branch for supervision b) Chandpur – 12 people; no fraud, no visit by internal auditor in last two years due to set processes. c) Rampur – 18 people; no fraud, 6 of 20 employees are new joiners in the last 6 months; newly opened branch. d) Laxmanpur–10 people; 1 fraud in the last year, all 10 are long term employees of the company; no audit visit in the last year.

IA.26	SM19
	SX Ltd is in the business of steel manufacturing having a turnover of INR 10,100 crores. The company has many plants. Each plant has a canteen and some income also gets generated in the canteen every year. Being the internal auditor, what internal audit procedures may be applied to audit the canteen income?

	(i). Check the records maintained for the canteen operations to support all financial transactions. (ii). Review the agreements and contracts in case the canteen is run by an outside party. (iii). Compliance with laws and regulations applicable for operation of canteen - The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act, FEMA, GST, Companies Act, etc. (iv). Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles. Which of the above-mentioned procedures would be relevant?
	a) i, ii, iii and iv. b) i, ii and iii. c) i, ii and iv. d) i, iii and iv.

IA.27	SM22/SM21
	The Board of Directors of Young Ltd., a listed company, appointed Mr. Old, a Cost Accountant (not in practice), to conduct internal audit of the functions and activities of the company. The job of Mr. Old would be of an independent management function, involving a continuous and critical appraisal of the functioning of the company with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the company, including the entity's strategic risk management and internal control system. However, some of the officers of the company are against the appointment of a Cost Accountant who is not in practice as an internal auditor. State whether those officers are correct or not in their view point by referring the provisions of the Companies Act, 2013?
	a) The viewpoint of the officers are correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a chartered accountant. b) The viewpoint of the officers are correct because as per section 138 of the Companies Act, 2013, the internal auditor shall a cost accountant in practice. c) The viewpoint of the officers are correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be an employee of the company. d) The viewpoint of the officers are not correct because as per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.

IA.28	SM22/SM21
	The management's plan to phase out the CA firm by building up in-house internal audit team has been questioned by the statutory auditors saying this is not acceptable.
	a) Statutory auditors are correct. b) Statutory auditors should observe this for a period and if that is working fine then they should have no concern regarding this. c) The management has a discretion regarding this and hence statutory auditors are not correct. d) The management should take approval from relevant authority like MCA and then statutory auditors would have to accept this.

IA.29	SM19
	TPL Pvt Ltd is in the business of software and consultancy services. The annual turnover of the company is INR899 crores and profits are INR 199 crores. The company is planning to get listed in the overseas market within a year. If that doesn't happen then the company may look for funding through private placement. For some projects the company receives grants from government. These projects run up to 5-10

	years. XYZ & Co LLP is the internal auditor of the company. Please advise what internal audit procedures should be considered by the internal audit team for the audit of grants received. (i). Check the donations received with the copies of receipts. (ii). Check sanction letters for any conditions attached with the donations. (iii). Examine the statements submitted for utilisation of grant. (iv). Verify the grants received from the Government or other authorities with reference to all the correspondences. (v). Verify all the bank statements of the company to trace the grants received and its utilization.
	a) i, ii, iii, iv and v. b) i, ii, iii and iv. c) i, iii, iv and v. d) i, ii, iii and v.

IA.30	SM19
	You are an article assistant in PQR & Associates. You are assigned an internal audit of X Ltd., a leading company in business of dairy products. While evaluating internal controls associated with related party relationships and transactions, you come across some discrepancies. What is the basic information to be collected by you related to related party relationships and transactions? (i). The identity of the entity's related parties including changes from the prior period (ii). The nature of the relationships between the entity and these related parties (iii). Understanding of business activities of related parties (iv). Whether the entity has entered into any transaction with these related parties during the period and, if so, the nature and extent, and the purpose of the transaction (v). Materiality of related party transactions.
	a) i, ii & v b) i, ii & iv c) ii, iii & iv d) iii, iv & v

IA.32	SM19
	You are the internal auditor of FCD Bank Limited for the year 2017-18 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same?
	a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents. b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favor of bank and check that the lien is marked in the computer software. c) Discuss the process followed for lien marking with the branch manager. d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favor of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager. As a statutory auditor you should check the internal controls and internal audit reports only

IA.35	M21M/N21M/SM22/M25M
	The firm from which you are pursuing your articleship training is the internal auditor of ABC Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material. You will:
	a) Accept the explanation and the bills.

	b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action. c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit. d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.

IA.36	SM22

	RMI Ltd is a listed company in the business of manufacturing and trading of furniture and has annual turnover of INR 1,800 crore. The company's business has declined in the last 2 years. The internal auditors of the company have been very helpful in terms of coming up with observations/suggestions which have helped the management improve its operations over the years. The Company set up a plant around 4-5 years ago and the internal auditors have observed that the management needs to strengthen controls around compliance with Minimum Wages Act, 1948 and rules framed thereunder. Following were the observations of the internal auditors: Weekly offs not provided : As per Minimum Wages (Central) Rules, 1950, Rule 23 (2) "Employee shall not be required or allowed to work in a scheduled employment on the rest day unless he has or will have a substituted rest day for a whole day on one of the five days immediately before or after the rest day, provided that no substitution shall be made which will result in the employee working for more than ten days consecutively without a rest day for a whole day". However, on review of the attendance records of contractual workers, it was noted that contractual staff worked continuously for more than 10 days, ranging from 13 to 31 consecutive days. Working hours exceed the maximum limit of 12 hours a day: As per rule 24(2), "The working day of an adult worker shall be so arranged that inclusive of the intervals of rest, if any, shall not spread over more than twelve hours on any day". However, on a sample review of attendance records of workers for the month of April for contractual workers, it was noted that there were 24 exceptions wherein workers have worked more than 16 hours up to 23 hours a day. Management explained to the auditors that this has been the practice in the area in which the company is operating. Further the management also told that they will review the working schedule of workers and ensure the compliance with the requirement, ensure that weekly offs and extended hours of labour will be as per legal requirements. Please suggest the internal auditors in respect of this matter.
	a) This is a good recommendation by the internal auditors which the management plans to implement. However, it should not be reported as an observation. b) If the management agrees to implement the corrective action by the current financial year end, internal auditor should not report this matter in his report. c) Internal auditor observation should be reported in his report along with management comments. d) Internal auditor should look at the significance of this matter and looking at that can ignore this point

IA.37	SM22

	Strong Steel Ltd. has reported a higher turnover of `650 crore in the year 2020-21 as compared to earlier years but its sales return has also increased to 10% from only 4% upto the last year. The management is concerned about the high sales returns and feels a need to get the operational audit done for sales and production department of the company. The company is also having an internal audit department in the company. Elaborate the possible reason/s, why management is getting operational audit done when internal audit has already been done for both the departments? (i) Because the management is not satisfied with the performance of the internal audit department. (ii) As the operational audit will be done by an independent person and will provide suggestions for improvement. (iii) Because management audit is qualitative in nature and

	will analyse all aspects of operations as per management policies, objectives and goals. (iv) Because internal audit is restricted to financial accounting and internal controls only.
	a) (i) only. b) (ii) & (iii) only. c) (ii), (iii) & (iv) only. d) (i), (ii), (iii) & (iv).

INTERNAL AUDIT

IA.1	a
IA.2	c
IA.3	c
IA.4	d
IA.5	c
IA.6	b
IA.7	c
IA.8	d
IA.9	b
IA.10	a
IA.14	a
IA.16	b
IA.17	c
IA.19	c
IA.20	c
IA.21	c
IA.22	b
IA.23	d
IA.24	b
IA.25	d
IA.26	a
IA.27	d
IA.28	c
IA.29	d
IA.30	c
IA.32	b
IA.35	b
IA.36	c
IA.37	c

17. Due Diligence, Investigation & Forensic Audit

Part 1 – Due Diligence

DD.3	SM22/SM21
	FTA Renewables S.p.A, is based in Europe and has operations in renewable energy. The company's operations are spread out in many countries. The company is also looking for various acquisitions. VAS Private Limited is a company based in Pune having operations into solar energy. The company's management projected that its operations should increase significantly and it should become one of the largest companies in the sector in the next five years on the basis of the management plan. However, due to some unforeseen circumstances, the promoters of the company are looking to sell their business. FTA Renewables S.p.A (acquirer) is interested in acquisition of VAS Private Ltd (target) and has started the discussions with the target company for the same. The due diligence of the target company is in process and the reviewer has come up with following observations so far: (i). The target company has certain balances with its related companies which are under reconciliation for long time. (ii). The target company had certain demands in respect of taxation matters on which the court has given a stay. (iii). The target company has some assets which are carried in its books at more than their current market value due to capitalization of foreign exchange loss as the same was permitted in Indian GAAP. (iv). The target company had two properties which were under litigation. (v). The target company had given guarantees which were not appearing the financial statements. Reviewer needs your advice that which of the above mentioned observations should be reported by him to the acquirer?
	a) i, ii, iv and v. b) ii, iii, iv and v. c) i, ii, iii, iv and v. d) i, iii, iv and v.
DD.4	SM21/SM22
	IMIR Inc is a major technology, engineering, manufacturing and financial services conglomerate, with global operations having its registered office in US. The Company's manufacturing footprint extends across eight countries in addition to US. It has several international offices and a supply chain that extends around the globe. HIN Private Limited is a medium-sized Fast Moving Electrical Goods (FMEG) company and is also involved in power distribution equipment manufacturing. This company is based in India and enjoys a good market share in a wide spectrum of products like Industrial & Domestic Circuit Protection Devices, Cables & Wires, Fans, Commercial and Industrial Applications. IMIR Inc (Acquirer) is currently in talks to acquire HIN Pvt Ltd (Target). The initial price has been agreed for the acquisition of business based on net worth and profitability of the target company with an assumption that all contingent liabilities of the target impacting its future business have been considered. The acquirer appointed a firm to carry out the financial due diligence review of the target company and advised that the firm should strictly work as per the scope. The firm during the course of its review found some show cause notices (which have not matured into demands) being issued against the target company. The firm also found that there could be a potential high value labour claim which may arise out of the negotiation which was ongoing between the target company and the labour union and the labour wage agreement was already

	expired. The firm discussed all these matters with the management of the target company. The target company confirmed that these matters are under discussion and was confident that these matters would not result into any liability and hence it did not consider the same in the initial price. The firm after its discussion with the target reported these matters to the acquirer. In the given situation, please suggest which one of the following should be correct?
	a) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. Hence the above-mentioned matters relating to show cause notice and labour claim should be ignored by the firm. b) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. However, since these matters have not been considered by the target company in the initial price, it would be appropriate to consider the impact of matter related to labour claim as that may result in liability in future but the matter related to show cause notice should be ignored by the firm. c) In the given case, the firm has gone beyond its scope of financial due diligence review. Financial due diligence review covers review of trading results, assets and liabilities and accounting policies and practices of the target company. The management of the target company should talk to acquirer so that the acquirer can ask the firm to limit its work as per the scope agreed. d) In the given case, even though the initial price between the target and the acquirer is already set but still the firm needs to look at any hidden liabilities which may arise in the two cases – show cause notices and labour claim. Accordingly, the firm has done the right thing by reporting these matters to the acquirer.

DD.6	SM22/SM21
	Karma Ltd got incorporated in 1980's as a private limited company and started its business into two segments – retail and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange. The turnover of the company was increasing; however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of retail segment. The company decided to focus more on construction business and include infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards this sector. For this the company decided to sell its retail segment in 2015. The new investor for the retail segment carried out a due diligence of the business involving various aspects and the company sold this segment in January 2016. Since the business of the company was infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out a forensic audit in the financial year 2016-17. Certain transactions were identified as per this audit on which the management worked and set up certain new processes and stringent controls so that the business can function in an efficient manner. In the financial year ended 31 March 2019, an investigation was set up against the company which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself. In the light of the above-mentioned facts, you are required to comment on the following: At the time of due diligence, the reviewer assessed the business feasibility also which included the assessment whether business would be more beneficial at its current location or not. The management of Karma Ltd did not understand this perspective. The management argued that the reviewer should not have this assessment as part of his scope as the company has been doing this

	business for many years at that location.
	a) The contention of the management was correct. b) Reviewer was correct as due diligence covers assessment of business feasibility as well. c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, considering the company was doing this business for decades it should not have been carried out by the reviewer. d) Management was correct; however, the same thing should have been discussed with the investor as part of the sale contract.
DD.7	SM22/SM21
	The company has various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from some renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further he also suggested that the positions taken by the company in some matters was not correct.
	a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management. b) The company can provide consultation documents but should not have provide any other document to the reviewer as those are confidential. c) The reviewer can review the consultation document but should ask for further details, if required. d) The company cannot provide documents of any other consultant to the reviewer. However, the documents related to cases can be shared with the reviewer.
DD.8	SM21/SM22
	The due diligence reviewer was given audited financial statement of the company for his financial review. However, the reviewer asked for certain documents pertaining to the year which was already audited by the statutory auditors of the company and the management of the company declined this request.
	a) The management is correct. b) Reviewer can ask for documents even for the period for which audit is completed. c) Reviewer can ask for documents for the period for which audit is completed but he cannot give any assessment on that. That can be given for his documentation purpose only as per the requirements of the auditing standards. d) Reviewer cannot ask for documents for the period for which audit is completed. However, if the same document is required for further period for which audit is not completed, then the management should give him that document.
DD.9	M19M
	Yellow Steels Ltd. was engaged in the business of manufacturing and selling steel products. The company was having sales offices at different locations in and outside India. The company decided to have a sales office at Kanpur on their own land. A Managing Committee of some officers from the company was formed in order to get a building constructed at land in Kanpur. Budget of Rs.35 crores was approved by the company for the same and it was proposed to complete the construction within two years. Rs. 32 crores were already released by the company within a year of start of the project and the managing committee raised a demand for Rs. 5crores for further payments to vendors. The management of Yellow Steels wants to get the verification done of all the expenses incurred on site and identify the reasons for increase in construction cost. Which of the following will suffice the purpose of management?
	a) The management should go for operational audit, as it will evaluate the effectiveness, efficiency and economy of operations done at the construction site. b) The management should get a Forensic Audit done in order to rule out any possibility of fraud or any other financial crime. c) A Financial Due Diligence is required to be done as no fraud has been reported and the

	management just want to analyze the books of accounts and other financial matters pertaining to financial matters at site. d) A management audit should be done to ensure that the increase in cost of construction is not due to any discrepancies in the formulation of objectives, plans and policies of the top management.

DD.11	SM22/M25M
	AB Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire FC Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition AB Ltd. wants to get a due diligence review to be done of FC Leathers. AB Ltd. appointed S & S Associates for conducting overall due diligence of FC Leathers. During the review the accountant asked FC Leathers to provide financial projections of the company for next five years, but FC leathers refused to provide the same and claimed that financial projections is not a part of due diligence review. Whether the objection raised by the management of FC Leathers is correct? Give reason.
	(a) The objection raised by FC Leathers is correct, as due diligence doesn't include review of financial projections. (b) The objection raised by FC Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same. (c) The objection raised by FC Leathers is correct, as reviewer cannot comment on financial projections in his report. (d) The objection raised by FC Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.

DD.14	M22M
	Bhagwan & Co. has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. During the course of carrying out investigation as above, Bhagwan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. What should be the procedure of Bhagwan & Co. to seek evidence from outside India for the investigation?
	(a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation. (b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence. (c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India. (d) Powers of seeking evidence outside India is available only to an investigator under section 212 - Serious Fraud Investigation.

DD.16	N22M
	JIN Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire OM Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition JIN Ltd. wants to get a due diligence review to be done of OM Leathers. JIN Ltd. appointed S & S Associates for conducting overall due diligence of OM Leathers. During review, the accountant asked OM Leathers to provide financial projections of the company for next five years, but OM leathers refused to provide the same and claimed that financial projections are not part of due diligence review. Whether the objection raised by the management of OM Leathers is correct? Give reason
	(a) The objection raised by OM Leathers is correct, as due diligence doesn't include review of financial projections.

	(b) The objection raised by OM Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same. (c) The objection raised by OM Leathers is correct, as reviewer cannot comment on financial projections in his report. (d) The objection raised by OM Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.
DD.17	N23M
	Suvrat & Co. Chartered Accountants, mainly into statutory audit and tax audit, is now exploring the areas of due diligence and investigation assignments. During the course of due diligence, an articulated assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank. You are required to guide the articulated assistant regarding whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below?
	a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed. b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review. c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review. d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.

Part 2 - Investigation

INTG.1	N20M/ SM22
	"In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector? I. Raj & Associates, a firm II. CA Rahul III. Mihim Pvt. Ltd, a body corporate IV. ABC & Partners LLP, a body corporate a) I, III & IV b) I only c) III & IV d) II only"
INTG.2	SM21/SM22
	ARA & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period. Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted. A team of new partners is in discussion with the senior old partners regarding their joining the firm. The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive

continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not. For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.

At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope.

Please advise which of the above-mentioned procedures of investigating accountant is/are not appropriate and what improvements/ changes are required in his approach.

- a) The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also, the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.
- b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.
- c) The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.
- d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.

INTG.3	SM22/SM21

At the time of investigation, the investigation officer asked for the information of financials for the last 5-7 years. The management explained that there was no need for this investigation. Further the company has gone through the processes of due diligence and forensic audit in the past. Also the financial statements related to the period prior to investigation are audited and hence cannot be shared.

- a) Since the company went through audit process related to period prior to investigation, investigation should not have been set up.
- b) Since the company went through processes of due diligence in the past, investigation cannot be set up.
- c) Since the company went through processes of forensic audit in the past, investigation cannot be set up.
- d) The contention of the management is not correct.

INTG.4	N19M

ZARI & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period.

Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently

the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.

A team of new partners is in discussion with the senior old partners regarding their joining the firm.

The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.

For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.

At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope. In the given situation, which of the following is correct:

- The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.
- After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.
- The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.
- At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.

INTG.5	SM19/M20M
	In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted and is reviewed by the Finance Head. Your specimen review indicates that the daily cash summary was not signed off by of the Finance Head. In this situation you should:
	- conclude that the cashier is not telling truth. - consider extending investigation procedures like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc. - conclude that the Finance Head is not a responsible person. - conclude that daily cash summary is not relevant for the investigation.

INTG.6	M24M
	Rohita & Co. Chartered Accountants, mainly into statutory audit and tax audit, has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation. Rohita & Co. is contemplating getting the assistance of an expert with respect to certain matters. Can Rohita & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?
	a) Yes, Rohita & Co. should consider whether the assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information. b) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert's assistance for investigation. c) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes. d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

Part 3 – Forensic Audit

FA.1	M22R/M23M
	Which among the following are the skills to be possessed by M/s ABC & Associates as forensic accountants?
	a) Criminology and evidence gathering. b) Confidence and curiosity. c) Discretion and creativity. d) Inquisitiveness and persistence.

FA.2	N22M
	ABC & Co were appointed to conduct a forensic audit of XYZ Limited. After successfully conducting the forensic audit, ABC & Co prepared its report for the appointing authority. A copy of the report was also shared with the Board of Directors of the company. In the report, Forensic Auditors enumerated the findings of the investigation, including a summary of the evidence, a conclusion as to the amount of loss suffered as a result of the fraud and identification of those involved in fraud. The report also covered sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and opinions. Upon receiving the report, the Board of Directors raised objections as to how forensic auditors can mention the names of those who are involved in fraud. You as a Forensic Expert guide whether is it appropriate to mention the details of the person who are involved in fraud in the final report.
	(a) Report can include a section to identify those involved in fraud. This is recommendatory and in line with the appropriate practice of reporting. (b) Report should not contain such details till the time it is proved in a court of law. (c) Report can include a section to identify those involved in fraud but subject to prior approval of the Board of Directors of the company. (d) Report should not include a section to identify those involved in fraud as it is not permitted under SA 700.

DUE DILIGENCE, INVESTIGATION & FORENSIC AUDIT**Part 1 – Due
Diligence**

DD.3	c
DD.4	d
DD.6	b
DD.7	a
DD.8	b
DD.9	c
DD.10	c
DD.11	b
DD.14	b
DD.16	b
DD.17	a

**Part 2 –
Investigation**

INTG.1	d
INTG.2	c
INTG.3	d
INTG.4	c
INTG.5	b
INTG.6	a

**Part 3 - Forensic
Audit**

FA.1	a
FA.2	a

18. Emerging Areas Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance

Part-1 SDG & ESG

NO MCQ

CA Ravi Taori
9096000033

19. Professional Ethics & Liabilities Of Auditors

Part 1 - Introduction & CA Act

PE.5	N19M
	One of your audit client Vernon Co with a year ending 31 March 2019 is planning to prepare the financial statements from the next year as per Indian Accounting Standards (Ind AS). The finance director of Vernon Co has contacted the audit engagement partner, asking if your firm can provide training on Ind AS to the accounts department of the entity. This will help them to understand all the provisions of Ind AS and the transition process will be easier. Which of the following options needs to be considered by the audit engagement partner?
	a) The issue is whether there is a self-interest threat, as the auditor will receive separate training fees for the service provided. The audit partner should decline the training assignment. b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such training to the staff of the entity. The audit partner should decline not all the qualified people are good trainers. c) The audit partner could go ahead with the training service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level. d) The audit partner needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the training assignment.
PE.8	SM19/M19M
	You are a manager in the audit department of Narang & Co, and you are dealing with several ethical and professional matters raised at recent management meetings, all of which relate to audit clients of your firm: One of your client Bernwood Co has a year ending 31 March 2018. During this year, the company established pension plan for its employees, and this year end the company will be recognising for the first time a pension deficit on the balance sheet, in accordance with Ind AS 19 Employee Benefits. The finance director of Bernwood Co has contacted the audit engagement partner, asking if your firm can provide an actuarial valuation service in respect of the amount recognised. Which of the following options needs to be considered by the audit engagement partner?
	a) The issue is whether there is a self-review threat, as the valuation of the amount recognized would be recorded in the financial statements. The audit partner should decline the work of valuation service. b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such a valuation service. The audit partner should decline since not professionally qualified to provide the valuation service. c) Narang & Co. needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the valuation service. d) The audit partner could go ahead with the valuation service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.
PE.13	M21M/SM22/M23M/N24M
	KB Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2020-21. It consists of two partners CA K & CA B. CA K is brother of the father of the finance director of the company. CA B is an old friend of the finance director of the company. What kind of ethical threat is associated with appointment of KB Associates as an auditor of ABC LTD.?

- (a) Self Interest Threat.
- (b) Advocacy Threat.
- (c) Familiarity Threat.
- (d) Self-Review Threat.

PE.14	N23M
	CA Mridul has been appointed as statutory auditor of PQT Limited, a reputed listed company engaged in the manufacturing of electronic products, in accordance with provisions of the Companies Act, 2013. Currently, he is also actively involved in advising the government in favour of proposed legislation likely to be introduced in one of the coming sessions of Parliament to attract investments and cutting-edge technology in the electronic products sector on behalf of his client. He has participated in TV programmes on the matter, written articles in business papers on the subject, and given key suggestions to the government in this regard. In all public appearances and statements, he has openly stated the fact of being associated with PQT Limited in the capacity of auditor. Which of the following statements is likely to be correct in this regard? a) The described situation can involve self-interest threats to the independence of the auditor. b) The described situation can involve familiarity threats to the independence of the auditor. c) The described situation can involve advocacy threats to the independence of the auditor. d) The described situation can involve self-review threats to the independence of the auditor.

Part 2 – First Schedule

PE.1	N19M/SM21/SM22
	CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA. Ram. He approached CA. Ram to take guidance on some topics of financial management subject related to his course. CA. Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 4 days in a week and for 3 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should _____ in order to be able to undertake attest functions.
	a) not exceed 25 hours a week b) not exceed 21 hours a week c) not exceed 25 hours a month d) not exceed 21 hours a month
PE.2	SM19/SM22/SM21
	CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct.
	a) Clause (6) of Part I of the First Schedule b) Clause 2 of Part I of the Second Schedule c) Clause 12 of Part I of the First Schedule d) Clause 2 of Part IV of the First Schedule
PE.3	SM22/SM21
	CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2019, he was awarded 'Best Faculty of the year' as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct .
	a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 b) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 c) Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949 d) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949
PE.11	N20M
	"Letter head of CA. Panaj, a Practicing Chartered Accountant, is reproduced below: PANAJ De PANKAJ ACS, LLB, FCAChartered Accountant & Member of parliament As per Chartered Accountants Act, 1949 you are required to choose the appropriate answer :
	a) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he shall not use the designation 'Member of the Parliament' in addition to that t of a 'Chartered Accountant.' b) He shall not use the designation 'LLB' in addition to that of a 'Chartered Accountant' as he has not enrolled as an Advocate as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949. c) He can use designations such as Member of Parliament, Member of the Legislative Assembly

	in addition to that of a 'Chartered Accountant' as these are specifically allowed as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949. d) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he can designate himself as 'Chartered Accountant and Company Secretary' as he is a member of the Institute of Company Secretaries of India also."
PE.12	M21M/SM22
	CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2020 and on 4th October 2020, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him? a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine up to Rs. 5,00,000. b) Yes, it is a misconduct under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine up to Rs. 1,00,000. c) Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine up to Rs. 1,00,000. d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine up to Rs. 5,00,000.
PE.16	N22R
	Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMY LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not positive evidence of delivery and violates the provisions of Code of Ethics if the firm accepts the audit assignment. With respect to the dilemma being faced by Mr. B, partner of the firm regarding acknowledgment of the communication from the retiring auditor's vide their official email is not positive evidence of delivery? a) The dilemma of Mr. B is correct as it is not positive evidence of delivery. b) The dilemma of Mr. B is not correct as it is positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the Code of Ethics. c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case. d) The dilemma of Mr. B is correct as the email address of the outgoing auditor from which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.
PE.17	M23R
	Mr. D is a practising Chartered Accountant from Mangalore. He has been practising as a sole proprietor for past two decades. Mr. D's daughter Ms. S is a newly qualified chartered accountant, who cleared the final exam just three months ago. Immediately after qualifying, she also wanted to set up a sole proprietary concern and practice on her own. After setting up the firm, she printed her own visiting card as follows: S & Co., Chartered Accountants Proprietrix.: Ms. S, FCA, B. Com Office: JJ Nagar, Mangalore. Phone: 9123456780 In view of above visiting card, whether Ms. S will be held guilty of professional misconduct? If so,

	under which clause?
	a) No, Ms. S won't be guilty of misconduct. As per recent decision of the council, a CA in practice can give any details in the visiting card, except for vision of the firm. b) Yes, Ms. S will be guilty of professional misconduct as per Clause 7 of Part I of First Schedule. c) Yes, Ms. S will be guilty of professional misconduct as per Part III of Second Schedule. d) Yes, Ms. S will be guilty of professional misconduct as per Clause 1 of Part III of First Schedule.
PE.18	SM22
	Gama Ltd. is a renowned limited liability partnership firm specialized in retendering services relating to statutory audits, tax audits, consultancy relating to direct and indirect taxes etc. Gama Ltd. is appointed as a statutory auditor for the year ended 31st March, 2021 of Beeta Ltd., a listed Company. Alfa Ltd, Chartered Accountants were retiring auditors of Beeta Ltd. You are required to suggest, Gama Ltd. is required to carry out which audit procedures with retiring auditor, Alfa Ltd. before start of audit:
	a) To obtain no objection certificate from Alfa Ltd before start of the audit. b) To start the audit and then obtain no objection certificate. c) No objection certificate is not required to be obtained. d) No objection certificate has to be obtained from Beeta Ltd.
PE.19	N24M
	DFL Ltd. has invited tenders for the appointment of statutory auditors, as M/s Cross Ltd., the previous auditor has retired due to completion of terms of engagement. The tender is exclusively for Chartered Accountants. M/s SDS & Co. has submitted its tender quoting the fees for audit engagement considering the size and nature of business. The contract was awarded to M/s SDS & Co., and they were appointed as statutory auditors for 3 years from the financial year 2023-24. Whether M/s SDS & Co. will be held guilty of professional misconduct as per the Chartered Accountants Act, 1949.
	a) Yes, SDS & Co. will be held guilty of professional misconduct under clause (6) of Part-I of the First Schedule to the Chartered Accountants Act, 1949. b) No, SDS & Co. will not be held guilty of professional misconduct under clause (6) of Part-I of the First Schedule to the Chartered Accountants Act, 1949. c) Yes, SDS & Co. will be held guilty of professional misconduct under clause (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949. d) No, SDS & Co. will not be held guilty of professional misconduct under clause (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
PE.20	N24R
	CA Vijay qualified as CA in November 2022 started his professional practice in Delhi. Since he has enough time to devote on other activities, he is considering the following four options: • Part-time tutorship under the coaching organisation of the Institute. • Editorship of journals other than professional journals. • Acting as recovery consultant in the banking sector. • Owning agricultural land and carrying out agriculture activity. Do you think CA Vijay needs to take any specific and prior permission from the Council for any or all of the above mentioned activities?
	a) Specific and prior permission is required for editorship of journals other than professional journals. b) Specific and prior permission is required for part-time tutorship and acting as recovery consultant. c) Specific and prior permission is required for acting as recovery consultant and owning agricultural land and carrying out agriculture activity. d) Specific and prior permission is required for editorship of journals other than professional journals and carrying out agriculture activity.

Part 3 – Second Schedule

PE.4	SM22/SM21/SM20
	Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of article ship. Mr. Witty, the principal, offered him stipend at the rate of ₹ 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. As per Chartered Accountants Act, 1949, under which clause Mr. Witty is liable for misconduct.
	a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 c) Mr. Witty is paying interest thus he is not liable for misconduct. d) Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949
PE.15	SM22 / N21M
	Mr. Chitragupta Bakutra, a Chartered Accountant is a sole proprietor of Bakutra & Co. which has been appointed as a statutory auditor of Kraftic Ltd. from FY 2020-21, for a term of 5 years. Mr. Chitragupta is a director simplicitor of Kalavitur Ltd. which acquired 55% shares of Kraftic Ltd., for the first time, on 25th May, 2020. Mr. Chitragupta's term as a director of Kalavitur Ltd. got expired on 31st March, 2021 and he was not re-appointed. Kalavitur Ltd. made a proposal to Mr. Chitragupta for appointing Bakutra & Co. as its statutory auditor from FY 2020-21, for a term of 5 years, which was accepted by Mr. Chitragupta. Is there any violation of the Code of Ethics by Mr. Chitragupta Bakutra?
	a) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor and also he cannot accept appointment of auditor of a Kalavitur Ltd. without finishing of the cooling period for the same. b) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor. However, by accepting appointment as an auditor of Kalavitur Ltd. without finishing of the cooling period for the same, he has violated the Code of Ethics. c) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor. However, there is no bar in becoming an auditor of a company of which a person has been its director. d) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor and also there is no requirement of following the cooling period by a director simplicitor who on expiry of its term, wants to become auditor of such company.

Part – 4 Council Guidelines & Others

PE.9	SM22/SM20
	Sista and Chartered Accountants were already appointed for stock audit by the audit committee for the five branches, so whether Sista and Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches?. a) Sista and Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorized to appoint the auditors. b) Sista and Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee. c) Sista and Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit. d) Sista and Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
PE.10	SM22/SM21
	Whether the Bank's Management is authorise to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting?. a) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank. b) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors. c) Sista and Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorized to appoint or fix their remuneration as statutory auditors. d) Sista and Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorized to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.
PE.14	M21M/N23M/M24M
	Mr. R, (friend of Mr. P) a CA in practice invited Mr. P to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s RP & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. R informed that there is no such Regulation regarding the firm's name. Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and Regulation? a) RP and Co. b) RP & Associates. c) RP and Networks. d) RP & Affiliates.

19. PROFESSIONAL ETHICS**Part 1-
Introduction &
CA Act**

PE.5	d
PE.8	a
PE.13	c
PE.14	c

**Part 2 - First
Schedule**

PE.1	a
PE.2	d
PE.3	a
PE.11	a
PE.12	c
PE.16	b
PE.17	d
PE.18	a
PE.19	a
PE.20	a

**Part 3 - Second
Schedule**

PE.4	a
PE.15	a

Part 4 -

PE.9	d
PE.10	a
PE.14	d

CASE STUDY MCQs- ISSUED BY ICAI

Incs.01	(M20R, S22M)
	PQR Ltd., is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of GDP Ltd. The total shareholding of GDP Ltd. includes the following: • The Government of Puducherry and Government of Delhi each hold 19% of the paid-up share capital, • The Government Gujarat's share is 13.5%. On 27th August 2021, Mr. JJ, the auditor of PQR Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of FDI & Co. Chartered Accountants as statutory auditors of PQR Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, FDI & Co. agreed to do the following: • Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company (however Mr. JJ had agreed to charge only RS. 45,000/-), • Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd. The company was having an annual turnover of RS. 510 crore, and hence it was also liable to tax audit under section 44 AB of IncomeTax Act, 1961. During the current financial year 2020-21, PQR Ltd. had changed its method of accounting compared to the previous financial year (2020- 21) and had reported a closing stock of raw material amounting to RS. 2 lakh only as on 31st March 2022. Also, the company had borrowed a sum of RS. 10 crore equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to RS. 75 lakh to the deposit holders through electronic mode. As far as FDI & Co. Chartered accountants are concerned, Mr. F, who is one of the partners of the firm (NOTE- Mr. F does not sign the financials of PQR Ltd.) had borrowed a sum of RS. 3.89 lakh from GDP Ltd. He had also purchased goods worth RS. 1.09 lakh from the company which was in ordinary course of business, at arm's length price. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. F. Another partner of the firm, Mr. I, who is also responsible for signing the financials statements of PQR Ltd. was also engaged in the teaching profession during his free time approx 2 to 3 hours daily. Upon hearing about the efficient services provided by FDI & Co. Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them: (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of RS. 101/-. Based on the above facts, answer the following:-
Incs.01.1	"To whom should have Mr. JJ informed about his resignation? What could be the possible consequence for his non-compliance?"
	(a) He should have informed the registrar and PQR Ltd. As a consequence of his failure, he is liable to a penalty not exceeding Rs. 5 lakhs. (b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than Rs. 50,000/-. (c) He should have informed the registrar and FDI & Co. As a consequence of his failure, he is liable to a fine of Rs. 500 per day for each day of failure. (d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of Rs. 45,000/-."

Incs.01.2	"With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of PQR Ltd.?" (a) It is valid since the indebtedness is within prescribed limits. (b) It is not valid since the indebtedness exceeds prescribed limit of Rs.1 lakhs. (c) It is valid since Mr. F is not signing the financials of PQR Ltd. (d) It is valid since the indebtedness is not with PQR Ltd"
Incs.01.3	"Which among the below are permitted as per Chartered Accounts Act, 1949? (i) Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company. (ii) Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd (iii) Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession. (a) (i) & (ii) (b) (iii) only (c) (ii) & (iii) (d) (i), (ii) & (iii)"
Incs.01.4	"With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.?" (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of Rs. 101/-. (a) (i) Only. (b) (ii) Only. (c) Either (i) or (ii). (d) Neither (i) nor (ii)"
Incs.01.5	"Among the below transactions which were undertaken by PQR Ltd., which needs to be reported by the auditors under fiscal laws? (i) Rs.10 crores loan taken, which is exceeding the limit specified u/s 269 SS of Income Tax Act. (ii) Changed its method of accounting from the previous financial year. (iii) Repayment of deposits of Rs. 75 lakhs, which is exceeding limit specified u/s 269 T of Income Tax Act. (iv) Reporting of Closing stock of raw material worth Rs. 2 lakhs only. (a) (i), (iii) & (iv). (b) (ii) & (iv). (c) (i) & (iii). (d) (i), (ii), (iii) & (iv)"
Incs.02	(M20R, S22M) "CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around Rs. 50 lakhs. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2020-21, the following observations with respect to the company were made by the auditors: - The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to Rs. 1.50 crores approximately. - Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2020. As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order 2016. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.

CA & Co. Chartered Accountants, were also acting as auditors for another company, LS Ltd. and KD Bank Ltd. During the course of audit of LS Ltd, there was a difference of opinion between the management and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (i) The effect on audit of significant transactions that took place in the financial year.
- (ii) Areas of high risk as assessed and reported by management's expert.
- (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.

During the audit of KD Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

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

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered the following new assignments:

A GST assessing officer approached for conduct of special audit under section 66 of CGST Act for a company named MD Ltd. which was having an annual turnover of Rs. 1 crore. He had requested for the special audit as per the opinion that the company had not availed input tax credit within normal limits.

Offer to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of Rs. 113 crores, of which preliminary expenses of Rs. 17 crores were included.

The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them."

Incs.02.1	"Is the decision of CA & Co. of not reporting the issues of ZXC in CARO 2020 justified? If so, under what reason?"
	(a) No. CARO 2020 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO. (b) Yes. CARO 2020 is not applicable to ZXC and hence the same need not to be reported. (c) No. As per SA 240, the auditor has to maintain professional scepticism when it comes to issues in the area of fixed assets and hence the same has to be reported. (d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same."
Incs.02.2	"What is the total amount of loans that should be classified as NPA by KD Bank?"
	(a) Rs.79 lakhs. (b) Rs.100 lakhs. (c) Rs.204 lakhs. (d) Rs.104 lakhs."
Incs.02.3	"Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?"
	(a) Guarantee given by KD Bank on behalf of constituent located in Myanmar. (b) A percentage of the total bills purchased by KD Bank. (c) Claims against the bank acknowledged as debt. (d) Unpaid salary of Rs. 5 lakhs to five staffs of KD Bank Ltd., who are currently undergoing a court trail."

Incs.02.4	As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the following areas should CA & Co. take into account to determine "Key Audit Matter"? (i) The effect on audit of significant transactions that took place in the financial year. (ii) Areas of high risk as assessed and reported by management's expert. (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.
	(a) (i) & (ii) (b) (ii) only (c) (i) & (iii) (d) (i), (ii) & (iii)
Incs.02.5	"Whether CA & Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason?"
	(a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India. (b) Yes. The insurance company should have a minimum paid up share capital of Rs. 100 crores which shall exclude the preliminary expenses. (c) No. The insurance company should have a minimum paid up share capital of Rs. 100 crores which also includes the preliminary expenses. (d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority."
Incs.03	(M20M)
	"QRP Lifecare Private Limited, (the 'Company' or 'QRP'), is engaged in the pharmaceuticals. The Company is based in Hyderabad and has an annual turnover of INR 400 crores. One of the directors of the Company did not give declaration to the Company under section 164(2) of the Companies Act 2013 as at 31 March 2018. The auditors of the Company have completed their audit of the financial statements for the year ended 31 March 2018 and are awaiting this declaration. But the management is of the view that they will not be able to receive this declaration. All other directors have given the required declarations and the auditors have also verified that. QRP had given an advance amounting to INR 50 crores to its subsidiary, RPS Ltd (RPS), on 12 January 2014 for carrying out certain projects. The net worth of the subsidiary has eroded substantially as on 31 March 2018 and looking at the future projections there is no certainty in terms of the profitability of the subsidiary. QRP has a subsidiary, SPS Ltd (SPS), in UK. The company has outstanding trade receivables amounting to INR 10 crores from SPS. QRP has observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of QRP but the management has an action plan which they have initiated and on the basis of which management is sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises, the impact would be significant for QRP. The auditors of QRP have evaluated this matter by involving a regulatory matters expert and also agree with the management's view. QRP was using a customized ERP package up to 31 March 2018. However, with effect from 1 April 2018, QRP moved on SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP are of the view that for the financial year ended 31 March 2019, being the first year of SAP implementation, no work on IT controls would be required and they are also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past where the IT controls in the first year of ERP implementation were very weak. On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.03.1	How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?
	(a) Auditors may perform some alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act. (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality. (c) There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on. (d) Auditors would need to report this matter in their main report "
Incs.03.2	"How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?
	(a) In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS. (b) In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS. (c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books. (d) In respect of QRP, auditors of QRP would need the management to include a note in the financial statements of QRP explaining about the recoverability of advances from RPS."
Incs.03.3	Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?
	(a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge. (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements. (c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material. (d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company."
Incs.03.4	"QRP has been preparing consolidated financial statements but they do not consolidate financial statements of SPS every year. This is because the financial year followed by SPS is January to December as against April to March followed by QRP. The auditors have also been fine with this position of the management of QRP year on year. Please suggest.
	(a) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated financial statements. (b) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated financial statements. (c) QRP's management's view is right because SPS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India. (d) Auditors of QRP should have done materiality assessment in respect of non-consolidation of SPS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same."

Incs.03.5	Do you agree with the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report. What would be your suggestion here?
	(a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files. (b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors. (c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation. (d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation."
Incs.04	(M20M)
	"M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the Financial Year 2019-20 (Assessment Year 2020-21): - To conduct the management audit of M/s BR Ltd. - To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd. - Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of Rs. 15,000 lakhs, which includes preliminary expenses of Rs. 3400 lakhs. During the course of audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled. - The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. Certain shareholders of the firm opposed the appointment and later the problem was solved. - Statutory auditor of M/s FGH (P) Limited company, having paid up capital of Rs. 112 lakhs and a negative balance of Rs. 15 lakhs in reserves. After a long discussion between the auditors and the management of the company with respect to the applicability of CARO 2020, both of them arrived at a conclusion. Based on the above facts, answer the following: -
Incs.04.1	What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd?
	(a) Rs. 50 crores (b) Rs. 7500 lakhs (c) Rs. 5.8 cores (d) Rs. 750 lakhs"
Incs.04.2	"What could be the possible reason for the objections raised by the shareholders of the listed company?
	(a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment. (b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment. (c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment. (d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment."

Incs.04.3	"Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?"
	(a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty (b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to noncommunication to previous auditor (c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor (d) They are not guilty of any professional misconduct."
Incs.04.4	"Whether CARO is applicable to M/s FGH (P) Limited? If so, why?"
	(a) No. Since as per para 1 of CARO 2020, it is not applicable to any private limited company. (b) Yes. Since the paid-up share capital of the company exceeds Rs. 1 crore, CARO is applicable. (c) Yes. Since the total of paid-up share capital and reserves of the company exceeds Rs. 1 crore in absolute terms. (d) No. Since the total of paid-up share capital and reserves of the company does not exceeds Rs. 1 crore."
Incs.05	Shivam & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. The firm has 6 offices in India – Delhi, Noida, Bangalore, Kolkata, Chennai and Chandigarh. The firm has 35 partners across various offices. The staff size of firm is 250 approximately. The firm is offering various services to its clients and has accordingly set up separate departments for those services which are headed by the Partners. The firm has clients as both listed and unlisted companies to whom services include statutory audit, internal audit, risk advisory, due diligence, tax support etc. The firm also has a Managing Partner who sits in Chandigarh office. All in all one can say it's an all solutions firm as far as services of a CA are concerned. The firm focuses significantly on its quality and accordingly has set up various controls in place. The firm ensures that the engagements of each partners are reviewed in terms of quality of work by other partner of the firm independently every year. For this purpose, firm has set up a process and one or two engagement file of a partner is selected. Quality assessment also carries weight in terms of assessment of profit sharing of the partners. The firm has been subject to peer review which was last conducted 3 years back. During the financial year ended 31st March 2021, the firm got an intimation for the peer review on 1st July 2021, with which it was before time considering that the Review was done only 3 years back and was not due. The firm discussed this matter with the relevant authorities, but the authorities did not change their stand. The process of peer review got started on 1st August 2021 and completed on 15th September 2021 which included the on-site review from 1st August 2021 to 20th August 2021. Since the firm was not fine with its selection and also faced some problems during the peer review process, it also consulted another firm of his friend, Shubham, Shubham & Associates. One of the engagements of Shubham & Associates was picked up for quality review by the Quality Review Board and this firm also faced various challenges during that process in terms of the selection criteria and also the observations of the reviewer. Considering the abovementioned facts, you are required to advise on the following matters:
Incs.05.1	Shivam & Co. LLP submitted a list of its assurance and due diligence services in respect of selection of the engagement for the peer review.
	(a) Peer reviewer may select any sample out of assurance and due diligence engagement. (b) Peer reviewer may select any sample out of assurance engagement. (c) Peer reviewer may select any sample out of due diligence engagement. (d) Peer reviewer may select an engagement on a piecemeal basis covering any service - assurance or due diligence.

Incs.05.2	The concern of Shivam & Co LLP regarding its selection of peer review arose because it assessed itself as Level III entity which was different from assessment by the Peer Review Board.
	(a) The firm should be Level I based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards. (b) The firm should be Level II based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards. (c) The firm should be Level I based on its engagements/services. (d) The firm should be Level II based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards and its engagements/services.
Incs.05.3	Shivam & Co LLP also objected to the time taken by the Peer reviewer on site, however, as per Peer Reviewer, the entire review process got completed within 90 days from the date of notifying the firm about its selection for review.
	(a) The time for onsite review should not have extended beyond 7 working days. (b) The time for onsite review should not have extended beyond 10 working days. (c) The time for complete review should be completed within 120 days. (d) The time for complete review should be completed within 90 days.
Incs.05.4	In case of Shubham & Associates, to improve upon the quality and strengthen the base, the Board took the current member of the Regional Council of the ICAI as a technical reviewer.
	(a) The Reviewer should not currently be a member of the Regional Council. (b) If the reviewer is a member of the Regional Council then the time allotted for review should be 60 days. (c) If the reviewer is a member of the Regional Council then the time allotted for review would be 30 days. (d) If the reviewer is a member of the Regional Council then he can not accompany any staff with him for the purpose of the review.
Incs.05.5	In case of Shubham & Associates, the reviewer raised on observation that one of the audit team member (when the team on the audit engagement was large) signed the independence confirmation dated 1 August 2016 when the audit report was signed on 1 August 2016. This was objected by Shubham & Associates because the audit team completed the documentation as required by the auditing standard.
	(a) Observation of reviewer was correct. (b) Observation of reviewer was not correct. (c) Observation of reviewer was correct but when only one audit member has not complied then it should have been dropped. (d) Observation of reviewer was not correct and also the fact that out of a large team, it involved only one audit member.
Incs.06	(N20R)
	"YS & Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS & Associates get their website developed as www.ysassociates.com from KPY Ltd. The colour of their website was very bright and attractive to run on a "push" technology. Names of the partners of the firm and the major clients were also displayed on the website without any disclosure obligation from any regulator. CA. Y accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. Y realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement. CA. S provides management consultancy and other services to his clients. During 2019, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio

Management Services whereby he managed portfolios of some of his clients. Looking at his expertise in financial management, Mr. Tarak, a student of Chartered Accountancy course, is very much impressed with his knowledge. He approached CA. S to take guidance on some topics of financial management subject related to his course. CA. S, on request, decided to spare some time and started providing classes to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hour in a day. However, he has not taken any specific permission for such private tutorship from the Council.

YS & Associates is appointed to conduct statutory audit of XYZ Ltd. XYZ Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. YS & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

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

Incs.06.1	YS & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
	(a). YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610. (b). CA. IA cannot assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, YS & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610. (c). YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610. (d). YS & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
Incs.06.2	"Whether CA S is guilty of professional misconduct in providing private tutorship to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hour in a day in the absence of specific approval.
	(a). CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 192A (b). CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 190A (c). CA. S is guilty of professional misconduct as he has not obtained specific permission for the same. (d). CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A"
Incs.06.3	"Before signing the tax audit report, CA. Y sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Y be held guilty of professional misconduct under the Chartered Accountants Act, 1949?"
	(a). As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. Y will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report. (b). As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only. (c). As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

	(d). As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing."
Incs.06.4	"Whether website designed for www.ysassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949: (a) Yes, website can have names of partners and major clients along with its fess. (b) Yes, as the websites can be designed on a "push" technology. (c) Yes, as there is no restriction on the colors used in the website. (d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator."
Incs.07	(N20R) M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2020-21. Delco Ltd. deals in the manufacture of shoes. During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates. Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements. At the time of finalization of the Audit Report of the company for the year ended March 31st, 2021, the auditors are considering their reporting responsibility for non consolidation of the financial statements of Soccer Limited. The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts. Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2019-20. Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements. Based on the above facts, answer the following:-
Incs.07.1	"With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report? (a) The auditor should give a disclaimer of opinion. (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report. (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report. (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report."

Incs.07.2	With respect to the corresponding figures of the financial year 2019-20 in the current year financial statements, what are the auditors reporting responsibility for the same?
	(a) The auditor's opinion should refer to each period for which the financial statements are presented. (b) The auditors need to report on the current year financials only be it comparative or corresponding figures. (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier. (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.
Incs.07.3	"What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?"
	(a) The auditors need to report such matter in the Key Audit Matters paragraph in his report. (b) The auditors need to report such matter in the other matter paragraph in his report. (c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement. (d) Both b & c."
Incs.07.4	"Preparation of the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility?"
	(a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere. (b) The management may undertake to accept such responsibility through an engagement letter itself. (c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements". (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious."
Incs.07.5	"If the auditors of Delco Ltd. decide to give a qualified/ adverse opinion in the current financial year with respect to the non-consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter: -"
	(a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/adverse opinion is given by the auditor. (b) EOM paragraph on a matter can be added if auditor's opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements. (c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter. (d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized."
Incs.07.5	If the management discloses the fact of non consolidation of financial statements of Soccer Ltd. in the notes to accounts of current financial year, what will be the impact on the audit report:-
	(a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. (b) As such it will not impact the auditor's opinion in present case. (c) The auditor can ignore the issue of non consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts. (d) The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph. (e) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.

Incs.08	(N20M)												
"MINSAN Ltd, an unlisted company in South India, is engaged in the business of spice oil extraction. Total paid up capital of the company is Rs. 9 Crore. Details of annual turnover and profit of the company for the last 3 years are given below: <table><tr><th>Year ended</th><th>Turnover (Rs. in crore)</th><th>Profit (loss)before tax (Rs. in crore)</th></tr><tr><td>31-03-2018</td><td>527.21 (Audited)</td><td>50.16</td></tr><tr><td>31-03-2019</td><td>301.37 (Audited)</td><td>01.25</td></tr><tr><td>31-03-2020</td><td>104.13 (provisional)</td><td>(10.25)</td></tr></table> The company is using conventional method for extraction of oil from spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition. A new competitor viz, Natural Extracts Ltd, had come in the market during the year 2018 and by the end of March 2019, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows whole range of automated extraction method, thus, minimizing manual steps and reducing cost of labour. In order to reduce cost of production and thereby re-capture the market, the management of MINSAN Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is Rs. 90 lac. The company approached SA Bank Ltd for a term loan of Rs. 80 lac which would be repaid in 5 years. On 28-12-2019, the bank had sanctioned the loan; and disbursed Rs. 40 lac till 31st March 2020. MINSAN Ltd has appointed M/s Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2019 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2019-2020 in February 2020 and completed the work by the end of May 2020. The audit team submitted following findings to the engagement partner: • PX Ltd, one of the material suppliers, filed a case against the company on 12-09-2019 for a compensation of ₹ 3 crore. • Company has made an estimate for allowance of debtors @5%. • 70% of the value of inventory was only covered in physical verification during the year 2019-20 due to outbreak of Novel Corona Virus (COVID-19) and subsequent lockdown thereof. • Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. • Three incidence of fraud noticed (Total ₹ 1.02 crore)- fraud committed by the Purchase manager ₹ 85. • Lakh, by Accounts manager Rs. 15 Lakh and by a cashier ₹ 2 lac. As an auditor of MINSAN Ltd for the year 2019-20, answer the following questions based on the facts given in the above paragraph:"		Year ended	Turnover (Rs. in crore)	Profit (loss)before tax (Rs. in crore)	31-03-2018	527.21 (Audited)	50.16	31-03-2019	301.37 (Audited)	01.25	31-03-2020	104.13 (provisional)	(10.25)
Year ended	Turnover (Rs. in crore)	Profit (loss)before tax (Rs. in crore)											
31-03-2018	527.21 (Audited)	50.16											
31-03-2019	301.37 (Audited)	01.25											
31-03-2020	104.13 (provisional)	(10.25)											
Incs.08.1	"Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed? (a) Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production. (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication. (c) Evaluating management's future plan and strategy to increase market share of product.												

	(d) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts."
Incs.08.2	"Company has made an estimate for allowance of debtors @5%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?"
	(a) Judgments about the outcome of pending litigation with PX Ltd against the company. (b) Estimates made for inventory obsolescence are frequently made and updated. (c) A model used to measure accounting estimates is well known and the assumptions to the model are observable in marketplace. (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome."
Incs.08.3	"The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?"
	(a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion. (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts. (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion. (d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement."
Incs.08.4	"Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?"
	(a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement. (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained. (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly. (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action."
Incs.08.5	"The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned an amount of ₹ 25 lac was earmarked for the purchase of the machinery-Oil Extractor; but, the company has acquired an improved model of machinery, viz, Oil extractor with Dryer in its stead. State which of the reporting option would be correct."
	(a) State the fact in CARO report that out of term loan taken for machinery-Oil Extractor, ₹ 25 Lakh was not utilized for acquiring the machinery for which it was sanctioned. (b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.

- (c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.
- (d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive."

Incs.09

(N20M)

"Papa Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited.

While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 2 crores, determination of amount of minority interest of ₹ 50 Lakh and some intra-group transaction adjustment of ₹ 15 lac were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of ₹ 30 lac.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	1nd	Thursday
May	8th	Saturday
June	4th	Friday
July	30st	Friday
August	30st	Monday
September	7st	Tuesday
October	29th	Friday
November	7st	Sunday
December	7st	Tuesday
January	9th	Sunday
February	7th	Monday
March	6th	Sunday

Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ₹ 200 Crores. It includes Margin held for funded facilities of ₹ 3 Crore, credit balance for one branch of ₹ 4 crores, adverse balance of nostro Mirror account of ₹ 2 Crores and unadjusted deposit for agency business of ₹ 6 Crore. Papa Limited has total 12 directors including 3 women directors. Out of them, Mr. Right was non-executive chairman as well as promoter of bank. Papa Limited has a total of 5 independent directors in their board.

Wife of CA Das, was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of Papa Limited of ₹ 100 each for ₹ 15,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors."

Based on the above facts, answer the following:

Incs.09.1	"Which of the following statement is true? (a) For giving the effect of merger, permanent consolidation adjustment of ₹250 lac and current period consolidation adjustment of ₹ 45 lac was made. (b) For giving the effect of merger, permanent consolidation adjustment of ₹280 lac and current period consolidation adjustment of ₹ 15 lac was made. (c) For giving the effect of merger permanent consolidation adjustment of ₹ 295 lac. (d) For giving the effect of merger, permanent consolidation adjustment of ₹ 265 lac and current period consolidation adjustment of ₹ 30 lac was made"
Incs.09.2	"While verifying the compliance of corporate governance, in accordance with Regulation 17 and 17A, was there any non-compliance in composition of board? (a) No, as in this scenario there should be at least 1/3 i.e.4 independent directors. (b) Yes, as in this scenario there should be at least 1/ 2 i.e. 6 independent directors. (c) No, as it's up to the shareholder to decide the composition of board after complying with section 149(4) of companies act 2013. (d) Yes, as in this scenario there should be at least 2/3 i.e. 8 independent directors."
Incs.09.3	"List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance? (a) January, February and March. (b) July, August and October (c) June, July and October. (d) May and November."
Incs.09.4	"While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March? (a) Rs. 191 crores (b) Rs. 200 crores. (c) Rs. 197 crores. (d) Rs. 185 crores."
Incs.09.5	"Will CA Das be disqualified after his wife purchased 100 shares for Rs. 15,00,000? (a) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares of more than ₹ 100,000 market value. (b) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 20,00,000 market value. (c) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value. (d) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares in Papa limited irrespective of amount of investment."
Incs.10	(S22M) MN & Associates, Chartered Accountants are newly appointed as statutory auditors and tax auditors for FY 2020-21 of Gentlemen Distillery Limited. CA. M (Partner of MN & Associates) is the head of statutory and tax audit department. CA. M assigned the above assignment of both statutory audit and tax audit to team comprising of following team members CA. Mukul (Employee); Mr. Rahul (Senior Paid Assistant); Mr. Lalit – (Senior Articled Assistant); Mr. Prashant – (Articled Assistant). Following issues were reported by Mr. Rahul to CA. Mukul regarding statutory audit: Recently the company w.e.f. 01.01.2021 has changed their terms with its major suppliers from Credit period of 60 days to cash on delivery basis for all purchases, mainly on insistence by suppliers as the company could not pay as per credit terms recently.

- The confirmation requests were sent to 18 debtors to confirm year end balance as on 31.03.2021. The requests were designed in the form of positive confirmation. However, the responses were received from only 2 Debtors.
- Grandfather of Mr. M was holding 50,000 shares of face value Rs. 10 per share till 01.09.2020 in the company from past 3 years.
- The trade payables consists of outstanding dues of various creditors as follows – micro enterprises (Rs.60 crore), medium enterprises (Rs. 40 crore), small enterprises (Rs. 45 crore) and others (Rs. 50 crore)
- Further, creditors outstanding for more than 6 months as on balance sheet date are Rs. 40 crore out of above.
- Mr. Lalit while doing tax audit (Form 3 CD) of another client Gina some Ltd. seeks the help of his senior Mr. Rahul on the following issues:
- During the FY 2020-21, the company has purchased a plot of land at Sitarganj having stamp duty value of Rs 31,00,000 at a consideration of Rs 30,00,000. The plot has been purchased from Mr. K who is not the related party of Ginasome Ltd.
- The Company has paid state excise duty (due date of payment –5th of Next Month) on alcohol for the months of August (Rs 5 lakh), September (Rs 3 lakh), October (Rs 4 lakh) and March (Rs 2 lakh) on 05.06.2021. The same is not disputed. The excise duty has been debited to Profit and Loss Account.

Based on the above facts, answer the following:-

Incs.10.1	Based on the above data, advise as a tax auditor how shall the “purchase of plot at Sitarganj” be dealt in tax audit report in Form 3CD?
	(a) An amount of Rs. 1,00,000 shall be reported under Clause 29. (b) An amount of Rs. 50,000 shall be reported under Clause 29B. (c) An amount of Rs. 1,00,000 shall be reported under Clause 29B. (d) No Reporting requirements will arise in Form 3CD.
Incs.10.2	As a statutory auditor of Ginasome Ltd, State the aggregate amount which shall be reported under clause (vii) of Para 3 of CARO, 2020 on account of late payment of state excise duty?
	(a) Rs. 5,00,000. (b) Rs. 8,00,000. (c) Rs. 12,00,000. (d) Nil Amount.
Incs.10.3	What amount of dues of trade payables shall be separately disclosed in the Balance Sheet as per Division 1 of Schedule III?
	(a) Rs. 40 crore (Outstanding for more than 6 months). (b) Rs. 105 crore (Dues of Micro and Small Enterprises). (c) Rs. 145 crore (Dues of Micro, Small and Medium Enterprises). (d) No separate disclosure is required.
Incs.10.4	Based on the above data, advice as a Tax Auditor how the reporting under Clause 26 shall be done in Tax Audit Report in Form 3CD regarding state excise duty?
	(a) Amount of Rs. 14 lakh shall be reported under Clause 26(A)(b). (b) Amount of Rs. 14 lakh shall be reported under Clause 26(A)(a). (c) Amount of Rs. 14 lakh shall be reported under Clause 26(B)(b). (d) Amount of Rs. 14 lakh shall be reported under Clause 26(B)(a).

Incs.11	(S22M)
	Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2021. Total Deposits of the bank on 31.03.2020 was Rs. 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2020-21 are PK & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following: - The Advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue since November 2021. - As on 20.04.2021, the ad hoc limit of account of Mr. Y has not been reviewed even though 120 days of date of ad hoc sanction were over. The above advances have been granted by Meerut Branch. However this branch is not subject to Concurrent Audit. The Bank has also granted Term Loan of Rs. 20 crore to Samarth Ltd (An Unlisted Company) on 01.02.2021. The sanction letter read as follows: "The Facility shall be used for Repayment of Unsecured Loans of Promoters – Rs. 10 crore and towards development & construction expenses (Other than Land Cost) of the company's new office to be situated in Faridabad, Haryana – Rs. 10 crore". The company has utilized the facility as follows as on 31st March 2021- - Land Purchased for New Office: Rs. 4 crore; - Development and construction Expenses of New Office: Rs. 11 crore; - Repayment of Unsecured Loans of Promoters: Rs. 3 crore; - Investment in Fixed Deposit: Rs. 2 crore (Temporarily); Company's Total Borrowings from all Banks as on 31st March 2021 is Rs. 60 crore. Royal Bank of India is the parent organization (100% Holding) of Royal General Insurance Co. Ltd. The Statutory auditors of Royal General Insurance are AK & Co., Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31st March 2021: - Value of Assets: Rs. 700 crore. - Amount of Liabilities: Rs. 415 crore. - Capital: Rs. 200 crore. The Royal General Insurance has entered into reinsurance contract with ABC Reinsurance Co. Ltd. against the risk of fire only. ABC Reinsurance Co. Ltd. is one of the largest reinsurers in India. Mr. P (Partner in PK & Associates) also acts as Surveyors and Loss Assessors under Insurance Act, 1938. However he has not intimated or taken permission from the Council of Institute of Chartered Accountants of India. AK and Co., have not included a report on CARO in their statutory auditor report for FY 2020-2021 for Royal General Insurance Co. Ltd. Based on the above facts, answer the following:-
Incs.11.1	As Statutory Auditor of Samarth Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained ealt in tax audit report in Form 3CD? - Rs. 4 crore. - Rs. 5 crore. - Rs. 7 crore. - Rs. 2 crore.
Incs.11.2	As an audit manager of the firm, advice which advance(s) shall be classified as Non Performing Asset? - Mr. X. - Mr. Y. - Both Mr. X and Mr. Y. - Neither Mr. X nor Mr. Y.

Incs.11.3	State whether the concept of Rotation of Auditors will be applicable on Samarth Ltd u/s 139(2)?
	(a) Yes, since total borrowings from Banks exceeds Rs. 25 crore. (b) No, since total borrowings from Banks does not exceed Rs. 100 crore. (c) Yes, since total borrowings from Banks exceeds Rs. 50 crore. (d) No, since section 139(2) is applicable only in case of Listed Companies.
Incs.11.4	Based on above data, state whether Royal General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If No, then state what further action will be done?
	(a) Yes, solvency margin has been maintained therefore no action is required. (b) No, It shall deemed to be insolvent. (c) No, It shall submit a financial plan to the authority. (d) The requirement of Solvency Margin is not applicable in case of general insurance companies..
Incs.11.5	Whether the acting of Mr. P as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?
	(a) Yes, as specific permission from the council shall be required. (b) (b) No, as general permission from the council has been granted. (c) (c) No, as specific permission from the council can be obtained at any point of time. (d) Yes, as general permission is not granted for above occupation.
Incs.11.6	Identify the type of reinsurance contract between Royal General Insurance and ABC Reinsurance Co. Ltd.
	(a) Treaty Reinsurance. (b) Proportional Treaty Reinsurance. (c) Non Proportional Treaty Reinsurance. (d) Facultative Reinsurance.
Incs.11.7	Is AK & Co. right in not including a report on CARO in their Statutory Auditor Report?
	(a) Yes, since CARO is not be applicable to insurance companies. (b) No, since CARO is applicable to public companies. (c) No, since CARO is applicable in case of wholly owned subsidiary company. (d) No, since, CARO is applicable to insurance companies.

Incs.12	(S22M)
	M/s Bajaj & Associates have been appointed as the statutory auditors of PNGC Ltd. for the FY 2020-21. PNGC Ltd. is a listed company dealing in the manufacture of iron and steel bars and it is among the top 1000 listed entities. FY 2020-21 is the first year after the incorporation of the company. The company has duly complied with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015. When the audit was started, the management of PNGC Ltd. Discussed with Mr. Bajaj (the engagement partner) about the strong internal control system of the company. The management discussed about the whistle blowing policy of the company, the HR policies, company code of conduct and ethics policies. Mr. Bajaj was told that the audit team can rely on the information provided to them and the entity level controls without any second thought. The management advised the auditor not to waste time in checking the direct entity level controls and instead to concentrate on indirect entity level controls during their conduct of audit. Further PNGC Ltd. has constituted its qualified Audit Committee and a Risk Management Committee as per the relevant regulations. Since FY 2020-21 was the first year after incorporation of the company, the meetings of both the committees were held twice during the year based on the company's requirement where all the company's important matters were duly discussed. The Board of Directors of the company had their meeting four times in the FY 2020-21. Till the second meeting, the company had 5 directors and two more directors joined the company after the first

meeting only. The statutory auditors considered its implication while certifying Corporate Governance as per SEBI Regulations. The annual remuneration of one of the non-executive directors, Mr. Sushil, exceeds 10% of the total annual remuneration payable to all nonexecutive directors. The Company however, did not obtain the approval of shareholders by special resolution. Also, the auditors found that one of the independent directors, Ms. Rupali, is already independent director in seven other entities. Out of the seven entities, equity shares of four entities are listed on stock exchange. Further, while conducting the audit, the auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

Since FY 2020-21 is the first year after the incorporation of PNGC Ltd., the company is in the process of exploring the market and venturing towards its expansion plans. The management will be approaching the banks for the purpose of raising funds for its projects. The management accordingly, requested the auditor to mention in their audit report or the compliance certificate about the entity's future viability. Further, in one of the meetings of Audit Committee conducted during the FY 2020-21, the internal control system and auditor's report of PNGC Ltd. were discussed. Mr. Bajaj was also present at the meeting and the Audit Committee called for the comments of Mr. Bajaj, if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

Based on the above facts, answer the following:-

Incs.12.1	What should be Mr. Bajaj's audit plan regarding the checking of direct entity level controls and indirect entity level controls after considering the management's advise?
	(a) Mr. Bajaj should check the indirect entity level controls in detail and he can skip the checking of direct entity level controls as the company has a strong internal control system. (b) Mr. Bajaj should check the direct entity level controls in detail and he can skip the checking of indirect entity level controls as the company has a strong internal control system. (c) Mr. Bajaj should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures. (d) Mr. Bajaj should check the indirect entity level controls in detail as it relates the business process and account balance and contribute indirectly to the effective operation of direct ELC. Thus, he can skip the checking of direct entity level controls.
Incs.12.2	Is the company justified in holding meeting of its Audit Committee and Risk management Committee twice in the FY 2020-21?
	(a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings. (b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year. (c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company is justified in holding two meetings of Risk management committee. (d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.
Incs.12.3	With respect to the meeting of Audit Committee attended by Mr. Bajaj, what all rights can be exercised by Mr. Bajaj?
	(a) Mr. Bajaj has right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd. When it considers the auditor's report. (b) Mr. Bajaj has right to vote in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report.

	(c) Mr. Bajaj, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd. even if it considers the auditor's report. Such rights vest with the internal auditors of the company. (d) Mr. Bajaj has right to be heard in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report but shall not have right to vote.
Incs.12.4	With respect to the annual remuneration payable by PNGC Ltd. to Mr. Sushil, is the company correct in not obtaining the approval of shareholders by special resolution?
	(a) The company is not correct in not obtaining the approval of the shareholders through special resolution. (b) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required in this case. (c) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required irrespective of the amount of annual salary payable to Mr. Sushil as a percent of total annual salary payable to all non executive directors. (d) The company is correct in not obtaining the approval of the shareholders through special resolution as the salary payable to the directors is a matter of concern to be discussed among all the directors. The shareholders are concerned with the financial position of the company.
Incs.12.5	What is the responsibility of M/s Bajaj & Associates so far as the Management Discussion and analysis report of PNGC Ltd. Is concerned?
	(a) M/s Bajaj & Associates should verify and comment on the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report. (b) M/s Bajaj & Associates should verify the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analyzing and commenting on the same. (c) M/s Bajaj & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report. (d) M/s Bajaj & Associates can verify and comment on the non financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.
Incs.12.6	What should M/s Bajaj & Associates do with respect to the management's request to the auditor regarding mentioning about company's future viability?
	(a) M/s Bajaj & associates can mention about the company's future viability in its compliance certificate as auditor's report is not an assurance as to future viability of the entity. (b) M/s Bajaj & associates can mention about the company's future viability in its audit report as compliance certificate is not an assurance as to future viability of the entity. (c) M/s Bajaj & associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity. (d) M/s Bajaj & associates can mention about the company's future viability in either its compliance certificate or auditor's report as both the documents act as an assurance as to future viability of the entity.
Incs.13	(S22M)
	Sarvodya Ltd. is a public company engaged in the business of manufacture of tyres. The company had turnover of Rs. 300 crore during the financial year 2020-21. M/s Sita Gita and Associates have been appointed as statutory auditors of the company for the financial year 2020-21. This audit firm has also been the tax auditor of the company since the FY 2018-19 and continues to be the tax auditors for the FY 2020-21. During the course of audit, M/s Sita Gita and Associates received a notice from the company regarding general meeting to be held to discuss the prospective merger and acquisition by the company. The engagement partner, CA Sita decided not to attend the same by herself and to send CA Rohan (another partner working with her in the firm, having COP and recently joined the firm) to attend the

same as her authorized representative. Also, she understood that there is no obligation as such on them to attend such meeting though they have a right to receive such notice. Further, the auditor came across a fraud whereby an accounts officer of Sarvodya Ltd. has made unauthorized payments amounting to Rs. 0.80 crore using bogus cheques. The auditor understands that as per the Companies (Audit and Auditors) Rules 2014 since fraud amount does not exceed RS. 1 crore, the reporting in this regard is not to be done to the Central Government and only the company is bound to disclose such fraud in the Board's report.

Further, during the financial year 2018-19 Sarvodya Ltd. acquired five companies out of which two were foreign companies. Sarvodya Limited made consolidated financial statements including the three Indian companies while the two foreign companies were not consolidated mistakenly. The management of Sarvodya Ltd. decided to voluntarily revise its accounts of financial year 2018-19 and subsequent year and discussed the matter with the auditor. Also, when the statutory audit was going on, Sarvodya Ltd. started the process to declare interim dividend for the financial year 2020-21 out of the profits of the same year. However, the company did not transfer any profits to reserves for the financial year. This is not correct as per the auditor. Further, the management of Sarvodya Ltd. did not intend to transfer the amount of dividend so declared to a separate bank account as they have declared interim dividend and according to them, such transfer is required in case of declaration of final dividend only.

During the course of audit, the auditors found that the company has not made provision for tax even though such liability was anticipated at the time of finalizing accounts for the FY 2020-21. When the auditor discussed the same with the management, they were told that since the company has declared dividend out of the current year profits, the company has not made provision for tax liability so anticipated and the same will be duly paid at the time of return filing. During the month of August 2021 i.e. FY 2021-22, the company had sold tyres to a two wheeler manufacturer namely Super X Ltd. valuing Rs. 10 lakh at arm's length price. MDS bank has given guarantee to Sarvodya Ltd. for Super X Ltd. The Branch Manager of MDS bank is Mr. Shyam, son of CA Sita. This may attract disqualification of M/s Sita Gita and Associates as statutory auditor's for the next financial year i.e. FY 2021-22.

Based on the above facts, answer the following:

Incs.13.1	Whether the understanding of CA Sita regarding their right and duty to attend the general meeting is correct? Further, is she correct in not attending the general meeting by herself and sending CA Rohan to attend the general meeting for which the former has received a notice?
	(a) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to compulsorily attend such meeting. Further she is correct in sending CA Rohan to attend the meeting. (b) Ms. Sita is not correct as the auditors have a right to receive notice of every general meeting; also, it is their duty to attend such meetings. Further she is not correct in sending CA Rohan to attend the meeting as her authorized representative as she can attend the meeting by herself and not through authorized representative. (c) (c) Ms. Sita is not correct as though the auditors have a right to receive notice of every general meeting; they also have a duty to attend such meetings. Further, she is correct in sending Mr. Rohan to attend the meeting as her authorized representative. (d) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to attend such meeting. Further she is not correct in sending Mr. Rohan to attend the meeting as her authorized representative.
Incs.13.2	With respect to the fraud committed by the accounts officer, is there any other reporting requirement apart from the disclosure in the Board's report?
	(a) M/s Sita Gita & Associates should report the fraud to the Board of Directors and Central Government within 2 days of the knowledge of fraud. (b) M/s Sita Gita & Associates should report the fraud to the Audit Committee/Board of Directors within 2 days of the knowledge of fraud.

	(c) M/s Sita Gita & Associates should report the fraud to the Audit Committee within 2 days of the knowledge of fraud which will in turn report such fraud to the Central Government within 45 days of their knowledge. (d) M/s Sita Gita & Associates should report the fraud to the Audit Committee and Central Government within 2 days of the knowledge of fraud.
Incs.13.3	What should CA Sita advise the management regarding the voluntary revision of financial statements related to FY 2018-19 and subsequent year?
	(a) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval of the Tribunal and the order passed by the Tribunal shall be filed with Registrar. (b) The management of Sarvodya Ltd. cannot revise the financial statements. (c) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval from the Ministry of Corporate Affairs and such approval shall be filed with Registrar. (d) The management of Sarvodya Ltd. cannot revise the financial statements of FY 2018-19 but can revise the financial statement pertaining to FY 2019-20.
Incs.13.4	With respect to the revision of financial statements of FY 2018-19 and subsequent year, can M/s Sita Gita & Associates revise the corresponding tax audit report also for those years if the financial statements are revised?
	(a) M/s Sita Gita & Associates cannot revise the tax audit reports as there is no provision of revision of Tax audit report under the Income tax Act 1961. (b) M/s Sita Gita & Associates cannot revise the tax audit reports as the accounts of FY 2018-19 & 2019-20 have been adopted in the Annual General Meeting by the company. (c) M/s Sita Gita & Associates can revise the tax audit reports if the accounts are revised by the company and they should specify the reason for such revision with a reference to the earlier reports. (d) M/s Sita Gita & Associates can revise the tax audit reports at their own discretion for any purpose and for as many times as required.
Incs.13.5	Is management of Sarvodya Ltd. correct in not transferring any percentage of profits to the reserves before it declares the interim dividend out of current year profits of FY 2020-21?
	(a) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is optional. (b) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is required in case of declaration of final dividend and not interim dividend. (c) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as the company has declared the dividend out of current year profits. (d) The management of Sarvodya Ltd. is not correct in not transferring any percent of profits to reserves as such transfer to reserves is mandatory in all cases
Incs.13.6	Is the contention of management correct in not transferring the amount of dividend declared to a separate bank account?
	(a) The management of Sarvodya Ltd. is correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend and not in case of interim dividend. (b) The management of Sarvodya Ltd. is correct as the company declaring interim dividend has an option to (c) transfer the amount so declared in separate bank account within 7 days from the date of such declaration. (d) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 7 days from the date of declaration of such dividend. The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 5 days from the date of declaration of such dividend.

Incs.13.7	With respect to the non-provision of income tax liability by Sarvodya Ltd., what course of action should M/s Sita Gita & Associates follow in their audit report? (a) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability hampers the true and fair view of the state of affairs of the company. (b) M/s Sita Gita & Associates should give an unqualified report as provision of tax liability is the sole discretion of the management of Sarvodya Ltd. as the tax amount will be duly paid at the time of filing of the income tax return. (c) M/s Sita Gita & Associates should give an unqualified report as the company has not made the provision of tax for a valid reason given by the management of Sarvodya Ltd. (d) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability leads to over statement of current liabilities and provisions in the balance sheet.
Incs.14	(S22M) Bhuvan & Co. Chartered Accountants, mainly into statutory audit and tax audit, is now exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted: (a) One of the clients of Bhuvan & Co. is planning to acquire another company to expand its business. In this regard, due diligence is to be carried out to check if the proposed merger would create operational synergies. Also, a full-fledged financial due diligence is planned to be carried out after a price has been agreed for the business acquisition they want to include, Cash flow, Accounting Policies, Brief history of the target and background of its promoters, Accounting Information System etc. in the scope of the same. (b) During the course of due diligence, an articled assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank. (c) Further, Bhuvan & Co. has also received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. With respect to this investigation, Bhuvan & Co. is contemplating on the getting the assistance of an expert with respect to certain matters. (d) During the course of carrying out investigation as above, Bhuvan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. From the above facts, answer the following questions by choosing the correct option.
Incs.14.1	Whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below? (a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed. (b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review. (c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review. (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.
Incs.14.2	Which among the following is NOT a matter included in the scope of a full-fledged financial due diligence? (a) Cash flow. (b) Accounting Policies. (c) Brief history of the target and background of its promoters. (d) Accounting Information System.
Incs.14.3	Which among the following is NOT an instance of where the Central Government may order an investigation into the affairs of the company under section 210? (a) On a request from creditors to investigate the affairs of the company. (b) On the receipt of a report of the Registrar or inspector.

- (c) On intimation by a special resolution passed by a company that the affairs of the company ought to be investigated.
 (d) In public interest.

Incs.14.4 Can Bhuvan & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?

- (a) Yes, Bhuvan & Co. should consider whether assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.
 (b) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.
 (c) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.
 (d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

Incs.14.5 What should be the procedure of Bhuvan & Co. to seek evidence from outside India for the investigation?

- (a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation.
 (b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence.
 (c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India.
 (d) Powers of seeking evidence outside India is available only to an investigator under section 212-Serious Fraud Investigation.

Incs.15

(S22M)

ABC Limited is a manufacturing company having three manufacturing facilities in India and ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15000 crore and profit before tax of INR 2000 crore during FY 2020-21. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promotor and Chief Executive Officer of the company. Mr. B, son of Mr. A, who is non-executive director of the company and holds graduate degree from IIT Bombay and post graduate degree from IIM Ahmedabad. ABC Limited already constituted Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee, Risk Management Committee etc. in order to comply with Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations also known as 'LODR Regulation'.

During oversight of financial reporting process and its disclosure by Audit Committee, the Committee noted that Company has disclosed contingent liability of INR 200 crore on account of retrospective increase in wages of contract labours. Majority of members of Audit Committee were of view that such retrospective increase in wages is certain and company is liable to pay the same in near future and therefore should be provided for rather than disclosing as a contingent liability. Accordingly, Audit Committee requested management to revisit current treatment of retrospective increase wages of contract labours.

Further, report of Internal Auditor of one manufacturing facility was presented in Audit Committee meeting by management. Internal auditor highlighted that the current controls for vendor payment process are not adequate (i.e. weak) and this poses a risk of fraud. Audit Committee members decided to appoint expert consultant to investigate / review internal financial controls for vendor payment process.

Stakeholders Relationship Committee of ABC Limited was responsible for looking into various aspects of interest of the shareholders, debenture holders and other security holders. Stakeholders Relationship Committee authorized Mr. P who is Company Secretary to deal with any queries and

concerns of the Stakeholders. Stakeholders Relationship Committee last met on June 2019 and has not met during FY 2020-21 as there were no communication to Stakeholders Relationship Committee for any Stakeholders' concerns. On the basis of the abovementioned facts, you are required to answer the following MCQs:	
Incs.15.1	Select best course of action to ensure compliance with Section 177 of Companies Act 2013 in relation to establishing vigil mechanism where directors and employees can report genuine concerns. (a) ABC Limited is listed company. Therefore, ABC Limited is required to establish vigil mechanism where directors and employees can report genuine concerns. (b) Vigil mechanism is applicable to government companies only. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns. (c) As per Section 177 of Companies Act 2013, it is not mandatory to establish vigil mechanism where directors and employees can report genuine concerns. Therefore, ABC Limited may or may not require establishing of vigil mechanism where directors and employees can report genuine concerns. (d) ABC Limited is listed company but have not accepted deposits from public from date of incorporation. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns.
Incs.15.2	As on April 1, 2021, Board of Director would like to appoint Mr. B as Chairperson of the ABC Limited. You are requested to provide assistance to ABC Limited to determine compliance with Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations? (a) Mr. B is eligible to be appointed as Chairperson of the company as he holds relevant degrees along with relevant experience. (b) Mr. B is eligible to be appointed as Chairperson of the company as he is non-executive director of the company. (c) Mr. B is not eligible to be appointed as Chairperson of the company, as he is non-executive director of the company. (d) Mr. B is not eligible to be appointed as Chairperson of the company, as he is relative of Chief Executive Officer of the company.
Incs.15.3	ABC Limited Company had not conducted any meeting of Stakeholders Relationship Committee during FY 2020-21 and there was no disclosure provided in the annual report. Company wants to know frequency of conducting meeting of Stakeholders Relationship Committee. Whether it is in compliance with as per LODR Regulations? (a) As per Regulation 20 of LODR Regulations, Stakeholders Relationship Committee shall meet at least once in a year. Therefore, there was non-compliance as per LODR Regulations. (b) As per Regulation 20 of LODR Regulations, Stakeholders Relationship Committee shall meet at least four times in a year. Therefore, there was non-compliance as per LODR Regulations. (c) As Stakeholders Relationship Committee has authorized Mr. P who is Company Secretary to deal with any queries and concerns of the Stakeholders. Further, there were no Stakeholders concerns during FY 2020-21. Therefore, there was no non-compliance of LODR Regulation. (d) It is voluntary for companies to conduct meeting of Stakeholders Relationship Committee. Therefore, there was no non-compliance as per LODR Regulations.
Incs.16	(S22M) Andy & Co. a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this

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

- The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Auditor function as the reports given by him are designed in a marvellous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.
- The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

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

Incs.16.1	The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:
	(a) As the work done by the internal auditor is marvellously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co. (b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co. need to reduce the unnecessary work as the same has been performed by the other auditor. (c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co. needs to consider the audit strategy and cannot use the work of the Internal Auditor. (d) The work performed by the internal auditor can be used by the External Auditor in this case if the architect is not an employee of the company but is in private practice.
Incs.16.2	The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:
	(a) The company needs to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor. (b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party. (c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year. (d) Both (a) & (b).
Incs.16.3	The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:
	(a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements. (b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%. (c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment. (d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year

Incs.16.4	The trainee asked you whether the IND AS is applicable to the group or not?
	(a) Yes, but only Manava Swaroopam Limited need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015. (b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015. (c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company's net worth is below 250 crore and is not listed in any recognised stock exchange in India. (d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.
Incs.17	(S22M)
	M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2020-21. Delco Ltd. deals in the manufacture of shoes. During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates. Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements. At the time of finalization of the Audit Report of the company for the year ended March 31st, 2021, the auditors are considering their reporting responsibility for non consolidation of the financial statements of Soccer Limited. The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts. Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2019-20. Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements. Based on the above facts, answer the following:-
Incs.17.1	With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report? (a) The auditor should give a disclaimer of opinion. (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report. (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report. (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.

Incs.17.2	With respect to the corresponding figures of the financial year 2019-20 in the current year financial statements, what are the auditors reporting responsibility for the same?
	(a) The auditor's opinion should refer to each period for which the financial statements are presented. (b) The auditors need to report on the current year financials only be it comparative or corresponding figures. (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier. (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.
Incs.17.3	What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?
	(a) The auditors need to report such matter in the Key Audit Matters paragraph in his report. (b) The auditors need to report such matter in the other matter paragraph in his report. (c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement. (d) Both b & c.
Incs.17.4	Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility: -
	(a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere. (b) The management may undertake to accept such responsibility through an engagement letter itself. (c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements". (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.
Incs.17.5	If the auditors of Delco Ltd. Decides to give a qualified/ adverse opinion in the current financial year with respect to the non consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter:-
	(a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor. (b) EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements. (c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter. (d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.
Incs.17.6	If the management discloses the fact of non consolidation of financial statements of Soccer Ltd. In the notes to accounts of current financial year, what will be the impact on the audit report:-
	(a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case. (b) The auditor can ignore the issue of non consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts. (c) The auditor should give an unmodified opinion with disclosure of the fact in other matter agraph. (d) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.

Incs.18	(S22M)
	TMRT Retail Limited, (the 'Company' or 'TMRT'), is engaged in the business of retail. The Company follows financial year ending 31 March. The Company also plans to get listed in India in the next 4-5 years. During the financial year ended 31 March 2018, the management had noted extra-ordinary shrinkages of inventories at one of their stores. Post examination/ analysis by the in-house inventory shrinkage team, the management came to know about fraud of Rs. 19 lakh by the employees of the Company comprising of Head Cashier, Cashier and Public Relations Officer. TMRT has a joint venture, DT Ltd, which is engaged in the business of trading of goods. DT Ltd appointed new tax auditors for the financial year ended 31 March 2018. DT Ltd follows calendar year i.e. year ending 31 December for statutory reporting after obtaining requisite approvals. The appointment of the new tax auditors was done after 31 March 2019. For the financial year ended 31 March 2019, TMRT had PQN & Associates as their GST auditors, however, the management of TMRT is not happy with the work of PQN & Associates and hence wants to bring in new GST auditor. For the reporting year ended 31 March 2020, TMRT's management plans to have BKP & Associates as their internal auditors. BKP & Associates also happen to be the statutory auditors of TMRT. However, the management has been advised by a consultant that it cannot appoint statutory auditors as their internal auditors because it would lead to the issue of independence. BKP & Associates have been auditing TMRT for the last 3 years and had considered management override of controls as fraud risk and revenue recognition as significant risk for TMRT. BKP & Associates are evaluating whether they should drop both management override and revenue recognition as significant risks for the financial year ending 31 March 2022 considering they did not find any problems/ observations in respect of these two items in the past years and their reports have been clean for the last 2 years. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.18.1	In respect of the fraud identified by the management, what shall be the reporting implications on the part of the auditor? (a) Auditors would need to report the fraud in their CARO report. Further they also need to evaluate whether their report on IFC and the main report should be qualified or not. (b) Considering the materiality, the auditors may consider not to report this matter anywhere. This is also because of the fact that management has identified this. (c) Auditors would need to qualify their main report as well as their CARO report. (d) Auditors would need to qualify their main report as well as their CARO report. Further they would also need to report about this matter to the Audit Committee as well as the Central Government.
Incs.18.2	The management of DT Ltd did not carry out physical verification of inventory for the year ended 31 March 2018. What could be the reporting implications on the part of the tax auditor in such a case? (a) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors should report on the basis of statutory audit report of the same period or last audited period, as applicable. (b) It is a common practice to appoint tax auditors after reporting year end and in such a case, the auditors should carry out the physical verification after their appointment and roll back procedures in respect of inventory. Accordingly, no reporting matter arises in such a situation. (c) The tax auditors would need to evaluate the nature of the inventory. Further the management should give a note in respect of this matter in the financial statements basis which no reporting implication would arise. (d) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors would need to qualify the tax audit report. Tax auditor would also evaluate how the statutory auditor has reported this particular matter in his auditor's report.

Incs.18.3	The management of TMRT needs your advise in respect of appointment of common auditor both for statutory auditors and internal auditor for the financial year ended 31 March 2020.
	(a) Management has been advised correctly. Statutory auditors of TMRT cannot become their internal auditors. (b) Management has not been advised correctly. Statutory auditors of TMRT can also become their internal auditors. (c) Management has not been advised properly. Statutory auditors of TMRT can also become their internal auditors as they are familiar. (d) Management has not been advised properly. However, in the given case, statutory auditors of TMRT would not be able to take up internal audit of TMRT because they need to mention the same at the time of giving their consent letter and eligibility certificate at the time of appointment of statutory auditor.
Incs.18.4	Please advise BKP & Associates whether it would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.
	(a) It would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021. (b) (b) Management override of controls and revenue recognition should continue to be the significant risks for the financial year ending 31 March 2021 if that continues to be significant risk at inherent level. (c) (c) Management override of controls should continue to be the significant risk for the financial year ending 31 March 2021. Revenue recognition may not be considered as significant risk. (d) (d) Revenue recognition should continue to be the significant risk for the financial year ending 31 March 2021. Management override of controls may not be considered as significant risk.
Incs.19	(S22M)
M/s Venus & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of FDHC Bank., (referred to as 'Bank') for the Financial Year 2020-21. During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank. The engagement partner, Mr. A, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit. • Amount of interest accrued and not due on deposits amounting to RS. 95,50,000/-. • The balance of Interest rate swaps amounting to RS. 84,95,000/-. Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements. The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team. The details with respect to unaudited branches are as under: Interest Income: RS. 25,97,000/-. Interest Expense: RS. 15,45,220/-. Total advances: RS. 5,00,20,000/-. Total deposits: RS. 4,22,00,000/-. The auditors also discussed the following with the audit staff and the bank management during the course of the audit: • Computation of Demand and Time Liabilities. • Computation of Tier I & Tier II capital of the Bank. Based on the above facts, answer the following:	

Incs.19.1	The balance of FDHC Bank with the Zurich based Bank should be converted into Indian Currency at the following rate:
	(a) The exchange rate prevailing on the Balance sheet date. (b) The average of opening and closing exchange rates during the year. (c) The exchange rate as prescribed by Reserve Bank of India. (d) The exchange rates applicable on the respective dates of transaction in the account.
Incs.19.2	What should be the treatment of Interest on deposits accrued but not due amounting to Rs. 95,50,000/- appearing in the financial statements of FDHC Bank.
	(a) The amount should be included in deposits amount. (b) The amount should not be included in amount of deposits. (c) The amount should be shown under the head other liabilities and provisions. (d) Both b & c.
Incs.19.3	The amount of Interest Rate Swaps amounting to Rs 84,95,000/- should appear as in the financial statements of the bank :-
	(a) Contingent Liabilities. (b) Other Liabilities and provisions. (c) Current Liabilities. (d) Deposits.
Incs.19.4	Which of the following is correct statement related to the requirement laid down by the RBI for Venus & Associates while verifying the compliance with the SLR requirements of the bank?
	(a) M/s Venus & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit. (b) M/s Venus & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays. (c) M/s Venus & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays. (d) M/s Venus & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.
Incs.19.5	With respect to the unaudited branches what information is the auditor required to disclose in his audit report? (i) Number of unaudited branches. (ii) Quantification of advances, deposits, interest income and interest expense for such unaudited branches. (iii) Quantification of advances and deposits as such amounts exceed Rs. 5 crore and Rs. 2 crore respectively. However, quantification of interest income and expense is not required as such amounts do not exceed the limit of Rs 30 lakh and 20 lakh respectively. (iv) Quantification of advances and deposits is not required as the respective amounts are less than Rs. 10 crore. However, quantification of interest income and expense is required.
	(a) (i) & (ii). (b) (i) & (iii). (c) (i) & (iv). (d) Only (i).
Incs.19.6	While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:
	(a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery. (b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.

	(c) Net credit balance in branch adjustment accounts including these relating to foreign branches. (d) Margins held and kept in sundry deposits for funded facilities.

Incs.20	(S22M)
RS Ltd was set up by Raj and Shanti in 1992. Initially, the name of the company was Rajeev Private Limited. The company is currently into the business of aviation. The company has its head office in Chennai. The company has been in the same business since its incorporation but over the years had to shut down its business 3 times due to operational inefficiencies and resultant losses. In the year 2012, when the company restarted its operations after shutting that down third time, the company got funding from foreign investors. The management of the company increased its focus on the processes of the company and various checks and controls to improve the efficiency of the operations. This gradually resulted in improving the overall business culture of the company and gradually the company started earning profits. In the year 2018, the company got converted into a public company and got its name changed to RS Ltd. After that the company also tried to get listed on the New York Stock Exchange but the market was not favourable and the company instead got listed in India. The company kept increasing its focus on operational efficiencies which was also extended to all other processes of the company, most importantly, financial reporting which was not focused earlier by the management. The company also appointed a large firm of Chartered Accountants, KB & Co, as its internal auditors, who have had a specialization in the same sector so that they can help the company to fill the gaps in the processes, wherever required. Some of them are: • The Standard Operating Procedures (SOP) for the logistics process was not defined from the point of vehicle request received from the sales marketing department up to the bills verification. The management explained that part of this process was developed and the remaining part was expected within the next 3 months. • It was noted that during a particular period, cash in hand balance was higher than the actual cash requirement at some locations. The ratio of cash expenses to closing cash balance during that period ranged from 7 to 84 times. Further, the insurance cover was also not taken for the cash in hand kept at some locations. The management explained that this occurred only during a specified period and the insurance coverage plan was in place for the next year. • On review of the procurement process, it was observed that the system was not enabled to show pending delivery of the same material while raising a subsequent purchase order and the guidelines were not defined for review of open purchase orders and long pending orders. Management explained that this was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality, etc. and they will explore how system driven reporting can be done. • It was observed that the credit limit assessment was not being performed for all the customers which could result in the possibility of credit being given to customers with weak financial credibility leading to bad debts/ financial losses to the company. Management replied that they started the process of updating of the credit limit in their ERP package which shall be completed in a month's time for major customers and for customers wherever a temporary credit limit was defined. This would cover majority of exposure. The company also appointed other consultants to improve operations and management functions.	

During the financial year ended 31st March 2020, the internal auditors of the company raised some observations which were discussed in detail with the management, primarily because the management was not agreeing to some of the points of the internal auditors.

Subsequently in the financial year ended 31st March 2021, the management decided to set up its in-house internal audit function along with the CA firm, KB & Co. The idea was to do the work in-house and over the period, KB & Co. can move out once the management is confident of the in-house internal audit function. Considering the above-mentioned facts, please provide your suggestions in respect of the following:

Considering the above-mentioned facts, please provide your suggestions in respect of the following:

Incs.20.1	Whether reporting for Standard Operating Procedures (SOP) for the logistics process as discussed in scenario is required to be reported?
	(a) This is more of documentation and hence not relevant for the management. (b) Auditor should highlight and report this matter in his report. (c) The matter which is already under development should not be considered by the auditor. (d) Management needs to demonstrate the development process further and get this issue closed.
Incs.20.2	Contention of the management about cash balance and the insurance coverage plan matter is in order. Comment.
	(a) Matter should be reported by the Auditor in his audit report. (b) The management needs to explain the amount involved and if that is low then the auditor should ignore this. (c) The cash balance should not be looked at by the internal auditor as this is more relevant from financial reporting. (d) Internal auditor should only report about non-availability of the insurance coverage to the management.
Incs.20.3	Explanation given by Management regarding pending delivery status to be shown in system and guidelines was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality, etc. and they will explore how system driven reporting can be done is viable.
	(a) This was an operational challenge and hence out of the purview of the internal auditor. (b) This related to some system constraints and hence may be ignored by the internal auditor. (c) The internal auditor needs to highlight this in his report. (d) The management should draw a proper plan to take care of this. In any case there doesn't appear to be any financial impact due to this and hence the same should be ignored.
Incs.20.4	Whether internal auditor is required to report regarding credit limit assessment?
	(a) Since the management has already taken remedial action, the internal audit should drop this point. (b) Since this matter related to financials, this should be covered by the statutory auditors and not the internal auditors. (c) The management said that statutory auditors have also raised this point and hence internal auditors should drop this. (d) Internal auditors should report this irrespective of the fact whether statutory auditors covered this or not.
Incs.20.5	The management's plan to phase out the CA firm by building up an in-house internal audit team has been questioned by the statutory auditors saying this is not acceptable.
	(a) Statutory auditors are correct. (b) Statutory auditors should observe this for a period and if that is working fine then they should have no concern regarding this. (c) The management has discretion regarding this, hence statutory auditors are not correct. (d) The management should take approval from relevant authority like MCA and then statutory auditors would have to accept this.

Incs.21	(S22M)
	The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2020. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2020-21. (i) Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill rediscounting. (ii) Allahabad branch which started foreign exchange business from February 2020. (iii) Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank. Sista and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Associates, Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit. At the Kanpur branch of the bank there were high value cash deposits in one of the current account during April 2020. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2020-21. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2020 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance. Answer the below questions based on the above paragraph:
Incs.21.1	Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the five branches, so whether Sista and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select correct option from the following:
	(a) Sista and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors. (b) Sista and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee. (c) Sista and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit. (d) Sista and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
Incs.21.2	Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following:
	(a) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank. (b) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors. (c) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.

	(d) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.
Incs.21.3	You have been asked by your senior to verify the high value cash deposits at the Kanpur branch. What parameters/ documents will you verify as the concurrent auditor of the branch? Select correct option from the following: (a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only. (b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc. (c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly. (d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.
Incs.21.4	How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report? Select correct option from the following: (a) The auditor should report the matter as a major irregularity in his audit report to the management. (b) The auditor should verify the details from e-mail sent to currency chest and close the matter. (c) As it is a minor irregularity the auditor can ignore the same. (d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
Incs.22	(S22M) Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments – printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange. The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment. The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2016. The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2017. Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out a forensic audit in the financial year 2016-17. During the audit, certain transactions were identified highly risky, on which them management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner. For the financial year ended 31 March 2020, a due diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself. At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma

Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.

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

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

In the light of the above-mentioned facts, you are required to answer the following questions:

Incs.22.1	The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years. Which of the following statement should be correct? (a) The contention of the management was correct. (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well. (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer. (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.
Incs.22.2	The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2020. However, the reviewer asked for financial statements for the year ended 31 March 2019, which was already audited by the statutory auditors of the company and the management of the company declined this request. (a) The management is correct. (b) Reviewer can ask for documents even for the period for Which audit is completed. (c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards. (d) Reviewer has no right to review the financial statements of the period other than the period under review.
Incs.22.3	The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct. (a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management. (b) The company should not have provided the documents as those are confidential. (c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant. (d) Tax and legal matters are not a part of review of due diligence exercise.
Incs.22.4	The management may refuse to share the details of promoters? Comment on this? (a) Since the company has already went through due diligence and forensic audit in the previous years, the management may refuse to provide promoters details to the reviewer. (b) As the background of promoters has no bearing on the financials of the company, the reviewer should not ask for the details of promoters and the management may refuse to provide the same. (c) Since the company went through processes of forensic audit in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters. (e) The contention of the management is not correct.

Incs.23	(S22M)
	Mr. I was appointed as statutory auditor of M/s New Limited and M/s Old Limited. Both the companies were having their base in Chennai they had recently listed their shares on the stock exchange. For the financial year 2021-22, Mr. I had signed limited review reports for each quarter, till the quarter ended 31st December 2021 for both the companies. Owing to his personal commitments and increased work load, he tendered his resignation to M/s New Limited on 30th January 2022 and asked the company to appoint another auditor to issue audit report for the remaining quarter and the FY 2021-22 as a whole. But the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled. However, Mr. I continued to act as auditor for M/s Old limited. During the 1st week of March 2022, Mrs. W (wife of Mr. I) had borrowed a sum of RS. 6 lakh from the company for her personal use. Having come to know about this, Mr. I immediately informed the management that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter. But once again, the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled. Apart from the above assignments, Mr. I was engaged in the audits as well: • Internal audit of M/s ABC (P) Ltd. • Registration of a 'RCO Trust' which was started on 31st December 2021. He also took the tax audit assignment for the same. Mr. J, (friend of Mr. I) a CA in practice invited Mr. I to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s JI & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. J informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of Chartered Accountant Act and Regulation was accepted by all the four partners. Based on the above facts, answer the following:-
Incs.23.1	Is the management (of M/s New Limited) right in asking Mr. I to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? What could be the reason for the same?
	(a) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole. (b) Yes. If the auditor resigns within 45 days from the end a quarter, he is obligated to issue audit report for such quarter. (c) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue audit report for the financial year as a whole if he resigns during last quarter. (d) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.
Incs.23.2	From the aspect of SEBI LODR regulations and the recent circular on 'Resignation of Statutory Auditors from listed entities', is the management (of M/s Old Limited) right in asking Mr. I to issue audit report for the last quarter? What could be the reason for the same?
	(a) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. (b) No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable. (c) Yes. The disqualification affects Mr. I from issuing audit report from next quarter only.

	(d) Yes. If the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter.
Incs.23.3	Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and regulation?
	(a) JI and Co. (b) JI & Associates. (c) JI and Networks. (d) JI & Affiliates.
Incs.23.4	Within which date should the registration of RCO Trust should be done and what is the form in which tax audit report for the same should be submitted?
	(a) Registration: Before 31st March 2021; Tax audit report:Form 10 B. (b) Registration: No specific time limit; Tax audit report:Form 3 CB & 3 CD. (c) Registration: Before 31st December; Tax audit report: Form 10 B. (d) Registration: Before 31st March 2021; Tax audit report:Form 3 CA & 3CD.

Incs.24	(S22M)
	M/s IM & Co. Chartered Accountants is a newly started firm. Their first assignment was to conduct statutory audit of M/s CD Crackers Ltd. (a cracker manufacturing company). Since it was their first audit, the partners immediately accepted the work, without paying attention to the relevant procedures. They started their audit work from 25th May 2021 for the financial year (say previous year) ended on 31st March 2021. During the course of the audit, (I) The auditors requested for the financials of the preceding previous year, along with the details of transactions till 25th May of the current year. The management however argued that both the details are out of the scope of audit and hence told that they can't provide the details. However, after repeated request from the auditors, they finally provided in September 2021. (II) It was suspected that the senior accountant could have indulged in a fraud amounting to Rs. 117 lakh. However, on further investigation by management it was found that there was a gross mistake on part of the accountant, who had wrongly debited and credited certain accounts by mistake, which amounted to Rs. 18 lakh. The company provided proper and correct evidence for the balance amount; hence the auditors were strongly convinced that no fraud had taken place. Due to the absence of an audit committee, the auditors suggested to the director (finance) to replace the existing accountant as he was poor in basic accounting skills. Initially, the company thought of handing over the tax audit work to the previous auditor. However, since they had a bad experience last year, in form of an argument regarding the contents to be included in the tax audit report, especially with respect to the disclosure of key ratios, it was decided that the IM & Co. shall also act as tax auditors. After the conclusion of the audit, Mr. I, one of the partners of the firm was confused as to whether the firm could be held guilty of professional misconduct for a plausible violation of any of the provisions. of the Chartered Accountants Act. He contacted Mr. M, his partner, to get clarified about the doubt. M/s Hire (P) Ltd., a recruitment agency contacted Mr. I regarding a vacancy in one of the leading manufacturing company. Eventually Mr. I resigned as the partner of IM & Co. and joined the company. The agency raised an invoice for the service rendered by them, which amounted to 0.2% of the CTC offered. Mr. I agreed to pay the amount. However, since his friend was a manager at the agency, he received full discount on the invoice. Angered by the act of resignation, Mr. M filed a complaint with the Institute of Chartered Accountants of India (ICAI) stating that Mr. I had violated the provisions of the Chartered Accountants Act and is

guilty of professional misconduct. Having come to know that Mr. M was the one who had filed a complaint against him, Mr. I decided to take revenge. While thinking for a suitable reason to file a complaint, he recalled the fact that Mr. M was engaged as a Registration Authority for obtaining digital signatures for his clients. Quoting the same, he filed a complaint against Mr. M stating that he was guilty of misconduct for violating the provisions of the Chartered Accountant Act.

Based on the above facts, answer the following:-

Incs.24.1	What can you infer from the situation given in Point I?
(a) Management was right. Both the details asked by the auditors were out of the scope of audit. (b) The auditors have the right to ask only the details of preceding previous year and not the details of transactions till 15th May of current year. (c) Both the auditors and the management have the right to ask both the details and the right to not provide both the details. (d) The auditors have the right to ask both the details. The management's contention that it is out of the scope of audit is wrong.	
Incs.24.2	Is M/s IM & Co. guilty of professional misconduct for violating any of the provisions of Chartered Accountants Act? If so, as per which clause?
(a) Clause 1 of Part I of Second Schedule. (b) Clause 8 of Part I of First Schedule. (c) Clause 2 of Part II of Second Schedule. (d) No. The firm has not violated any of the provisions and hence not guilty of professional misconduct.	
Incs.24.3	Is Mr. I guilty of professional misconduct, if so, under what clause?
(a) Clause 1 of Part I of First Schedule. (b) Clause 2 of Part II of Second Schedule. (c) No. Mr. I is not guilty of professional misconduct. (d) Clause 1 of Part II of First Schedule.	
Incs.24.4	Is Mr. M guilty of professional misconduct, if so, under what clause?
(a) No. Mr. M is not guilty of professional misconduct. (b) Clause 11 of Part I of First Schedule. (c) Part III of Second Schedule. (d) Clause 1 of Part II of Second Schedule.	

Incs.25

(S22M)

Sankalp Edible Oil Limited is a public company which has the business of manufacturing cooking oil. The company is in this particular business since last 25 years. The Financial results of the company for the previous year FY 2020-21 is as follows:-

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

For the year 2020-21, M/s Aagam & Associates were the auditors of the Company. The auditors found out significant deficiencies in internal control and misrepresentation of amounts in the area of Trade Payables. Therefore, Auditor issued qualified Audit Report.

Next year, management did not wish to re-appoint the same auditors, and hence, Board of Director recommended Ms. Aangi as the Statutory Auditor for FY 2021-22 to the members of the Company.

After appointment, Ms. Aangi went through previous year financials statements, audit report etc. and emphasised the understatement of Trade Payable balance as a significant audit risk. Auditor set the materiality at Rs. 15,00,000 for conducting audit of the year 2021-22.

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

- (i) Major Vendors where the confirmation balances agrees to General Ledger.
- (ii) Vendors which have high volume of business with Sankalp Edible Oil Limited.
- (iii) Vendors with balances of Rs. 15,00,000 or more outstanding at the year end.
- (iv) Vendors with balances of Rs. 15,00,000 or less outstanding at the year-end.

As at March 31st, 2022, the balance of two vendor as per company's General Ledger and as per the balance of the External Confirmation which are received from vendors are as under:-

Vendor Name	Balance as per General Ledger	Balance as per External Confirmation
Suchi Groundnut Seeds Limited	Rs. 15,00,000	Rs. 20,00,000
Nishi Sunflower Seeds Limited	Rs. 65,00,000	Rs. 80,00,000

Suchi Groundnut Seeds Ltd.:-

The difference in the balance is due to one of the order received by the Company. This order is under dispute as the Company claims that the received raw material is of sub-standard quality. The consignment received was sent back to the vendor on March 30, 2022.

Nishi Sunflower Seeds Ltd.:-

The difference in the balance is due to the reason of two invoices of Rs. 10,00,000 and Rs. 5,00,000 dated March 25, 2022 & March 27, 2022 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03rd, 2022 and therefore, those were not recorded in the financial statement for the year ended March 31st, 2022.

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

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

Based on the above facts, answer the following:-

Incs.25.1	Which items should Ms. Aangi select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed? (i) Major Vendors where the confirmation balances agrees to General Ledger. (ii) Vendors which have high volume of business with Sankalp Edible Oil Limited. (iii) Vendors with balances of Rs 15,00,000 or more outstanding at the year end. (iv) Vendors with balances of Rs 15,00,000 or less outstanding at the year-end.
	(a) i & iii. (b) ii, iii, & iv. (c) i & ii. (d) i, ii & iii.

Incs.25.2	How can Ms. Aangi audit the operating effectiveness of internal control around the accounting of Trade payables?
	(a) Recalculating ageing of Trade Payables to identify the balances which may not be agreeing with the audit evidence. (b) Select samples from the supplier balance based on scientific Random Sampling approach & verify the thirdparty evidence. (c) Input a fake purchase invoice into the client system to see if it is processed accurately. (d) Calculate Trade Payables' days to use in the analytical procedures.
Incs.25.3	What are the audit procedures that Ms. Aangi should perform to verify whether the payable balances of Nishi Sunflower Seeds Ltd. are correctly recorded in the financial statements.?
	(a) Send a confirmation to Nishi Sunflower Seeds Ltd. To requesting to confirm the outstanding balance as at March 31, 2022. (b) Verify the bank payments for the period of post March 31, 2022 for any evidence of payment of invoice. (c) Review the listing of purchase order to confirm whether it pertains to the current year 2021-22 or it pertains to the next financial year. (d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.
Incs.25.4	What would be proper course of action to be taken by Ms. Aangi for two errors amounting to Rs. 4,00,000 and Rs. 8,00,000 in the given scenario?
	(a) The total amount of error is below the materiality and therefore it should not be considered or further work upon. (b) Ms. Aangi should ask Sankalp Edible Oil Ltd. to adjust Rs. 12,00,000 in the Payable balance and rectify the same. (c) Different set of samples representing the same amount should be selected to check whether same errors are getting repeated, if it is not, then the observation should be waived off. (d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

Incs.26	(S22M)
CA David was appointed as a statutory auditor of Growth Limited having its headquarter at Mumbai. Growth Limited was involved in retail & packaging business and had branches in 6 states of India; Mumbai being its headquarter. It had a policy to appoint different auditor for each branch in different state and a central auditor for Mumbai headquarter. For the FY ended 31st March 2021, all branch audit reports were received by CA David in a timely manner. There was an increase in sales for all the branches, except for the branch of Kerala where sales declined by 17% in comparison to last year. Hence CA David requested CA Chinnaswami, auditor of Kerala branch, to share audit working papers of Growth Limited's Kerala Branch. During the year, Growth Limited used its securities premium of Rs. 7 crore for writing off unabsorbed depreciation of Rs. 2.5 crore and issue of bonus shares for Rs. 4.5 crore. All the provisions of section 63 of the Companies Act, 2013 for issue of bonus share and applicable rules in respect of issue of Bonus shares were complied with by Growth Limited. CA David also took a written representation which was certified by the Company Secretary employed by Growth Limited in regard to compliance of applicable provisions for usage of securities premium and thus, CA David issued unmodified audit report. The company created provision for doubtful debts amounting to Rs. 8 lakh and presented that under head short term provisions under liabilities in its financial statements. CA David was confused with presentation of such provision in accordance with Ind AS 37. Advocate Tanay was a practicing advocate representing in the court of law. Tanay and CA David agreed that advocate Tanay will recommend CA David in case of matters relating to finance & other matters and CA David will recommend advocate Tanay in case of matters relating to tax litigations. Further they also decided to share profits with each other in relation to such assignments. With the increased quantum, CA David has to increase his office capacity. He purchased 10 office chairs, tables and other	

office furniture from Growth Limited. The same were purchased with huge 90% discount under clearance sale. The purchase amounted to Rs. 9 lakh which was not more than statutory audit fees of CA David. CFO of Growth Limited contented that, as a result of this purchase, there exist a business relation between Growth Limited and CA David, hence CA David will be disqualified under section 141(3) of the Companies Act, 2013.

Based on the above facts, answer the following:-

Incs.26.1	Was the opinion formed by CA David in respect of usage of securities premium correct?
	(a) No, as securities premium cannot be used by company for adjusting unabsorbed depreciation. (b) No, as securities premium cannot be used for issuing bonus shares. (c) Yes, as CA David has taken written representation signed by the Company Secretary. Hence CA David will not be liable to check the compliance of applicable provision. (d) Yes, as per section 52 of the Companies Act, 2013, premium can be used for adjusting unabsorbed depreciation and for issuing bonus shares.
Incs.26.2	In your opinion, was the presentation of provision for doubtful debts correct in accordance with Ind AS 37?
	(a) Yes, as Ind AS 37 specifies that such provision should be presented under short term provision. (b) No, as Ind AS 37 specifies that such provision should be presented net of trade receivables. (c) Yes, because Ind AS 37 doesn't specify anything for presentation, hence we will have to follow practice which require that such provision should be presented under short term provision only. (d) Yes, as it won't make any impact so it is at the discretion of Growth Limited whether to present it under short term provision or net it off from trade receivables.
Incs.26.3	What is the validity of CFO's contention for disqualification under section 141(3) and will CA David be disqualified?
	(a) The contention of CFO is valid and CA David will have to vacate office as he has purchased his office furniture at 90% discount. (b) The contention of CFO is valid but CA David will not have to vacate office as the purchases are less than audit fees as there exist business relation. (c) The contention of CFO is invalid but CA David will have to vacate office as he has purchased his office furniture at 90% discount. (d) The contention of CFO is invalid and CA David will not have to vacate office as no business relation exists there.

Incs.27	(S22M)
CA Dev was involved in practice of statutory audit from last 27 years. He is the statutory auditor of 19 public limited companies out of which 7 are listed. He is also statutory auditor of 6 one person companies. Out of 19 public companies, 7 are PSU's (Public Sector Undertakings), 4 are involved in banking business, 2 are life insurance companies and others are private sector companies. His friend, Mr. Suyog was MD of health life insurance company and wants to appoint CA Dev as statutory audit of Health life insurance company. There is quite a diversification of clients of Mr. Dev. Few are from insurance, tea business and FMGC as well. CA Dev still wants to increase the area of his practice. Mintcoin Ltd. was involved in the business of assisting startups to raise funds from venture capitalists. It had a huge network of venture capitalists which was very helpful in serving the clients. But Mintcoin Ltd. lacked a finance expert who can present the financial statements of startups to venture capitalist. Mintcoin Ltd. contacted CA Dev who was a practicing chartered accountant. But as he holds COP (Certificate of Practise), he cannot work as full time employee of Mintcoin Ltd. So, it was agreed that rather than fixed salary, CA Dev will charge 2% of the amount raised as consultancy fee and will continue with his practice. It was also agreed that he will not be an employee of Mintcoin Ltd. and will provide direct fund raising services to startups in collaboration with Mintcoin Ltd. CA. Dev was statutory auditor of Safety Limited. It was an insurance company having fire, and marine insurance products. In case of marine insurance, it had a risk of nearly Rs. 100- 120 crore and in case of fire insurance, 70% of its fire insurance premium was received from Star Hotels. Safety Ltd has a policy	

that in case of marine insurance, it will not hold risk of more than Rs. 50 crore, hence Safety Ltd signed a contract for 5 years with Help Ltd, which was involved in the business of reinsurance, to cede risk above Rs. 50 crore for 40% of marine insurance premium. Because of change in business environment, Safety Limited entered a separate contract with Help Ltd to reinsure fire insurance of Star Hotels where Help Ltd. will bear 40% risk in returns of 40% of premium from Star Hotels. Net premium used for calculation of unexpired risk reserve of marine hull insurance is Rs. 70 crore and marine cargo insurance is Rs. 40 crore. Total net premium of fire insurance was Rs. 80 crore at the end of the year. CA Dev was confused as to how to calculate unexpired risk reserve.

CA Dev is statutory auditor of Tata Tea Ltd. as well. It has set up its manufacturing plant in the backward areas of West Bengal. It has been set up under production linked investment scheme of government. The turnover of immediately preceding financial year of the company is Rs. 60 crore. Along with manufacturing of tea, Tata Tea Ltd. also produces electricity from its own solar plant, whose electricity is only used by Tata Tea Ltd. in its manufacturing activities.

CA. Dev is statutory auditor of FMCG giant Premium Ltd as well. Premium Ltd. is a listed company and 47th largest company of India in terms of market capitalization. The promoter of the company is Mr. Hari but he doesn't hold any management position in this company. His brother, Mr. Taari, is a non-executive chairman of Premium Ltd. There sits a total of 16 directors including Mr. Suyog on board of Premium Ltd. The BOD (Board of Directors) are considering to form an audit committee consisting of 9 directors. Mr. Taari seeks advice from CA Dev as to number of independent directors to be part of audit committee of this company.

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

Incs.27.1	Is the act of CA Dev of charging 2% consultancy fees for amount raised by startups a professional misconduct? Please answer specifying the relevant clause.
	(a) No, it is not a misconduct if a specific permission is granted by the ICAI in this regard under Regulation 190A. (b) No, it is not a misconduct. Regulation 192 allows CA to charge percentage based fees in case of fund raising services. (c) Yes, it is a misconduct under clause 10 Part (1) of First Schedule. (d) Yes, it is a misconduct under clause 3 Part (1) of First Schedule.
Incs.27.2	Can CA Dev accept the appointment of statutory auditor of Health life insurance company? Give the reason for your opinion.
	(a) Yes, as the total number of audits a CA can perform is 20, hence CA Dev can accept 1 more statutory audit. (b) Yes, as the total number of audits of life insurance company a CA can perform is 3, hence CA Dev can accept 1 more statutory audit of Health life insurance. (c) Yes, as the total number of audits a CA can perform is 20 and total life insurance companies; audits a CA can perform is 3, hence CA Dev can accept 1 more statutory audit of Health life insurance company. (d) No, as the total number of audits of life insurance company a CA can perform is 2, hence CA Dev cannot accept 1 more statutory audit of Health life insurance company.
Incs.27.3	What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Marine business?
	(a) Surplus proportional treaty reinsurance. (b) Quota share proportional treaty reinsurance. (c) Facultative reinsurance. (d) Non- proportional treaty reinsurance.
Incs.27.4	What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Star hotel's assets?
	(a) Facultative reinsurance. (b) Proportional treaty reinsurance.

	(c) Quota share proportional treaty reinsurance. (d) Surplus proportional treaty reinsurance.	
	Incs.27.5	Which of the following statements is correct for Tata Tea Ltd. In regard to section 148 of the Companies Act, 2013 read with Rule 4 on Applicability of cost audit?
	(a) Tata Tea Ltd. will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than Rs. 50 crore. (b) Tata Tea Ltd. will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than Rs. 35 crore. (c) Tata Tea Ltd. will have to maintain cost records but would not be subject to cost audit. (d) Tata Tea Ltd. is not required to maintain cost records.	
	Incs.27.6	In relation to Corporate Governance and in compliance of Regulations 17 and 17A, what should be the minimum number of independent directors on the board of Premium Ltd.?
	(a) 8. (b) 6. (c) 11. (d) 2.	
	Incs.27.7	What should be correct statement from below in regard to number of independent directors for audit committee of Premium Ltd?
	(a) There should be at least 5 independent directors in audit committee and 5 directors should have knowledge to read the financial statements. (b) There should be at least 5 independent directors in audit committee and 9 directors should have knowledge to read the financial statements. (c) There should be at least 6 independent directors in audit committee and 9 directors should have knowledge to read the financial statements. (d) There should be at least 6 independent directors in audit committee and 6 directors should have knowledge to read the financial statements.	
Incs.28	(S22M)	
	Speak Ltd. is an industry providing telecommunication services and is operating in a completely automated environment. It uses software such as 'Call Data Record package' for capturing revenue from telecommunication services, 'HRMS package' for processing pay of employees and Sanchar soft for capturing special transactions on franchisee transactions. All these software data culminate into the SAP software used for financial accounting and reporting. Speak Ltd., as an industry is subjected to various risks such as technology risks, security risks, operational risks etc. which may prevent the company from achieving its business objectives. The entity may also be subject to risk pertaining to the use of IT systems. The auditor of the company during the course of the audit has found the following issues: Issue1: Speak Ltd. has issued material for tower works worth Rs. 30 crore on 10th October 2021 and this entry made by a staff is approved by the assistant store manager and the store manager. The very next day the staff who entered the data found that there is some clerical error and store worth only Rs. 29.8 crore was issued. He made the changes immediately and the system accepted the same without the approval of assistant store manager and store manager. Issue2: Speak Ltd. is showing a commission expense of Rs. 2 crore during the month of October 2021. The auditor has made an effort to understand the business process that makes up this financial statement line item as to how it is initiated, recorded, approved, posted and reported. During this exercise, he finds that there is a difference of Rs. 1,50,000/- in the commission recorded as per the Sanchar Soft software (source) and commission as reflected in SAP accounts. (destination).	

Issue 3: While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup. With the above information, answer the following questions by choosing the correct option?	
Incs.28.1	What is the terminology for the formal program or framework that is implemented across an enterprise or company for enabling risk management? (a) Risk assessment process. (b) Enterprise Risk Management. (c) Corporate Risk Management. (d) Automated environment risk management.
Incs.28.2	What kind of a risk in the automated environment is observed by the auditor in "issue 1"? (a) It is an entity level risk related to governance, organization and management of IT. (b) It is a risk in the IT processes and procedures being followed in terms of unauthorized access. (c) There is no material risk involved in the issue observed by the auditor. (d) It is a manual internal control risk and not connected to any automated controls in the system.
Incs.28.3	What is the kind of risk assessment carried out by the auditor in case of " issue 2"? (a) It is an evaluation of risks and controls at process level. (b) It is a direct entity level control evaluation. (c) It is an indirect entity level control evaluation. (d) There is no risk assessment as such carried out by auditor in issue 2.
Incs.28.4	What should the auditor do about the difference identified in" issue 2"? (a) The auditor should carry out further procedure of inquiry, obtain additional evidence on the matter and discuss with management before deciding on the audit reporting requirement. (b) The auditor should issue an adverse opinion on deficiency on internal control directly as it is a clear difference. (c) The amount is not material considering the business volume and hence the auditor may inform the management orally. (d) The auditor should issue a qualified opinion on deficiency of internal control directly as it is a clear difference.
Incs.28.5	How should the auditor deal with "issue 3"? (a) The auditor should issue a qualified opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence. (b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion. (c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls. (d) The auditor can rely on the SAP data and there is no need for qualification of report.
Incs.29	(S22M) AB & Co., Chartered Accountants are having 4 partners- Mr. A, Mr. B, Mr. C and Mr. D respectively. Head office is situated at New Delhi with 2 branch offices at Mumbai and Kolkata. The Firm was founded in the year 1983. Mr. A looks after Internal Audit assignments. Mr. B and Mr. C head Income Tax Audits and consultancy. Mr. D specializes in Company Audits and Bank Audits. Firm is empanelled with the Comptroller Auditor General of India (CAG), Reserve Bank of India (RBI) and the Income Tax Department for conducting Special Audits

During the statutory audit of PQR Ltd. (a Listed company) for FY 2020- 2021, following observations were noted by Mr. Z (an articulated assistant):

- ❖ The company's accounts have been prepared on IND-AS Basis as specified by The Companies Act, 2013
- ❖ There was a major fire at the plant on 3rd April 2021 which destroyed stocks worth Rs. 40 lakh, approximately equal to 35% of the total stock in hand.
- ❖ The company acquired 53% shares of Subsidiary Ltd. on 1st March 2021 However it sold all shares on 15th October 2021.
- ❖ The Company is having 1 crore Equity Shares @ Rs. 10 as its Paid up Capital.
- ❖ During the Year Company declared dividend of Rs. 1 per share out of current year profits.
- ❖ Mr. Z was offered 0.5% of total profits of AB & Co. for performing very well in the audit of PQR Ltd. by Mr. D as a token of appreciation.

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

Incs.29.1	Whether preparation of Consolidated Financial Statements is required for FY 2020-2021 for PQR Ltd?
	(a) No, since the control is temporary as the shares are held for disposal in near future, the consolidation is not required as per IND AS 110. (b) No, since the control is temporary as shares are held with a view for disposal in near future and it should be presented as asset held for sale under IND AS 105. (c) No, since as per section 129(3) of the Companies Act, 2013, only disclosure in notes shall be sufficient. (d) Yes, it is required under IND AS 110.
Incs.29.2	Regarding the loss by fire, what is the correct course of action for the financial statements for 2020-21 as per IND AS 10?
	(a) Disclose the loss by fire in the notes, do not adjust the financial statements. (b) Write off the stock lost by fire totally as on 31.03.2021. (c) Make a provision for loss by fire on 31.03.2021 and pass actual write off entry on 3.04.2021, the date of fire. (d) Neither adjust the loss nor disclose in the notes as the loss does not relate to FY 2020-21.
Incs.29.3	Is Mr. D liable for professional misconduct by sharing profit with Mr. Z? If yes, under which clause?
	(a) No, as the profits were given as a token of appreciation (b) Yes, under clause (2) Part I of First Schedule. (c) Yes, under clause (2) Part I of Second Schedule. (d) Yes, under clause (1) Part II of Second Schedule.

Incs.30	(S22M)
	Kaai (P) Ltd. is involved in the wholesale business of vegetables across various cities of India. The company delivers all the orders using its own vehicles. However, during peak season, the company would hire vehicles to deliver its orders. M/s PAZH & Co. Chartered Accountants were the auditors of the company for past two years. For the year ended 31st March 2021, the statutory & tax audit was conducted by the firm, and following were the observations made: Observation - 1: During the year, the company had made payment for three invoices of (I-1) Rs. 17,500/- , (I-2) Rs. 18,750/-, (I-3) Rs. 11,250/- to M/s Rent Vehicles Ltd. for services of hiring vehicles (I-1&2 above) and for wages for the driver sent by them (I-3 above). All payments were settled by way of cash on 15th March (I-1) and 23rd March (both I-2&3) Observation – 2: On 31st March the company had taken insurance (value insured = Rs. 1 lakh) for its new godown and the premium was to be paid on next day. However, on the night of 31st, a huge fire

accident took place and goods worth Rs. 1.5 lakh were lost. The company informed the insurance agent about the incident and included the loss value as receivables in its financials.

Observation – 3: With respect to the expenditure made by the company, the following were to be disclosed in tax audit report, but the management did not accept the decision of the auditor.

(i) The company had incurred Rs. 40,000/- towards advertisement expenditure on a brochure/pamphlet published by a private educational institution in Pune.

(ii) The company reimbursed Rs. 18,000/- to its employees who had incurred the expenses on entrance fees paid to a club.

(iii) The company had an idle land near to one of its godown. It had employed 5 farmers to cultivate rice and had made an income of Rs. 13 lakh by selling the output. The salary paid to the 5 employees and other costs amounting to Rs. 2 lakh were debited to the profit & loss account of the company.

Observation – 4: The company was operating with same share capital which it had since inception (i.e. Rs. 95 lakh). During the year, it had made a turnover of Rs. 158 lakh and its borrowings stood at Rs. 58 lakh as on 31st March, which was after settling a loan of Rs. 43 lakh taken from SBI on 24th March. The amount of Rs. 58 lakh was the balance of term loan taken in the earlier year and after repayment of instalments in the current year as and when due.

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

(i) Offer to be appointed as internal auditor of HH Ltd.

(ii) Offer to be appointed as statutory auditor of HH Employees Provident Fund.

(iii) Offer to be appointed as statutory auditor for YY Bank and simultaneously, they were also appointed to perform stock audit of its branch.

(iv) To act as financial advisor to M/s NBE Mutual Fund Ltd. for a professional fee of ` 1 lakh per annum.

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

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

Incs.30.1	With regards to tax audit of Kaai (P) Ltd., what should the auditor do with respect to observation - 1?
	(a) He need not report anything as the cash payments as well within limits specified in Income tax Act. (b) Disallow Rs. 17,500/- and give the details of the same under clause 21 of tax audit report. (c) Disallow Rs. 18,750/- & Rs. 11,250/- and give the details of the same under clause 21 of tax audit report. (d) Disallow Rs. 11,250/- and give the details of the same under clause 21 of tax audit report.
Incs.30.2	Regarding observation - 2, what should be the right value to be recognised by the company as receivables from the insurance company?
	(a) Zero. (b) Rs. 1 lakh. (c) Rs. 1.5 lakh. (d) Rs. 50,000/-.
Incs.30.3	From the observation - 4, can you suggest whether CARO 2020 is applicable to the company or not? What is the reason?
	(a) No, as per para 1 of CARO 2020, private limited companies are exempt. (b) Yes. Since the paid-up capital of the company exceeds the specified limits, CARO 2020 is applicable. (c) Yes. Since the turnover of the company exceeds the specified limits, CARO 2020 is applicable. (d) Yes. Since the borrowings of the company exceeds the specified limits, CARO 2020 is applicable.

Incs.30.4	Which among the points under observation – 3 should be reported by the auditor in the tax audit report?
	(a) (i) & (ii). (b) (ii) & (iii). (c) (i) only. (d) (ii) only.
Incs.30.5	Does the act of being appointed as financial advisor to M/s NBE Mutual Fund Ltd attract professional misconduct? What is the reason?
	(a) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as equity research advisor it would attract professional misconduct. (b) Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a Mutual fund company and receive fees from them. (c) No. Only if the firm acted as financial advisor to NBFC or Insurance company, it would attract professional misconduct (d) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as financial advisor for commission income, it would attract professional misconduct
Incs.30.6	Among the assignments (i), (ii) and (iii) given in the scenario which PAZH & Co. received, undertaking which would have led to professional misconduct?
	(a) (ii) only. (b) Both (i) & (ii). (c) (iii) only. (d) (i) only.

Incs.31	(S22M)
	M/s. Suresh & Co., a partnership firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Alkis Ltd., an unlisted public company, for financial year 2020-21. Mr. Suresh is the engagement partner for the audit assignment of Alki s Ltd. The engagement team, before starting the assignment, was made to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken. Mr. Suresh, referred the engagement letter, signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of following circumstances in the Company during FY 2020-21: • Two senior whole time directors of the Company have retired out of total five directors. • 40% stake in the Company was held by promoters, which was reduced to 5%, by selling shares to general public. • One more factory unit was set up in Gorakhpur, this year. • Management has requested to cover 90% of the transactions with respect to each revenue line item, this time, instead of 80% of the transactions, as was set out in the audit plan, considering the materiality and other factors. The following data is presented from the audited financial statements of Alkis Ltd., for the financial year 2019-2020: (I) Paid up share capital - Rs. 8 crore; (II) Turnover - Rs. 55 crore; (III) Outstanding Borrowings - Rs. 14 crore; (IV) Outstanding Public Deposits - Rs. 28 crore.

Mr. Suresh while preparing a report under section 143 of the Companies Act, 2013, made a statement with respect to the remuneration paid by the Alkis Ltd. to one of its directors, Mr. Mahesh, was in excess of the limit laid down under section 197 and also gave such other details as prescribed.

Mr. Suresh, for additional reporting purpose, while auditing with respect to compliance with CARO, 2020, observed the following, relevant to Para 3(vii) of CARO, 2020:

Statutory Dues Undisputed	Amount (Rs. in lakh)	Date Payable	Date Paid
Income Tax Demand for A.Y. 2018-19	2	25th September, 2020	28 28th March, 2021
GST	1.5	3rd October, 2020	4th April, 2021
Customs Duty	0.80	20th September, 2020	10th April, 2021
Provident Fund	0.45	12th October, 2020	Not Paid till date

Also, a representation was made to GST Department for waiving a penalty of Rs. 1 lakh for late payment of GST demand. The board of Alkis Ltd. declared interim dividend of Rs. 20 lakh on 20th May, 2021, to its 180 shareholders, out of surplus in the profit and loss account and such dividend amount was deposited in a separate bank with a branch of SBI.

Dividend amounting to Rs. 1 lakh was not claimed by a shareholder, Mr. Rohit, till 19th June, 2021, and so the said amount of Rs. 1 lakh was transferred to Unpaid Dividend Account on 31st July, 2020.

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

Incs.31.1 Which of the following option is correct with respect to Alkis Ltd.?

- (a) Alkis Ltd. needs to form an Audit Committee. Further, provisions relating to internal audit as well as rotation of auditors are applicable to Alkis Ltd.
- (b) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to internal audit is not applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are applicable to it.
- (c) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to rotation of auditors is not applicable to Alkis Ltd. However, the provisions with respect to internal audit are applicable to it.
- (d) Alkis Ltd. needs to form an Audit Committee. Provisions relating to internal audit is applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are not applicable to it.

Incs.31.2 Under which section of the auditor's report, Mr. Suresh needs to report with respect to the excess remuneration being paid to Mr. Mahesh?

- (a) Other Matters Paragraph.
- (b) Report on Other Legal and Regulatory Requirements.
- (c) Basis for Qualified Opinion.
- (d) Auditor's Responsibilities for the Audit of the Financial Statements.

Incs.31.3	What total amount of statutory dues needs to be reported by Mr. Suresh as per Para 3 of CARO?
	(a) Rs. 2.75 lakh. (b) Rs. 0.80 lakh. (c) Rs. 2.80 lakh. (d) Rs. 2.30 lakh.
Incs.31.4	How much amount of interest Alkis Ltd. would be liable to pay with respect to unpaid dividend amount?
	(a) Rs. 575. (b) Rs. 1,216. (c) Rs. 1,726. (e) Rs. 1,151.
Incs.31.5	By what date, the amount of interim dividend should have been deposited in the scheduled bank after being declared and also by what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account?
	(a) 25th May, 2021 and 24th June, 2021, respectively. (b) 25th May, 2021 and 26th June, 2021, respectively. (c) 30th May, 2021 and 19th July, 2021, respectively. (d) 27th May, 2021 and 26th June, 2021, respectively.

Incs.32	(S22M)
	Victor & Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million Copper suits. The Company has started the production of version 10 under its flagship and tags it as "Why to worry about a vehicle, when you have steel man". The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of 'Copper Man' and thus, the managerial decision making is left to each version manager. You have assigned the 'Fixed Assets area' to Mr. Mamma Mia and he came out to you with the following points. You need to answer the questions raised by him and go through the notes prepared to reach an able conclusion over Property, Plant and Equipment FSLI (Financial Statement caption): • The Company is holding the property in its name in Andaman & Nicobar while the land is registered in another person's name. The property is in dispute for the past 20 years. This is the major plant for the Company and it is the critical success factor for the client. The Company's 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn't be halted as the restart of operations will cost huge amounts and a month's time to get the Company back to current position. • The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed. • The Company follows the depreciation policy as per the Schedule II across all the factories even when the factory at Andaman & Nicobar is the only factory that runs 24*7. The useful

life has been taken as it is mentioned in the Schedule II without modifications and the Company's future prospects are good, there are no impairment indications.
On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:
On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Incs.32.1	The audit team has asked you about the Benami Transaction:
(a) There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988. (b) As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit. (c) The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO (d) The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.	
Incs.32.2	The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:
(a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO. (b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO. (c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO. (d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.	
Incs.32.3	The audit team has asked you about the impairment of assets of the Company.
(a) The Company has no impairment condition as the Company expects positive future cash flows from the assets and thus no need to assess the impairment. (b) The Company need to assess the impairment condition for the assets and need to assess the fair value of the assets used to generate income from the older versions. The auditee needs to take a decision based on the cash inflows of a Company as a whole for assessing the existence of the impairment condition. (c) There exists an impairment condition as the Company does not expect much business from the older versions due to anticipation of the huge demand of the new product. The Company need to assess the cash inflows at each version level. (d) The Company need not assess impairment of assets as this is very common in dynamic industries where the older versions become obsolete when the new one is introduced by the Company.	
Incs.32.4	The audit team is skeptical about the Depreciation policy followed by the Company for the Andaman and Nicobar plant:
(a) As the Company is following the Schedule II, the depreciation policy and the useful life is in line with the Companies Act, 2013. Hence the Company's depreciation policy is good to go.	

	(b) As the Company is operating the plant 24*7, it will be eligible for extra shift depreciation as per Schedule II. For the assets where the condition of extra shift depreciation does not exist, the Company will be eligible to claim 50% extra depreciation as per schedule II. (c) As the Schedule III is applicable for the whole Company, the policy including useful life for the assets need to be same. There cannot be different useful lives for different assets across different locations. Thus, the depreciation policy of the Company is good to go. (d) As the Company is operating the plant 24*7, it will be referred to as continuous process plant. For the assets where the condition of extra shift depreciation does not exist, the Company will not be eligible to claim 100% extra depreciation as per Schedule II.
Incs.32.5	The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same: (a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc. (b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the integrity of the management about the appointment of the foreign brand ambassador. (c) As per the SA 250, "Consideration of laws and regulations in an audit of Financials Statements" the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications. (d) The auditor needs to qualify its audit report as the Company is against the "Vocal for Local" policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.

Incs.33	(S22M)
	CA D was a practicing Chartered Accountant in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd, a listed entity, which was involved in the business of manufacturing of motor cars for FY 2019-20. CA D was appointed as joint auditor along with CA T and CA P. They have divided the responsibility for conducting audit in accordance with SA 299. As the company has huge amount of property, plant and equipment, it was decided that all 3 auditors will verify the records relevant to property, plant and equipment. While forming an opinion, CA D was having a different opinion on property, plant and equipment but CA T and CA P were having same opinion. CA D wants to qualify capitalisation of post-acquisition costs incurred on machinery whereas CA T and CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common audit report which is in accordance with the opinion of CA T and CA P. While assessing the applicability of CARO, 2016, CA D found that issued share capital of Giant Motors Ltd is Rs. 500 crore along with Rs. 30 crore of calls which are being unpaid as they are receivable from retail investors. In the month of July 2019, Giant Motors Ltd. forfeited shares of worth Rs. 10 crore. There were no reserve and surplus as it was transferred to parent entity. Also, along with equity shares of Rs. 300 crore, there was preference share capital of Rs. 200 crore. CA T while reporting under clause (vi) of CARO, 2016 did not report anything under clause (vi) of CARO 2016 as the government has not ordered Giant Motors Ltd. to conduct cost audit for its books of account. Hence CA T did not report anything under clause (vi). Giant Motors Ltd has a total number of 11 directors. Mr. Talent is the Executive Chairman of the company. Out of 11 directors, 5 were independent directors. Mrs. D was not aware that CA D was the statutory auditor of Giant Motors Ltd. She purchased shares of Giant Motors Ltd worth Rs. 1,50,000 (book value) on 3rd October 2020 but when she came to know about the statutory auditor of Giant Motors Ltd, she sold her shares on 10th November 2020. One of the shareholders of Giant Motors Ltd contended that CA D is disqualified and shall vacate his office of statutory auditor. On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.33.1	Can you please guide whether CA D really needs to go with the opinion formed by CA T and CA P or not?
	(a) CA D will have to go with the opinion formed by majority auditors. (b) CA D can add a separate audit opinion paragraph in the common audit report and the same should be highlighted in emphasis of matter paragraph. (c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in emphasis of matter paragraph. (d) CA D can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.
Incs.33.2	What should have been CA D's opinion on applicability of CARO, 2016 for FY 2019 -20 assuming forfeited shares are not included in equity share capital?
	(a) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 1 crore. (b) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 10 crore. (c) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 1 crore. (d) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 10 crore.
Incs.33.3	Was the approach followed by CA T for not reporting under clause (vi) of CARO correct?
	(a) Yes, as reporting under said clause is required only if the Giant Motors Ltd were ordered by government to conduct cost audit under section 148(1). (b) Yes, reporting under this clause is only applicable to entities involved in production of electricity. (c) No, Clause (vi) should be reported irrespective of whether Giant Motors Limited has been ordered to conduct cost audit by the Central Government or not. (d) No, should be reported only if there is any discrepancy found while examining the cost records.
Incs.33.4	Was there any non-compliance on the part of Giant Motors Ltd in case of appointment of independent directors?
	(a) No, there was no non-compliance as independent directors were more than 2 directors specified in the Companies Act, 2013. (b) Yes, there was a non-compliance as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A. (c) No, there was no non-compliance as independent directors were 5, which is more than 2/3 of the total directors in accordance with Regulations 17 and Regulation 17A. (d) Yes, there was a non-compliance as all the directors should have been independent directors except the Chairman of the company.
Incs.33.5	Was the contention of shareholder that CA D should vacate the office of statutory auditor correct?
	(a) No, as Mrs. D has sold the shares within a grace period of 60 days. (b) No, as Mrs. D is holding shares of less than book value of Rs. 2,00,000. (c) Yes, as Mrs. D has purchased shares which are more than book value of Rs.1,00,000. (d) Yes, as Mrs. D hold share during the financial year and his husband is statutory auditor of Giant Motors Ltd.
Incs.34	(S22M)
	Well & Associates, an audit firm, was selected for the purpose of Quality Review by the Quality Review Board (QRB) as it was having many of statutory audit assignments of clients engaged into sectors identified as prone to fraud. There were adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh an engagement partner of Well & Associates because of which the QRB selected 5 audit engagements of the firm for Quality review.

Mr. Jay, a practicing CA for more than 25 years was appointed as the Technical Reviewer to conduct the Quality Review of the said firm and accordingly, Mr. Jay, after conducting the Quality review with a team of 3 assistants, submitted his preliminary report to Well & Associates with qualifications as under

Sr. No.	Description of Qualifications
1	The AFUR (Audit Firm Under Review) had not obtained a written confirmation of compliance with its policies and procedures on independence from all firm personnel for the past 2 financial years.
2	The AFUR had established the policies and procedures for assembling of the final audit file in accordance with the time limit prescribed in SA 230 but there were delays observed in the same. (Please Refer Note, as below, for the same)
3	For two of the audit engagements of the AFUR, no engagement documentations were available for the same and as per the statement of the partner of the AFUR, after retaining them for 4 years and 6 years, respectively, were sent to the Principal Auditors of the said audit engagements.
4	There were also instances of delays observed in communicating the significant deficiencies to those charged with governance. (Please Refer Note, as below, for the same)
5	The AFUR had revised its performance materiality level in case of one of its statutory audit assignments with respect to auditing of Financial Leasing transactions and the AFUR had only documented such revision in the performance materiality level.

Note:

Name of the entity under audit of AFUR	Type of Entity	Date of Approval Financial Statements	Date of Audit Report	Date of assembly of Final Audit File	Date of written communication of significant deficiencies in internal control by AFUR
Req Ltd.	Listed	31.05.2021	25.06.2021	03.09.2021	05.06.2021
TIMCO (P) Ltd.	Unlisted	15.06.2021	18.08.2021	05.11.2021	25.08.2021
Gles Pvt. Ltd.	Unlisted	16.07.2021	28.07.2021	15.09.2021	18.09.2021
Findey Ltd.	Listed	12.05.2021	01.06.2021	01.08.2021	05.05.2021
DM Ltd.	Unlisted	25.04.2021	18.05.2021	25.06.2021	

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

Incs.34.1	Well & Associates should have obtained a written confirmation of compliance with its policies and procedures on independence from all of its firm personnel as per requirements of which Statue / Standard and in what frequency?
(a) As per the requirements of Council Central Guidelines, 2008, at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel. (b) As per the requirements of Standard on Quality Control 1 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel. (c) As per the requirements of SA 220 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.	

	(d) As per the requirements of Code of Ethics at least half yearly, Well & Associates should have obtained a written confirmation from all of its firm personnel.
Incs.34.2	In case of which entities under audit of Well & Associates, there was delay in assembly of Final Audit File?
	(a) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and Findey Ltd., respectively. (b) Req Ltd., TIMCO (P) Ltd. and Findey Ltd., respectively. (c) Req Ltd. and TIMCO (P) Ltd., respectively. (d) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd., Findey Ltd. and DM Ltd., respectively.
Incs.34.3	In case of which entities under audit of Well & Associates, there was delay in written communication of significant deficiencies in internal control?
	(a) TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively. (b) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively. (c) DM Ltd. (d) Req Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.
Incs.34.4	For at least how many more years, Well & Associates should have retained the engagement documentation in respect of the two audit engagements as referred above?
	(a) 3 years and 1 year, respectively. (b) 4 years and 2 years, respectively. (c) 1 year and for other audit engagement documentation was retained for requisite period. (d) 6 years and 4 years, respectively.
Incs.34.5	How many audit engagements of Well & Associates the QRB might have selected if there were no adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh, partner of Well & Associates?
	(a) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh. (b) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh (c) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh (d) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh.
Incs.35	(S22M)
	Arogya Pradhan Limited is a public company incorporated in September 2011 with a registered office in Chennai. The company is in business of Healthcare services. The company has 151 Ayurvedic clinics and 303 Ayurvedic pharmacies throughout the country. In the previous year, company achieved turnover of Rs. 3,000 crore and had earned the Net Profit of Rs. 25 crore. The company had borrowed a term loan of Rs. 100 crore from State Bank of India. M/s Bright Moon LLP are appointed as statutory Auditors of the company for the year 2020-21. After completing the initial engagement procedures and audit planning, the audit team started with the verification of Internal Financial Controls of the company. While understanding the controls established by the management in the 'Revenue Process', the audit team observed that there is only one Review Control wherein 20 executives had to prepare the sales invoice and Mr. Darshan - Sales Manager, had to review and authorise all the invoices. It was observed that on many occasions, Mr. Darshan had more than 1000 invoices to authorise in a single day. Further, he has frequently asked 2 senior most executive to review pending invoices and he has relied on them by directly giving his authorization on the invoice. It was observed that Mr. Darshan did not take any leave during the entire year. It was observed that Mr. Darshan's performance bonus was linked with

number of invoices authorised by him. In addition, Mr. Darshan was the sole authority to approve the sales commission and sales discount which was to be applied by the customers.

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

Ledger Balance * 100

Materiality * 365 days

Mr. Santosh selected 30 samples for the verification of above mentioned "Review Control". It was observed that out of 30 samples, 20 samples had irregularities in invoices which was clearly due to improper functioning of review control. The amount of irregularity in 20 invoices amounted to Rs. 4 crore. The auditor still issued the clean audit report and took the written representation letter from the management for efficient implementation of Internal Financial Controls. On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.35.1	Is the Control "Designed" appropriately?
(a) No, because there are irregularities amounting to Rs. 4 crore in the samples selected by Auditors. (b) No, because Mr. Darshan's performance bonus is linked with number of invoices authorised. (c) No, because there are no leave taken by Mr. Darshan during the entire year. (d) Yes. 'Review Control' is designed appropriately.	
Incs.35.2	Is the Control "Implemented" effectively?
(a) No, because Mr. Darshan delegates his work of review to other executives who are senior in experience. (b) No, because Mr. Darshan is heavily burdened with excessive work. (c) No, because Mr. Darshan is authorized to finalize sales commission and sales discount. (d) Yes. 'Review Control' is implemented appropriately.	
Incs.35.3	In the above case, to whom should M/s Bright Moon LLP report first?
(a) To ROC. (b) To Central Government u/s 143(12) of Companies Act, 2013 as the impact in above case is more than Rs. 1 crore. (c) To Those Charged with Governance. (d) To Shareholders as they are the appointing authority.	
Incs.35.4	How samples are to be selected for the purpose of verification of Internal Financial Control?
(a) Monetary Unit Sampling. (b) Sampling based on Materiality. (c) Sampling based on probability of default of the control. (d) Sampling based on frequency of functioning of control.	
Incs.35.5	In the current scenario, how should M/s Bright Moon LLP report?
(a) Clean Report with Other Matter paragraph. (b) Clean Report with Emphasis of Matter paragraph. (c) Clean Report with reporting in Key Audit Matter. (d) Qualified Report (both main report and ICFR report).	

Incs.36	(S22M)
Andy & Co; a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of	

listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year and your 1st year trainee asks you the following questions listed down. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

- The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as the reports given by him are designed in a marvellous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.

- The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

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

Incs.36.1	The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:
	(a) As the work done by the internal auditor is marvelously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co. (b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co need to reduce the unnecessary work as the same has been performed by the other auditor. (c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co needs to reconsider the audit strategy and cannot use the work of the Internal Auditor. (d) The work performed by the internal auditor can be used by the External Auditor in this case I the architect is not an employee of the company but is in private practice.
Incs.36.2	The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:
	(a) The company need to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor. (b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party. (c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year. (d) Both (a) & (b).
Incs.36.3	The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:
	(a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements. (b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%. (c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment. (d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.

Incs.36.4	The company has requested its previous auditor to give back its audit documentation (“working papers”) and warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:														
	(a) The previous auditor is bound to return the workpapers as the company has raised the confidentiality clause over the audit firm. Thus, the SA – 230 is not applicable in such scenario as the original owner itself is requesting to return the working papers. (b) The auditor has a right over its working paper, and he is the owner of the workpapers but he cannot give the workpapers to any person even at the request of the company. (c) The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company. (d) The auditor has a right over its working papers but the owner of them is the company. He should make available the workpapers to the company at its request and SQC-1 mandates the auditor to make copies made available to its clients.														
Incs.36.5	The trainee asked you whether the IND AS is applicable to the group or not?														
	(a) Yes, but only Manava Swaroopam Limited need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015. (b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015. (c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company’s net worth is below 250 crore and is not listed in any recognised stock exchange in India. (d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.														
Incs.37	(N21R)														
Kiwapack Ltd. is an unlisted public company incorporated in the year 2009, having 90 shareholders with an equity share capital of ` 27 lakhs. There are total four directors in its board.</p> <p>For the financial year 2020-21 as well as for the quarter ended on 30th June, 2021, Kiwapack Ltd. had suffered a loss. Despite of such loss, the board of Kiwapack Ltd. declared a total interim dividend of ` 20 lakhs for quarter ended March, 2021 on 25th April, 2021. The details of dividends declared by Kiwapack Ltd. during preceding financial years are tabulated, as below:- <table data-bbox="582 1462 1061 1747"> <tr> <th>Financial Year</th><th>Rate of Dividend Declared</th></tr> <tr> <td>2019-20</td><td>12%</td></tr> <tr> <td>2018-19</td><td>16%</td></tr> <tr> <td>2017-18</td><td>10%</td></tr> <tr> <td>2016-17</td><td>15%</td></tr> <tr> <td>2015-16</td><td>20%</td></tr> <tr> <td>2014-15</td><td>14%</td></tr> </table> The said dividend was paid to the shareholders on 10th June, 2021, through account payee cheque, by withdrawing an amount of 5% from the total free reserves available with Kiwapack Ltd. The balance of free reserves after such withdrawal fell to 20% of its paid up share capital as appearing in the latest audited financial statements. One of the shareholders, Mr. Mahesh, had submitted a transfer deed to the company on 28 th April, 2021, for registration relating to transfer of all shares held by him in Kiwapack Ltd. in the name of Mr. Govardhan, along with an authorization letter for paying the amount of dividend on his shares to Mr. Govardhan.		Financial Year	Rate of Dividend Declared	2019-20	12%	2018-19	16%	2017-18	10%	2016-17	15%	2015-16	20%	2014-15	14%
Financial Year	Rate of Dividend Declared														
2019-20	12%														
2018-19	16%														
2017-18	10%														
2016-17	15%														
2015-16	20%														
2014-15	14%														

However, till 10th June, 2020, due to certain reasons, Kiwspack Ltd. could not register the aforesaid transfer of shares in the name of Mr. Govardhan.

The dividend remaining unpaid of RS. 2 lakhs was transferred to the unpaid dividend account by the company on 15th June, 2021.

Kiwspack Ltd. prepared a statement on 30th September, 2021, containing the names of shareholders to whom payment of dividend had remained pending, their last known addresses and the amount of dividend to be paid to them. The said statement was placed on the same date on the company's website and also on the website approved by the Central Government for this purpose.

Rao & Co. is the statutory auditor of Kiwspack Ltd. for F.Y. 2020-21 which issued its audit report on 30th June, 2021 on the financial statements approved on 20th June, 2021.

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

Incs.37.1	At what maximum rate, the board of Kiwspack Ltd. would have declared the interim dividend for quarter ended March, 2021?
	(a) 10.6%. (b) 12.67%. (c) 14.5%. (d) 15%.
Incs.37.2	How much amount of interest shall be payable by Kiwspack Ltd. for delay in payment of dividend to the shareholders?
	(e) Rs. 13,151. (f) Rs. 8,877. (g) Rs. 10,521. (h) Rs. 15,781.
Incs.37.3	In which account, Kiwspack Ltd. would have transferred the dividend amount in relation to shares which were held by Mr. Mahesh?
	(a) Account of Mr. Mahesh. (b) Account of Mr. Govardhan. (c) Unpaid Dividend Account. (d) Investor Education and Protection Fund.
Incs.37.4	How much maximum amount of fine could be levied on every director of the company who was knowingly a party to the default in payment of dividend to the shareholders?
	(a) Rs. 9,000. (b) Rs. 11,000. (c) Rs. 16,000. (d) Rs. 1,00,000.
Incs.37.5	By what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account and also by what date, the statement in relation to details of such Unpaid Dividend should have been prepared by Kiwspack Ltd. and placed on its website?
	(a) 01st June, 2021 and 13th September, 2021, respectively. (b) 25th May, 2021 and 15th July, 2021, respectively. (c) 01st June, 2021 and 15th July, 2021, respectively. (d) 25th May, 2021 and 13th September, 2021, respectively.

Incs.38	(N21R/S22M)
	Ulip Ltd. is a public company listed on the National Stock Exchange since the year, 2015, with share capital of Rs. 150 crore. SRS & Co. is being appointed as its statutory auditor for F.Y. 2020-21 and Mr. Raj is appointed as the engagement partner, on behalf of the firm, to conduct the said audit assignment including conducting of limited reviews and other statutory assignments. Mr. Raj was conducting limited review for second quarter and during the same while adhering to the responsibilities as conferred upon by SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", he evaluated the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations and concluded that withdrawal from engagement was necessary in the given circumstances, after seeking legal advice, even though the non-compliance was not material to the financial statements but as the management or those charged with governance refrained from taking the remedial action that he considered appropriate in the circumstances. Such a withdrawal was not prohibited by any law or regulation. Mr. Raj, on behalf of SRS & Co., brought to the notice of the Audit Committee of Ulip Ltd., all his concerns with respect to the proposed resignation, along with relevant documents. After issuing the necessary reports, as required in the circumstances, SRS & Co gave its resignation letter to Ulip Ltd. at 1:00 p.m. on 20th November, 2021 vide its official email-id, which contained the detailed reasons for such resignation. Such a letter was forwarded to the stipulated authority by Ulip Ltd. at 4:00 p.m. on 21 st November, 2021 vide its official email-id. SRS & Co. filed the statement with respect to its resignation as a statutory auditor in prescribed form with Ulip Ltd. and the Registrar on 15th January, 2021, respectively, after receiving a notice from MCA. For the purpose of filling the casual vacancy in the office of auditor, the Audit Committee of Ulip Ltd. gave recommendation of an audit firm for being appointed as the statutory auditor to which the Board disagreed and it referred back the recommendation to the committee for reconsideration citing reasons for such disagreement. However, the Audit Committee, after considering the reasons given by the Board, decided not to reconsider its original recommendation, so, the Board of Ulip Ltd. after recording the reasons for its disagreement with the committee appointed Chavda & Co. as its new statutory auditor on 15th December, 2021. Such an appointment of Chavda & Co. was also approved by the members of Ulip Ltd. at a duly convened general meeting on 3rd February, 2022. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.38.1	Whether the reasons for withdrawal from the engagement by SRS & Co. can be considered to be justifiable in the light of the fact that the non-compliance was not material to the financial statements? (a) Yes, as such a withdrawal was not prohibited by any law or regulation. (b) Yes, as the auditor had obtained legal advice for the same and also such a withdrawal was not prohibited by any law or regulation. (c) Yes, in exceptional cases, the auditor may consider for such withdrawal provided that such a withdrawal is not prohibited by any law or regulation.

	(d) Yes, as it does not matter whether non-compliance is material or not, management or those charged with governance should not refrain from taking the remedial action which the auditor has considered necessary, provided that such a withdrawal is not prohibited by any law or regulation.
Incs.38.2	In continuation of Question no. 6, above, if it is assumed that the auditor was prohibited by any law or regulation from such withdrawal from engagement, then how he would have reported the non-compliance in the audit report?
	(a) In the "Basis for Qualified Opinion" paragraph. (b) In the Other Matter(s) paragraph. (c) In the Emphasis of Matter(s) paragraph. (d) In the "Basis for Disclaimer of Opinion" paragraph.
Incs.38.3	Ulip Ltd. was required to disclose to which authority, the detailed reasons for resignation of the auditor and by what time limit as per LODR 2015?
	(a) Such reasons were required to be disclosed to MCA till 1:00 p.m. – 21st November, 2021. (b) (b) Such reasons were required to be disclosed to NSE & SEBI till 1:00 p.m. – 23rd November, 2021. (c) (c) Such reasons were required to be disclosed to NSE till 1:00 p.m. – 21st November, 2021. (d) (d) Such reasons were required to be disclosed to the Registrar till 1:00 p.m. – 22nd November, 2021.
Incs.38.4	What could be the penalty specified under the Company Act, 2013 that could be levied upon SRS & Co. for failure in filing the statement with respect to its resignation, within the prescribed time limit, with Ulip Ltd. and the Registrar, respectively, if its remuneration was Rs. 40,000?
	(a) Rs. 62,500. (b) Rs. 50,000. (c) Rs. 40,000. (d) Rs. 52,500.
Incs.38.5	What was the last date available with board of Ulip Ltd. For filing the casual vacancy in the office of the auditor and by what last date, the general meeting for approving the auditor as appointed by the board should have been made in accordance with the provisions of the Companies Act, 2013?
	(a) 27th November, 2021 and 27th February, 2022. (b) 20th December, 2021 and 15th February, 2022. (c) 20th January, 2021 and 20th April, 2022. (d) 20th December, 2021 and 15th March, 2022.
Incs.39	(S22M)
	Vasanth & Co. is the auditor of UV Ltd., a life insurance company and a public sector undertaking. The following are the events during the course of the audit: (a) In addition to the statutory audit, the management of the company asks the auditor to certify the investment risk management system and processes of the insurance company. (b) The auditor during the course of verification finds that an amount has been refunded to one of the insured client due to free lock cancellation. The policy document has been returned by the insured within 15 days from the date the insured received it. The insurance company has retained the medical charges incurred by it and proportionate risk premium and refunded the balance premium amount. (c) The insurance company is also involved in re-insurance business and necessary provision for re-insurance premium has been made in the books of accounts. The insurance company is into a re-insurance whereby their contract relates to one particular risk and is expressed in the re-insurance policy. Each transaction is negotiated individually and each party has a free choice i.e. for the insurance company to offer and the reinsurer to accept.

Meantime, a charge has been raised against the auditor for a false statement in the prospectus. A party had relied on the statement and invested in the insurance company and has faced some damages due to growing losses of the insurance company. The auditor claims that his assistant, who is not a Chartered Accountant, had verified the contents of the prospectus.

In view of the above facts, answer the following questions by choosing the correct answer:

Incs.39.1	Can the auditor accept the assignment of Investment risk management systems and process audit? Answer by choosing the correct reasoning?
	(a) No, as per IRDAI circular, a chartered accountant, which is not a statutory auditor of the concerned insurer shall certify that the investment management systems and processes are in place. (b) No, as per Section 144 of the Companies Act 2013, investment risk management and process audit is a prohibited service for the statutory auditor. (c) Yes, investment management system and process audit is a part of statutory audit and it is duty of auditor to certify the same in his audit opinion of the books of accounts. (d) Yes, though it is not part of statutory audit, the auditor is free to accept the assignment of certification of investment risk management system and process.
Incs.39.2	Which among the following is NOT a content of the management report that is required to be prepared as per Schedule A of IRDA?
	(a) Confirmation regarding the continued validity of the registration granted by the authority. (b) Certification that all dues payable to the statutory authorities have been duly paid. (c) Ageing of claims indicating the trends in average claim settlement time during the preceding five years. (d) Certification of the party wise list of the quantum of reinsurance business.
Incs.39.3	The auditor has verified the amount refunded under free lock cancellation. Is the procedure followed by the company correct? Choose the correct reasoning.
	(a) Yes, the amount is refunded correctly however the medical expense incurred cannot be retained by the insurer and that also has to be refunded. (b) No, the amount should not be refunded because as per free lock cancellation, the policy document should be returned within 10 days to be entitled for a refund. (c) Yes, the procedure followed by the company of refunding the amount after retaining medical expenses and proportionate risk premium is in order. (d) No, the company should refund the entire premium with no retention as this is a free lock cancellation.
Incs.39.4	What kind of a re-insurance business is the insurance company into?
	(a) Facultative Re-insurance. (b) Stop loss treaty re-insurance. (c) Auto-fac re-insurance. (d) Proportional treaty re-insurance.
Incs.39.5	The auditor cannot hold the assistant responsible for the misstatement occurred solely because he has verified the same. Which among the following reasons substantiates the auditor's liability the best?
	(a) The auditor should not delegate prospectus verification to assistants and he should directly verify the same and satisfy himself on the statements made thereunder. (b) An auditor who does not personally supervise into the accounts but merely delegated it to his assistants cannot be said to be acting with due skill and care. (c) As per Council General Guidelines, any work that may give rise to a civil and criminal liability should be delegated only to qualified assistants. (d) None of the above, recent case laws state that an auditor can escape from personal liability owing to misconduct of assistants if he has exercised due skill and care.

Incs.40	(N21M/S22M)
	Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for FY 2020-21 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company. Upshaant Ltd. changed its employee remuneration policy from 1st April, 2020, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2021, the company obtained an actuarial valuation for leave encashment liability. As and when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it and obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable. Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company. Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness. Mr. Sunil, based on the audit evidence available, narrowed his range for the purpose of evaluating the management's point estimate on particular items which required accounting estimates to be made as disclosed in the balance sheet of the company. The financial statements of Upshaant Ltd. for FY 2020-21 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements. Apart from receiving his remuneration as a partner in Verma & Associates, Mr. Sunil also received a sum of Rs. 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.40.1	For what type of control in inventory handling and maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing? (a) Application control (b) Automated control (c) Process Level control (d) Entity Level control
Incs.40.2	Whether Mr. Sunil is permitted to hold license as a life insurance agent? (a) Yes, general permission has been granted by the Council of the ICAI for the said purpose. (b) Yes, if specific permission has been obtained by Mr. Sunil for the same. (c) No, it is not permitted for a chartered accountant to do so as per recent Decisions of Ethical Standards Board. (d) License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession.
Incs.40.3	Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet? (a) To be equal to or less than materiality in order to cover all reasonable outcomes. (b) To be equal to or less than performance materiality in order to cover all reasonable outcomes. (c) To be equal to or less than materiality in order to cover all possible outcomes. (d) To be equal to or less than performance materiality in order to cover all possible outcomes.

Incs.40.4	Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?
	(a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph. (b) (b) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph. (c) (c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph. (d) (d) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
Incs.40.5	What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?
	(a) Provision should be created each time when the company makes provident fund contribution. (b) Provision should not be created because as and when the employees availed leave encashment, the provident fund contribution was made. (c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation. (d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.

Incs.41	(N21M/S22M)

Mr. Tushar Jalani is a CA as well as CMA, who is working as an internal auditor in Gomez Realty Ltd. on full-time employment basis. In his visiting card, he has mentioned that he is a Chartered Accountant as well as Cost Accountant. During the month of May, 2020, he was approached by the director of the company, Mr. Kunal Surpan, to write his personal books of accounts from FY 2020-21 onwards and also to file his Income Tax Return which was accepted by Mr. Tushar.

Mr. Danish Bhadra, the partner of Badhra & Co., a CA firm, was appointed as an expert, during FY 2020-21, by giving a written consent to Gomez Realty Ltd. with respect to issue of prospectus by the company whereby he provided a report on the valuation of the company and one person who had subscribed to the securities of the company alleged that he had suffered a loss because of omission of a matter in the valuation report provided in the prospectus. Mr. Danish had not withdrawn his consent at any time as an expert and he firmly believed that it was a correct and fair representation of the statement in the valuation report. The fees charged by Mr. Danish for the said assignment was on the basis % of valuation.

Vedya & Co. was appointed as the statutory auditor of Gomez Realty Ltd. from FY 2018-19 onwards for five consecutive years. However, during FY 2020-21, it did not offer itself for reappointment as an auditor of such company owing to certain professional reasons and communication with respect to the same was made to the relevant authorities.

Kesar & Associates was then appointed as the statutory auditor of Gomez Realty Ltd. for FY 2020-21 and Mr. Raj Kesar was appointed as the engagement partner for the said assignment. Brother of one of the partners of the said firm holds 18% share in Badhra & Co., since 2017, and who is also a chartered accountant by profession.

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

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

Incs.41.1	Whether Mr. Tushar can be held guilty under Part-I of First Schedule to the CA Act, 1949?
	(a) No, as he is not a member in practice. (b) Yes, as per Clause (7) he can be held guilty. (c) No, as it is permitted for member to mention such designations in his visiting card. (d) No, provided he has been permitted to do so.
Incs.41.2	Whether any civil liability can be imposed upon Mr. Danish?
	(a) No, if he is able to prove what he is contending. (b) Yes, as he had not withdrawn his consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder. (c) Yes, provided such omission of a matter in the valuation report was misleading in nature. (d) Yes, as the omission of a matter was in the valuation report prepared by the expert himself irrespective of whether the consent was withdrawn or not.
Incs.41.3	Whether it was appropriate for Mr. Raj to take direct assistance from Mr. Tushar for the matter as aforesaid?
	(a) No, as it tantamount to taking direct assistance of internal auditor for making significant judgments in the audit. (b) Yes, as inquiry is allowed to be done and having a discussion with respect to the said matter is not appropriate. (c) No, as it tantamount to taking direct assistance of internal auditor relating to higher assessed risks of material misstatement. (d) No, as it tantamount to taking direct assistance of internal auditor relating to decisions the external auditor makes in accordance with SA 610 regarding the internal audit function and the use of its work or direct assistance.
Incs.41.4	In accordance with SA 610, with what Standards on Auditing, respectively, Mr. Raj would have made communication for taking direct assistance of Mr. Tushar and also directed, supervised and reviewed the work performed by him?
	(a) As per SA 580 and SA 500 respectively. (b) As per SA 260 and SA 240 respectively. (c) As per SA 265 and SA 220 respectively. (d) As per SA 260 and SA 220 respectively.
Incs.41.5	To which authorities, Vedya & Co. would have made the communication and whether there was any obligation on part of Kesar & Associates with respect to such communication made?
	(a) Vedya & Co. would have made the communication to the ICAI and to the management for circulation among the shareholders of Gomez Realty Ltd. However, it was not obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment. (b) Vedya & Co. would have made the communication to the ICAI only and it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment. (c) Vedya & Co. would have made the communication to BOD of Gomez Realty Ltd. and the ICAI and it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment. (d) Vedya & Co. would have made the communication to the ICAI only and it was obligatory for Kesar & Associates to obtain a copy of such communication before making communication with the outgoing auditor relating to its appointment.
Incs.42	(N21M/S22M)
	Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar &Co., respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2020-21 of Anitya Ltd. They were having difference of opinion with regards to following points:-

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

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

Manohar & Co. was initially appointed as a joint auditor in Anitya Ltd. for 5 years term with other two auditors but it gave its resignation as an auditor to the company on 20th October, 2021, due to the reason of having differences of opinion with other joint auditors.

Manohar & Co. filed the required statement with respect to its resignation on 27th November, 2021, with Anitya Ltd. as well as the Registrar, respectively.

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

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

(i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks "Office Found Locked".

(ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

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

Incs.42.1	Whether the opinion of Manohar & Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?
(a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation. (b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement. (c) No, as such reference was not required by any law or regulation. (d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.	

Incs.42.2	Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid? (a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation. (b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details. (c) No, as such item shall be treated as a deviation in the case of test of controls and test of details. (d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.
Incs.42.3	Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid? (a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701 (b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705. (c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard. (d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.
Incs.42.4	By what date, Manohar & Co. should have filed the statement with respect to its resignation with Anitya Ltd. as well as the Registrar and in what form? (a) Manohar & Co. should have filed the statement in Form ADT-3 by 19th November, 2021. (b) Manohar & Co. should have filed the statement in Form ADT-4 by 19th November, 2021. (c) Manohar & Co. should have filed the statement in Form ADT-2 by 19th December, 2021. (d) Manohar & Co. should have filed the statement in Form ADT-3 by 20th November, 2021.
Incs.42.5	Whether Namo & Co. would be considered to have satisfied the requirements of communicating with the previous auditor? (a) No, as the communication through registered post acknowledgment due could not be done, Namo & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same. (b) Yes, as it would be deemed that such post was delivered. (c) No, because in such a case Namo & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same. (d) No, however, Namo & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.
Incs.43	(N21M/S22M) A special resolution was passed by Dunk Ltd., an unlisted public company, for the purpose of conducting investigation into the affairs of the company by getting order of the Central Government for the same. The Central Government on receipt of such application from Dunk Ltd. supported by a copy of special resolution did not deem fit to pass an order for investigation and thereby, rejected such request. Thereafter, certain specified number of members of Dunk Ltd. made an application to the Tribunal for seeking investigation and the Tribunal upon being satisfied that such investigation was required, passed an order which was forwarded to the Central Government. On receipt of such order from the Tribunal, the Central Government passed an order for investigation into the affairs of Dunk Ltd., by appointing Mr. Rajesh as an inspector for the same, who is practicing as a chartered accountant in partnership firm named RS & Co.

Mr. Rajesh started with the investigation into the affairs of Dunk Ltd. from 03.04.2021. All books and papers of Dunk Ltd. were handed over to Mr. Rajesh from 04.04.2021. During the investigation, Mr. Rajesh considered it necessary to examine the books and papers of Blue Bell (P) Ltd., a supplier company of Dunk Ltd. while investigating on a particular matter relating to purchases of Dunk Ltd. Accordingly, Mr. Rajesh obtained the same through an officer of Dunk Ltd. On 20.04.2021. Such books and papers of Blue Bell (P) Ltd. were returned by Mr. Rajesh on 05.06.2021 but he again obtained the same on 20.06.2021 by an order in writing, due to certain reasons which were returned on 25.08.2021.

Mr. Rajesh, at the later stage of investigation, also initiated investigation into the affairs of Sinq Ltd., an unlisted public company, which was being managed 2 years ago by an ex-manager of Dunk Ltd.,

Mr. Jayesh, as he considered it necessary to do so, after obtaining required approvals. Mr. Rajesh examined on oath by summoning and enforcing attendance of following persons:-

- Mr. Jayesh
- Mr. Urvil, a director of Dunk Ltd.
- Mr. Sunny, an employee of Sinq Ltd.
- Mr. Raj, an employee of Blue Bell (P) Ltd.

The investigation, in case of the aforesaid companies i.e. Dunk Ltd. and Sinq Ltd. was concluded by Mr. Rajesh but he only forwarded the report of the results of investigation of Dunk Ltd., after authentication, to the Central Government.

On perusal of such investigation report of Dunk Ltd., the Central Government observed that revenue of Dunk Ltd. was misrepresented during FY 2019-20 as they were booking fictitious sales in anticipation of actual sales and thus, it concluded that the affairs of the company were mismanaged during the FY 2019-20 which casted a doubt on the reliability of financial statements for the said financial year and because of which it made an application to the Tribunal for the purpose of re-opening books of account of Dunk Ltd. and recasting its financial statements.

The tribunal passed an order on 12.01.2022 for re-opening books of account of Dunk Ltd. and recasting its financial statements for FY 2019-20 on the basis of aforesaid reason, after giving notice to the Central Government for the same and taking into consideration the representations made by it in this regard.

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

Incs.43.1

Whether it was justifiable on the part of the Central Government to reject the application of Dunk Ltd. even though it was supported by a copy of special resolution and whether RS & Co. could have been appointed as inspector instead of Mr. Rajesh, in order to have more manpower for the investigation?

- (a) Yes, as the Central Government possesses discretion to reject the application received from any person if it does not deem fit for investigation and RS & Co. was eligible to be appointed as inspector.
- (b) No, the Central Government should have accepted the application as necessary formalities were complied with by Dunk Ltd. and RS & Co. was ineligible to be appointed as inspector.
- (c) Yes, as the Central Government possesses discretion to reject such an application and RS & Co. was eligible to be appointed as an inspector provided it had minimum 3 partners.
- (d) Yes, as the Central Government possesses discretion to reject such an application and RS & Co. was ineligible to be appointed as inspector.

Incs.43.2

Till what time period, Mr. Rajesh was having the authority to keep in his custody, the books and papers of Dunk Ltd. And Blue Bell (P) Ltd which were obtained again?

- (a) 01.10.2021 & 03.12.2021, respectively
- (b) 03.07.2021 & 03.12.2021, respectively
- (c) 01.10.2021 & 17.12.2021, respectively
- (d) 03.06.2021 & 02.12.2021, respectively

Incs.43.3	For which of the following person(s), Mr. Rajesh was required to obtain prior approval of Central Government for examining them on oath by summoning and enforcing their attendance?
	(a) Mr. Jayesh, Mr. Sunny and Mr. Raj, respectively (b) Mr. Sunny and Mr. Raj, respectively (c) Mr. Sunny (d) Mr. Raj
Incs.43.4	Whether it was justifiable on the part of Mr. Rajesh for not forwarding the investigation report of Sinq Ltd. to the Central Government and what type of fraud had been identified by the Central Government on perusal of investigation report of Dunk Ltd.?
	(a) Yes, provided reasons for not forwarding the same are recorded in writing by Mr. Rajesh and the type of fraud identified is in the nature of 'Teeming and Lading', respectively. (b) No, as it is the responsibility of the inspector to forward to the Central Government, the results of investigation of all the companies done by him and the type of fraud identified is in the nature of 'Tampering of receipts', respectively. (c) No, because at the first place, Mr. Rajesh was not only having the authority to investigate into the affairs of Sinq Ltd. and the type of fraud identified is in the nature of 'Teeming and Lading', respectively. (d) Yes, if according to Mr. Rajesh such report was not relevant to the investigation of affairs of Dunk Ltd. And the type of fraud identified is in the nature of 'Advance billing', respectively.
Incs.43.5	Whether it was mandatory for the Tribunal to take into consideration the representations made by the Central Government before passing the order for re-opening of accounts and till what financial year, Tribunal can make such order of re-opening of accounts?
	(a) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2016-17. (b) No, provided reasons for the same are recorded in writing by the Tribunal for not taking into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2014-15. (c) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14. (d) Yes, it was mandatory for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14.
Incs.44	(M22R)
	M/s JKL & Associates, Chartered Accountants were acting as the statutory auditors of M/s IBS Bank Limited. During the statutory audit for the relevant financial year, the following observations were made: • Interest income included the following: - Rs 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season. - Rs 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months. • A 25 month old NPA account worth ` 43 lakh (net book value) was sold to an asset reconstruction company for ` 45 lakh. The profit from the above transaction was taken to the P&L account. The above NPA was sold 'without recourse' and at cash basis. The auditors noticed a discrepancy in this transaction and hence decided to report the same. After completing the bank audit, JKL & Associates agreed to take up the following management consultancy and other services for one of the start-up company based in Noida: - Setting up executive incentive plan and wage incentive plan. - Price-fixation and other management decision making. - Conduct a periodical audit and advisor for tax matters.

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

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

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

Incs.44.1	From the above facts and details, what is the correct amount of interest which the bank should account in its financial statements?
	(a) Nil. (b) Rs 8.5 lakh. (c) Rs 5 lakh. (d) Rs 3.5 lakh.
Incs.44.2	What could be the possible amount classified as NPA relating to the accounts with respect to observation regarding the inclusion of interest income given below: - Rs 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season. - Rs 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.
	(a) Rs 12 lakh. (b) Rs 8.5 lakh. (c) Rs 7 lakh (d) Rs 3.5 lakh
Incs.44.3	In NPA, sale to asset reconstruction company, what discrepancy auditor might have noticed:
	(a) The NPA had not completed 30 months. (b) Sale was made 'without recourse'. (c) Sale was made for cash basis. (d) The profit of ` 2 lakh was taken to P&L account
Incs.44.4	Being guilty of professional misconduct, which of the following punishment Mr. K will be subject to:
	(a) Removal of his name from members register for a period of 6 months. (b) Impose a penalty of ` 1000. (c) Removal of his name from members register up-to a period it thinks fit. (d) Impose a penalty up-to ` 2 lakh.
Incs.44.5	Being guilty of professional misconduct, which among the following punishment Mr. J will be subject to?
	(a) Impose a penalty up-to ` 1 lakh. (b) Remove his name from members register permanently. (c) Impose a penalty up-to ` 3 lakh. (d) Impose a penalty of ` 6 lakh.

Incs.45	(M22M)
Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for F.Y. 2020-21 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company. Upshaant Ltd. changed its employee remuneration policy from 1st April, 2020, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2021, the company obtained an actuarial valuation for leave encashment liability. As and when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it and obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable. Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company. Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness. Mr. Sunil, based on the audit evidence available, narrowed his range for the purpose of evaluating the management's point estimate on particular items which required accounting estimates to be made as disclosed in the balance sheet of the company. The financial statements of Upshaant Ltd. for F.Y. 2020-21 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements. Apart from receiving his remuneration as a partner in Verma & Associates, Mr. Sunil also received a sum of Rs. 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose. On the basis of the abovementioned facts, you are required to answer the following MCQs:	
Incs.45.1	For what type of control in inventory handling and maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing? (a) Application control (b) Automated control (c) Process Level control (d) Entity Level control
Incs.45.2	Whether Mr. Sunil is permitted to hold license as a life insurance agent? (a) Yes, general permission has been granted by the Council of the ICAI for the said purpose. (b) Yes, if specific permission has been obtained by Mr. Sunil for the same. (c) No, it is not permitted for a chartered accountant to do so as per recent Decisions of Ethical Standards Board. (d) License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession
Incs.45.3	Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet? (a) To be equal to or less than materiality to cover all reasonable outcomes. (b) To be equal to or less than performance materiality in order to cover all reasonable outcomes. (c) To be equal to or less than materiality to cover all possible outcomes. (d) To be equal to or less than performance materiality in order to cover all possible outcomes

Incs.45.4	Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?
	(a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph. (b) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph. (c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph. (d) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
Incs.45.5	What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?
	(a) Provision should be created each time when the company makes provident fund contribution. (b) Provision should not be created because as and when the employees availed leave encashment, the provident fund contribution was made. (c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation. (d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.

Note: Since Incs.46 was same as Incs.41, we have deleted Incs.46

Incs.47	M22M
	M/s Head Limited, had recently issued right shares for all the existing shareholders. The total proceeds collected amounted to ` 200 crore, out of which 50 % was planned to be used for construction of a new factory next to the existing one and the balance was to be used for working capital purpose. However, due to the Covid-19 pandemic, the proposed factory work was affected and hence the company decided to park 9% of the specific fund in a debt mutual fund instead of keeping it idle. Similarly, the company decided to park 11% of the working capital fund in government securities. M/s Legs Limited, an unlisted associate entity of Head Limited had similarly raised funds through qualified institutional placement & used the funds fully for the specified purpose. The auditor of the Legs Limited (Mr. G, partner of M/s GK & Associates) and the auditor of Head Limited (Mr. Q, partner of M/s CYQ & Associates) suggested that they shall mandatorily disclose the details of utilization of funds, as per SEBI LODR Regulation 32. However, Mr. C, one of the partners of M/s CYQ & Associates argued that there is no need to report the above matter under SEBI LODR Regulations, but the same shall be reported under CARO 2020. Mr. Q argued that the matter need not be reported under CARO 2020. This argument had spoiled the relationship between the two partners, as a result of which, Mr. C decided to quit from the partnership and started his own practice. Mr. C then decided to induct Mr. J, a newly qualified Chartered Accountant as a partner in his firm. After this, the firm got an audit assignment from M/s Bank Limited. Mr. C consulted with his partner whether to accept the offer. Mr. J told that he has a loan (amounting to 75% of FD) against fixed deposit (of `6.8 lakh) in the said bank and feared that they cannot accept the offer. However, Mr. C told that since the loan is against fixed deposit there is no problem in taking up the offer, but he didn't want to force Mr. J in giving his acceptance. Therefore, the offer was dropped. Few months later, Mr. C passed away and the whole firm was managed by his partner Mr. J. The legal representative of Mr. C (Mrs. C) quoted the partnership agreement clause regarding the right of legal

representative of the deceased partner to receive share of profit from the firm and requested for such share of profit. However, Mr. J informed that there is no such provision as per the Chartered Accountants Act and denied to share any profits/ revenue from the firm. Agitated by the decision of Mr. J, Mrs. C filed a complaint with the Institute of Chartered Accountants of India against Mr. J. On the basis of the abovementioned facts, you are required to answer the following MCQs:	
Incs.47.1	Is the advice of Mr. Q correct in case of Head Limited? If yes what are the details which need to be disclosed by the company? (a) Yes. The company shall indicate the deviations in use of proceeds and category wise variation between projected utilization and actual utilization. (b) No. There is no need to indicate the statement since such deviations were due to Covid-19 pandemic. (c) Yes. The company shall indicate the deviations in use of proceeds in form of an explanatory statement. (d) Yes. The company shall indicate the % of deviation if such deviation is more than 10% of the total funds allotted for the specified purpose. Hence, the company shall indicate only the deviation in utilization funds allocated for working capital purpose
Incs.47.2	In case if Head Limited is to report the deviation in use of funds, at what interval should it report the same? (a) Disclose it every year in its Annual Report (b) Biannual reporting (c) Every quarter (d) Monthly reporting, till the funds are fully utilised.
Incs.47.3	Assuming yourself as the auditor of Head Limited, what would be your stand on reporting the deviation in utilization of funds under CARO 2020? (a) There is no need to report the matter under CARO, since such deviations were due to Covid -19 pandemic. (b) The matter should be reported under CARO, under clause (xi)(a) (c) The matter should be reported under CARO, under clause (x) (d) The matter should be reported under CARO, under clause (xvi)(b)
Incs.47.4	In the above case, is the act of Mr. J to deny share of profits to legal representative of Mr. C right? What is the relevant provision of the Chartered Accountants Act which you need to refer in this case? (a) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 2 of Part I of First Schedule of Chartered Accountants Act. (b) Mr. J has all right to deny the share of profit since it shall lead to professional misconduct. The relevant provision to be considered here is clause 2 of Part I of First Schedule of Chartered Accountants Act. (c) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 4 of Part I of First Schedule of Chartered Accountants Act. (d) Mr. J is correct in denying the share of profit. Though the same is mentioned in the agreement, it is against the provisions of Chartered Accountants Act. The relevant provision to be considered here is Clause 1 of Part II of Second Schedule.
Incs.47.5	Had the firm accepted the audit assignment of Bank Limited, would it have led to invalid appointment as per the Companies Act, 2013? If yes, under what provision? (a) No. As explained by Mr. C, since the loan was against a fixed deposit (loan against a collateral) appoint of the firm would not be void had they accepted the offer. (b) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(ii) of the Companies Act, 2013. (c) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(iii) of the Companies Act, 2013.

	(d) Yes. The acceptance of the offer would have led to professional to invalid appointment of the firm as per the section 141(3)(c)(ii) of the Companies Act, 2013.

Incs.48	M22M
	M/s Audit & Co. were appointed as internal auditors of M/s Manufacturing Limited, whose shares were held by Mr. F, Mrs. F, Mr. S & Ms. D in equal proportion. CA Senior and his articled assistant Mr. Junior were a part of the team which was looking after the above assignment. As a part of the work, Mr. Junior was required to take care of the P2P internal controls established to ensure the three-way match is properly functioning. Being new to internal audit, he asked from help from a fellow team member regarding the above matter. After completion of the audit, the firm submitted its report directly to the Board of Directors of the company. A copy of the same was also sent to the company's statutory auditors. The report had clearly mentioned that the existing internal audit system in the company was not commensurate with its size and nature of business. Following this, the company offered the assignment of Tax Audit to M/s Audit & Co. itself. All the partners were happy to accept the offer, except CA New, an ex-articled assistant and newly inducted partner of the firm. He was of the opinion that if the above offer was accepted, it would lead to professional misconduct under the Chartered Accountants Act. However, despite his advice, the firm went on to accept the offer. After the above incident, CA New resigned from the firm and started his own practice as a sole proprietor. Few days after the resignation of CA New, the following things happened: (i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the magazine. (ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.48.1	Assuming yourself to be a fellow team member of Mr. Junior, explain him what is a three-way match internal control involved in P2P process (a) Matching of Purchase order, Sales order & Invoice raised to ensure all ordered quantity of intended goods have been invoiced and proper control over quantity of inventory is maintained. (b) Matching of Sales order, Goods delivery note & invoice to ensure all ordered quantity of intended goods have been delivered and invoiced accordingly. (c) Matching of Sales order, Invoice & Payment receipt details to ensure all ordered quantity of intended goods have been invoiced and payment for the same is received. (d) Matching of Purchase order, Goods receipt note & invoice to ensure all ordered quantity of intended goods have been received and invoiced accordingly.
Incs.48.2	Assuming yourself to be the statutory auditors of the company, would you need to mention about the details in the internal audit under CARO 2020? If yes, under what clause should it be mentioned? (a) The above matter should be reported under clause (xiv) of CARO 2020 (b) The above matter need not be reported under CARO, but it shall be reported under Emphasis of Matter Paragraph as per SA 706. (c) The above matter should be reported under clause (xviii) of CARO 2020 (d) The above matter should be reported under clause (xv) of CARO 2020

Incs.48.3	From the above information that M/s Manufacturing Limited appointed an internal auditor, what could you infer about their Paid-up share capital, outstanding deposit & turnover? (a) Paid up share capital of ≥ 40 crore Outstanding deposits > 20 crore; Turnover ≥ 190 crore (b) Paid up share capital of ≥ 25 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 100 crore (c) Paid up share capital of ≥ 50 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 200 crore (d) Paid up share capital of ≥ 45 crore Outstanding deposits ≥ 15 crore; Turnover > 100 crore
Incs.48.4	Will accepting the Tax Audit offer lead to professional misconduct? If yes, as per which clause? (a) No. There will be no professional misconduct on the firm, if it accepts the offer. (b) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 4 of Part I of Second Schedule read along with Council Guidelines. (c) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 12 of Part I of First Schedule. (d) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 2 of Part I of Second Schedule read along with Council guidelines.
Incs.48.5	Comment on following incidents (i) & (ii) discussed in the scenario from the perspective of Professional Ethics as per the Chartered Accountants Act. (i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the magazine. (ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites. (a) Incident (ii) makes CA New guilty of professional misconduct, since he is advertising for seeking partnership. (b) Neither of the incidents violate any provisions of Chartered Accountants Act. Hence, there is no professional misconduct. (c) Incident (i) makes M/s Audit & Co. firm guilty of professional misconduct, as the advertisement is published in newspaper other than that issued by the Institute. (d) Incident (ii) makes CA New guilty of professional misconduct, since he has provided the addresses of his social networking sites.

Incs.49

M22M

While preparing the financial statement for the year ended on 31 March 2022, ABC Limited, a listed entity, provided the below information:

Excerpt of Standalone Balance sheet of ABC Ltd as of 31 March 2022

(in Lakhs)

Particulars	Note No	As on 31.03.2022	As on 31.03.2021
Equity and Liabilities			
Current liabilities			
(a) Financial Liabilities			
(ii) Trade Payables: -	10		
(A) Total outstanding dues of micro enterprises and small enterprises and		300	
(B) total outstanding dues of creditors other than micro enterprises and small enterprises.		210	
(iii) Other financial liabilities (other than those specified in item (c))			

Note 10: Ageing of Trade Payables

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

Additional Information:

1. Mr. A while performing the statutory audit of ABC Ltd identified that the total trade payables reported in

the Balance Sheet as of 31 March 2022 and the amount reported in Note 10: Ageing of Trade Payables are different. Upon inquiry, management informed that the difference between both amounts is the Intercompany Trade Payables which is eliminated as part of consolidation Adjustment. Hence, there was no requirement to show intercompany Trade Payables in the ageing schedule. Mr. A accepted the explanation and did not perform any further procedures to validate the explanation.

2. When Audit Committee inquired with Mr. A as to how they have verified and validated the segregation

of the trade payables, Mr. A replied that they purely relied upon the management representation as there

was no alternate procedure available to gather sufficient and appropriate audit evidence to validate the said information. Moreover, they informed the management that they have not qualified their audit opinion as they have relied in true faith upon management representation.

3. While performing the audit procedure to validate the Trade Payables ageing, Mr. A identified that management has calculated the due date of trade payables from the end of 180 days from the date of transaction. Mr. A found it appropriate based on the conservative approach.

4. Mr. A did not qualify his audit opinion on the financial statement prepared for the period ending on 31 March 2022 on any grounds. Also, Mr. A specified that :

"The financial statements for the year ended on 31 March 2022 give a true and fair view of the state of affairs of the company, comply with the accounting standards notified under section 133 and are in the form provided for the company in Schedule III of the Act

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

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

6. Other than the disputed trade payables disclosed, there were claims against the company which were not yet acknowledged as debt. The aggregate amount and exposure for such claims were ` 25 Lakh.

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

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

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

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

Incs.49.1	In the given situation whether Mr. A will be held guilty of professional Misconduct
	(a) Yes, Mr. A, is guilty of professional misconduct under Clause 7 of Part I of First Schedule. (b) Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of First Schedule. (c) Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of the Second Schedule. (d) No, Mr. A is not guilty of professional misconduct as he has performed all the audit procedures appropriately.
Incs.49.2	Whether Financial statements given in the scenario are in confirmation with the requirements of Division II of Schedule III?
	(a) Yes, the financial statements are in confirmation with requirements mentioned in Division II of Schedule III (b) No, management should have eliminated the Intercompany Trade Payables balance from the amount disclosed in the Standalone Balance Sheet. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment. (c) No, Management should not have disclosed the disputed trade payables less than 3 years as these trade payables are still under the period of limitation as per Limitation Act and they should not be disclosed in Financial Statement. (d) No, management should have added the Intercompany Trade Payables balance to the ageing schedule. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.
Incs.49.3	In continuation to MCQ no 12, what is an appropriate way to report the above-mentioned issues?
	(a) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed trade payables. Moreover, he should have modified or issued an adverse opinion as Financial Statements were not in confirmation with requirements of Division II of Schedule III. (b) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the intercompany trade payables. Moreover, he should have been unmodified as Financial Statements were not in confirmation with requirements of Division II of Schedule III. (c) Mr. A should have expressed an unmodified opinion as per SA 700, as he was able to obtain all the explanation and information required and sought by him. Moreover, he should have modified it as the Cash Flow Statement was not in confirmation with the requirements of Division II of Schedule III. (d) Mr. A should have reported matters related to Trade Payables Ageing as a qualification in Key Audit Matters, as he was not able to obtain all the explanation and information required and sought by him.
Incs.49.4	Whether the reporting performed by Mr. A related to intercompany trade payables under the paragraph/section of Key Audit Matter in the audit report appropriate? Select from the below option to support your answer
	(a) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter. (b) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matter that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter. (c) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payable s. As per SA 701, the

	auditor shall report the matter in Key Audit Matters in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (d) The auditor shall express an adverse opinion and report the said matter in Key Audit Matter Para when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the current case, the auditor has appropriately disclosed the said matter in Key Audit Matter Paragraph.
Incs.49.5	As per the expert appointed by the Auditor, the exposure for the company can be ` 20 lacs as in past similar cases, the judgement was delivered against the company. However, the management of ABC Limited was of the view that when management has already hired an expert, then there is no need to hire another expert by the auditor. Seeking your advice, kindly guide the auditor by selecting the below option, and what next steps should perform. (a) The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. Also, if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert. Hence auditor can appoint his expert to validate the assumption and estimate performed by the management's expert. (b) The auditor shall rely upon the work performed by the management's expert. Management expert will be equivalent to the auditor's expert and hence no other expert is required to be appointed. (c) The auditor shall not rely upon the management's expert unless he evaluates the adequacy of the expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence. Although in the current case, there is no consonance between the management's expert's findings and other audit evidence, the auditor is still required to rely upon the findings of the management's expert. (d) The auditor shall rely upon the management's expert without evaluating the adequacy of the expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence. Hence auditor is required to rely upon the findings of management's expert in the current case.
Incs.50	M22M HF Limited – ND, a Non-Banking financial company which is exclusively into housing finance business completed one month of operations. They approached their auditor M/s UVW & Co. Chartered Accountants to know about the process to apply for certificate of registration under section 45 IA of RBI Act. After calculating the net owned funds (which stood at ` 249 lakh) and considering other details, the company was told that they need not apply for the certificate. After the completion of the financial year, UVW & Co. started the statutory audit and tax audit for HF limited. During the course of the audit, the management disagreed on the following matters: (I) The company had revalued a particular class of its asset (no intangible asset was revalued). The carrying value before revaluation was ` 77 lakh and the value post revaluation was ` 84.70 lakh. The auditors wanted to mention the same along with the amount of change in CARO. (II) It was found that an amount of ` 5 lakh had been written off as bad debts. The complete amount was not admissible as per the Income tax Act and hence the auditor decided to mention about the same under clause 19 of the tax audit report and disallow the inadmissible amount. MC Limited approached UVW & Co. for providing few management and consultancy services for their company. The offers given by the company was: (i) Inventory management, material handling & storage (ii) Personnel recruitment and selection (iii) Tax representation and advice concerning tax matters Mr. U, the senior partner of the firm was not consulted while deciding to respond to the above offers made by MC Limited. Hence, he resigned from the partnership and went into practice as a sole proprietor. Since Mr. U was having an interest in the field of merchant banking, he applied and obtained a registration as category IV merchant banker under SEBI's Rules and Regulations. Upon obtaining the

same, he was approached by HF limited, who wanted to go for a capital issue. Mr. U accepted the offer. The offer document and advertisements regarding the capital issue prominently displayed the name and address of Mr. U, under the caption 'Advisor to the Issue'. It was later found that Mr. U was guilty of professional misconduct because of the above incident. On the basis of the abovementioned facts, you are required to answer the following MCQs:	
Incs.50.1	Why the auditor advised HF Limited – ND, a Non-Banking financial company not to apply for certificate under section 45 IA ? (a) Since the company is Non-Deposit taking NBFC, there is no need to apply for certificate of registration. (b) The company needs to completed one year of operations before applying for the certificate. (c) Net owned funds are below the stipulated limit of ` 250 lakh, hence the company need not apply for certificate. (d) The company falls under exempt category as notified by RBI.
Incs.50.2	Is the auditor's decision to report issue I given in the situation correct? What is the reason? (a) Yes. Since the revaluation of asset has brought a change of 10% in the carrying amount, the same shall be reported in CARO, including the amount. (b) No. The reporting requirement under CARO relates to physical verification of assets, record maintenance, etc. only. It does not require the details of revaluation to be provided. (c) No. Since no intangible asset is revalued, the above matter need not be reported. (d) No. Since the revaluation of asset has not reduced the carrying value, the same need not be reported.
Incs.50.3	Assuming yourself to be a part of the management, how would you respond to point II relating to reporting of written off Bad debts in Tax Audit Report ? (a) Completely agree with the above matter as told by the auditor. (b) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD. (c) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD, but under clause 25 of Form 3CD. (d) Partially agree with respect to reporting the same, but not with respect to the amount being disallowed by the auditor.
Incs.50.4	Assuming all responsibilities & protocols being fulfilled properly, from the above case scenario, what can you infer about the appointment of M/s UVW & Co. as auditors for HF limited? (a) They were appointed by Shareholders. (b) They were appointed by Empanelment Committee. (c) They were appointed by Board of Directors. (d) They were re-app
Incs.50.5	In the above case of Mr. U, which act of his could have led to professional misconduct? (a) Obtaining registration as category IV merchant banker. (b) Allowing the caption 'Advisor to the Issue' in the offer document and advertisement. (c) Accepting the offer of HF limited without communicating the same to their auditors. (d) Allowing his name and address to be displayed prominently in the offer document and advertisement.
Incs.51	N22R Mr. K is a practicing-chartered accountant and also member of CPA Ireland. He handles only GST related work and tax audits for clients. Currently, he is having 19 companies for which he is handling the tax audit. At the beginning of the current Financial Year, he was approached by 40 new clients for tax audit assignments. He was reluctant to accept all the work as he feared breaching the permissible limit of handling clients. After consulting several friends of his, he finally decided to accept the work of just 2 big clients who approached him.

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

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

M/s KJ & Associates	M/s KJ & Associates
Mr. K, Chartered Accountant, CPA Ireland Partner	Mr. J, Chartered Accountant, Insolvency Professional Partner
No.3, MMM Street, Delhi Phone: 9xxxxxxx0	No.3, MMM Street, Delhi Phone: 9xxxxxxx0

The firm had also received the following assignments:

- (i) Concurrent audit for T Bank Ltd.
- (ii) Statutory audit for BBT Bank Ltd. (it is to be noted that the bank was not sponsored by T Bank)
- (iii) Offer to act as settlor of ZZ Charitable Trust
- (iv) Internal audit of PF Trust of Government Company Ltd.
- (v) Statutory Auditor of Government Company Ltd.

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

Incs.51.1 In the given case scenario, has Mr. K breached the maximum limit of clients. If yes, can he be held guilty of professional misconduct?

- (a) Yes. The ceiling on number of tax audits which can be accepted by a chartered accountant is 20. In this given case, Mr. K is already having 19 clients and has now accepted 2 more (19+2=21). Also, he shall be held guilty of professional misconduct as per the Chartered Accountants Act, 1949.
- (b) Yes. The ceiling on number of tax audits which can be accepted by a chartered accountant is 20. In this given case, Mr. K is already having 19 clients and has now accepted 2 more (19+2=21). However, this shall not be considered as guilty of professional misconduct as per the Chartered Accountants Act, 1949.
- (c) No. In the above case, the maximum ceiling is 25 in number (as per the latest decision taken by the ICAI council). The assignments (existing + new) handled by Mr. K is well below the prescribed limit and hence there is no breach.
- (d) No. In the above case, the maximum ceiling is 60 in number. The assignments (existing + new) handled by Mr. K is well below the prescribed limit and hence there is no breach.

Incs.51.2 Assuming yourself to be Mr. K, what would be your advice to Mr. J on the above matter?

- (a) The company has not followed the provisions of section 146 of Companies Act, 2013. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company. Also, as per section 147, the company shall be punishable with fine which shall not be less than ` 25,000/- but which may extend to ` 5 lakh.
- (b) The company has not followed the provisions of section 146 of Companies Act, 2013. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company. Also, as per section 147, the company shall be punishable with fine which shall not be less than ` 10,000/- but which may extend to ` 1 lakh
- (c) The company has not followed the provisions of section 147 of Companies Act, 2013. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company. However, the company shall not be punishable for this act.

	(d) The argument of the management is right. The Companies Act, 2013 does not mandate that the company shall send the notices for its general meetings to the auditor. It is the responsibility of the auditor (in this case Mr. J) to attend the AGM irrespective of getting the notice for it or not. The auditor shall be punishable under the provisions of the Act if he doesn't attend the AGM
Incs.51.3	Will the retaliating act of Mr. J against the company make him guilty of professional misconduct? (a) No. The above act will not lead to professional misconduct. However, under section 147 of the Companies Act, 2013, Mr. J shall be punishable for exercising lien over the company's documents. (b) No. The Chartered Accountants Act, 1949 is silent about the above situation and hence it will not lead to professional misconduct. (c) Yes. As per the recent decision of Ethical Standards Board, a chartered accountant cannot exercise lien over client documents/ records for non-payment of his fees. (d) Yes. As per Clause 7 of Part I of Second Schedule of Chartered Accountants Act, 1949, the above act of Mr. J will make him guilty of professional misconduct.
Incs.51.4	In the given case scenario, visiting cards printed by Mr. K & Mr. J, is there anything which may lead to professional misconduct? If so, under what provisions? (a) Mentioning 'CPA Ireland' & the term 'Insolvency Professional' by Mr. K & Mr. J respectively violates the provisions of clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. Hence, both of them shall be held guilty of professional misconduct. (b) There is no information contained in both the visiting cards, which leads to professional misconduct. All details mentioned are abiding the provisions of clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. (c) Mentioning 'CPA Ireland' by Mr. K violates the provisions of clause 6 & clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. Hence, Mr. K shall be held guilty of professional misconduct. However, as far as Mr. J's card is concerned, nothing mentioned in it is against the provision of Chartered Accountants Act, 1949, so he shall not be held guilty of professional misconduct. (d) Mentioning the term 'Insolvency Professional' by Mr. J violates the provisions of clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. Hence, he shall be held guilty of professional misconduct. However, as far as Mr. K's card is concerned, nothing mentioned in it is against the provision of Chartered Accountants Act, 1949, so he shall not be held guilty of professional misconduct
Incs.51.5	The firm had received the following assignments: (i) Concurrent audit for T Bank Ltd. (ii) Statutory audit for BBT Bank Ltd. (it is to be noted that the bank was not sponsored by T Bank) (iii) Offer to act as settlor of ZZ Charitable Trust. (iv) Internal audit of PF Trust of Government Company Ltd. (v) Statutory Auditor of Government Company Ltd. Among the above assignments, which assignments can be accepted by the firm? (a) Either (i) or (ii), (iii) & Either (iv) or (v) (b) (i), (ii), (iii) & Either (iv) or (v) (c) Either (i) or (ii) & Either (iv) or (v) (d) (ii) only
Incs.52	N22M Mr. Paras has been appointed statutory auditor under Companies Act, 2013 of DEMA Limited., a company engaged in manufacturing of range of products. DEMA Limited was also listed on NSE. Besides, he was also appointed to conduct audit u/s 44AB of Income Tax Act. Mr. Chandra, relative of Mr. Paras was involved in the business of trading stocks listed on NSE. During the year FY 21-22 Mr. Chandra performed the following trades

Name of Stock	Date of Transaction	Purchase / Sale	Quantity	FV per Share	Market Value per Share
DEMA Limited	1-4-2021	Purchase	10	10	3500
DEMA Limited	1-4-2021	Purchase	90	10	3300
DEMA Limited	30-04-2021	Sale	50	10	3600
DEMA Limited	10-05-2021	Purchase	60	10	3450
DEMA Limited	10-05-2021	Purchase	50	10	5000
DEMA Limited	11-05-2021	Purchase	10	10	5050
DEMA Limited	30-06-2021	Sale	30	10	3750

Thereafter no transaction in the shares of DEMA limited was performed by Mr. Chandra during the year. Moreover, Mr. Paras identified a fraud related to misappropriation of cash amounting to ` 3 Crore in the books of the company. In this fraud, Procurement Manager and Payment Managers were together involved. As per provision of Section 143(12) Mr. Paras, reported fraud to Audit Committee within 7 days from date of identification and asked audit committee to submit their response. Audit Committee did not respond as they wanted to investigate further on this.

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

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

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

- "a. Company has not disclosed the impact of pending litigations on its financial position in its financial statement. The impact assessed for the pending litigation is ` 4.5 Crore (Best Estimate).
b. During the audit, a fraud related to misappropriation of cash amounting to ` 3 Crore was identified in the books of the company.
c. Company has not made any provision, as required under any law or accounting standards, for material foreseeable losses on long term contracts including derivative contracts. During the year, as per assessment performed by an expert, the amount of provision for material foreseeable losses on long term contracts was estimated at ` 7 Crore for which no provision was made."

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

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

Incs.52.1	Kindly guide whether Mr. Paras is eligible to be appointed as a Tax Auditor of DEMA Limited u/s 288 of the Income Tax Act, by selecting the appropriate option from below:
	(a) As per 288(2)(viii)(a) of Income Tax Act read with Section 141(3) of Companies Act, relative of Mr. Paras is holding securities of market value of ` 1,00,000 or more and hence Mr. Paras is not eligible to be appointed as Tax Auditor.

	(b) As per 288(2)(viii)(a) of Income Tax Act read with Section 141(3) of Companies Act, relative of Mr. Paras is not holding securities of face value having ` 1,00,000 or more and hence Mr. Paras is eligible to be appointed as Tax Auditor. (c) As per Section 288(2)(viii)(b) relative of Mr. Paras is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company and hence Mr. Paras is not eligible to get appointed as a Tax Auditor. (d) Relative of Mr. Paras is the person who is competent to verify the return under section 139 in accordance with the provisions of section 140 and hence Mr. Paras is eligible to get appointed as a Tax Auditor.
Incs.52.2	With respect to the qualifications (a) and (c) specified in the Audit Report, kindly guide with respect to the additional reporting requirement of these matters in audit report. (a) As per the Companies (Auditor's Report) Order, 2020, Auditor is required to report these matters under reporting done for Para 3(ix) of the Order. (b) As per section 143(3)(j) read with Rule 11(a) & 11(b) of The Companies (Audit and Auditors) Rules, 2014, Auditor is required to report or give reference of these matters. (c) Company is not required to report these matters anywhere else except for qualification under the head "Basis for Qualification" (d) Company should report this matter under the head "Management Responsibilities".
Incs.52.3	With respect to identification of Fraud in the books of account of the company, Kindly guide Mr. Paras with respect to the appropriate reporting requirements under section 143(12) of Companies Act. (a) Mr. Paras should have reported the matter to Audit Committee within 2 days of identification of the fraud. However, Mr. Paras is valid in not reporting this issue further as it could negatively to the image of company. (b) Mr. Paras should have reported the matter to Audit Committee and Board of Directors within 7 days of identification of the fraud. Hence, Mr. Paras did not report to Board of Director which is inappropriate. (c) Mr. Paras should have reported the matter to Audit Committee within 2 days of identification of the fraud. Over and above Mr. Paras should have reported this matter to the Central Government as per prescribed rules. (d) Mr. Paras should not have reported this matter to Audit Committee. Mr. Paras should have reported matter first to central government within 2 days of identification of fraud.
Incs.52.4	With respect to the reporting of significant deficiencies to those charged with governance, kindly guide Mr. Paras with respect to appropriate provisions in this regard. (a) As per SA 315, the engagement partner shall determine which matters are to be communicated to management and those charged with governance involved in the discussion. (b) As per SA 265, the auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. (c) As per SA 315, the auditor should understand the communications between management and those charged with governance before communicating anything to those charged with governance. (d) As per SA 450, the auditor shall communicate on a timely basis critical misstatements accumulated during the audit with the appropriate level of management, unless they are already communicated with management earlier in any form.
Incs.52.5	The external audit team decided to rely on and to use the work of internal audit function in the area where more judgment was involved or where the risk of material misstatement was assessed at a higher level. Based on the above information, kindly guide the audit team regarding use of the work of internal audit function as per SA 610 by selecting the appropriate option from below: (a) The external auditor shall not use the work of an internal audit function if the external auditor determines that the internal audit function's organizational status and the relevant policies and procedures do not adequately support the objectivity of the internal auditors. (b) The external auditors shall not use the work of an internal audit function if the external auditor determines that the internal audit function's organizational structure and relevant policies and procedures do adequately support the objectivity of internal auditors.

	(c) The external auditor shall use the work of the internal audit function if the external auditor determines that the internal audit function applies a systematic and discipline approach including quality control while discharging their duties. (d) The external auditor shall not use the work of the internal audit function if the external auditor determines that the internal audit function does not lack sufficient competence to discharge their duties.
Incs.53	N22M During the planning stage of audit of Mobile & Cell Limited, the statutory auditor of the company, ABC & Co, decided: 1. To evaluate whether to use the work of internal audit function to gather sufficient and appropriate audit evidence for the purpose of expressing opinion on the financial statement of the company. 2. To perform test counts on a sample basis for Inventory Balance which was material. Also, the audit team will inquire management to provide copies of management's completed physical inventory count which will assist them in performing subsequent procedures required to determine whether inventory records accurately reflect actual inventory count results. 3. To perform substantive analytical procedures to gather sufficient and appropriate audit evidence for payroll cost. Audit team decided to recalculate the payroll cost by multiplying the total employees of the company with the average pay-out per employee. 4. To perform substantive procedures over the direct expenses which were assessed as a material with respect to the financial statement as a whole. Moreover, the number of items/transactions in direct expense were huge and of were of non-homogenous nature. As a result, audit team decided to select some samples from each identified strata disaggregated to the lowest level based on their characteristics. 5. The performance materiality for assessing any misstatement was fixed at ` 10,00,000/-. During the audit phase the audit team identified that I. The internal audit function reports directly to the management and they do not have any direct communication with the those charged with governance or an officer with the appropriate authority. Also, all the findings of internal audit function are first reported to the management and then the management decides what to report to those charged with governance from the findings of internal audit function. II. Since last three years the company is making cash losses and is facing liquidity crisis. Moreover, there was a huge loan instalment due for repayment in next three months. Considering the company's liquidity profile, it was evident that company will default the upcoming loan instalment and the payment of interest there on. When inquired with the management as to how they will deal with this situation and how they will consider the impact of these events on management's assumption of going concern, the management contended that the company would raise more funds through issue of fresh equity in the primary market to manage the liquidity requirements. III. Moreover, there was an ongoing litigation on Company and its Officers for misappropriation of loan funds. As a result, after analysing the SEBI Listing Requirements, it was evident that company was not in position to issue fresh equity in the primary market. IV. In one of the direct tax litigations, the adjudicating authority issued an unfavourable order against the company because of which the company was now required to pay huge fines and interest to the Tax Authority. The amount of fine and interest there on was material. V. The engagement manager identified that the total payroll costs booked for the period was ` 30,00,000/- for total 150 employees employed throughout the year from the payroll records & register. Engagement manager was able to identify that the average pay-out per employee was ` 20,500/-. Also, the independent expectation developed for the payroll cost was between ` 30,00,000/- to ` 32,00,000/- for the year.' VI. The Audit team performed the testing of direct expense and following is the outcome:

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

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

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

Incs.53.1	Auditor of the company decided to draw attention of the users of the audit report on the existence of the material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern by disclosing the same in other matter paragraph. As an Engagement Quality Control Reviewer, guide the Auditor about the correct way of disclosing the existence of the material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern when the management has not made appropriate disclosure of a material uncertainty in the financial statement.

(a) When the management has not made appropriate disclosure of a material uncertainty in the financial statement and there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should disclose the same in "Key Audit Matter" section in Audit Report only. No other disclosure is required.

(b) Disclosure of the material uncertainty in the financial statement is the responsibility of the management and the auditor should not comment on the same.

(c) When the management has not made appropriate disclosure of a material uncertainty in the financial statement and there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should express a qualified or adverse opinion and should mention in the Basis of Qualified / Adverse Opinion section of the Audit Report about existence of the material uncertainty.

(d) When the management has not made appropriate disclosure of a material uncertainty in the financial statement and there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should express an unmodified opinion and should obtain the written representation about existence of the material uncertainty from management.

Incs.53.2	In view of current scenario, which of the following requirements as per SA 610 are required to be fulfilled by Statutory Auditors of the Company, prior to using the direct assistance of the Internal Audit Team?
	(a) Statutory Auditors should obtain written agreement from the management of the Company. that the internal audit team will be allowed to follow the statutory auditors' instructions. (b) Statutory auditors should obtain written agreement from internal audit team that his team will keep the matters confidential. (c) Both a & b. (d) Statutory Auditors can use the direct assistance of the internal audit team after discussing the same with the management. No prior written agreement is required.
Incs.53.3	Considering the inherent limitation with respect to the inventory count, the audit team decided not to perform any other procedure or not to obtain any documentary evidence from management with respect to inventory. Guide the audit team in the current scenario by selecting the appropriate option from below:
	(a) If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall not attempt to obtain further audit evidence. (b) If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or a disclaimer of opinion. (c) In case where audit team is not able to obtain sufficient and appropriate audit evidence as to a material financial statement assertion, then the auditor should appoint management's expert and should try to obtain required evidence from such expert. (d) In case where audit team is not able to obtain sufficient and appropriate audit evidence as to a material financial statement assertion, then the auditor should communicate to management and should obtain written representation from them.
Incs.53.4	Based on the recalculation performed by the audit team, the total payroll cost arrived for the period was 30,75,000/-. Analyse and guide the audit team with respect to the results obtained from the substantive analytical procedure by selecting the appropriate option from below:
	(a) The difference identified between the payroll costs derived through substantive analytical procedure and the expectation developed is material based on the materiality fixed by the audit team and hence it requires further investigation. (b) The amount derived through substantive analytical procedure is not in congruence with the total amount of the payroll cost booked for the period. Hence the audit team should investigate the reasons for the difference between the amount derived and the actual cost booked. (c) The total payroll cost arrived is well within the expectation developed and the difference between the amount recorded and the amount derived through substantive analytical procedure is not material. Hence, it does not require any further investigation. (d) The difference identified between the amount derived through substantive analytical procedure and amount developed as an expectation is significant and the audit team should obtain appropriate written representation from management with respect to the completeness and accuracy of the amount derived through substantive analytical procedure
Incs.53.5	Based on the above outcome of the direct expense testing the audit team decided to project the total misstatement on the entire balance considered for testing. As per the calculation performed, the projected misstatement was ` 1,68,889/-. Kindly analyse and guide the audit team with respect to the results obtained from the substantive testing by selecting the appropriate option from below:
	(a) The projected misstatement calculated is appropriate. Moreover, Based on the performance materiality and projected misstatement the auditor should modify his opinion. (b) When a class of transactions or account balance has been divided into strata, then the misstatement is required to be projected for each stratum separately. Hence, the audit team's approach is incorrect with respect to the calculation of projected misstatement. The Audit team should recalculate the projected misstatement and then they should consider its impact on overall audit opinion based on the materiality. (c) The audit team should have considered the exception of ` 8,000/- twice while calculating the projected misstatement, as the error is regarding wrong classification and the same will affect two class of transactions

	or balances. Hence audit team should consider revising the projected misstatement and then they should consider its impact on overall audit opinion based on the materiality. (d) Audit team has appropriately calculated the projected misstatement. However, before modifying the audit opinion the audit team should obtain written representation with respect to the completeness and accuracy of the direct expense balance which could serve as a sufficient and appropriate.

Incs.54	N22M
	CA. Kamlesh Dutta was appointed as the engagement partner on behalf of Dutta & Associates for conducting the statutory audit for 3rd consecutive year of Pramati Limited, an unlisted public company, with a turnover of 35 crore during F.Y. 2019-20. From F.Y. 2020-21 onwards, Pramati Limited had voluntarily adopted to prepare its financial statements as per Division II of Schedule III of the Companies Act, 2013, due to which Dutta & Associates had revised the terms of audit engagement for the current audit engagement. As per the revised terms, it was decided that the auditor's report on the financial statements will incorporate a paragraph in accordance with SA 706, drawing users' attention to the additional disclosures. Moreover, it was decided that management will also present appropriate disclosures in Financial Statement with respect to this change. While auditing the entity, CA. Kamlesh came across a business policy of Pramati Limited that required to invest some portion of its money earned in its business in securities of different blue-chip companies and due to this reason, almost 55% of Pramati Limited's total assets consisted of such investments. These securities transactions were handled by its broker company, River Securities Private Limited (RSPL). RSPL was also performing necessary investment account reconciliations and was also preparing the MTM gain and loss calculation for the entity. Pramati Limited used to rely upon the calculations performed by RSPL and based on that they pass the MTM entry for their current investments every month. Pramati Limited were relying on the controls present in RSPL for the preparation of this entry. They also listed controls present in RSPL in their Risk Control Matrix as key controls. The engagement quality reviewer, CA. Tushar, recommended CA. Kamlesh to obtain a Type 2 report from the management of RSPL to which CA. Kamlesh said that it was not required to do so as management was already comfortable with the controls present in RSPL. Further while conducting the audit, CA. Kamlesh observed that investments in certain securities were sold at a price less than at which they were acquired and he didn't report on such matter as per Section 143(1) of the Companies Act, 2013, without even considering to inquire into the propriety aspect of the same. CA. Kamlesh made the following observations while examining the financial statements prepared by the company as per Division II of Schedule III of the Companies Act, 2013, for the first time: - (1) Other non-operating income and expenses related to it were shown separately in the statement of Profit and Loss. (2) Trade payables (payable after 12 months) and Deferred tax liabilities were shown directly under the head "Non-Current Liabilities". While finalizing the audit report, CA. Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance and Audit Committee of the entity. This letter was prepared in addition to the audit report. The audit team was of the view that for the above-mentioned letter the audit team is required to generate UDIN. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.54.1	While finalizing the audit report CA. Kamlesh decided to present the early adoption of IND AS under the "Other Matter Paragraph" as in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. Kindly guide CA. Kamlesh with respect to correct reporting in the Audit Report as per SA 706: (a) No disclosure is required as it is voluntary adoption of Division II of Schedule III of the Companies Act, 2013. (b) The Audit team should report the change in the "Emphasis of Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.

	(c) The Audit team should report the change in the "Other Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements. (d) The Audit team should qualify as per SA 705 the said change as it was not required to be implemented and this will create unnecessary confusion for the read.
Incs.54.2	CA. Kamlesh 's risk assessment includes an expectation that controls at the service organization are operating effectively and he contended that there was no requirement to obtain a Type 2 report. Kindly guide CA. Kamlesh with respect to the requirement of SA 402 (a) CA. Kamlesh 's contention is correct as Management has comfort over the controls at service organization for the transactions and activities which are processed there. (b) When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report. (c) It depends upon the auditor's judgment and the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA. Kamlesh 's decision will be considered correct and appropriate. (d) As no services are outsourced to the broker company and hence there is no need to obtain the type 2 report.
Incs.54.3	Whether it is justifiable that CA. Kamlesh didn't report on the matter with respect to sale of investments even without inquiring for the same? (a) No, as at least CA. Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bona-fide. (b) Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section. (c) No, he should have at least consulted CA. Tushar before doing so. (d) Yes, as the relevant clause for the reporting is not applicable in case of Pramati Limited
Incs.54.4	Identify the errors, if any, in the preparation of financial statements by the company as per Division II of Schedule III of the Companies Act, 2013, from the observations made by CA. Kamlesh. (a) Other non-operating income should have been shown by netting off the expenses related to it and trade payables and Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'. (b) Trade payables and Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'. (c) Other non-operating income should have been shown by netting off the expenses related to it and trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Noncurrent liabilities'. (d) Trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Noncurrent liabilities'.
Incs.54.5	CA. Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics and findings for discussion. Kindly guide CA. Kamlesh with respect to UDIN requirements for this letter. (a) Separate UDINs are to be generated for the Statutory audit report and Letter to Those Charged with Governance. (b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265. (c) One single UDIN is required to be generated for all items for this Client. UDINs are required to be generated Client wise instead of report-wise. (d) One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management and Those Charged with Governance.

Incs.55	N22M
	KKML & Associates was appointed statutory auditor for FY 2021-22 of AMPL Limited (a steel & Iron manufacturing company and NSE-listed company) for the first time. CA. Kush was engagement partner for this assignment. Last year, it was audited by Ananya & Company Chartered Accountants. Ananya & Company charged ` 7,00,000 for the statutory audit for FY 2020-2021. Over and above that, Ananya & Company raised bills for overtime and out-of-pocket expense of ` 1,50,000. AMPL Limited paid ` 7,00,000 to Ananya & Company but raised a dispute over the calculation of overtime. As per AMPL Limited, the overtime on account of additional work as recalculated along with OPE should be ` 95,000/- and the same was paid on a day before proposing the appointment of CA. Kush as a Statutory Auditor. This OPE was accounted only to the extent of ` 80,000 on a provisional basis in books of accounts for FY 2020-21. CA. Kush before accepting the appointment, communicated with Ananya & Company, as to why he should not accept the appointment as a Statutory Auditor for AMPL Limited. Ananya & Company replied on the same day stating the reason for not accepting the appointment as there were pending audit fees of ` 55,000/- (1,50,000 – 95,000) for FY 2020-21. After analysing the whole situation CA. Kush communicated with Ananya & Company that this was a case of disputed audit fees, and he cannot decline acceptance of the appointment on this basis. Later, CA. Kush accepted the appointment. Moreover, while proposing the appointment of CA. Kush, AMPL Limited issued a general notice to pass a resolution at AGM for the appointment of CA. Kush. The same was passed and a copy of the resolution and the notice were served to Ananya & Company after the AGM. This resolution was proposed by the Audit Committee consisting of 7 Directors i.e. Mr. Ram, Mr. Shyam, Mrs. Shweta, Mrs. Komal, Mrs. Jaya, Mrs. Prabha and Mr. Anand. Out of these, Mr. Shyam, Mrs. Shweta (Chairperson of the Audit Committee) and Mrs. Komal were not independent directors. There was no change in this during the whole FY 2021 -22. CA. Akash, the Engagement Quality Control Reviewer, insisted CA. Kush analyse whether the opening balances reflect the application of appropriate accounting policies. CA. Kush contented that he is not required to verify as he is already testing for closing balances which contain opening balances and that will give comfort over the application of accounting policies. During the year, Mr. Shyam entered into an arrangement with the company wherein the company will transfer the residential flat (originally purchased by the company in his name) to Mr. Shyam for ` 4 Crore (originally purchased at ` 2 Crore and having FMV ` 4 Crore). Instead of consideration, the company will create a long term loan due from Mr. Shyam in the books of accounts at ` 3 Crore and for the rest (` 1 Crore) of the amount, Mr. Shyam will provide Plant and Machinery to the company. No reporting or further disclosures were made by the company for this transaction as this was at an arm's length price. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.55.1	Ananya & Company raised the contention that the appointment of CA. Kush is inappropriate as there were outstanding audit fees of ` 55,000 and he should not have accepted the appointment as Statutory Auditor. Considering the above scenario kindly guide CA. Kush on whether he should have declined the appointment on grounds of pending audit Fees (a) As per section 141 of the Companies Act, 2013, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then should not accept the appointment till the time the previous auditor's audit fees are paid in full. (b) As per section 139 read with Rule 3, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then he should not accept the appointment till if the previous auditor's audit fees are outstanding for a period of 180 days or more. (c) CA. Kush can accept a position as auditor previously held by another chartered accountant or a certified auditor i.e., Ananya & Company who has been issued a certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

	(d) CA. Kush can accept the appointment as statutory auditor as the pending fees are disputed fees and this would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered.
Incs.55.2	Ananya & Company contended that they were not given special notice and hence the appointment of CA. Kush is invalid. Considering the above scenario kindly guide CA. Kush on what course of action he should have adopted in the current case.
	(a) Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013 and hence CA. Kush is guilty of professional misconduct and his appointment is invalid. (b) Clause (8) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013 and hence CA. Kush is guilty of professional misconduct and his appointment is invalid. (c) As per section 140(4) of the Companies Act, 2013, the company is required to share the general resolution and notice of appointment of another auditor once the resolution is passed in AGM. Hence, CA. Kush's appointment is valid and hence is not required to perform anything further. (d) CA. Kush before getting appointed communicated with the previous auditor which was sufficient and equivalent to special notice. Hence, the contention of Ananya & company is incorrect.
Incs.55.3	Whether contention of CA. Akash, the Engagement Quality Control Reviewer regarding analysis of the opening balances is correct. Kindly guide CA. Kush with the correct course of action as per SA 510.
	(a) The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. (b) The auditor shall obtain sufficient appropriate audit evidence about whether the material accounting policies reflected in the closing balances have been consistently applied in the current period's financial statements when there is a material change. (c) If the auditor has identified misstatement in the drafting of accounting policies in the current period, then he shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances were appropriately drafted and applied. (d) The auditor is not required to obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.
Incs.55.4	In the current case, Audit Committee of AMPL Limited is consisting of 7 Directors i.e. Mr. Ram, Mr. Shyam, Mrs. Shweta, Mrs. Komal, Mrs. Jaya, Mrs. Prabha and Mr. Anand. Out of these, Mr. Shyam, Mrs. Shweta (Chairperson of the Audit Committee) and Mrs. Komal were not independent directors. Chief Compliance Officer of the company raised an issue that the company has not complied with SEBI LODR Regulations. He also, insisted CA. Kush focus on this while performing the audit. You are required to verify the compliance with SEBI LODR Regulations based on the above-mentioned scenario. Kindly select the appropriate option from below depicting the correct provision of SEBI LODR regulation with respect to the Audit Committee:
	(a) As per Regulation 17 of SEBI LODR Regulation, the audit committee shall have a minimum of two directors as members. At least one-third of the members of the audit committee shall be independent directors and the Chairperson of the audit committee shall be an independent director. Thus, contention of Chief Compliance Officer is correct. (b) As per Regulation 18 of SEBI LODR Regulation, the audit committee shall have a minimum of five directors as members. At least one-third of the members of the audit committee shall be independent directors and the chairperson of the audit committee can be a non-independent director provided not more than one-third of directors shall be executive directors. Thus, contention of Chief Compliance Officer is not correct.

	(c) As per Regulation 19 of SEBI LODR Regulation, the audit committee shall have a minimum of five directors as members. At least one-third of the members of the audit committee shall be nonexecutive directors and the chairperson of the audit committee shall be an independent director. If the chairperson is an executive director, then not more than one-third of directors shall be executive directors. Thus, contention of Chief Compliance Officer is correct. (d) As per Regulation 18 of SEBI LODR Regulation, the audit committee shall have a minimum of three directors as members. At least two-thirds of the members of the audit committee shall be independent directors and the Chairperson of the audit committee shall be an independent director. Thus, contention of Chief Compliance Officer is correct.																								
Incs.55.5	CA. Kush was perplexed concerning reporting a transaction entered between Mr. Shyam and the Company for the transfer of the Immovable Property. You are being the Engagement Quality Control Reviewer, kindly guide CA. Kush concerning the appropriate reporting of the said transaction as per CARO 2020. (a) As per para 3(xv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act have been complied with. (b) As per para 3(xiv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions, other than being at arm's length price, with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with. (c) As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised. (d). As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.																								
Incs.56	M23R Good Deposit Limited a NBFC registered with RBI under section 45-IA of the RBI Act and listed on National Stock Exchange, appointed ABC & Co. Chartered Accountants as their statutory Auditor for the financial year ending on 31 March 2023. Mr. J the audit partner of ABC & Co. extracted the monthly net owned fund position from the books of Goods Deposit Limited. ABC & Co was peer-reviewed last in January 2019, and its peer review certificate was valid until January 2022. ABC & Co did not apply for Peer Review after January 2022 till the date of the acceptance of the audit. <table border="1"> <thead> <tr> <th>Month</th><th>Net Owned Funds (as calculated based on monthly position)</th></tr> </thead> <tbody> <tr> <td>April 2022</td><td>₹ 350 Lakh</td></tr> <tr> <td>May 2022</td><td>₹ 350 Lakh</td></tr> <tr> <td>June 2022</td><td>₹ 320 Lakh</td></tr> <tr> <td>July 2022</td><td>₹ 310 Lakh</td></tr> <tr> <td>August 2022</td><td>₹ 290 Lakh</td></tr> <tr> <td>September 2022</td><td>₹ 250 Lakh</td></tr> <tr> <td>November 2022</td><td>₹ 190 Lakh</td></tr> <tr> <td>December 2022</td><td>₹ 180 Lakh</td></tr> <tr> <td>January 2023</td><td>₹ 240 Lakh</td></tr> <tr> <td>February 2023</td><td>₹ 270 Lakh</td></tr> <tr> <td>March 2023</td><td>₹ 310 Lakh</td></tr> </tbody> </table> The Board of Good Deposits Limited consisted of 9 directors, of which five were non-executive, including a woman director, and two were independent. Out of the above, the Chairperson of the Board was a regular non-executive director and promoter of the Company. The Company was not out of the 1000 top listed entities for the past five years. During the year, Mr. J recommended to the Board and Audit Committee to have internal auditors. However, Board, citing budget issues, rejected the Audit Partner's recommendation. Board, however, assured that they would consider next year to have an internal audit department within the Company	Month	Net Owned Funds (as calculated based on monthly position)	April 2022	₹ 350 Lakh	May 2022	₹ 350 Lakh	June 2022	₹ 320 Lakh	July 2022	₹ 310 Lakh	August 2022	₹ 290 Lakh	September 2022	₹ 250 Lakh	November 2022	₹ 190 Lakh	December 2022	₹ 180 Lakh	January 2023	₹ 240 Lakh	February 2023	₹ 270 Lakh	March 2023	₹ 310 Lakh
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On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:	
Incs.56.1	Mr J reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Good Deposit Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the Statutory Auditor is required with reference to the position of the Company as at the end of the financial year ended 31 March and not based on each month's position. Kindly guide Mr J with respect to the requirement under Master Direction. (a) Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company as of the end of the financial year ended 31 March. (b) Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company as of the end of each month. (c) Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company throughout the financial year. (d) Only NBFC-MFI shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company throughout the financial year
Incs.56.2	Mr J was of the opinion that the Composition of the Company's Board of Directors is not in compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. Kindly Guide the management with respect to the provision, which is not complied by the management, specified in Regulation 17 of SEBI LODR Regulations. (a) Where the regular non-executive Chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of the Board of director or at one level below the Board of directors, at least half of the Board of directors of the listed entity shall consist of independent directors. (b) Where the Chairperson of the Board of directors is a non-executive director, at least one-third of the Board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the Board of directors shall comprise of independent directors. (c). The Board of directors shall have an optimum combination of executive and nonexecutive directors with at least one-woman director, and not less than fifty per cent of the Board of directors shall comprise of non-executive directors. (d). Where the Chairperson of the Board of directors is a non-executive director, at least one-fourth of the Board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least one-third of the Board of directors shall comprise of independent directors.
Incs.56.3	At the time of accepting the Audit of Good Deposit Limited, the quality engagement partner objected that ABC & Co. does not hold a peer review certificate and hence cannot accept the statutory audit of the NBFC. Mr J was of the opinion that ABC & Co were falling under the Level-II category, and hence, they are required to get themselves peer reviewed once in 4 years. Kindly guide Mr J with respect to the peer review requirements as per Peer Review Guidelines 2022. (a) Every Practice Unit falling under the category of Level II is required to get peer-reviewed once in every 4 years. ABC & Co. was last peer reviewed in January 2019, and accordingly, they need to get themselves peer reviewed by January 2023. (b) As per the peer review mandate, Practice Units which propose to undertake Statutory Audits of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, for these Practice Units, there is a pre-

	requisite, starting from 1 April 2022, of having Peer Review Certificate before undertaking the Statutory Audit assignment. (c) Every Practice Unit falling under the category of Level II is required to get peer-reviewed once every 3 years. ABC & Co. was last peer reviewed in January 2019, and accordingly, they need to get themselves peer reviewed by January 2022. (d) Practice Units are required to wait for the allotment of Peer Reviewers by the Board. Once the names of Peer reviewers are intimated by the Practice Unit, then the Practice Unit can initiate the process of Peer Review with the reviewer.
Incs.56.4	Mr J wants to highlight the matter with respect to the absence of internal audit function in his audit report under the Emphasis of Matter paragraph. However, management was of the view that the audit partner was not right by disclosing the said matter in his audit report as it was an internal matter, and the audit team had not identified any material evidence which could impact the opinion of the auditor. Kindly guide Mr J whether proposed reporting under Emphasis of Matter (EOM) para in the Audit Report is correct. (a) EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is correct. (b) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is incorrect. (c) EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is incorrect. (d) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is correct.
Incs.56.5	Kindly guide Mr J regarding areas where he may need to report the absence of Internal Audit Function in the Company in Audit Report. (a) The auditor is required to report the matter in the Basis of Qualification paragraph of his audit report as the Auditor was unable to place reliance on the internal audit function of the Company. (b) The auditor is required to report the same under Para 3(xiii) of the CARO (Companies Auditor's Report Order), 2020. (c) The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020. (d) The auditor is required to report the said matter in Key Audit Matters as per SA 701, which requires significant professional judgement and user attention.
Incs.57	M23M Sambhav Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Sambhav Limited appointed Mr. Dharam, Mr. Paras and Mr. Anant as its central joint auditors for the year 2021-22. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Sambhav Limited issued appointment letter as well as engagement letter to all of them. But Mr. Dharam was not clear on some point so he requested Sambhav Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Sambhav Limited has acquired another bank called Aadi Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 3 crore, determination of amount of minority interest of ₹ 75 lakh and some intra-group transaction adjustment of ₹ 22 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Sambhav Limited and Aadi Limited which was of ₹ 45 lakh. While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will

be entrusted with Mr. Paras. But Mr. Paras failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Dharam. While performing audit on compliance with SLR requirements Mr. Dharam used 12 odd dates in different months of fiscal year. Mr. Dharam with his professional judgement used the below mentioned days:

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

Mr. Anant was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ₹ 250 crore. It includes Margin held for funded facilities of ₹ 4 crore, credit balance for one branch of ₹ 6 crore, adverse balance of nostro Mirror account of ₹ 3 crore and unadjusted deposit for agency business of ₹ 8 crore.

Wife of CA Dharam was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 500 shares of Shambhav Limited of ₹ 100 each for ₹ 9,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors.

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

Incs.57.1	List down all the months whose date has been selected inappropriately by CA Dharam for calculation of SLR compliance?
	a. January, February and March. b. July, August and October c. June, July and October. d. May and November.
Incs.57.2	While calculating SLR compliance of Sambhav Limited, what will be value of demand and time liability as on 31st March?
	a. 246 crore b. 250 crore. c. 237 crore. d. 240 crore
Incs.57.3	Will CA Dharam be disqualified after his wife purchased 500 shares for ₹ 9,00,000?
	a. Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ₹ 1,00,000 market value. b. Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns share of less than ₹ 1,00,000 face value. c. Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns share of less than ₹ 10,00,000 market value. d. Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.

Incs.57.4	Which of the following statement is true?
	a. For giving the effect of merger, permanent consolidation adjustment of 397 lakh and current period consolidation adjustment of 45 lakh was made. b. For giving the effect of merger, permanent consolidation adjustment of 420 lakh and current period consolidation adjustment of 22 lakh was made. c. For giving the effect of merger permanent consolidation adjustment of 442 lakh. d. For giving the effect of merger, permanent consolidation adjustment of 375 lakh and current period consolidation adjustment of 67 lakh was made.
Incs.57.5	In the given situation whether audit engagement letter issued by Sambhav Limited?
	a. Engagement letter issued specify the identification of framework applicable, whereas as per SA 210, it should not specify identification of framework applicable. b. Engagement letter issued doesn't specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management. c. Engagement letter issued specify the expected form of report, whereas as per SA 210 it should not contain the expected form of report. d. There was no discrepancy in the engagement letter issued.
Incs.58	M23M
	POSH Bank of India is a Public Sector Bank founded in the year 1967. The bank has 179 branches all over India as on 31.03.2022. Total Deposits of the bank on 31.03.2021 was ` 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2021-22 are SAHU & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following: (a) The Advance granted to Mr. Ram has been guaranteed by State Government. However, said advance is overdue since November 2021. (b) As on 20.04.2022, the ad hoc limit of account of Mr. Shyam has not been reviewed even though 120 days of date of ad hoc sanction were over. The above advances have been granted by Meerut Branch. However, this branch is not subject to Concurrent Audit. The Bank has also granted Term Loan of ` 20 crore to Sumati Ltd (An Unlisted Company) on 01.02.2022. The sanction letter read as follows:</p> <p>"The Facility shall be used for Repayment of Unsecured Loans of Promoters – ` 10 crore and towards development & construction expenses (Other than Land Cost) of the company's new office to be situated in Faridabad, Haryana – ` 10 crore".</p> <p>The company has utilized the facility as follows as on 31st March 2022-</p> <p>(i) Land Purchased for New Office: ` 4 crore; (ii) Development and construction Expenses of New Office: ` 11 crore;</p> <p>(iii) Repayment of Unsecured Loans of Promoters: ` 3 crore; (iv) Investment in Fixed Deposit: ` 2 crore (Temporarily);</p> <p>Company's Total Borrowings from all Banks as on 31st March 2022 is ` 60 crore. POSH Bank of India is the parent organization (100% Holding) of POSH General Insurance Co. Ltd. The Statutory auditors of POSH General Insurance are AK & Co., Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31st March 2022: • Value of Assets: ` 700 crore.</li> <li>• Amount of Liabilities: ` 415 crore. • Capital: ` 200 crore. The POSH General Insurance has entered into reinsurance contract with Fair Reinsurance Co. Ltd. Against the risk of fire only. Fair Reinsurance Co. Ltd. is one of the largest reinsurers in India. Mr. Shri (Partner in SAHU & Associates) also acts as Surveyors and Loss Assessors under Insurance Act, 1938. However, he has not intimated or taken permission from the Council of Institute of Chartered Accountants of India. On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.58.1	As Statutory Auditor of Sumati Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained?
	(a) ₹ 4 crore. (b) ₹ 5 crore. (c) ₹ 7 crore. (d) ₹ 2 crore.
Incs.58.2	As an audit manager of the firm, advice which advance(s) shall be classified as Non-Performing Asset?
	(a) Mr. Ram. (b) Mr. Shyam. (c) Both Mr. Ram and Mr. Shyam. (d) Neither Mr. Ram nor Mr. Shyam.
Incs.58.3	Based on above data, state whether POSH General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If no, then state what further action will be done?
	(a) Yes, solvency margin has been maintained therefore no action is required. (b) No, It shall deemed to be insolvent. (c) No, It shall submit a financial plan to the authority. (d) The requirement of Solvency Margin is not applicable in case of general insurance companies
Incs.58.4	Whether the acting of Mr. Shri as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?
	(a) Yes, as specific permission from the council shall be required. (b) No, as general permission from the council has been granted. (c) No, as specific permission from the council can be obtained at any point of time. (d) Yes, as general permission is not granted for above occupation.
Incs.58.5	Identify the type of reinsurance contract between POSH General Insurance and Fair Reinsurance Co. Ltd.
	(a) Treaty Reinsurance. (b) Proportional Treaty Reinsurance. (c) Non-Proportional Treaty Reinsurance. (d) Facultative Reinsurance
Incs.59	M23M M/s Sudharma & Associates have been appointed as the statutory auditors of Veer Ltd. for the FY 2022-23. Veer Ltd. is a listed company dealing in the manufacture of iron and steel bars and it is among the top 1000 listed entities. FY 2022-23 is the first year after the incorporation of the company. The company has duly complied with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015. When the audit was started, the management of Veer Ltd. discussed with Mr. Sudharma (the engagement partner) about the strong internal control system of the company. The management discussed about the whistle blowing policy of the company, the HR policies, company code of conduct and ethics policies. Mr. Sudharma was told that the audit team can rely on the information provided to them and the entity level controls without any second thought. The management advised the auditor not to waste time in checking the direct entity level controls and instead to concentrate on indirect entity level controls during their conduct of audit. Further Veer Ltd. has constituted its qualified Audit Committee and a Risk Management Committee as per the relevant regulations. Since FY 2022-23 was the first year after incorporation of the company, the meetings of both the committees were held twice during the year based on the company's requirement where all the company's important matters were duly discussed. Further, while conducting the audit, the auditor found that a Management Discussion and Analyse s Report is a part of the Directors Report. With respect to the non-financial information like industry structure and

development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

Since FY 2022-23 is the first year after the incorporation of Veer Ltd., the company is in the process of exploring the market and venturing towards its expansion plans. The management will be approaching the banks for the purpose of raising funds for its projects. The management, accordingly, requested the auditor to mention in their audit report or the compliance certificate about the entity's future viability. Further, in one of the meetings of Audit Committee conducted during the FY 2022-23, the internal control system and auditor's report of Veer Ltd. were discussed. Mr. Sudharma was also present at the meeting and the Audit Committee called for the comments of Mr. Sudharma, if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

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

Incs.59.1	What should be Mr. Sudharma's audit plan regarding the checking of direct entity level controls and indirect entity level controls after considering the management's advise?
	(a) Mr. Sudharma should check the indirect entity level controls in detail and he can skip the checking of direct entity level controls as the company has a strong internal control system. (b) Mr. Sudharma should check the direct entity level controls in detail and he can skip the checking of indirect entity level controls as the company has a strong internal control system. (c) Mr. Sudharma should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures. (d) Mr. Sudharma should check the indirect entity level controls in detail as it relates the business process and account balance and contribute indirectly to the effective operation of direct ELC. Thus, he can skip the checking of direct entity level controls.
Incs.59.2	Is the company justified in holding meeting of its Audit Committee and Risk management Committee twice in the FY 2022-23?
	(a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings. (b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year. (c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company is justified in holding two meetings of Risk management committee. (d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.
Incs.59.3	With respect to the meeting of Audit Committee attended by Mr. Sudharma, what all rights can be exercised by Mr. Sudharma?
	(a) Mr. Sudharma has right to be heard and to vote in the meeting of Audit Committee of Veer Ltd. when it considers the auditor's report. (b) Mr. Sudharma has right to vote in the meeting of Audit Committee of Veer Ltd. when it considers the auditor's report. (c) Mr. Sudharma, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of Veer Ltd. even if it considers the auditor's report. Such rights vest with the internal auditors of the company. (d) Mr. Sudharma has right to be heard in the meeting of Audit Committee of Veer Ltd. when it considers the auditor's report but shall not have right to vote.
Incs.59.4	What is the responsibility of M/s Sudharma & Associates so far as the Management Discussion and analysis report of Veer Ltd. is concerned?
	(a) M/s Sudharma & Associates should verify and comment on the non-financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.

	(b) M/s Sudharma & Associates should verify the non-financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analysing and commenting on the same. (c) M/s Sudharma & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non-financial information reflected in the Management Discussion and analysis report. (d) M/s Sudharma & Associates can verify and comment on the non-financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.
Incs.59.5	What should M/s Sudharma & Associates do with respect to the management's request to the auditor regarding mentioning about company's future viability? (a) M/s Sudharma & Associates can mention about the company's future viability in its compliance certificate as auditor's report is not an assurance as to future viability of the entity. (b) M/s Sudharma & Associates can mention about the company's future viability in its audit report as compliance certificate is not an assurance as to future viability of the entity. (c) M/s Sudharma & Associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity. (d) M/s Sudharma & Associates can mention about the company's future viability in either its compliance certificate or auditor's report as both the documents act as an assurance as to future viability of the entity.

Incs.60	M23M
Sidharth Ltd. is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of Girnar Ltd. The total shareholding of Girnar Ltd. includes the following: • The Government of Tamil Nadu and Government of Lakshadweep each hold 18% of the paid-up share capital, • The Government of Goa's share is 15.5%. On 27th August 2022, Mr. Jambu, the auditor of Sidharth Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of Maniprabh & Co. Chartered Accountants as statutory auditors of Sidharth Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, Maniprabh & Co. agreed to do the following: • Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company (however, Mr. Jambu had agreed to charge only ₹ 45,000/-), • Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd. The company was having an annual turnover of ₹ 1020 crore, and hence it was also liable to tax audit under section 44 AB of Income Tax Act, 1961. During the current financial year, Sidharth Ltd. had changed its method of accounting compared to the previous financial year and had reported a closing stock of raw material amounting to ₹ 2 lakh only as on 31st March 2023. Also, the company had borrowed a sum of ₹ 10 crore equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to ₹ 75 lakh to the deposit holders through electronic mode. As far as Maniprabh & Co. Chartered accountants are concerned, Mr. Eshan, who is one of the partners of the firm (NOTE- Mr. Eshan does not sign the financials of Sidharth Ltd.) had borrowed a sum of ₹ 3.91 lakh from Girnar Ltd. He had also purchased goods worth ₹ 1.07 lakh from the company which was in ordinary	

course of business, at arm's length price. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. Eshan. Another partner of the firm, Mr. Shantinath, who is also responsible for signing the financials statements of Sidharth Ltd. was also engaged in the teaching profession during his free time approx 3 to 4 hours weekly. Upon hearing about the efficient services provided by Maniprabh & Co. Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them: (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of ₹ 501/-. On the basis of the abovementioned facts, you are required to answer the following MCQs:	
Incs.60.1	To whom should have Mr. Jambu informed about his resignation? What could be the possible consequence for his non-compliance? (a) He should have informed the registrar and Sidharth Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 2 lakh. (b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than ₹ 50,000/-. (c) He should have informed the registrar and Maniprabh & Co. As a consequence of his failure, he is liable to a fine of ₹ 500 per day for each day of failure. (d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of ₹ 45,000/-.
Incs.60.2	With respect to the acts carried out by Mr. Eshan, the partner of the audit firm, what can you infer about the appointment of Maniprabh & Co. as auditors of Sidharth Ltd.? (a) It is valid since the indebtedness is within prescribed limits. (b) It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakh. (c) It is valid since Mr. Eshan is not signing the financials of Sidharth Ltd. (d) It is valid since the indebtedness is not with Sidharth Ltd.
Incs.60.3	Which among the below are permitted as per Chartered Accounts Act, 1949? (i) Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company. (ii) Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd. (iii) Mr. Shantinath, one of the partners who is responsible to sign the financials of Sidharth Ltd. was into teaching profession during his free time approx 3 to 4 hours weekly (a) (i) & (ii). (b) (iii) only. (c) (ii) & (iii). (d) (i), (ii) & (iii).
Incs.60.4	With respect to the fees to be charged for its new assignment, which option can be opted by Maniprabh & Co.? (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of ₹ 501/-. (a) (i) Only. (b) (ii) Only. (c) Either (i) or (ii). (d) Neither (i) nor (ii).
Incs.60.5	Among the below transactions which were undertaken by Sidharth Ltd., which needs to be reported by the auditors under fiscal laws? (i) ₹ 10 crore loan taken, which is exceeding the limit specified u/s 269 SS of Income tax Act. (ii) Changed its method of accounting from the previous financial year.

	(iii) Repayment of deposits of ₹ 75 lakh, which is exceeding limit specified u/s 269 T of Income tax Act. (iv) Reporting of Closing stock of raw material worth ₹ 2 lakh only.
	(a) (i), (iii) & (iv). (b) (ii) & (iv). (c) (i) & (iii). (d) (i), (ii), (iii) & (iv).

Incs.61	N23R										
	Rainbow Non-Bank Limited, a “Non-Systemically Important Non-Deposit Taking Non-Banking Financial Company”, was operating appropriately till the start of the COVID-19 pandemic. Due to unforeseen conditions during the pandemic and after that, the operating revenue of the NBFC started decreasing. Following is the position of Net Owned Funds of the company during the last 4 financial years: <table border="1"> <thead> <tr> <th>Financial Year</th><th>Net Owned Funds</th></tr> </thead> <tbody> <tr> <td>FY19-20</td><td>₹ 12 crore</td></tr> <tr> <td>FY20-21</td><td>₹ 5 crore</td></tr> <tr> <td>FY21-22</td><td>₹ 3 crore</td></tr> <tr> <td>FY22-23</td><td>₹ 2.5 crore</td></tr> </tbody> </table> Rainbow Non-Bank Limited appointed Tirthankara & Company as their statutory auditor for FY 2022-23. Rainbow Non-Bank was involved in re-financing of accounts payables of other companies (i.e., paying to accounts payables on behalf of the company on the due date and allowing additional credit period by charging interest). To test for understatement in existence or valuation of accounts payable, Mr. Abhinandan (Engagement Partner) decided to test recorded & refinanced accounts payables on a sample basis. He also decided to verify refinanced accounts payable against signed contracts. Mr. Abhinandan did not identify any misstatements. While performing audit procedures in the month of March 2023 itself, it was noticed by Mr. Abhinandan that Senior Sales Manager from Rainbow Non-Bank agreed to refinance the accounts payables of Opal Stones India Limited, but on the due date, he issued payment to his personal account instead of issuing payments to Accounts Payables of Opals Stones India Limited, The matter was flagged by him to audit committee and amount was subsequently recovered. Due to this Opal Stones had to pay an additional amount of ` 4 crore over and above amount of accounts payables of ` 25 crore embezzled by the Senior Sales Manager. As Opal Stones had to shell out extra funds due to above, it was proposing to file a suit against the company. However, negotiations were still going on between two companies to settle the matter. There was no disclosure in financial statements regarding these negotiations. No other observation was identified by Mr. Abhinandan. He is considering to express an unmodified opinion in above situation. He has also approached EQCR to review working papers and documentation. On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:	Financial Year	Net Owned Funds	FY19-20	₹ 12 crore	FY20-21	₹ 5 crore	FY21-22	₹ 3 crore	FY22-23	₹ 2.5 crore
Financial Year	Net Owned Funds										
FY19-20	₹ 12 crore										
FY20-21	₹ 5 crore										
FY21-22	₹ 3 crore										
FY22-23	₹ 2.5 crore										
Incs.61.1	While reviewing working papers of Mr. Abhinandan, the Engagement Quality Control Reviewer (EQCR) identified that the audit procedure followed to test for understatement in existence or valuation of accounts payable refinanced is not relevant. However, Mr. Abhinandan did not understand the comments provided by his EQCR. Kindly guide Mr. Abhinandan with respect to the “relevance of the audit procedure” by selecting the appropriate option from below:										

	(a) Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement in existence or valuation of accounts payable and not their understatement. (b) Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable will give comfort on completeness and valuation but not on existence. (c) The relevance of the information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. (d) The relevance of audit evidence is increased when it is obtained from independent sources outside the entity.
Incs.61.2	During the review of Mr. Abhinandan's working papers, the External Conformity and Quality Review (EQCR) observed that Rainbow Non-Bank Limited's performance was subpar, with the Net Owned Funds (NOF) standing at ₹ 2.5 crore at the close of FY22-23. The EQCR believed that Mr. Abhinandan was expected to include the NOF in the auditor's certificate for the year-end. However, Mr. Abhinandan disagreed with the same. Can you please provide guidance on the accurate reporting obligation in the current case.
	(a) Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration and it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted. (b) Non-banking financial company whose NOF falls below ₹ 200 Lakh shall submit a certificate from its Statutory Auditor. (c) A certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision. However, the same is not mandatory. (d) Only for NBFC - MFI, a certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 should be submitted to the Regional Office of the Department of Non-Banking Supervision.
Incs.61.3	Regarding the issue involving the embezzlement by the Senior Sales Manager, what is the most appropriate compliance action for Mr. Abhinandan under the provisions of the Companies Act, 2013? Please select the most suitable option from the choices below:
	(a) As per section 92 of the Companies Act 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers and details of compounding of offences and appeals made against such penalty or punishment. (b) As per Section 143(12) of the Companies Act 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government. (c) As per Section 143(12) of the Companies Act 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees ten crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government. (d) As per section 92 of the Companies Act 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers, which involves or is expected to involve individually an amount of rupees ten crore or above, and details of compounding of offences and appeals made against such penalty or punishment.
Incs.61.4	Considering the overall materiality of ₹ 2 crore, EQCR believes that Mr. Abhinandan should not issue an unmodified opinion. Mr. Abhinandan, however, argues that he has not identified any

		material misstatement. To guide Mr. Abhinandan appropriately, the following option is the most suitable:
		(a) If the auditor has expressed an unmodified opinion on the financial statements, then the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof. (b) If there is a material misstatement in the financial statements that relate to the non - disclosure of information that should be disclosed, then the auditor shall discuss the non-disclosure with those charged with governance, and where the impact of nondisclosure is material but not pervasive, then the auditor should issue a qualified opinion. (c) When evaluating the outcome of litigation, the Auditor should record in the audit report the interests and relationships of management that may create threats in the litigation and any applicable safeguards to save the company from outcomes of litigation, whether legal or not. (d) If the auditor has expressed an unmodified opinion along with the "Emphasis of Matter" Paragraph, then the auditor shall describe in the "Basis for Emphasis of Matter" section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.
Incs.61.5		On noticing the issue, Mr. Abhinandan reported the fraud to Audit Committee within two days of his knowledge of the fraud, seeking their reply or observations within forty-five days. However, neither the audit committee nor management replied to the auditor till the 45th day. Kindly guide what the auditor is expected to do in the case when he has not received any reply from the audit committee or management. (a) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall wait for the next 45 days, and he shall send a reminder to Audit Committee and Management to reply on the matter reported by him to them. (b) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall report the matter to shareholders and should seek their reply on observations within the next thirty days. (c) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations. (d) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the CFO along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.

Incs.62	N23M																										
CA Paras is in the midst of conducting statutory audit for the year 2022-23 of “Meto Chemicals Limited”, a listed company. He is collating information required for reporting under CARO, 2020 from management. Audit procedures as are necessary in the circumstances will be performed on the information so obtained. The company’s revenue from sale of products is ₹15,000 crore. During the course of this exercise, he obtained the following information: - [A] The management has provided the following details of dues that have not been deposited on 31st March, 2023 on account of disputes: -																											
<table><tr><th>Name of Statute</th><th>Nature of dues</th><th>Forum where the dispute is pending</th><th>Period to which the amount relates</th><th>Amount involved (₹ in crore)</th><th>Amount unpaid (₹ in crore)</th><th>Other comments</th></tr><tr><td>Income-tax Act, 1961</td><td>Income tax</td><td>CIT (Appeals)</td><td>AY 2018-19</td><td>50.00</td><td>50.00</td><td></td></tr><tr><td>Income-tax Act, 1961</td><td>Income tax</td><td>ITAT</td><td>AY 2014-15</td><td>10.00</td><td>10.00</td><td>Demand stayed by</td></tr></table>							Name of Statute	Nature of dues	Forum where the dispute is pending	Period to which the amount relates	Amount involved (₹ in crore)	Amount unpaid (₹ in crore)	Other comments	Income-tax Act, 1961	Income tax	CIT (Appeals)	AY 2018-19	50.00	50.00		Income-tax Act, 1961	Income tax	ITAT	AY 2014-15	10.00	10.00	Demand stayed by
Name of Statute	Nature of dues	Forum where the dispute is pending	Period to which the amount relates	Amount involved (₹ in crore)	Amount unpaid (₹ in crore)	Other comments																					
Income-tax Act, 1961	Income tax	CIT (Appeals)	AY 2018-19	50.00	50.00																						
Income-tax Act, 1961	Income tax	ITAT	AY 2014-15	10.00	10.00	Demand stayed by																					

						ITAT pending completion of hearing by the Tribunal
EPF Act	PF Contribution	Hon'ble High Court of Rajasthan	FY 2017-18	0.10	0.10	
Municipal Corporation Act	Property tax	Hon'ble High Court of Rajasthan	FY 2015-16	0.15	0.15	

The company has already made a provision of ₹10 crore in its financial statements considering the likely outcome of ongoing matters under dispute at ITAT. However, no provision has been made in respect of income tax matters pending before CIT(Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court.

[B] The following information is available from financial statements / records of the company.

(₹ in crore)

Non-Current assets	As at 31/03/23	As at 31/03/22
Property, Plant and Equipment	3,500	4,000
Right-of-use assets	750	700
Intangible assets	42	40

Values stated above are as per gross block.

Right-of-use assets consist of leases where the company has obtained the right-of-use asset under lease agreement in accordance with Ind AS 116.

[C] Meto Chemicals Limited produces goods for which the Central Government has specified maintenance of cost records. Besides, cost audit has also been mandated under section 148(2) of the Companies Act. The cost auditor has already examined cost records and issued the cost audit report.

[D] During the course of audit, CA Paras has found that physical verification of inventories of the company has been conducted during the year by management. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of account as at the year-end: -

(Amount ₹ in crores)

Particulars	As per physical verification	As per books of account
Raw material	1,000	1,020
Work-in-progress	200	220
Finished goods	2,000	2,290
Stores and spares	150	120
Total	3,350	3,650

[E] During the course of audit, he is informed by management that two supervisory employees have been dismissed from service due to fraud of ₹ 25 lakh committed by them during the year 2022-23. The amount has also been subsequently recovered from them during the year itself.

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

Incs.62.1	Select the correct statement relating to reporting of statutory dues which have not been deposited on account of disputes under clause 3(vii)(b) of CARO, 2020?
(a)	Only matters relating to income tax pending before CIT (Appeals) and PF contribution matter pending before Hon'ble High Court need to be reported.
(b)	Only Income tax matter pending before ITAT needs to be reported.
(c)	All the four matters for which information has been provided in the fact pattern need to be reported.

	(d) Income tax matter pending before CIT (Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court need to be reported, matter pending with ITAT does not require reporting.
Incs.62.2	Identify the correct statement relating to reporting duties of the auditor under clause 3 (i) of CARO, 2020 with regard to: (a) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. Similarly, there is a duty to report on whether company is maintaining proper records showing full particulars of intangible assets. However, this duty does not extend to reporting on maintenance of records for Right-of-use assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets. (b) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets. (c) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty does not extend to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets. (d) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. However, this duty to report on physical verification by management does not extend to Right-of-use assets.
Incs.62.3	As regards cost records is concerned, which of the following statement is correct regarding reporting under clause 3(vi) of CARO, 2020? (a) The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained. (b) The auditor is not required to report on maintenance of cost accounts and cost records since cost auditor has already issued the cost audit report. In such situations, the auditor does not have any duty to report under CARO, 2020. (c) The auditor is required to examine the cost audit report as well as take into account any qualifications therein and report them under clause 3(vi) of CARO, 2020. However, his duty to report on maintenance of cost accounts and cost records does not exist anymore. (d) The auditor has a duty to report on cost accounts (or cost statements) only. The clause does not require the auditor to comment on maintenance of cost records (e.g. cost records relating to materials, labour, overheads) where specified by the Central Government

Incs.62.4	Considering the values of inventories arrived upon physical verification conducted by management vis-à-vis values reflected in its books of account, select the correct option for instance in the case study to be reported by the auditor on inventories under clause 3(ii)(a) of CARO, 2020?
	(a) Differences in all classes of inventories (raw material, work-in-progress, finished goods and stores and spares) should be reported irrespective of the materiality and the auditor should also comment on whether they have been properly dealt with in the books of account. (b) There is no instance to be reported in the given case since the difference between the total value of inventories as per books and physical verification is less than 10%. (c) To report differences in the value of work-in-progress, finished goods and stores and spares since the difference in each class of inventory is 10% or more (based on value after adjustments). The auditor should also comment on whether they have been properly dealt with in the books of account. (d) To report differences in the value of finished goods and stores and spares since the difference in each class of inventory is more than 10% (based on value as per books of accounts). The auditor should also comment on whether they have been properly dealt with in the books of account.
Incs.62.5	Should the fraud described in para [E] of the case be reported by the auditor under clause 3(ix)(a) of CARO, 2020?
	(a) There is no duty to report since the amount involved is less than ₹1 crore. (b) It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved. (c) The requirement to report the fraud does not apply in the current situation since the fraud was not discovered by the auditor. (d) The requirement to report the fraud does not apply in the current situation since the amount has been fully recovered during the year from the employees who committed the fraud.

Incs.63

N23M

CA. Subhadra is conducting statutory audit of a branch of FNB Bank. The branch is having deposits of ₹ 450 crore and advances of ₹300 crore respectively reflected in its financial statements as on 31st March 2023. While performing audit procedures, she noticed the following: -

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

(₹ in crore)

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

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

Information pertaining to KT Fab

(₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2022	9.00	9.61
31.01.2023	9.25	9.55
28.02.2023	9.50	9.60
31.03.2023	9.50	9.75

The outstanding balance in the account has remained more than ₹9.50 crore beginning from 31st December 2022 till 31st March, 2023 on all days.

Information pertaining to PM Décor

(₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2022	12.00	12.50
31.01.2023	12.50	12.25

28.02.2023	12.50	12.40
31.03.2023	12.50	12.50

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

[2] On reviewing "Statement of Accounts classified as NPA" as on 31.03.23, she finds that an education loan was granted to son of Mr. X, a customer of bank, for pursuing short duration technical higher studies abroad for ₹50.00 lakh sometime back repayable in 5 years. The loan was granted against security of residential house of Mr. X, valuing ₹60.00 lakh assessed by bank's empanelled valuer. However, the name of bank's empanelled valuer has now been removed due to certain irregularities. Later, value of residential house got reassessed from another valuer and he gave a report reflecting realisable value of residential house for ₹20.00 lakh. Meanwhile, the instalments in education loan account are overdue for 110 days as on 31st March, 2023. The account was classified as standard asset till last year i.e., 31st March, 2022.

[3] While verifying deposits of the branch, she noticed that inoperative accounts for less than 10 years are to the tune of ₹5 crore reflected in the balance sheet of the branch. She plans to focus her audit procedures on this segment too. One of her team members has suggested the following audit procedures in this regard:

- Verifying whether there exists a system of informing customers on accounts turning inoperative.
- Identification of cases where there is significant reduction in balances as compared to last year.
- Testing debits in inoperative accounts.
- Verifying auto activation of inoperative accounts.

[4] While gathering information to be included in LFAR, she comes across some cases of advance accounts which became non-performing within a relatively short span of time. The details of few such identified accounts are as under:

Account name	Sanctioned amount (₹ in crore)	Nature of facility	Date of first sanction	Date of renewal
ABC Industries	1.00	Cash credit	15/05/22	Not applicable
XY Pvt. Ltd.	0.50	Cash credit	01/07/22	Not applicable
SK & Sons	1.50	Cash credit	04/04/21	04/04/22
DK Creations	0.75	Term loan	01/10/22	Not applicable

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

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

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

Incs.63.1	Keeping in view information stated in respect of two borrower accounts at para [1] of case scenario, which of the following statement is correct?
(a) The classification made by branch is not proper. Both accounts should be classified as non-performing assets. (b) The classification made by branch is not proper. Borrower account of KT Fab should be classified as Standard asset. However, borrower account of PM Décor should be classified as non-performing asset. (c) The classification made by branch is not proper. Borrower account of KT Fab should be classified as non-performing asset. However, borrower account of PM Décor should be classified as Standard asset.	

	(d) The classification made by branch is proper.
Incs.63.2	Considering issue relating to education loan described in para [1] of case scenario, how should it be classified in books of branch as on 31st March, 2023?
	(a) Sub-standard asset. (b) Doubtful asset. (c) SMA. (d) Loss asset.
Incs.63.3	As discussed in para [3] of case scenario, one of team members has suggested certain audit procedures described in case scenario for verification of inoperative accounts. Which of audit procedure(s)/ combination of procedures are relevant in such a situation?
	(a) Identification of cases where there is significant reduction in balances as compared to last year, testing debits in inoperative accounts and verifying auto-activation of inoperative accounts. (b) Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year and verifying auto activation of inoperative accounts. (c) Verifying whether there exists a system of informing customers on account turning inoperative, testing debits in inoperative accounts and verifying auto activation of inoperative accounts. (d) Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year and testing debits in inoperative accounts.
Incs.63.4	Quick mortality cases are required to be stated in LFAR by statutory branch auditor. With reference to the particulars in para [4] above, which of the following statement is correct?
	(a) All the four cases reflected in the table in para [4] are quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal. (b) Only the case of DK creations is in nature of quick mortality case. Quick mortality cases are indicative of shortcomings in credit appraisal. (c) Cases of ABC Industries, XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal. (d) Cases of XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit disbursement.
Incs.63.5	One of her team members has planned certain audit procedures described in case scenario at para [5] for verification of Inland outward bills for collection. Which of the following audit procedure(s)/combination of procedures are likely to be relevant in such situation?
	(a) To verify bills for collection on closing date. (b) To verify bills for collection on closing date and verification of accrual of commission in respect of bills outstanding as on closing date. (c) To verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid. (d) To verify accrual of commission in respect of bills outstanding as on closing date and verification of accrual of charges in the account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.
Incs.64	N23M
	SED & Associates, a firm of auditors, received an offer letter dated 15th July 2022 to conduct audit of BTM Limited (a listed company) engaged in manufacturing of cement for the first time from year 2022 -23 onwards. The audit was accepted by the firm on the basis of offer letter designating it as "Engagement Letter". The partners of firm have not felt the necessity to keep documents to show that firm has complied with requirements of section 141(3)(d) of Companies Act, 2013. CA E, engagement partner of SED & Associates, is conducting audit of aforementioned company. The company was incurring losses since last

few years and it had resulted in erosion in substantial part of its net worth. It had negative working capital and was substantially debt-ridden.

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

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

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

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

During the audit for the year 2022-23, management was requested vide letter dated 20th May 2023 to provide all the information regarding contingent liabilities and credentials for logging in income tax portal, GST portal and other significant online portals. However, management had failed to provide such information, including login credentials, despite the engagement partner's request.

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

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

Incs.64.1	The case scenario describes the acceptance of the audit of the aforementioned company by SED & Associates. Which of the following statements is likely to be most appropriate in this regard?
	(a) It was proper for auditors to accept an audit of the company on the basis of an offer letter designated as an engagement letter. Further, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements. (b) It was improper for auditors to accept audit of the company on the basis of offer letter designated as engagement letter. It is necessary to accept audit on basis of separate engagement letter. However, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements. (c) It was improper for auditors to accept audit of the company on the basis of an offer letter designated as an engagement letter. It is necessary to accept the audit on the basis of a separate engagement letter. There is a necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013. (d) It was proper for auditors to accept an audit of a company on the basis of an offer letter designated as an engagement letter. However, there is the necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.

Incs.64.2	What should be an appropriate course of action for the auditors in respect of PPE considering the situation described in this respect in the case scenario? (a) The auditor should not attach much importance to the internal auditor's observations as he has found the plant of the company to be in working condition with its major assets intact. However, it should be evaluated whether impairment testing has been performed considering the company's circumstances. (b) The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report and evidence obtained by him and its effect on other aspects of the audit. However, no evaluation of impairment testing is necessary, considering the company's circumstances. (c) The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report and evidence obtained by him and its effect on other aspects of the audit. Further, evaluation of impairment testing is necessary considering the company's circumstances. (d) The auditor should not attach much importance to the internal auditor's observations as he has found the plant of the company to be in working condition with its major assets intact. Further, evaluation of impairment testing is not necessary considering the company's circumstances.
Incs.64.3	The Company has not recognised interest costs on its borrowings as loan accounts have turned NPA during the year under consideration. Which of the following statements is most appropriate in this context? (a) The policy followed by management is in contravention of applicable accounting standards to be followed by the company. (b) The policy followed by management is in accordance with established norms due to the classification of loan accounts as NPA by the concerned bank. As banks do not recognise interest income on NPA accounts, mirror treatment is applicable to the company in question. (c) The policy followed by management is in accordance with established norms as negotiations are underway with bankers. Interest would be recognised on NPA borrowings upon crystallisation of final settlement with bankers. (d) The policy followed by management is in contravention of guidelines issued by the Reserve Bank of India.
Incs.64.4	The auditor has decided to include "Emphasis of Matter" (EOM) paragraph in auditor's report relating to going concern matters. Which of following statements is true in this regard? (a) EOM paragraph can be included in auditor's report depending upon auditor's professional judgment and evaluation of management's plans without maintaining documentation in this regard. (b) EOM paragraph can be included in auditor's report because going concern matter is fundamental to users understanding of financial statements. However, no separate evaluation of management's plans is required. (c) If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern". (d) If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express a modified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern".
Incs.64.5	Considering the matter of not providing information regarding contingent liabilities, including login credentials by the company as described, which of the following statements is most appropriate? Ignore all other matters stated from Q no.12 to 14 while answering this part. (a) The auditor should express unmodified opinion. (b) The auditor should request management again to provide such information and must determine whether it is possible to perform alternate audit procedures to obtain sufficient appropriate audit evidence. In case of failure to obtain such evidence, implications for audit report should be considered. (c) The auditor should take written representation from management stating that all such liabilities have been reflected in accordance with SA 580 and unmodified opinion should be expressed.

	(d) The auditor's responsibility is fulfilled on commenting appropriately regarding non-furnishing of required information by management regarding disputed statutory dues under clause 3(vii)(b) of CARO, 2020.

Incs.65	N23M
	ABC Limited is a manufacturing company having three manufacturing facilities in India and ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15,000 crore and profit before tax of INR 2,000 crore during FY 2022-23. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promoter and Chief Executive Officer of the company. Mr. B, son of Mr. A, is a company's non-executive director and holds a graduate degree from IIT Bombay and a post - graduate degree from IIM Ahmedabad. During the audit, it was discovered that the company had acquired two subsidiaries, Maan Ltd. which deals in copper manufacturing and Dhan Ltd. which deals in paper manufacturing. Maan Ltd. and Dhan Ltd. Are audited by M/s XYZ & Associates. ABC Ltd. prepared the consolidated financial statements for the current financial year under Indian Accounting Standards, which includes the financial statements of subsidiary Maan Ltd. However, the financial statements of Dhan Ltd. were not consolidated as the company has not yet been able to determine the fair values of certain material assets and liabilities of Dhan Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of ABC Ltd. Had the company consolidated the financial statements of both subsidiaries, there would have been a material impact on important elements of the financial statements. Also, the financial statements of ABC Ltd. for the current financial year include the corresponding figures (without consolidation) of the previous financial year, i.e., FY 2021-22. Also, one of the directors of the Company did not give a declaration to the Company under section 164(2) of the Companies Act 2013 as of 31st March 2023. The auditors of the Company completed their audit of the financial statements and were awaiting this declaration. But the management was of the view that they would not be able to receive this declaration. All other directors had given the required declarations and the auditors had also verified that. On the basis of the abovementioned facts, you are required to answer the following MCQs:
Incs.65.1	Select best course of action to ensure compliance with Section 177 of Companies Act 2013 in relation to establishing vigil mechanism where directors and employees can report genuine concerns. (a) ABC Limited is a listed company. Therefore, ABC Limited is required to establish vigil mechanism where directors and employees can report genuine concerns. (b) Vigil mechanism is applicable to government companies only. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns. (c) As per Section 177 of the Companies Act 2013, it is not mandatory to establish a vigil mechanism where directors and employees can report genuine concerns. Therefore, ABC Limited may or may not require establishing a vigil mechanism where directors and employees can report genuine concerns. (d) ABC Limited is a listed company but has not accepted deposits from the public from the date of incorporation. Therefore, ABC Limited is not required to establish a vigil mechanism where directors and employees can report genuine concerns.
Incs.65.2	As of April 1, 2023, the Board of Directors would like to appoint Mr. B as Chairperson of ABC Limited. You are requested to provide assistance to ABC Limited to determine compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations. (a) Where the chairperson of the board of directors is a non-executive director, at least one-third of the board of directors shall comprise independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the board of directors shall comprise of

	independent directors. Hence, after appointing Mr. B as Chairperson of ABC Limited, at least one third of the board of directors shall comprise independent directors. (b) Where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of the board of directors or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors. Hence, after appointing Mr. B as Chairperson of ABC Limited, at least half of the board of directors shall comprise independent directors. (c) Mr. B is not eligible to be appointed as Chairperson of the company, as he is not an independent director of the company. (d) Mr. B is not eligible to be appointed as Chairperson of the company, as he is a relative of the company's Chief Executive Officer.
Incs.65.3	With respect to the non-consolidation of financial statements of Dhan Ltd. with the financial statements of ABC Ltd., how should the auditor deal with the same in their audit report? (a) The auditor should give a disclaimer of opinion. (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report. (c) The auditor should mention this fact in the emphasis of matter paragraph. (d) The auditor should mention this fact in other matter paragraph
Incs.65.4	With respect to the corresponding figures of the financial year 2021-22 in the current year financial statements, what is the auditor's reporting responsibility for the same? (a) The auditor's opinion should refer to each period for which the financial statements are presented. (b) The auditors need to report on the current year's financials only be it comparative or corresponding figures. (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of the prior period which was not addressed earlier. (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.
Incs.65.5	How should the auditors of the company should deal with the matter related to non-receipt of declaration under section 164(2) of the Companies Act, 2013? (a) Auditors may perform alternate procedures in respect of non-receipt of declaration under section 164(2) of the Companies Act. (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act, then it should be ignored by the auditors on the basis of materiality. (c) There is no reporting implication due to non-receipt of declaration under section 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on. (d) Auditors would need to report this matter in their Independent Auditor's Report.

ICAI SM Case Scenarios

Chapter 01

Incs.66	SM23
	CA Mritunjay is statutory auditor of a listed company engaged in providing services relating to “tourism sector”. He is practicing in sole-proprietorship capacity. The audit of abovesaid listed company was conducted by his proprietary firm and report was issued for year 2021-22. Subsequently, audit report was selected by NFRA to oversee quality of service and compliance with Standards. Necessary information was called from auditor towards above objective. It was required of him to produce audit working papers to show that audit was carried out in accordance with Standards on auditing. Details of the audit plan and details of risk assessment procedures carried out to identify and assess risk of material misstatement in financial statements were called. It was also required to show how response to assessed risks was designed and implemented and communicated with those charged with governance. Audit working papers sent by him through email included procedures on how some balances in financial statements were verified. Also included in working papers were procedures performed by him relating to verification of inventories, trade receivables and trade payables. The working papers sent by him to the authority did not include details on audit plan and manner of identifying and assessing risks of material misstatement. On being asked to respond, it was reasoned by him that audit was properly planned and required procedures were carried out in relation to material items on test check basis. It has been further clarified by him to the authority that audit was carried out in accordance with Standards and it was practically not feasible for a firm of small size to make a detailed audit plan. It was also put on record with authority that he had assessed risk of material misstatement to be low based upon his understanding of the company. He has further reasoned that assessing risks is a matter of professional judgment. Representation has also been made by him stating that communications as necessary were made orally with those charged with governance. It was also pointed out to him that engagement quality control review was not carried out. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise. Attention was also drawn to the fact that financial statements of company were required to be prepared on basis of Ind AS. However, at some places in notes to accounts, reference is made to accounting standards which are not applicable to the company. These errors have been attributed to data feeding entry errors by junior staff.
Incs.66.1	It has been contended by auditor that audit was properly planned. He has further stated that it was practically not feasible for firm of small size to prepare a detailed audit plan. Which of the following views is most appropriate in this regard? (a) Audit was, in fact, planned as evidenced by auditor’s submissions. (b) Although auditor has no record of audit plan, it does not affect compliance with SA 220. (c) Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220. (d) Audit was, in fact, planned as evidenced by auditor’s submissions. However, there is an exemption for small CA firms doing away with cumbersome documentation in relation to audit plan.
Incs.66.2	The auditor has reasoned that risk of material misstatement has been assessed to be low based upon his understanding of the company and it is a matter of professional judgment. Identify the most appropriate statement from below in this regard. (a) Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was arrived at.

	(b) Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220. (c) Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220. (d) Such a query, itself, is outside the mandate of authority.
Incs.66.3	Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below: - (a) Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220. (b) Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise. (c) No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review. (d) Engagement quality control review is dependent upon benchmarks established under SQC 1. If those bench marks are satisfied, such a review is necessary.
Incs.66.4	Considering auditor's reply regarding errors in data feeding entry by junior staff in relation to accounting standards, which of the following statements is proper? (a) Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220. (b) Such are examples of clerical errors encountered during preparation of reports. There is no effect on auditor's opinion and consequently question of non-compliance with SA 220 does not arise. (c) Such are examples of serious lapses on part of auditor showing non-compliance with SA 220. (d) Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220.
Incs.66.5	On your overall reading of the case study, which of the following statements appears to be true? (a) The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA-220. (b) The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220. (c) SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220. (d) SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.

Chapter 02

Incs.67	SM23
CA. Biswajit is conducting audit of "Have More Limited". He is auditor of the company since last three years and has found nothing unusual in operations and financial statements of the company. The company has many locations where substantial inventories are stored and lying. During his fourth year stint, he finds that inventory quantities have risen disproportionately as compared to past few years trends. He has assessed existence of risk of material misstatement due to fraud. The company has revenue of ₹ 750 core during the year. He has deeply verified all aspects pertaining to revenue recognition of the company and has concluded that there is no risk of material misstatement due to fraud related to revenue recognition. During the course of audit, it has come to his knowledge that company is also required to install online air pollution control monitoring systems in its plant as mandated in state pollution control legislation and regulations. Non-installation of such online air pollution control monitoring systems may lead to fines and even sealing of plant.	

While verifying pay roll data of the company, it has come to notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour in flagrant violation of rules in this regard. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers.	
Incs.67.1	Considering description of disproportionate rise in inventory quantities, which of the following is not likely to be an appropriate response to outlined assessed risk of material misstatement due to fraud?
(a) Observing inventory counts at all locations at same date by employing necessary resources. (b) Observing inventory counts at certain locations after prior intimation. (c) More rigorous examination of packed items during observing inventory count process. (d) Observing inventory count at end of reporting period to minimize risk of manipulation.	
Incs.67.2	It has been concluded by auditor that there is no risk of material misstatement due to fraud related to revenue recognition. Which of the following statements is most appropriate in this respect?
(a) The auditor needs to document reasons for arriving at conclusion that there is no risk of material misstatement due to fraud related to revenue recognition. (b) Identified and assessed risks of material misstatement due to fraud need to be documented. Since no risk of material misstatement due to fraud pertaining to revenue recognition was identified, separate documentation in this respect is not needed. (c) The auditor needs only to document that no risk of material misstatement due to fraud relating to revenue recognition was identified. (d) The auditor needs to give reference to discussion among engagement team members to document that no risk of material misstatement due to fraud relating to revenue recognition was identified.	
Incs.67.3	Which of the following statements most appropriately describes responsibilities of auditor in relation to compliance with state pollution control legislation and regulations?
(a) Sufficient appropriate evidence needs to be obtained by auditor to verify compliance. (b) Physical verification of workability of such systems is required from an auditor. (c) Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance. (d) Only physical verification of workability of such systems and review of correspondence with regulatory authorities are suffice to verify compliance.	
Incs.67.4	The auditor has observed non-compliance of law prohibiting employment of child labour. Which is the most appropriate course of action for him to proceed in this matter?
(a) He should obtain further information to evaluate the possible effect on financial statements. (b) He must report the matter to concerned government department. (c) He should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment. (d) He should express a modified opinion in audit report.	
Incs.67.5	Which of the following statements is most appropriate about documentation of noncompliance with laws and regulations by an auditor in context of SA 250?
(a) Instances of identified non-compliance with laws and regulations need to be documented. (b) Instances of suspected non-compliance with laws and regulations need to be documented. (c) Instances of non-compliance with laws and regulations finally determined by Courts of law need to be documented. (d) Instances of identified as well as suspected non-compliance with laws and regulations need to be documented.	

Chapter 03

Incs.68	SM23
CA. Anoothi has been offered appointment as auditor of an NSE listed company. She has already ticked checkboxes relating to her independence vis-à-vis company and integrity of promoters and key management personnel. Being satisfied on this count and after sending formal engagement letter to the company, she is in midst of planning activities for company's audit. Owner of country's one of topmost writing instrument brands, above said company is in business of producing ball pens, gel pens, markers, folders and such general stationery products. Business profile of the company including its brief history, detail of its key managerial persons and brief description of company's activities was obtained by her. She has also studied reports relating to growth of India's stationery market due to greater demand and impact of government driven schemes like Sarv Shiksha Abhiyaan (SSA). Besides, she has also obtained risk management policy of the company which contained company's strategy to contain various risks. On perusal of financial statements of company, it is noticed that the company's inventories as at close of financial year stood at Rs. 200 crore which constitutes about 25% of its total assets. She is planning to identify significant audit risks pertaining to valuation of inventories. She is also considering about materiality level for financial statements as a whole.	
Incs.68.1	The compliance with independence requirements and verification of integrity of promoters and key management personnel has been ensured by CA. Anoothi. In this regard, which of the following statements is likely to be a complete statement? (a) Such activities are required to performed strictly in terms of requirements and procedures outlined in code of ethics issued by ICAI. (b) Such activities are required to be performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities are specifically identified in SA 210. (c) Such activities are required to performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities form part of planning an audit in accordance with SA 300. (d) Such activities are required to be performed in terms of requirements and procedures outlined in code of ethics issued by ICAI and are specifically identified in SA 210.
Incs.68.2	The auditor has obtained risk management policy of the company. Which of the following statements is most appropriate in this regard? (a) The understanding of company's risk management policy is required by auditor. It may help the auditor in identifying risks of material misstatement that management failed to identify. (b) The understanding of company's risk management policy is not required by auditor. It deals with business risks of company. Audit risk is not influenced by company's business risks. (c) The understanding of company's risk management policy is required by auditor. However, it cannot help the auditor in identifying risks of material misstatement that management failed to identify. (d) The understanding of company's risk management policy is sufficient for an auditor to develop an audit plan.
Incs.68.3	Which of the following is not likely to be a procedure for auditor to understand the company? (a) Performing an online search to identify press reports relating to the company (b) Reviewing any new SEBI and stock exchange requirements (c) Reviewing whether fresh moneys were raised from public (d) Seeking confirmation letters from bankers regarding outstanding balances
Incs.68.4	Considering auditor's intention to identify significant audit risks pertaining to inventory valuation, which of the following statements is likely to be true?

	(a) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit plan. (b) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit strategy. (c) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of controls. (d) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of details.
Incs.68.5	In relation to materiality levels for financial statements as a whole, which of the following statements is most appropriate? (a) Materiality has to be decided by auditor after identification and assessment of risks of material misstatements. (b) Materiality has to be decided by auditor prior to identification and assessment of risks of material misstatements. (c) Materiality has to be decided by auditor after performing risk assessment procedures. (d) Materiality has to be decided by auditor at time of designing tests of controls and substantive procedures.

Chapter 04

Incs.69	SM23																																											
Following is extract of information taken from draft financial statements of Find me Limited engaged in manufacturing of bicycles put up before you for audit for year 2022-23: - (₹ In lacs)																																												
<table><tr><th>Particulars</th><th>2022-23</th><th>2021-22</th></tr><tr><td>Revenue from operations</td><td>35000</td><td>25000</td></tr><tr><td>Cost of sales</td><td>26950</td><td>20000</td></tr><tr><td>Gross Profit</td><td>8050</td><td>5000</td></tr><tr><td>Operating expenses</td><td>3825</td><td>3825</td></tr><tr><td>Finance costs</td><td>225</td><td>275</td></tr><tr><td>Depreciation and amortization expenses</td><td>1200</td><td>1300</td></tr><tr><td>Profit before tax</td><td>2800</td><td>(400)</td></tr><tr><td>Tax expense - current tax</td><td>750</td><td>0</td></tr><tr><td>Deferred tax</td><td>(50)</td><td>(385)</td></tr><tr><td>Total tax expense</td><td>700</td><td>(385)</td></tr><tr><td>Profit after tax</td><td>2100</td><td>15</td></tr><tr><td>Trade receivables</td><td>6000</td><td>3000</td></tr><tr><td>Inventories</td><td>10000</td><td>6000</td></tr></table>			Particulars	2022-23	2021-22	Revenue from operations	35000	25000	Cost of sales	26950	20000	Gross Profit	8050	5000	Operating expenses	3825	3825	Finance costs	225	275	Depreciation and amortization expenses	1200	1300	Profit before tax	2800	(400)	Tax expense - current tax	750	0	Deferred tax	(50)	(385)	Total tax expense	700	(385)	Profit after tax	2100	15	Trade receivables	6000	3000	Inventories	10000	6000
Particulars	2022-23	2021-22																																										
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Profit after tax	2100	15																																										
Trade receivables	6000	3000																																										
Inventories	10000	6000																																										
The company has not made any substantial additions in its plant capacity during year 2022-23. It has reduced its dealer network and is approaching customers directly using its online platform. Encouraging response has been received from customers and sales have gathered momentum through online platform. You are planning to use analytical procedures as risk assessment procedures. Keeping in view above, answer the following questions: -																																												
Incs.69.1	The revenue from operations of company has increased by 40% in year 2022-23 as compared to last year. There are no additions in plant capacity. Which of the following statements is most appropriate in this regard?																																											
(a) There is audit risk that revenue from operations is overstated. (b) There is audit risk that revenue from operations is not overstated. (c) There is audit risk that fresh customers of company do not make payments. (d) There is audit risk that company is overutilizing its plant capacity leading to rapid plant obsolescence.																																												

Incs.69.2	The operating expenses of financial year 2021-22 and 2022-23 are same. Which of the following statements is most appropriate in overall context of case study?
	(a) Operating expenses figures of two years can be same. There is no audit risk involved. (b) It is an anomaly. However, there is no audit risk involved. (c) There is audit risk that previous year figures need to be revised under Companies Act. (d) There is audit risk that previous year figures have been presented in place of current year figures in draft financial statements.
Incs.69.3	Trade receivables turnover ratio has increased from 1.44 months in year 2021-22 to more than 2 months in year 2022-23. Identify the most appropriate statement.
	(a) In direct distribution through online platform, trade receivables turnover ratio is estimated to be high. Therefore, there is no audit risk involved. (b) In direct distribution through online platform, trade receivables turnover ratio should have fallen. Therefore, there is no audit risk involved. (c) In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be undervalued. (d) In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be overvalued.
Incs.69.4	The gross profit ratio of company has increased by 3% during year 2022-23 in comparison to last year. Which of the following statements is most appropriate?
	(a) There is audit risk that there is overstatement of cost of sales. (b) There is audit risk that margins with customers may have increased. (c) There is audit risk that closing inventories may be undervalued. (d) There is audit risk that cost of sales may not be completely recorded.
Incs.69.5	Inventory turnover ratio has increased from 2.88 months in year 2021-22 to about 3.42 months in year 2022-23. Which of the following statements is likely to be in accordance with overall context of case study?
	(a) Revenue jump in current year may have led to need for raising inventory holding levels. Therefore, there is audit risk pertaining to misstatement of inventories. (b) Raising of inventory levels may raise locked up funds in inventories. There is audit risk that it can lead to rise in costs. (c) Revenue jump in current year may have led to need for raising inventory holding levels. However, there is also a risk that some of inventories with dealers could have become obsolete. It leads to audit risk that inventories may be overvalued. (d) There is audit risk on account of both the factors stated at [b] & [c]

Chapter 05

Incs.70	SM23
Black & White Ltd. is into the business of manufacturing readymade garments in Amritsar. It procures all the raw material required for its production from Punjab, Himachal Pradesh & J&K. Its sales market, however, covers almost all the northern parts of the country. CA Anu is the engagement partner of Maheshwari & Co appointed as the statutory auditor of the company. She calls for a meeting of the engagement team to delegate work and responsibilities. During the audit, the engagement team comes across the following facts:- Woolen Private Limited is one of the vendors of the company from which the company has been purchasing wool for many years on a current account basis, but no single purchase has been made in the last nine months, and the outstanding balance stands as it is in the books of accounts. CA Anu wants to confirm the balance and requests the CFO of the company for sending a balance confirmation request to Woolen Private Ltd., to which he refuses and is not willing.	

- The Fashion Jingo Ltd. is one of the customers of the company and hasn't replied to CA Anu's positive balance confirmation request sent. - Mr X, one of the fashion designers, had sold his designs to the company but owing to a dispute, the contract got cancelled, and now both the parties are under litigation in the local court of law. The engagement team is guided as to the procedures to be designed and performed to identify this matter. - CA Anu simultaneously seeks direct communication with the company's external legal counsel sensing the risk of material misstatement. However, it ends up in vain as the external legal counsel, Mr Chadha, refuses to comment. She is unable to obtain sufficient appropriate audit evidence in this regard through alternative audit procedures either. The team documents all the relevant information w.r.t. the above facts, and CA Anu issues the audit report accordingly.	
Incs.70.1	Fashion Jingo Ltd. has not responded to CA Anu's request. What should be proper course of action for her in such a situation? (a) Perform alternative audit procedures (b) Consider it as a negative confirmation (c) Give a Qualified opinion (d) Should visit the customer company premises herself and confirm the balance on the spot.
Incs.70.2	With respect to advocate Chadha's cold shoulder to CA Anu's request, what she should do? (a) Modify her audit opinion (b) Give an unqualified opinion (c) Give a disclaimer of opinion (d) Withdraw from this engagement
Incs.70.3	What should be CA Anu's first and foremost response in the case of request made relating to balance confirmation from Woolen Pvt. Ltd.? (a) Perform alternate audit procedures. (b) Withdraw from the engagement. (c) Communicate with Those charged with Governance telling the effects on his audit opinion. (d) Inquire as to the reasons behind the management's response and seek audit evidence as to its validity and reasonableness.
Incs.70.4	Which of the following procedures will not be performed by the engagement team as audit procedures while dealing with the case of Mr. X? (a) Inquiry of Management. (b) Inquiry of Mr. X (c) Reviewing Minutes of Meetings (d) Reviewing Legal expenses account

Chapter 06

Incs.71	SM23
CA Sneha, a partner in M/s J & Associates, is carrying out a statutory audit of M/s ABC Stores Ltd. for the Financial Year 2022-23, and she is ready to sign her audit report on 01.07.2023. There are some written representations which are pending with the management of the company pertaining to such an audit, and she sent Deepak (her articled trainee), who is also a member of the engagement team, to the company's office for collection of the same. On returning back, Deepak tells CA Sneha that major stocks of the company got destroyed because of a fire in their plant on 27.06.2023, and it has affected the company's operations badly. However, the business operations are likely to be resumed by management at an alternate place. CA Sneha postponed the issuance of the audit report to consider the impact of such an event on the financial state of affairs of the company. She wants the management to disclose the impact of this	

unfortunate event in financial statements for the year 2022-23, to which management is disinclined. After the management's refusal, she issued her audit report on 15.07.2023. The management of the company seeks an appointment from CA Sneha to discuss an important matter on 20.07.2023. They informed her that the company had lost a lawsuit filed against it by one of the creditors on 18.07.2023 in a fast-track court, and now the company has to pay the plaintiff a huge amount of ₹2 crores. The events causing this lawsuit arose after 31.03.2023. CA Sneha is a bit perplexed, and her first question to the people from management visiting her office was whether audited financial statements have been made available to any third parties or filed with the regulator. The management responded negatively. Now, CA Sneha wants them to amend the financial statements to include the impact of this lawsuit on the financial affairs of the company. This time, they agreed and amended the financial statements accordingly to cover the impact of both the events – that of the fire in the plant and losing the lawsuit, but they requested CA Sneha to issue a new audit report against the earlier one dated 15.7.2023. The management amends the financial statements, which are finally approved on 25.7.2023. CA Sneha issues a new audit report. Considering the above situation, answer the following questions: -	
Incs.71.1	What should be the appropriate date of signing of the new audit report? (a) 20.07.2023 (b) Anytime between 15.07.2023 & 18.07.2023 (c) On or after 25.07.2023 (d) Anytime between 15.07.2023 & 25.07.2023
Incs.71.2	CA Sneha would have taken into account a lot of procedures to get knowledge of the events occurring after the balance sheet date up to the date of the audit report relating to the company. Which of the following does not fall under such audit procedures as per SA 560? (a) Obtaining an understanding of the management's procedures set up to identify subsequent events. (b) Inquiring of the management w.r.t the occurrence of any such subsequent events. (c) Reading the minutes of the meetings of the board held after the balance sheet date during this period. (d) Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report
Incs.71.3	W.r.t the first audit report dated 15.07.2023, which type of opinion was most likely provided by her? (a) Modified opinion (b) Unqualified opinion (c) Disclaimer of opinion (d) Including a statement in Emphasis of Matter/Other matters para
Incs.71.4	W.r.t the new audit report issued, which type of opinion is most appropriate? (a) Disclaimer of opinion (b) Unqualified opinion (c) Adverse opinion (d) Unqualified opinion and a statement in Emphasis of Matter/Other matters para.
Incs.71.5	The fire event occurring on 27.6.2023 in the company's plant requires the following action on part of management: - (a) Disclosure in notes to accounts (b) Adjustment in financial statements (c) Waiting for the insurance company to settle the claim (a) Preparing financial statements afresh

Incs.72	SM23
CA Namit, a partner in M/s J & Associates, is carrying out a statutory audit of M/s XYZ Gears Ltd. for the Financial Year 2022-23 and is in the process of issuing an audit report. His articled trainee, Manpreet, is very curious about knowing the various facts relating to the consideration of Standards on Auditing while carrying out an audit and issuing the audit report. She asks CA Namit about the relevance of the Going concern assumption in their audit and further reporting to which CA Namit explains to her that both parties have got their own responsibilities w.r.t this accounting assumption. The management of the company has its own set of responsibilities while reporting upon the same is a very strict and sensitive matter for the auditor as per the requirement of the relevant standard on auditing. He tells Manpreet to prepare a list of procedures as she thinks that an auditor should carry out when he identifies that the company is facing a downfall in business never seen before due to newer technology in the market and other competitors having sprung up swiftly adopting new technology. He finds that this condition may cast significant doubt on the company's ability to continue as a going concern. Manpreet thinks and researches and hands over a list of audit procedures to CA Namit for a final discussion. CA Namit clarifies accordingly. CA Namit concludes that the use of a going concern basis of accounting is appropriate in this company's case, but a material uncertainty exists as to the future prospects of the current business. However, the management has made an appropriate disclosure w.r.t such material uncertainty in the financial statements. Manpreet's list of audit procedures includes: - (I) Requesting management to make its assessment relating to the company's ability to continue as a going concern. (II) Evaluating management's plan of future actions. (III) Make a specific assessment of the company's ability to continue as a going concern. (IV) Analysing the cashflow forecast of the company. (V) Considering the additional facts or information available since the date of management's assessment (VI) Make appropriate disclosures in the financial statements in connection with going concerns. (VII) Requesting Written Representation from management regarding the plans of future actions and the feasibility of these plans. (VIII) Writing a para addressed to the stakeholders in the audit report citing the results of procedures adhered to relating to the going concern assumption. Keeping in view above, answer the following questions: -	
Incs.72.1	CA Namit tells Manpreet about the auditor's responsibilities in the above case on the matter under discussion. Which of the following doesn't fall under the auditor's responsibilities? (a) Obtaining sufficient and appropriate audit evidence on the matter under discussion. (b) Conclude on the appropriateness of the management's use of going concern. (c) Assessing whether a material uncertainty exists about the company's ability to continue as a going concern. (d) Guarantee the company's ability to continue as a going concern based upon his audit procedures.
Incs.72.2	Identify which set of audit procedures are relevant in the above case scenario as per the list prepared by Manpreet. (a) (I), (II), (IV), (V) & (VII) (b) (I), (III) & (V) (c) (II), (IV), (VI), (VII) & (VIII).

	(d) (I), (II), (III), (IV) & (V).
Incs.72.3	CA Namit's conclusion in the above case will lead him to give which type of audit opinion from the following? (I) Modified opinion (II) Unmodified opinion. (III) A separate section "Material uncertainty wrt Going concern" in his audit report.
	(a) (I) only (b) (II) only (c) (I) & (III) (d) (II) & (III)
Incs.72.4	Consider the following statements: - <u>Statement I</u> :- The Management is under a responsibility to make specific assessment of the company's ability to continue as a going concern. <u>Statement II</u> :- The Management is under a responsibility to make appropriate disclosures in connection with going concern in the financial statements.
	(a) Statement I is correct only. (b) Statement II is correct only as Statement I falls under the auditor's responsibilities. (c) Both statements are correct. (d) Both statements are incorrect.
Incs.72.5	Which of the following is most appropriate regarding "going concern" assumption?
	(a) It signifies that company is reflecting net losses in its financial statements. (b) It signifies that company is not modernising its plant and machinery. (c) It signifies that company has no intention of curtailing materially the scale of its operations in foreseeable future. (d) It signifies that assets are likely to be recorded at the prices they would fetch.

Chapter 07

Incs.73	SM23
CA. Raghav is in midst of finalizing audit reports of five clients. On reviewing each file, it is noticed as under: - [A] In case of a company engaged in business of selling of agricultural products which are outside ambit of GST, engagement team has found that substantial part of revenues of the company (about 80%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenues generated through cash sales. Therefore, team has been unable to verify such revenues generated through cash sales. [B] TS Limited has been dragged to court by BS Limited for stealing its trade secrets using cyber theft and filed a claim for ₹ 50 crore. On reviewing audit file of TS Limited, CA Raghav finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of TS Limited are silent on this litigation matter. [C] It is noticed on review of audit file of a client that net profit before tax was ₹ 2 crore on a turnover of ₹ 100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ₹ 3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client. [D] On reviewing file of a small finance bank, it was noticed that team has drafted following para proposed to be included under Emphasis of Matter paragraph: - "Concerns are raised regarding "Going Concern" status of the Bank. However, the Bank feels that it continues to remain a "Going Concern" in view of reasons stated in note 10.	

	Our opinion is not modified in respect of this matter.” [E] On reviewing file of a client, it is noticed that team was not informed about finished goods of ₹ 1 crore lying at a location taken on rent in February 2023. The said issue was flagged at time of reconciling inventories by the team. Hence, team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is ₹ 8 crores. PBT of client is ₹ 10 crores.
Incs.73.1	As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705? (a) Qualified opinion will be issued and basis for qualified opinion will also be provided. (b) Adverse opinion will be issued and basis for adverse opinion will also be provided. (c) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “auditor was engaged to audit financial statements.” (d) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “financial statements have not been audited.”
Incs.74.2	Considering litigation matter of TS Limited, which of the following statements is most appropriate in this regard? (a) Unmodified opinion needs to be expressed by auditor. (b) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor. (c) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor. (d) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.
Incs.74.3	Considering description of issue regarding non-recoverability of export receivable of ₹ 3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report? (a) Disclaimer of opinion (b) Unmodified opinion (c) Qualified opinion (d) Adverse opinion
Incs.74.4	As regards matter of going concern in respect of a small finance Bank, which of the following statements is most appropriate? (a) The para drafted by team is proper and in accordance with SA 570 since auditor has decided to give unmodified opinion. (b) The para drafted by team is proper and in accordance with SA 570 since matter has been disclosed in notes to accounts by bank management. (c) Instead of giving emphasis of matter paragraph, separate paragraph on ‘Material Uncertainty Related to Going Concern’ in report should be given in accordance with SA 570. (d) Separate paragraph on ‘Material Uncertainty Related to Going Concern’ under the heading “Emphasis of matter” paragraph in report should be given in accordance with SA 570.
Incs.74.5	Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in February 2023, which type of opinion is appropriate to be issued in case of this client? (a) Modified opinion (b) Qualified opinion (c) Unmodified opinion (d) Either Modified or Qualified opinion

Chapter 08

Incs.75

SM23

Given below is an extract of abridged financial statements of schemes of “Smart Investment Mutual Fund”. The abridged financial statements have been derived from audited financial statements of the schemes of “Smart Investment Mutual Fund” as at 31st March 20XX and for year ended 31st March,20XX.

Abridged Balance sheet as at 31st March 20XX (in ₹ Lacs)

Liabilities	Smart investment equity and debt fund	Smart investment equity savings fund
Unit Capital	20000.00	15000.00
Reserve and Surplus	160000.00	80000.00
Other current liabilities & provisions	100.00	100.00
Total	180100.00	95100.00
Assets		
Investments	170000.00	90000.00
Deposits	100.00	100.00
Other Current assets	10000.00	5000.00
Total	180100.00	95100.00

Abridged revenue account for year ended 31st March 20XX (In ₹ Lacs)

Income	Smart investment equity and debt fund	Smart investment equity savings fund
Income	34000.00	1000.00
Expenses and losses	3400.00	1500.00
Net realized gains	30600.00	(500.00)
Add: Change in unrealized appreciation in value of investments	2000.00	700.00
Net Surplus	32600.00	200.00
Dividend appropriation	3000.00	50.00
Retained Surplus	29600.00	150.00

The abridged financial statements of the Schemes of the Fund have been prepared by Board of Trustees of Fund pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Previous year figures have been ignored for purpose of case.

Unmodified opinion has been expressed by auditor in audited financial statements of the schemes of “Smart Investment Mutual Fund” as at 31st March 20XX and for year ended 31st March, 20XX.

Keeping in view above, answer the following questions: -

Incs.75.1	Given the above extract of abridged financial statements and description, which of the following statements is most appropriate? (a) The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable. (b) The auditor cannot presume that criteria applied by the Board of Trustees in preparation of abridged financial statements are acceptable. (c) The abridged financial statements have been prepared by the Board of Trustees. The auditor cannot ordinarily accept criteria applied by them for the preparation of such abridged financial statements before detailed evaluation. (d) The auditor is duty bound to accept the criteria applied by the Board of Trustees in the preparation of abridged financial statements.
Incs.75.2	Which of the following statements in reference to abridged financial statements is not in accordance with the requirements of SA 810?

	(a) The notes to accounts should specifically disclose that these abridged financial statements have been derived from audited financial statements. (b) The Board of Trustees has disclosed that audited financial statements are available on the website of the company. (c) It should be stated in the auditor's report that abridged financial statements have been compared with the related information in the audited financial statements to determine whether the abridged financial statements agree with or can be recalculated from the related information in the audited financial statements. (d) It should be stated in auditor's report that reading the abridged financial statements is not a substitute for reading the audited financial statements of the Schemes of the Fund.
Incs.75.3	Which of the following paras is most appropriate to be included under heading "Auditor's responsibility" in the auditor's report?
	(a) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. (b) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India. (c) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standards on Auditing adapted in circumstances including (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India. (d) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with SEBI regulations and Standards on Auditing adapted in circumstances including (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.
Incs.75.4	Which of the following paras is most appropriate to be included under heading "Opinion" in auditor's report?
	(a) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements, and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable. (b) In our opinion, the abridged financial statements, as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements. (c) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are consistent with audited financial statements and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable. (d) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are consistent with audited financial statements.
Incs.75.5	Which of the following is usually not an element of audit report on abridged financial statements in accordance with SA 810?
	(a) Emphasis of matter paragraph. (b) Other matter paragraph. (c) Management's responsibility for abridged financial statements. (d) Key audit matters.

Chapter 09

Incs.76	SM23
KM Limited has engaged your firm for compilation of financial statements in accordance with requirements of SRS 4410. You also come to know that company is setting up a new unit in Rourkela, Odisha. The company management has provided you with draft trial balance and requires assistance in preparation and presentation of its financial statements for year ended 31st March 2023. The management requires such a preparation and presentation for its internal use. During the course of engagement, it is noticed that: - [1] There are apparent errors in few opening balances brought forward from previous year relating to some outstanding incentives receivable from government authorities. These have been swapped with some other balances in trial balance. However, there are no credit transactions in such incentive accounts or accounts whose balances have been swapped during the year. [2] One of the team members suggests that it is one of the duties to ensure that revenue figures stated in trial balance, at least, are verified to ensure that all revenues required to be booked by the company have, in fact, been booked. [3] It is also suggested by this team member that even though it is a compilation engagement, quality control aspects like adhering to appropriate Standards needed to be followed. [4] Before signing and issuing report under SRS 4410, you once again read the financial information. It comes to your notice that figures relating to setting up of a new unit of the company coming up in Rourkela in Odisha have not been properly disclosed in compiled financial statements. The expenditure was incurred from a bank account maintained in Rourkela and was omitted to be shown under appropriate heads. You are vacillating regarding above considering scope of compilation engagement. [5] The team has prepared detailed documentation during the course of engagement.	
Incs.76.1	In respect of errors in some of opening balances noticed as described in case, which of the following statements is most appropriate? (a) Such errors should straight away lead to the qualification of a report to be issued. (b) Such errors should be brought to the knowledge of management. (c) Knowledge of such type of errors has no effect on compliance of ethical requirements by the firm. (d) The above said matter relates to SA 510 Initial Audit Engagements-Opening Balances and has no effect on reporting obligations in a compilation engagement.
Incs.76.2	As regards the suggestion of one of the team members regarding the verification of all revenues of the company, which of the following statements is most appropriate? (a) Suggestion of team member is proper as such verification is part and parcel of such an engagement. (b) Suggestion of team member is proper as the absence of such verification may make financial statements misleading. (c) Suggestion of team member is not proper as verifying the accuracy or completeness of the information provided by management is not required in such engagement. (d) Suggestion of team member is not proper as compliance with qualitative requirements is not required in such engagement.
Incs.76.3	In view of the team member's suggestion relating to adherence to appropriate Standards for quality control, which of the following statements is relevant in the context of above said engagement? (a) SA 220 is applicable in this engagement and has to be followed by the engagement partner meticulously. (b) SQC 1 is applicable in this engagement.

	(c) Both SA 220 and SQC 1 are applicable in this engagement. (d) SA 220 and SQC 1 are not applicable in this engagement. However, SRS 4410 lays down detailed quality control requirements for such type of engagement.
Incs.76.4	Which of the following statements is most appropriate as regards omission of expenditure under appropriate heads pertaining to the Rourkela unit in compiled financial statements?
	(a) The above-noted omission can be misleading. By disregarding such an omission, the fundamental principle of integrity is violated and engagement cannot be performed in accordance with ethical requirements. (b) The above-noted omission can be misleading. By disregarding such an omission, the fundamental principle of objectivity is violated and engagement cannot be performed in accordance with ethical requirements. (c) The above noted omission has no effect on performing such compilation engagement. (d) The above-noted omission has no effect on performing and issuing reports under such compilation engagement.
Incs.76.5	The detailed documentation is maintained during the course of compilation engagement. Which of the following statements is most appropriate regarding the assembly of the final engagement file?
	(a) Final engagement file should be assembled in not more than 60 days after the date of the report. (b) Final engagement file should be assembled in not more than 120 days after the date of the report. (c) Final engagement file should be assembled on a timely basis after the engagement report has been finalized in accordance with the time limits set by the firm. (d) There is no requirement of assembling of final engagement file in a compilation engagement.

Chapter 10

Incs.77	SM23
Below is given an incomplete draft text of the review report on the review of financial results of Fast Operations Limited, a listed company in accordance with SEBI regulations. The review is a compulsory requirement under SEBI (Listing Obligations and Disclosure Requirements) Regulations. The incomplete areas of the report have been marked as XXXX. INDEPENDENT AUDITOR'S REVIEW REPORT ON REVIEW OF INTERIM STANDALONE FINANCIAL RESULTS TO XXXX 1. We have reviewed the accompanying Statement of Standalone unaudited financial results of Fast Operations Limited ("the Company"), for the quarter and six months ended September 30, 2022 ("the Statement"), being submitted by the Company pursuant to the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended. 2. This Statement, which is the responsibility of the Company's Management and approved by the Company's Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in the Indian Accounting Standard 34 "Interim Financial Reporting" ("Ind AS 34"), prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other accounting principles generally accepted in India. Our responsibility XXXXXXXXXXXX. 3. We conducted our review of the Statement in accordance with the Standard XXXX, issued by the Institute of Chartered Accountants of India (ICAI). A review of interim financial information consists of making inquiries, primarily of the company's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially XXXXXXXXXXXXXXXXXXXXXXXXXXXX.	

4. Based on our review conducted as stated in paragraph 3 above, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX Using your knowledge, answer the following questions to complete the draft text of review report of Fast Operations Limited: -	
Incs.77.1	The name of addressee is missing from text of draft review report. Identify the most appropriate option: (a) Audit Committee (b) Board of Directors (c) CFO (d) Stock exchange on which shares of company are listed
Incs.77.2	Under para 2 of the case study, choose the appropriate sentence beginning with "Our responsibility XXXX": (a) Our responsibility is to express an opinion on the Statement based on our review. (b) Our responsibility is to express a conclusion on the Statement based on our review. (c) Our responsibility is to provide a reasonable assurance on the Statement based on our review. (d) Our responsibility is to express a compliance statement on the Statement based on our review.
Incs.77.3	Given the description of case study, which of the following engagement standards is most appropriate to be stated in para 3? (a) SRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. (b) SRE 2400 Engagements to Review Historical Financial Statements. (c) SA 700 Forming an Opinion and Reporting on Financial Statements. (d) SA 810 Engagements to Report on Summary Financial Statements.
Incs.77.4	Which of the following statements is most appropriate to be inserted in sentence beginning with "A review is substantially XXXX" in para 3? (a) A review is substantially broader in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express an audit opinion. (b) A review is substantially broader in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. (c) A review is substantially narrower in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express an audit opinion. (d) A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
Incs.77.5	Complete the paragraph 4 of case study from following options: - (a) Nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has not disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it contains any material misstatement.

	(b) Nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement. (c) The accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement. (d) The accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement and gives a true and fair view of the state of affairs of the company as on date of interim financial statements.

Chapter 11

Incs.78	SM23
Below is given draft text of the “Report on Examination of Prospective Financial Information” of Top Edge Limited in relation to the company’s upcoming project prepared by a staff member in a CA firm unfamiliar with drafting such reports. The report has been drafted in a casual manner and may consist of omissions and errors. Report on Examination of Prospective Financial Information To The Board of Directors Top Edge Limited We have examined the projection of the upcoming project to come up at Ratnagiri of Top Edge Limited for the period from April 2023 to March 2030 as given in the Prospective Financial Information from page 1 to 250 in accordance with Standard on Assurance Engagement 3400, “The Examination of Prospective Financial Information”, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the projection is the responsibility of the Management and has been approved by the Board of Directors of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. The projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. We have carried out our examination of the prospective financial information thoroughly. Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note 1 to 50 to the Prospective Financial Information and on a consistent basis with the historical financial statements, using appropriate accounting principles. Even if the events	

anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material. For PCK & Co. Chartered Accountants Signature Designation Membership number	
Incs.78.1	Whose responsibility is to list out assumptions underlying prospective financial information? (a) Professional Accountant issuing report on prospective financial information. (b) Auditor of Company issuing report on prospective financial information. (c) Management of company. (d) Banker of company
Incs.78.2	Which of the following statements is most appropriate regarding “use of prospective financial information” to be included in such a report? (a) Intended use of projection is required to be disclosed. It is further necessary to caution the users regarding inappropriateness of projections for other purposes. (b) It is discretionary to state intended use of projection in such a report. (c) Intended use of projection is required to be disclosed. It is not necessary to caution the users regarding inappropriateness of projections for other purposes. (d) It is prerogative of management to use report in the manner it deems fit.
Incs.78.3	What should be language of such an unmodified assurance report regarding underlying assumptions? (a) Positively worded to suggest assumptions are a reasonable basis. (b) Negatively worded to suggest assumptions are not on a reasonable basis. (c) Neither positively worded nor negatively worded about assumptions. (d) Depends upon the professional judgment of the Chartered Accountant.
Incs.78.4	Which of the following statements is most appropriate regarding the examination of prospective financial information by a Chartered accountant in accordance with SAE 3400? (a) Accuracy of projections is vouched for based upon performing procedures thoroughly. (b) Projections can go haywire; It depends upon the professional judgment of the Chartered Accountant to vouch for the accuracy of projections. (c) Accuracy of projections is not at all vouched for in an assurance report on prospective financial information. (d) The matter of accuracy of projections or otherwise is not domain of such an examination. Therefore, there is no reporting requirement under SAE 3400.
Incs.78.5	Which of the following statements is most appropriate regarding UDIN in context of examination of prospective financial information by a Chartered Accountant? (a) It is mandatory to state UDIN in such type of reports. (b) It is desirable to state UDIN in such type of reports. (c) It is not required to state UDIN in such type of reports as it is not an audit engagement. (d) It is not required to state UDIN in such type of reports as it is not an engagement related to historical financial information.

Chapter 12

Incs.79	SM23
[A] Safe Health Insurance Limited is a company working in field of health insurance sector. It is now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it. The details are verified by the system against data present in it. Such a system has allowed faster processing of claims, error-free data validation and increased customer satisfaction. [B] During the course of audit of a company, it is noticed that a cyber attack took place on the data in which files were encrypted and computers got locked. The hacker then demanded a booty for decryption of files which was to be paid in bitcoins. [C] CA X, auditor of a company, is looking into cyber security risks of the company. He is making inquiries regarding processes and controls relating to privileged account access, patch management program, vendor risk management program. He has also performed external network penetration testing. [D] "Verificatory" is an entity which can stamp e-mails or any files. It simplifies certifying of emails by just e-mailing to them to an e-mail specifically created for each customer. Many law firms can use this service to certify documents. The information is secured by networks of thousands of computers distributed across the globe. It uses cryptographic algorithms. The information can be verified from anywhere in the world. Its hashing and time stamping is of significant evidentiary value. [E] CA X is planning for audit of an entity. The timelines are agreed in a meeting with key management person on an electronic meeting platform. The entity also agrees to provide data electronically. Video-conference meetings are to be held from time to time with the client. Keeping in view above situations, answer the following questions: -	
Incs.79.1	In respect of situation regarding working of insurance company in health insurance sector, which of following technologies has likely been used? (a) Internet of things (b) Data analytics (c) Robotic process automation (d) Power BI
Incs.79.2	Which type of cyber attack is referred to situation described in para [B]? (a) Ransomware (b) Trojan (c) Denial of service attacks (d) Fileless Malware
Incs.79.3	In situation described at [C] above, which is not part of risk assessment procedures to assess cyber security risks? (a) Making inquiries regarding processes and controls relating to privileged account access (b) Making inquiries regarding processes and controls relating to patch management program (c) Making inquiries regarding processes and controls relating to vendor risk management program (d) Performing external network penetration testing
Incs.79.4	The kind of services being provided by an entity described at [D] above, are example of use of: - (a) Blockchain technology (b) Internet of things (c) Ethical hacking (d) Cyber attestation
Incs.79.5	Which of following is false in an audit described at para [E]? (a) The opportunity to present doctored documents and to omit relevant information is decreased.

	(b) Remote access to sensitive IT systems may not be allowed. (c) It provides comfort and flexibility to the audit team as they would be working from their office/home environment. (d) Time zone issues could also affect the efficiency of audits.

Chapter 13

Incs.80	SM23
	While auditing consolidated financial statements of YK Industries Limited for the year 2022-23, a manufacturing company whose financial statements are required to be prepared in accordance with Division II of Schedule III of Companies Act, 2013, CA. Palash Shah notices as under: - (A) The notes to accounts in respect of consolidated financial statements disclose additional information pertaining to the holding company and its subsidiaries. It provides disclosure regarding percentages of consolidated net assets, of consolidated profit and loss and of total comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries. (B) It is noticed by him that financial statements of one foreign subsidiary included in consolidated financial statements are drawn up to 31st December, 2022 in accordance with legal requirements in US. He feels it to be weird and is of the view that consolidated financial statements of group could present a distorted picture. The management, in turn, informs him that it is not practicable to draw the financial statements of foreign subsidiary to 31st March, 2023. (C) During the year 2022-23, goodwill of Rs.50 crore had arisen on account of the acquisition of a subsidiary during the year and there is no impairment loss as on the balance sheet date. Besides, adjustments have been made in consolidated financial statements with respect to intra-group indebtedness and those related to harmonizing different accounting policies being adopted by parent and its subsidiaries. (D) It is noticed by him that one subsidiary was acquired on 15.6.22. He is in a dilemma as regards to the correctness of consolidation of its financial statements in group financial statements. Besides, he is also in the process of finalising audit report including matters to be reported under CARO, 2020 in respect of consolidated financial statements. However, he is in a fix in respect of manner of reporting under CARO,2020 relating to consolidated financial statements.
Incs.80.1	Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct? (a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required. (b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required. (c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required. (d) The said disclosure is proper.
Incs.80.2	What should be auditor's proper course of action pursuant to situation highlighted in para [B] relating to financial statements of a foreign subsidiary? (a) The auditor should insist for drawing up of financial statements of foreign subsidiary to 31st March,2023. The reason for impracticality is a mere excuse. In case of failure to redraw, he can modify his opinion in accordance with SA 705. (b) The auditor can accept management's version. (c) The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2023 and 31st March,2023.

	(d) The auditor should modify his opinion by quantifying the financial effects of such an inconsistency.
Incs.80.3	Which of the following statements is correct in respect of goodwill and other matters described in the case scenario?
	(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. (b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments. (c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments. (d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments.
Incs.80.4	Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 15.6.22?
	(a) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date. (b) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date. (c) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date. (d) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.
Incs.80.5	As regards reporting under reporting CARO,2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law?
	(a) A separate report providing Clause by Clause reporting under CARO,2020 is required in respect of specified matters pertaining to parent and all subsidiaries incorporated in India. (b) It would be sufficient if report under CARO,2020 in respect of standalone financial statements is supplemented with additional information in respect of all subsidiaries incorporated in India. (c) A separate report under CARO, 2020 in respect of all subsidiaries incorporated in India together is required. It should be annexed with report under CARO,2020 in respect of standalone financial statements. (d) Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

Chapter 14

Incs.81	SM23
	CA. Madhusudan is conducting concurrent audit of a branch of a nationalized bank. It is a large branch having deposits of ₹ 350 crore and advances of ₹ 600 crore respectively. The deposits of branch consist of term deposits apart from CASA deposits. It is an old branch in operation since late 70s. Therefore, there are many dormant deposit savings, current and term deposit accounts at the branch. Of late, the top management of the bank has been pushing for aggressive targets in opening of CASA deposits. He wants to ensure that CASA deposit accounts opened by the branch during his term comply with KYC norms. During the course of concurrent audit of a particular month, he finds that temporary over limits are granted to few borrowers availing cash credit facilities up to 10% of their respective sanctioned limits. Granting of such over limits falls within the powers of Chief Manager of the said branch. It is also noticed by him that temporary overdrafts are allowed to few customers in their current accounts. However, granting of these temporary overdrafts also falls in Chief Manager's delegated powers. Temporary over limits and overdrafts as discussed above have been adjusted and paid before the end of the month. It is further noticed by him during the same month that branch has sanctioned 5 fresh advances falling within Chief Manager's powers and conforming to bank norms aggregating to ₹ 10 crore. All these sanctioned advances pertain to same industry i.e., jute mills manufacturing jute sacks. He feels that branch's approach is not proper and sanction of 5 advances to the same industry lacks diversity and lending decision of branch is not proper. He further notices that during the month, one borrower of branch falling under definition of "small enterprise" in MSME sector has shifted its credit facilities from the branch to a bank in private sector. The branch has levied foreclosure charges on outstanding credit facilities pertaining to borrower by disregarding "Code of Bank's Commitment to Micro and Small Enterprises". The borrower is still having current account with branch. Reversal of such charges would lead to revenue loss for branch. He is in a fix as far as reporting is concerned.
Incs.81.1	As regards dormant deposit accounts in the branch, which of the following is not part of duty of concurrent auditor? (a) Verifying that dormant accounts are revived with appropriate authority (b) Examining authorisation for withdrawals (c) Following up with account holders to ensure status of accounts remains active (d) Verifying that dormant accounts at the branches ageing more than 10 years have been transferred to Deposit Education and Awareness Fund (DEAF)
Incs.81.2	The concurrent auditor wants to ensure that fresh CASA accounts opened in the branch are KYC compliant. Which of the following best sums up scope of KYC guidelines prescribed by RBI? (a) The basic purpose of such guidelines is to weed out duplicate customers at the same branch. (b) Such guidelines contain detailed requirements for banks to enable them to draw a 360-degree credit profile of the customers by monitoring of transactions. Its primary purpose is assisting banks in making prudent credit decisions. (c) Such guidelines have a basic objective of ensuring credit of Direct benefit transfers (DBT) in accounts of deserving account holders. (d) Such guidelines contain detailed requirements in respect of customer acceptance policy, customer identification procedures, monitoring of transactions and risk management.
Incs.81.3	Which of the following statements is most appropriate as regards reporting of matters relating to temporary over limits in cash credit accounts and temporary overdrafts in current accounts? (a) The said instances cannot be reported as these fall in powers of Chief Manager. (b) The said instances can be reported in monthly concurrent audit report. No discussion is necessary with Chief Manager in this respect to ensure sanctity of report.

	(c) The said instances can be reported in monthly concurrent audit report. However, a discussion is necessary with Chief Manager in this respect. (d) The said instances cannot be reported as these fall in powers of Chief Manager and have been adjusted and paid before the end of the month.
Incs.81.4	Which of the following statements is most appropriate regarding sanction of fresh advances to borrowers in the same industry in a month from concurrent auditor's perspective? (a) Such a lending lacks diversity and needs to be reported without fail. (b) Such a lending increases credit risk for branch and needs immediate attention of higher authorities of bank. (c) Lending has been made within Chief Manager's powers. It does not fall in concurrent auditor's domain to question wisdom of lending decision conforming to bank norms. (d) Although lending has been made within Chief Manager's powers, branch should have reported to higher authorities flagging sanction of fresh advances to same industry. Only this aspect should be reported in concurrent auditor's report.
Incs.81.5	As regards matter of levying of foreclosure charges described in case scenario, what is appropriate course of action for concurrent auditor? (a) The matter should be reported even though it would lead to revenue loss for branch. (b) The matter should not be reported as it is part of duties of concurrent auditor to safeguard branch's revenue interests. (c) The matter should be reported only for its disregard of Code without highlighting revenue impact. (d) The matter concerns branch management's decision. It does not fall in purview of concurrent audit.

Incs.82	SM23
CA. Parampara is statutory auditor of "Lohit Finance Limited", a micro finance institution, working predominantly in states popularly described as "seven sisters of North East", West Bengal, Odisha and Andhra Pradesh. It is a non-deposit taking NBFC catering to credit requirements of rural and semi-urban households and provides small ticket loans. She has performed audit procedures for year 2022-23 and following further information is given as under:- (A) The Board of Directors of the company has passed a resolution in its meeting held on 1.5.22 for non-acceptance of public deposits during year ended 31st March, 2023. (B) The company has obtained certificate of registration dated 15th March, 2012 from RBI in pursuance of section 45-IA of RBI Act, 1934 and it is entitled to hold such certificate of registration in terms of its financial assets/income pattern for year ended 31st March, 2023. (C) The company has identified instances of cash embezzlement by the employees during the year. Such instances relate to employees fleeing after collection of instalments from customers at some centres. The total amount involved is ₹ 15 lacs and ₹ 5 lacs have been recovered subsequently. The matter has also been reported in note 35 of financial statements. (D) It falls in middle layer of scale-based regulations and regulations for a systemically important non-deposit taking NBFC are applicable to it. Its capital adequacy ratio is stated in note 36 of financial statements. (E) Audit procedures performed by her included testing design and operating effectiveness of controls relating to allowances for loan losses using Expected credit loss model (ECL) in accordance with Ind AS 109. Tests of details performed by her included verifying assumptions affecting ECL calculations.	

Incs.82.1	The Board of Directors has passed a resolution for non- acceptance of public deposits during year 2022-23. Which of the following statements is most appropriate in this regard as regards reporting obligations of auditor are concerned?
	(a) Passing of board resolution for non-acceptance of public deposits, being an internal governance matter, is not required to be reported by auditor. (b) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement for auditor under CARO, 2020. (c) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company. (d) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020.
Incs.82.2	Which of the following statements is most appropriate in respect of reporting requirements relating to certificate of registration of the company obtained from RBI as described in para [B] of the case?
	(a) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company. (b) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020. (c) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 under CARO,2020. (d) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020. Further, it is also required to be reported in auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its financial assets/income pattern.
Incs.82.3	Regarding instances of cash embezzlement identified by the company during the year, which of the following statements best fits into reporting requirements of an auditor?
	(a) Such instances are required to be reported under CARO, 2020 under relevant clause. (b) Cash embezzled amount is less than `1 crore. No reporting under CARO, 2020 is required of such instances. (c) Such instances are required to be reported under CARO, 2020 as well as in auditor's additional report to Board of Directors of company (d) Such instances are to be specifically reported in auditor's report under Section 143(3) of Companies Act,2013.
Incs.82.4	As regards description of capital adequacy ratio as described in para [D] of case, which of the following statements meets regulatory reporting requirements?
	(a) Auditor has to ascertain and verify whether such ratio has been disclosed in financial statements in notes to accounts. (b) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at. (c) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI. (d) Auditor has to ascertain and verify whether such ratio has been disclosed in financial statements in notes to accounts and has been correctly arrived at and is in compliance with minimum CRAR prescribed by RBI.
Incs.82.5	The auditor has performed audit procedures relating to allowances for loan losses using ECL in accordance with Ind AS 109. As these allowances involve significant judgment and estimates, she wants to state how it was addressed by her. How she can do that?
	(a) By stating it in Auditor's additional report to Board of Directors. (b) By stating it in matters as required under Section 143(3) of Companies Act.

- (c) By incorporating Emphasis of Matter Paragraph in Independent auditor's report.
 (d) By identifying it as Key audit matter in independent auditor's report

Chapter 15

Incs.83	SM23
	SRM & Associates are refreshing up their knowledge on functions of various Parliamentary financial committees and on the varied functions and duties of Comptroller & Auditor General of India in relation to audit of government institutions and government companies. They feel that unless they have understood scope of duties of C&AG, they would not be in a position to do justice to audits and professional work in this area. In the process, they have gone through various materials both offline and online. The summarized information derived from some of such materials including website of C&AG are stated below: [A] The C&AG report for a particular year contained results of the compliance audit of Department of Revenue-Direct Taxes of the Union Government dealing with "Assessments relating to Agricultural Income". It included certain observations relating to allowing of claim for exemption of agricultural income without supporting documents, use of this area by non-agriculturists as a conduit to avoid taxes etc., in scrutiny assessments performed by the Department. [B] The C&AG in one of its reports in respect of a state government owned industrial development corporation pointed out non-adherence of One-time settlement (OTS) guidelines of state government by the corporation resulting in acceptance of a below par OTS proposal thus foregoing recovery of loan amounting to ₹ 6.87 crores. The said corporation was providing loans to industrial units. [C] Annual report of a listed public sector company which is a "mini-Ratna" PSU was also gone through. The said company is engaged in providing diversified services to Indian Railways. [D] A state government owned PSU was involved in setting up of a thermal power plant in the state. The C&AG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out.
Incs.83.1	Based on description provided at para [A] of case, which Parliamentary financial committee is likely to examine above report of C&AG and make its recommendations? (a) Estimates Committee. (b) Public Accounts Committee. (c) Committee on Public Undertakings. (d) Committee on Commerce.
Incs.83.2	Considering the description stated in para [B] of case, the above audit finding is likely to fall in which areas? (a) Compliance audit. (b) Performance audit. (c) Propriety audit. (d) Comprehensive audit.
Incs.83.3	As regards listed PSU described in para [C] of case, which of the following statements is most appropriate? (a) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. C&AG cannot give directions to such firm of auditors. However, its office is empowered to conduct a supplementary audit. (b) The statutory audit of above PSU is to be conducted by C&AG. (c) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by C&AG. Further, C&AG can give directions to the firm of auditors.

	(d) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. However, C&AG can give directions to the firm of auditors.
Incs.83.4	Considering nature of audit finding described at para [D] of case concerning delay in completion of work of thermal power plant, the said audit finding is likely to fall in domain of:
	(a) Propriety audit. (b) Performance audit. (c) Financial audit. (d) Compliance audit.
Incs.83.5	PSU engagements are generally attestation engagements or direct reporting engagements. Which of the following statements is correct in this regard?
	(a) Performance audits and compliance audits are generally attestation engagements. (b) Performance audits and compliance audits are generally direct reporting engagements. (c) Performance audit is a direct reporting engagement whereas compliance audit is an attestation engagement. (d) Performance audit is an attestation engagement whereas compliance audit is a direct reporting engagement.

Chapter 18

Incs.84	SM23
	“Quick Push Finance Limited” is one of the top listed 1000 companies by market capitalization. As per a SEBI circular, Business Responsibility and Sustainability Report (BRSR) based on ESG parameters is mandatory from financial year 2022-23 for top listed 1000 companies. The company is an NBFC and is engaged mainly in providing finance for commercial vehicles. The report is to be prepared in three sections- Section A, B and C. Whereas Section A and B relate to general disclosures and management & process disclosures respectively, Section C of the report relates to principle wise performance disclosures. Under this section C, information is sought on each of the 9 principles of “National Guidelines on Responsible Business Conduct” (NGBRCs). This information is categorized on two indicators i.e., “Essential indicators” and “Leadership indicators”. The said company has an anti-corruption/anti-bribery policy which is available on its website. Besides, the company has regularly conducted awareness programmes for its dealers highlighting relevant governance practices of the company. The company is sensitive to environmental concerns. It has established mechanisms to recycle hazardous e-waste in accordance with applicable laws. Further, disposal of paper waste is also made responsibly. It is also a member of 5 prominent industry chambers/trade associations including FICCI, CII and ASSOCHAM. Besides, regular inputs to government are provided by the company through various forums for improvement in administrative processes relating to automobile and financial sectors. One of the NGBRC principles states that businesses should promote inclusive growth and equitable development. The scope of this principle is wide and quite encompassing. Many activities of company could fall under promotion of inclusive growth and equitable development. The CFO of company is clueless as to preparation of BRSR. Help him out by answering the following questions.
Incs.84.1	As regards anti-corruption/anti-bribery policy and organization of awareness programmes for dealers conducted during the year, which of the following is most likely to be true?

	(a) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of essential indicators. (b) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of leadership indicators. (c) Having an anti-corruption/anti-bribery policy is in nature of essential indicators. Organization of awareness programmes for dealers is in nature of leadership indicators. (d) Having an anti-corruption/anti-bribery policy is in nature of leadership indicators. Organization of awareness programmes for dealers is in nature of essential indicators.
Incs.84.2	As regards established mechanisms for recycle of hazardous e-waste and disposal of paper waste by company, which of the NGBRC principle(s) are involved?
	(a) Principle 5 only (b) Principle 9 only (c) Principles 6 and 9 (d) Principles 2 and 6
Incs.84.3	Considering description of membership of various industry chambers/ trade associations and providing of inputs to government for improvement in administrative processes, which of the NGBRC principle is referred to?
	(a) Principle 8 (b) Principle 4 (c) Principle 3 (d) Principle 7
Incs.84.4	Which of the following activities relates to the principle that businesses should promote inclusive growth and equitable development?
	(a) CSR projects undertaken by the company in designated aspirational districts of country (b) Carrying out real time digital Net Promoter score (NPS) with all public customers to gauge customer reactions and satisfaction (c) Getting conducted "energy audits" in the company (d) Conducting programmes to assist employees in finding employment after retirement
Incs.84.5	Which of the following statements is true in respect of essential indicators and leadership indicators as far as their reporting in BRSR is concerned?
	(a) Both types of indicators are mandatorily required to be disclosed. (b) Essential indicators require mandatory disclosure whereas leadership indicators require voluntary disclosure. (c) Essential indicators require voluntary disclosure whereas leadership indicators require mandatory disclosure. (d) All indicators based information whether relating to essential indicators or leadership indicators is voluntary.
Incs.85	(R24M)
	Mr. Ayush, the proprietor of BCD & Co Chartered Accountants, was appointed to audit the financial statements of Amrita Industries Private Limited for the Financial Year 2022-23. These financial statements were prepared in accordance with the Dutch GAAP and the terms & conditions specified in the contract between Amrita Industries Private Limited and Dutch Industries b.v. (Pvt. Ltd is known as b.v. in Dutch). One of the terms and conditions of the contract was to get the financial statements audited from an independent auditor. The contract also stipulated auditors to take into account misstatements of € 5000 or more while framing their report. Any misstatements identified below this threshold did not require correction or adjustment in terms of stipulation in contract. While planning audit, the audit team had also determined performance materiality at € 10000 and overall materiality at € 200000. The following information extracted from general purpose financial statements of Amrita Industries Pvt. Ltd. prepared in accordance with provisions of the Companies Act, 2013 is given as under: -

(Figures in ₹ crores)		
Particulars	FY 22-23	FY 21-22
Turnover	300	250
Borrowings from bank	100	75
Paid up capital	25	25

The borrowings from bank consisted of working capital credit facilities only. The company had been enjoying such credit facilities with a sanctioned amount of ₹ 75 crore in Financial Year 21-22. The credit facilities were enhanced to ₹ 100

crore at beginning of Financial Year 22-23. Outstanding balance in above credit facilities has never crossed sanctioned limits at any time during each of the above years.

Mr. Shubham, partner at BB & Associates, Chartered Accountants firm, was appointed as engagement partner for audit of general-purpose financial statements of Amrita Industries Private Limited for FY 2022-23. Before finalising audit plan, BB & Associates asked for internal audit reports. However, management informed him that there was no internal audit team or function in the organization.

During the course of audit of general-purpose financial statements, Mr. Anand, an audit executive performed risk assessment procedures, test of controls and substantive procedures. He performed a trend analysis to compare the purchases of raw materials in various months. He also performed purchase– production–sale cycle analysis to understand inventory holding. Besides going through the company's internal control manuals and visiting company's plant, inquiries were also made with company's information system personnel to provide information about control failures. Diligent inquiries were also made from company's marketing personnel regarding contractual arrangements with customers. Inquiries were also made from company's in-house legal counsel and communications were also made with company's external legal counsel by sending a letter of inquiry.

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

Incs.85.1

The audit team of BCD & Co were not sure which materiality to choose to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements in order to form an opinion and to conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. You are required to guide the audit team by selecting the appropriate option from below:

- In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not
- relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
- In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold is sufficient to comply with the requirement of determining materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
- In the case of special purpose financial statements, misstatements based on consideration of the financial information needs of the intended users are considered material and pervasive. However, the auditor needs to follow the threshold limit

	provided in terms of the contract, and such thresholds should be considered as the performance materiality for planning and performing the audit. (e) The auditor is required to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional and the condition does not exist. In the case of an audit of special purpose financial statements, the requirements of SA 320 are not applicable in entirety.
Incs.85.2	Mr. Manish, the audit manager of BCD & Co., objected to the insertion of the Other Matter Paragraph in the audit report. According to him, there is no such requirement to insert Other Matter Paragraph to disclose the use of a Special Purpose Framework. Whether contention of Mr. Manish is in order?
	(a) The auditor's report on special purpose financial statements shall include an Other Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (b) To avoid misunderstandings, the auditor shall mention that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose in Management's Responsibility section. Adding an Other Matter Paragraph for this will result in duplication of the matter, and the same should be avoided. (c) The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users and may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph. (d) The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.
Incs.85.3	Mr. Chitrang, the audit manager at BB & Associates Chartered Accountant, is seeking your guidance in drafting separate opinions on the cash flow statement and Other Financial Statements. Guide the audit manager by selecting the appropriate option from below:
	(a) When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. (b) The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position is allowed. In this case, the auditor has expressed a disclaimer of opinion on the financial statements as a whole and separate opinion on cash flows. (c) The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under the same financial reporting framework is permissible. (d) An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not limit the auditor's responsibility to issue an unmodified opinion on identified matters that would not require a modification of the auditor's opinion.
Incs.85.4	The company has violated provisions of the Companies Act, 2013 by not appointing an internal auditor. Which of following statement is likely to be correct reason necessitating appointment of internal auditor and for matters relating to appointment of internal auditor for the financial year 2022-23 in described situation in accordance with provisions of law?

		(a) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary condition relating to turnover during financial year 2021-22. Such an internal auditor may have been either an individual or a partnership firm only. (b) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled all necessary conditions relating to turnover, borrowings from banks and paid up capital during financial year 2022-23. Such an internal auditor may have been either an individual, a partnership firm or a body corporate. (c) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary condition relating to turnover during financial year 2021-22. Such an internal auditor may have been either an individual, a partnership firm or a body corporate. (d) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary conditions relating to turnover and borrowings from banks during financial year 2022-23. Such an internal auditor may have been either an individual or a partnership firm.
	Incs.85.5	Mr. Anand, an audit executive, has performed various procedures during the course of audit. Which of the following procedure/combinations of procedures is/are not likely to be considered as risk assessment procedures? (a) Performing trend analysis, going through company's internal control manuals and visiting company's plant (b) Inquiries from company's marketing personnel and with in-house legal counsel (c) Communication with company's external legal counsel by sending a letter of inquiry (d) Inquiries made with company's information system personnel to provide information about control failures and going through company's internal control manuals
Incs.86		(M24M)
		ABC Limited is a public company listed on the National Stock Exchange, having its registered office in Delhi. The company is primarily engaged in the manufacturing of pharmaceutical products. During the preceding financial year, the company recorded a remarkable turnover of ₹ 5000 crores, accompanied by a net profit of ₹ 805 crores. Additionally, the company has secured a loan facility from the State Bank of India amounting to ₹ 1000 crores. PQR & Co., a firm of chartered accountants based in Delhi, has been appointed as a joint auditor along with PK & Co. and XYZ & Co., an esteemed chartered accountant's firm in the same location i.e. Delhi. ABC Limited has already completed the appointment-related formalities as well as they have also signed engagement letters. The engagement letter contains the details on the objective and scope of the audit, responsibilities of the auditors, management, and identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 50 Crore as the materiality threshold, calculated at 1% of turnover. Now, during the audit, PK & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 201 Lakhs. Additionally, as a part of the audit procedure, the auditor has also sent confirmation requests to 100 suppliers to confirm the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, in this regard the confirmation responses were received only from 37 Suppliers. Moreover, as a part of the audit procedure, auditors of the ABC Limited also wants external confirmation from the 37 Debtors to confirm the year end balance, however in this process, the management refuses auditors to allow to send the confirmation and after asking the reason for such refusal, auditors came to the conclusion that, such refusal is unreasonable and the auditor is also unable to obtain relevant and reliable audit evidence from alternative audit procedures.

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

Apart from this, XY Private Limited, an associate enterprise of ABC Limited, the company XY Private Limited appoint ZMR & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor of XY Private Limited for the first time for the current financial year. The financial statement of XY Private Limited was audited by its predecessor auditor in the previous financial year. During the audit for the current financial year, ZMR & Co. came across a material misstatement in the opening balance, that affects the current year financial statement. In this regard, the auditor also discusses the said facts with the management. However, the management does not accurately pay attention to the same and does not either adequately account during the year or disclose or present the same in the financial statement of current year.

The Other Important financial information of XY Private Limited is as below:

(₹ in Crores)

Sr.No.	Particulars	Current Year	Previous Year
1.	Paid up Share capital	2.00	2.00
2.	Credit Balance of Profit & Loss Account	1.75	0.75
3.	Turnover	35.00	25.00
4.	Borrowing from Banks and Financial Institution	3.50	2.50

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

Incs.86.1

In the above given case, what should be the next course of action on the part of auditors of ABC Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable and auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures,?

- (a) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.
- (b) Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.
- (c) Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.
- (d) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.

Incs.86.2

Whether PQR & Co. should adhere to the opinion formulated by PK & Co. and XYZ & Co. or explore alternative options.

- (a) PQR & Co. will have to go with the opinion framed by the majority of auditors.
- (b) PQR & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.
- (c) PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should be prominently highlighted within the emphasis of the matter paragraph
- (d) PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.

Incs.86.3

In the above given case, what should be the course of the action on the part of ZMR & Co., when they found material misstatement which has not been accurately accounted or presented or disclosed in the financial statement of current year?

	(a) ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year. (b) ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised). (c) ZMR & Co. should take such matter in the written representation received from the management and no need to report such fact in audit report. (d) ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.

Incs.87	(M24M)
	MN & Associates, a firm of Chartered Accountants, having CA. M and CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures. CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. M realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement. CA. N provides management consultancy and other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N posted his framed photograph on his website wherein he was receiving the said award from the Institute. Upon hearing about the efficient services provided by MN & Associates Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them: - To charge fees as percentage of Net Profits, or - To charge fees of ₹ 501/-. Based on the abovementioned facts, you are required to answer the following MCQs:
Incs.87.1	With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates.? (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of ₹ 501/-.
	(a) (i) Only. (b) (ii) Only. (c) Either (i) or (ii). (d) Neither (i) nor (ii).
Incs.87.2	MN & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
	(a) CA. IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.

	(b) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610 (c) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610. (d) MN & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
Incs.87.3	As per the Chartered Accountants Act, 1949, under which clause CA. N is liable for misconduct? (a) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949. (b) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949. (c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. (d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
Incs.87.4	Before signing the tax audit report, CA. M sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949? (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report. (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing. (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only. (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
Incs.88	(M24M) Sun Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs. Sun Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, and basic chemicals. These products find application in various sectors, from pharmaceuticals and textiles to paints and coatings, construction, and agriculture. RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2023-24 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity. During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he

requested that management remove such limitation. But the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, Finally, Mr. Rahul with his engagement team, derived on a conclusion that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 15th November, 2023. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

Incs.88.1	What was the responsibility of Mr. Rahul when the management refused to remove the said limitation? (a) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence. (b) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence. (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence. (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.
Incs.88.2	What was the responsibility of RKM & Co. with respect to the issue of limited review report at the time of resignation? (a) Limited review report for third Quarter was required to be issued. (b) No further limited review report was required to be issued as already it was issued for the second Quarter at the time of resignation (c) Limited review report for third Quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued (d) Limited review report for third Quarter was required to be issued subject to the terms of the audit engagement.
Incs.88.3	Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal? (a) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation. (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements. (c) In the given circumstance withdrawal from engagement mandatory was and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation. (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
Incs.88.4	Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper? (a) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company. (b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.

		(c) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management and refusal to provide reasons for the same and accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation. (d) No, the reasons should have been a little lengthier and further the exact reason must be provided to the new auditor to be appointed by the company.
	Incs.88.5	Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM &Co. with respect to withdrawal from engagement and issue of limited review report at the time of resignation?
		(a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third Quarter were required to be issued. (b) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second Quarter was required to be issued. (c) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued. (d) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second Quarter was required to be issued.

Incs.89	(M24M)
Maulik and Javeri Associates is a Firm of Chartered Accountants that provides assurance services to many companies, including listed companies. The Firm have offices across many locations in India, with subject matter experts in most of these locations. The firm has established a comprehensive quality management system covering leadership responsibilities for quality within the firm, ethical requirements, acceptance, and continuance of client relationships and specific engagements based on the SQC 1 issued by the ICAI. During the current year, the audit engagement of a listed company was picked up for an inspection by an appropriate authority. The inspection covered various aspects of the audit of financial statements and included an assessment of the firm's quality control system. The reviewer decided to discuss the following with the audit team members: 1. The reviewer enquired about the roles and responsibilities of CA Maulik. CA. Maulik explained that the engagement team is comprised of him as the engagement partner and other professionals, including the engagement in-charge. CA. Javeri was the engagement control quality reviewer. As the engagement partner, he was responsible for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and the auditor's report being appropriate in the circumstances take responsibility for reviews being performed in accordance with the Firm's review policies and procedures. He also explained that he has already completed 7 years as an engagement partner and has decided to continue as an engagement partner for the next year as well. The Firm's policy permits that an engagement partner can continue consecutively for 15 years. 2. The reviewer enquired about the roles and responsibilities of CA. Javeri, the engagement control quality reviewer. CA. Javeri explained that the EQCR plays an important role in the quality control process of an audit and is key to safeguarding audit quality. The Firm has established a comprehensive system that prescribes the eligibility of EQCR, the need to maintain objectivity by EQCR, and considerations for carrying out effective EQC reviews. Specifically, in this engagement, CA. Javeri explained that he has rich experience in handling direct and indirect tax matters and was selected by CA. Maulik. There was no formal letter confirming his selection as EQCR. The listed company had significant GST litigations. CA. Javeri ensured that he was involved in forming the audit team's	

judgments relating to these litigations, including making relevant provisions. CA. Javeri confirmed that the EQC review was conducted in periodic intervals, and the engagement team had resolved all the observations raised during the EQC review.

3. The reviewer enquired about the areas that require discussion with management/ those charged with governance or areas that require significant efforts. CA. Maulik explained that during the current year, the engagement team observed material prior errors in recognition of revenue, including errors in recognition of revenue on a gross basis instead of a net basis. These errors were identified after the year end and required significant judgement and efforts by the engagement team. After many deliberations, the management agreed to correct the material prior to the period errors by restating the comparative information as per applicable GAAP. Relevant internal controls were accordingly modified after the year end. Considering the complexities involved, the measurement of revenue was identified as a key audit matter.

4. The reviewer enquired about the rational for material difference between the amount of revenue stated in the financial statements and the corresponding amount in the Board report included as a part of the Annual Report. CA. Maulik explained that auditors are required to comment on the true and fair view of the financial statements and are not required to comment on the Annual Report. He also explained that the Board Report was not provided to the auditor till the date of the audit report. Accordingly, after considering the requirements of SA 720, a specific statement was made in the audit report regarding the non-availability of the Board Report and that the auditor is not responsible to consider the Board Report which is expected to be received the date of the audit report. Thus, any discrepancy between the Board Report and the audited financial statements does not require any consideration. However, as good governance, CA. Maulik has obtained a reconciliation of the amount of revenue between the Board Report and the financial statements.

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

Incs.89.1	Whether the selection of EQCR is as per the requirements of SQC 1?
	(a) No. EQCR's objectivity was not maintained since it was selected by the engagement partner, and no formal communication was made regarding such selection. (b) Yes. CA. Javeri is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to the company's tax litigations. (c) No. The EQCR's objectivity could not be maintained since it was selected by the engagement partner and made decisions for the engagement team. (d) Yes. CA. Javeri is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to tax litigation. The EQC review was conducted in a timely manner before the issuance of the audit report.
Incs.89.2	In the given situation, which threat will be created if CA. Maulik serves for the assurance engagement over a long period of time?
	(a) Self-interest threat. (b) Self-review threat. (c) Familiarity threat (d) Intimidation threat
Incs.89.3	Can CA. Maulik serve another year as the engagement partner?
	(a) Yes. Companies Act, 2013 do not provide for mandatory rotation of engagement partner. (b) No. SEBI Listing Regulation require mandatory rotation of engagement partner after completion of 5 years each. (c) Yes. Since permitted as per Firm policies. (d) No. Existing engagement partner of a listed company cannot serve as engagement partner beyond 7 years.
Incs.89.4	The reviewer is of the view that the audit opinion on internal controls under section 143(3)(i) of the Companies Act 2013 should have been modified as material weakness existed in the comparative information. Do you agree with the reviewer?

		(a) Yes. Restatement of comparative information due to error is a strong indicator of material weakness in internal controls. Also, relevant internal controls were not corrected by the end of the year. (b) No. All prior-period errors were corrected as per applicable GAAP by restating the comparative information. (c) No. Judgemental matters, where divergent views are possible, are not indicative of material weakness. (d) No. Internal controls were corrected by the date of the audit report.
	Incs.89.5	Whether CA. Maulik should consider the Board Report or not as the audit report was already issued:
		(a) The Board Report should not be considered as auditors don't have any obligation to consider Other Information obtained after such date. (b) The Board Report should be considered since auditors' responsibility in relation to Other Information is uniform irrespective of the point of their availability. (c) The Board Report should be considered since subsequent events are required to be assessed. (d) The Board Report should not be considered to align with the audit report, which specifically excludes Other Information obtained after the date of the audit report.
Incs.90		(M24M)
		Meera Films Ltd. is a distributor of movies in the state of West Bengal. The Company has a significant interest in other operating segments and operates through multiple subsidiaries. At the consolidated level, major operating segments comprise of movie distribution, selling tea from self-owned tea gardens at Darjeeling, real estate development for commercial purposes and investment in start-up entities. The Group was founded jointly by Mr. Madan Mohan (the Group Managing Director) and Mr. Kishore Kumar, an old confidant of Mr. Madan Mohan. Unfortunately, Mr. Madan Paul met with an accident and expired. His untimely death rattled the entire Group and disrupted the business operations of the Group. The Board of the Parent Company decided to induct his son – Mr. Manish Paul – as the Managing Director of the Parent Company and the Group. The appointment of Mr. Manish Paul enraged Mr. Kishore Kumar, and he filed an application of oppression of mismanagement with the National Company Law Tribunal alleging various wrongdoings, including inappropriate related party transactions, siphoning off funds through connected entities and manipulation of financial statements. Considering the gravity of the allegations, the existing auditor of the Parent Company tendered its resignation. The Board appointed Mukesh and Rafi LLP as the new auditors. Mukesh and Rafi LLP informed the previous auditor over the phone and accepted the appointment. After 5 months, Mukesh and Rafi LLP sent an email to the previous auditor as a professional courtesy stating that the appointment was for the auditor. The previous auditor replied by stating 'Received'. To deal with these allegations, the Board of the Parent Company initiated a forensic investigation covering all the major operating segments through an independent professional services firm. The conclusion of the investigation significantly delayed the submission of financial statements for the current year of the Parent Company. The outcome of the forensic investigation included the following: 1. SaltLake Ltd.—a subsidiary—is the real estate arm of the Group and has significant receivables from various Partnership Firms/ LLPs. The investigation revealed that these advances, which have been outstanding for more than a decade, were given for the purchase of land. Further, the identity of these entities could not be traced as no PAN/ GST details were available with the subsidiary company. Any attempt to contact these entities proved futile. It was also noted that the auditors of SaltLake Ltd. had already completed the audit under the Companies Act 2013. Hemant and Manna LLP - the auditor of SaltLake Ltd. – informed the investigator that, in their view, the allegations do not affect the financial statements of SaltLake Ltd. and accordingly have issued an unmodified audit opinion on the financial

statements of the current year. The financial statements and the audit report were adopted by the shareholders in the AGM.

2. Meera Films Ltd. - the parent company historically purchases music rights from Gaana Ltd., which is approximately INR 20 crores per annum. Gaana Ltd. is controlled by Mr. Kishore Kumar. At the beginning of the current year, an advance of INR 50 crores was given to Gaana Ltd. for the purchase of music rights. Any amount remaining unadjusted would be repaid over a period of 5 years. The advance amount is highly disproportionate to the expected purchase amount to be made, and the credit period is not in line with normal credit terms. The investigation revealed that the advance was given to provide financial support to Gaana Ltd. as it was undergoing financial distress. At the end of the year, INR 30 crores remained unadjusted. No interest was charged on the unadjusted amount.

3. Darjeeling Tea is a cash-generating unit of Chai Ltd., a subsidiary company. The unit generates negative cash flows and is expected to do so in the future. Accordingly, it should have been impaired. However, the cash flow projection was fabricated to avoid recognition of impairment expenses in the previous years.

There was a disagreement between the subsidiary management and its auditor. The auditor in the audit report under the Companies Act 2013 issued a qualified opinion stating that impairment loss was under-recorded. From the context, the consolidated financial statements understatement of impairment expense would reduce the consolidated:

- Net Profit by 1%
- Total assets by 0.5%
- Net worth by 2%

Incs.90.1	Is Mukesh and Rafi LLP guilty of professional misconduct for accepting the audit of Meera Films Ltd.?
	(a) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. The email response of the previous auditor does not include reasons for their resignation. (b) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should have intimated its appointment as auditor to the previous auditor through registered post (instead of sending an email). (c) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should not have intimated its appointment by telephone. (d) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should have communicated to the predecessor auditor via email before accepting appointment.
Incs.90.2	Management of Meera Films (Parent Company) reconciled its balances with the customers and vendors at an interim period. Mukesh and Rafi LLP also decided to send independent requests to the customers and vendors to confirm their balances as of the year's end. With the risk of material misstatement assessed to be low, the top 15 parties, comprising 5% of customers and 7% of vendors, were selected to obtain external confirmations. Is the sampling strategy appropriate?
	(a) Inappropriate. Sample size appears to be insufficient. Method of sample selection does not allow each item in the population a chance of selection. (b) Inappropriate. Sampling method is judgmental and not statistical based. (c) Inappropriate. Considering the underlying audit risk, external confirmation from all customers and vendors should have been obtained. (d) Inappropriate. Rely on confirmations obtained by management and perform roll-forward procedures to arrive at the year-end balance.
Incs.90.3	Would the advance for purchasing music rights to the extent remaining unadjusted as at the year-end (i.e. INR 30 crores) require reporting under Clause 3(iii) of CARO 2020 (i.e. grant of loans, etc.)?
	(a) No. Advance for purchase of goods is not a loan/ advance in the nature of loans. Thus, it is not covered under the above clause.

	(b) No. In the absence of interest charges, the advance would neither qualify as a loan nor be an advance in the nature of a loan. Thus, it is not covered under the above clause. (c) Yes. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan. (d) Yes. Advance for purchase of goods is covered under the above clause.
Incs.90.4	Mukesh and Rafi LLP considered the qualification of the auditor of Chai Ltd. They conclude that the audit opinion on the consolidated financial statements of the Group should be: (a) Unmodified as the effect of misstatement is not material to the Group. (b) Unmodified as the effect of misstatement is not material. However, the subsidiary auditor's issued qualified opinion should be highlighted in the audit report through an Emphasis of Matter paragraph. (c) Qualified as the subsidiary auditor has issued a qualified opinion. (d) Qualified to the extent it relates to the subsidiary and unmodified to the extent it relates to the remaining part of the Group.

Incs.91	(N24M)																					
MNO Ltd., incorporated in the financial year 1980-81, is a distinguished company specialising in the manufacturing of nickel-based batteries. As one of the oldest manufacturing companies in this sector, MNO Ltd. operates with two manufacturing plants and a comprehensive distribution network that spans across India. Remarkably, MNO Ltd. was among the first companies to be listed on the stock exchange, underscoring its longstanding presence in the market. The company has consistently adhered to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards. M/s KP & Co. were the statutory auditor in the previous year and resigned from the role of statutory auditor. M/s JKL & Co. has been appointed as a statutory auditor of MNO Ltd. in the FY 2023-24. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of preceding period. During the audit, the auditor observed that the company is unable to pay its creditors on time. The company is also not able to properly comply with the terms of the loan agreement with the banks. Moreover, several key ratios are also adverse. In view of the above, the auditor asked management to provide assessment of going concern, however the management did not provide the same. Despite following up, the management did not provide the requested assessment. As a result, the auditor documented the request and follow-up regarding the going concern assessment in the working papers. Apart from the above, the company has one accounting software for maintaining its books of accounts, which does not have any feature of edit log (Audit Trail). Accordingly, the auditor reported the said fact of not having the facility of edit log under the heading Other Legal & Regulatory Requirements-Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 in the main audit report. Apart from above facts, the several important financial information of MNO Limited during the year ended 31st March 2024 are tabulated as below: (₹ In Crore) <table><tr><th>Sr. No</th><th>Particular</th><th>Amount (₹)</th></tr><tr><td>1.</td><td>Paid Up Share Capital</td><td>10</td></tr><tr><td>2.</td><td>Deficit balance in Profit & Loss Account</td><td>11.47</td></tr><tr><td>3.</td><td>Turnover</td><td>85</td></tr><tr><td>4.</td><td>Inventory*</td><td>15</td></tr><tr><td>5.</td><td>Cash Loss</td><td>2.95</td></tr><tr><td>6.</td><td>Operating Loss</td><td>1.97</td></tr></table> *Out of Total inventory as above, inventory amounting to ₹ 12.35 Crore are lying with third party.		Sr. No	Particular	Amount (₹)	1.	Paid Up Share Capital	10	2.	Deficit balance in Profit & Loss Account	11.47	3.	Turnover	85	4.	Inventory*	15	5.	Cash Loss	2.95	6.	Operating Loss	1.97
Sr. No	Particular	Amount (₹)																				
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4.	Inventory*	15																				
5.	Cash Loss	2.95																				
6.	Operating Loss	1.97																				

Incs.91.1	As per the requirement of SA 570, how auditor should deal in the matter of unwillingness of management to provide for the assessment relating to going concern?
	(a) Auditor should report such matters in the section of Key Audit Matter. (b) The auditor should properly document evidence relating to asking management and its subsequent follow up with the management for assessment on going concern and accordingly should express unmodified opinion. (c) Auditor should report such matters in Emphasis of Matter Paragraph Section. (d) Auditor should express modified opinion in his audit report.
Incs.91.2	As per SA 501, what is the correct audit procedure to be followed regarding the existence and condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?
	(a) The auditor should rely on the management explanation regarding the inventory lying with the third party. (b) The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate. (c) The auditor should verify the inventory lying with the company. (d) The auditor should take written representation only from the management regarding the inventory lying with the third party.
Incs.91.3	State the amount required to be reported by the auditor of MNL Ltd., under clause 3(xvii) of Para 3 of CARO, 2020 on account of losses during the year under consideration.
	(a) ₹ 4.92 Crore (b) ₹ 1.97 Crore (c) ₹ 2.95 Crore (d) ₹ 11.47 Crore
Incs.91.4	According to SA 510, which of the following audit procedures can be implemented by M/s JKL & Co. to obtain sufficient and appropriate audit evidence on the opening balances about whether it contain any material misstatement that could affect financial statements of current year?
	(i) Closing balances of the preceding period have been correctly brought forward to the current period. (ii) Performing specific audit procedures to obtain evidence regarding its opening balances. (iii) Determining whether the opening balances reflects the application of appropriate accounting policies.
	(a) Only (i) (b) Only (iii) (c) Only (i) and (iii) (d) (i), (ii) and (iii)
Incs.92	(N24M)
	EFG Ltd., incorporated in 1984-85, has distinguished itself as one of the most rapidly growing non-banking financial companies (NBFCs) having principal business of granting loans. Its head office is situated in Pune, a city renowned for its dynamic financial and industrial sectors. Remarkably, EFG Ltd. holds the notable achievement of being among the first NBFCs to be listed on the stock exchange, which underscores its longstanding and influential presence in the financial market. Over the years, the company has demonstrated an unwavering commitment to regulatory compliance by consistently adhering to the Securities and Exchange Board of India's (SEBI) Listing Obligations and Disclosure Requirements Regulations of 2015. This steadfast adherence ensures that all its operations align with the rigorous standards set by regulatory authorities, there by reinforcing its credibility and trustworthiness among investors and stakeholders.

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

During the audit of the financial statements, auditor observed that, the company has violated one of the prudential guidelines of RBI as applicable to the company relating to the acceptance of public deposit. Since the company was non deposit taking, and in one case during the year under consideration, the company had accepted the public deposit. In this regard, the management has also provided a detailed note in the financial statements and subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important and required attention of the users of the financial statements.

The auditor of EFG Ltd. sent confirmation requests to 14 debtors (to whom loan has been granted) to confirm the year-end balances as per SA 505. The said requests were designed in such a way that debtors will directly respond to the auditor only when they disagree with the same.

Based on above facts, answer the following MCQs

Incs.92.1	Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: - (i) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934 (ii) In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; (iii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained. (iv) Whether the company has provided any loans, guarantee or provided security to any other entity.
	(a) Only (i) and (iii) (b) Only (i), (ii) and (iii) (c) Only (i) and (ii) (d) Only (i), (ii) and (iv)
Incs.92.2	What is the auditor's responsibility when the audit of EFG Ltd. for the previous year has not been conducted by the current auditor i.e. M/s SDS & Co.? (i) The auditor needs to report such matters in the other matter paragraph in the main audit report. (ii) The auditor needs to report such matter in the emphasis of matter paragraph. (iii) The auditor shall be responsible for obtaining sufficient and appropriate audit evidence that the opening balances does not contain any material misstatement.
	(a) Both (i) & (iii) (b) Both (ii) & (iii) (c) Only (ii) (d) Only (i)
Incs.92.3	In the given case, what is the reporting requirement in relation to SA 250, on the part of auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?
	(a) The auditor is required to report such matters in the main audit report under the head other matter paragraph section only. (b) The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only. (c) Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.

	(d) Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.
Incs.92	(N24M)
	EFG Ltd., incorporated in 1984-85, has distinguished itself as one of the most rapidly growing non-banking financial companies (NBFCs) having principal business of granting loans. Its head office is situated in Pune, a city renowned for its dynamic financial and industrial sectors. Remarkably, EFG Ltd. holds the notable achievement of being among the first NBFCs to be listed on the stock exchange, which underscores its longstanding and influential presence in the financial market. Over the years, the company has demonstrated an unwavering commitment to regulatory compliance by consistently adhering to the Securities and Exchange Board of India's (SEBI) Listing Obligations and Disclosure Requirements Regulations of 2015. This steadfast adherence ensures that all its operations align with the rigorous standards set by regulatory authorities, there by reinforcing its credibility and trustworthiness among investors and stakeholders. M/s SDS & Co. thoroughly obtained the knowledge and background of the company, including an understanding of the legal and regulatory requirements applicable to the company. During the audit of the financial statements, auditor observed that, the company has violated one of the prudential guidelines of RBI as applicable to the company relating to the acceptance of public deposit. Since the company was non deposit taking, and in one case during the year under consideration, the company had accepted the public deposit. In this regard, the management has also provided a detailed note in the financial statements and subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important and required attention of the users of the financial statements. The auditor of EFG Ltd. sent confirmation requests to 14 debtors (to whom loan has been granted) to confirm the year-end balances as per SA 505. The said requests were designed in such a way that debtors will directly respond to the auditor only when they disagree with the same. Based on above facts, answer the following MCQs
Incs.92.1	Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: - (v) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934 (vi) In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; (vii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained. (viii) Whether the company has provided any loans, guarantee or provided security to any other entity.
	(e) Only (i) and (iii) (f) Only (i), (ii) and (iii) (g) Only (i) and (ii) (h) Only (i), (ii) and (iv)
Incs.92.2	What is the auditor's responsibility when the audit of EFG Ltd. for the previous year has not been conducted by the current auditor i.e. M/s SDS & Co.? (iv) The auditor needs to report such matters in the other matter paragraph in the main audit report. (v) The auditor needs to report such matter in the emphasis of matter paragraph.

	(vi) The auditor shall be responsible for obtaining sufficient and appropriate audit evidence that the opening balances does not contain any material misstatement.
	(e) Both (i) & (iii) (f) Both (ii) & (iii) (g) Only (ii) (h) Only (i)
Incs.92.3	In the given case, what is the reporting requirement in relation to SA 250, on the part of auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?
	(a) The auditor is required to report such matters in the main audit report under the head other matter paragraph section only. (b) The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only. (c) Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI. (d) Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.

Incs.93	(N24M)
CA Ram and CA Lakshman are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative, however, the person declined the same informing that this act was against professional ethics and will lead to disciplinary action from ICAI. The partner of M/s AK & Associates is a close friend of CA Ram. The firm was involved in an audit of a listed company which was required to submit Business Responsibility and Sustainability Report (BRSR). The company being audited was into thermal energy production business in India. They had submitted details about the total emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years. Since CA Ram had undergone a course on Sustainability Reporting, he was approached for getting advice on what needs to be reported in the BRSR of the company. As a gesture for helping the firm, the partner of the firm suggested CA Ram's name to the post of becoming a member in the Board of Management of KYC Co-operative Bank, a Primary (Urban) Co-operative Bank and a client of AK & Associates. Upon hearing the same, CA Lakshman requested Ram not to take up the post as it would lead to professional misconduct. CA Ram was acting as an internal auditor of PL Technologies Private Limited. The company decided to raise more funds for expanding its business across the country by including new age technological services such as AI. Ram was observing the business model and the way in which the company was operating for quite some time, and he was keen on investing in the company. As a result, he decided to invest in the company's shares and ended up acquiring 9.75% of the shares (total face value of the shares acquired was ₹ 4.75 lakhs) of the company during the financial year. CA Lakshman got to know about this information, and he immediately urged Ram to resign from the being the internal auditor of PL Technologies Private Limited, for the reason that an internal auditor cannot hold any shares in the company, and it will lead to professional misconduct and also failure to comply with the provisions of the Companies Act, 1949. However, Ram did not accept the argument of Lakshman, and he said that nothing will happen because of him acquiring 9.75% shares in the company and continuing to act as its internal auditor. CA Lakshman was the statutory auditor for GH Finance Private Limited, a NBFC head quartered in India. The company's treasury department had undergone changes in the recent past and the current set of team members did not have much experience in handling the treasury functions. Due to this situation, the company reached out to their auditor CA Lakshman who was also into equity research advisory	

apart from CA practice, to support the company and the members of its treasury department for a brief period by giving Investment Advisory Services, to ensure efficient utilization and management of the funds of the company. Before committing anything on the offer, CA Lakshman wanted to consult with CA Ram as to whether the service requested by the NBFC can be performed by him.	
Incs.93.1	Whether the act of conducting joint training session on GST by CA Ram & Lakshman and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949? (a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Ram & Lakshman are guilty of professional misconduct. (b) Yes, CA Ram & Lakshman will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949. (c) Yes, this is a case of solicitation of client whereby, CA Ram can influence clients of CA Lakshman and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule. (d) No, as per the recent decisions of Ethical Standards Board, it is permissible for 2 or more CA in practice collectively to have joint training session for their clients on GST, and share the fee collected from the clients thereof.
Incs.93.2	With regards to the BRSR reporting on the data of total emissions & the future energy consumption plans of the company, how do you treat them? (a) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure. (b) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and need to be mandatorily disclosed in the BRSR. (c) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR. (d) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.
Incs.93.3	The futuristic plan which the company has for its energy consumption can be categorized under which principle of National Guidelines on responsible business conduct? (a) Principle 1 – Ethics, Transparency and Accountability (b) Principle 6 – Protection and Restoration of Environment (c) Principle 4 – Respect for Stakeholder's Interests and Responsiveness (d) Principle 7 – Influence on Public and Regulatory Policy
Incs.93.4	By accepting the offer to become a member of the Board of Management of KYC Co-operative Bank, do you think that CA Ram would be held guilty of professional misconduct? (a) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI. (b) It is permissible for a CA in practice to become a member of the board of management in primary (Rural) co-operative banks. Hence, CA Ram would be held guilty of professional misconduct if he accepts the offer. (c) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Ram would not be held guilty of professional misconduct if he accepts the offer. (d) Yes. CA Ram would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Ram is getting this offer as a reciprocation for helping AK & Associates.

Incs.93.5	In the given case, it is mentioned that CA Lakshman is a practicing CA and is also engaged as an Equity Research Advisor. Do you think that CA Lakshman will be held guilty of professional misconduct as per the provisions of the Chartered Accountant Act, 1949?
	(a) No. A CA in practice may be an equity research advisor, but he cannot publish retail reports as it would amount to other business or occupation. Thus, if CA Lakshman doesn't publish any reports, he will not be held guilty of professional misconduct (b) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI. (c) A CA in practice cannot be an Equity Research Advisor, for his existing clients or for any other person. Hence, CA Lakshman will be held guilty of professional misconduct. (d) Yes. As per clause 11 of Part I of First Schedule read with Part III of Second Schedule, CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
Incs.94	(N24R)
	Com TeK Limited, a top 1000 listed entity on the BSE by market capitalization for the past two years, sells IT and related equipment directly to consumers through its website One day, the CFO of the company received a video call from the Managing Director (MD) instructing him to transfer ₹ 90 lakhs to the bank account of NxT Limited. When questioned by the CFO, the Managing Director explained NxT's products are fast moving and contribute 30% of the company's revenue. Further, the amount of payment is within the approved limit and can easily be remitted without any further approval. Satisfied with the explanations, the CFO made the necessary transfer. At the end of the month, while preparing the bank reconciliation statement, the CFO realised that five incremental payments of ₹ 90 lakhs each had been made to NxT Limited. These payments were unreconciled and does not have any corresponding entry in the books of account. The CFO explained the situation to the MD, reminding him about the video call that had instructed him such payments. However, the MD denied making any such video call. The CFO and Managing Director engaged a forensic expert, who observed that the company had cyber-attack using sophisticated AI tools. Investigation further revealed that the video call to the CFO was fake and made from the laptop not owned by the company. The hackers had gained access to the CFO's laptop and have obtained bank details and its authorisation information. The company filed a police complaint and reported the incident to the appropriate authorities. During the risk assessment process, the auditor of the company determined that the IT environment poses a significant risk. The auditor assessed that the principal financial systems used in the preparation of the financial statements were compromised during the cyber-attack. The auditor also focused on the judgements made by management related to the known security incidents. The auditor made inquiries with Risk Management team and with the Chief Information Officer to understand their assessment of the cybersecurity risk and the measures in place to mitigate this risk, focusing on the principal financial systems used in the preparation of the financial statements. The auditor also communicated with those charged with governance about the cyber incident. After completion of necessary procedures, the auditor felt that it had incurred additional efforts to the tune of 20%. The auditor reviewed, with the assistance of specialists, management's assessment of the potential impact on the principal financial systems used in the preparation of the financial statements. The management of the company was impressed about the level of detail and diligence employed by the auditor while dealing with the cyber security incident. They particularly appreciated the in-depth knowledge of the auditor, timely involvement of IT specialist by the auditor and experience in dealing with cyber-security incidents. The management felt that the auditor would be the right fit for conducting a thorough audit of the IT systems of the company. In order to leverage the auditor's expertise, the management proposed to engage the auditor to conduct a system audit.

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

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

Incs.94.1	In the given case, cyber-attack encountered by the company is known as:
	(a) Spoofing (b) Denial of Services Attack (c) Malware (d) Identity Based Attack
Incs.94.2	The engagement partner is confused as to whether the audit report would be impacted by the cyber-attack instance. What is the appropriate reporting implication:
	(a) No implication in the audit report since the financial loss has already been recognised in the financial statements. (b) Qualify audit opinion as the amount of loss due to cyber-attack is incremental and does not emanate from its operating activity. (c) Include an Emphasis of Matter paragraph as cyber security incidents are by default fundamental to the attention to the users of the financial statements. (d) Report as a Key Audit Matter since the cyber incidence was of most significance in the audit of the financial statements of the current period
Incs.94.3	The company wants to prepare an Integrated Report as contained in the International Integrated Reporting Council and endorsed by SEBI. The Company Secretary is of the view that Integrated Report is mandatory for a listed entity. Which of the following is correct in this regard?
	(a) The view of Company Secretary is correct since the company meet the qualifying threshold i.e. Top 1000 listed entity by market capitalisation at the end of the previous year. (b) The view of company Secretary is incorrect as Integrated Reporting is voluntary for the top 500 listed entities. (c) The view of Company Secretary is correct as the company meet the qualifying threshold i.e. Top 1000 listed entity by market capitalisation at the end of the current year. (d) The view of Company Secretary is incorrect since Integrated Reporting is voluntary for the top 1000 listed entities.
Incs.94.4	Integrated Reporting comprises 6 categories of capital. The company observed that it has capitalised intangible assets (patent) and roof top solar equipment in the balance sheet. In the Integrated Report patents and solar equipment should be disclosed respectively as:
	(a) Financial Capital and Manufactured Capital. (b) Natural Capital and Financial Capital. (c) Intellectual Capital and Natural Capital. (d) Human Capital and Intellectual Capital.
Incs.94.5	Can the auditor accept the system audit as offered by the ComTeK Limited?
	(a) Yes, the statutory auditor can accept the assignment of system audit, provided it did not involve any scrutiny/review of financial data and information. (b) Yes, the statutory auditor can accept the assignment of system audit, provided it involves any scrutiny/review of financial data and information (c) Yes, the statutory auditor can accept the assignment of system audit, provided the fee for system audit is not more than the audit fee.

- (d) No, the statutory auditor cannot accept the assignment of system audit since it did not involve any scrutiny/review of financial data and information.

Incs.95

(M25R)

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

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

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

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

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

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

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

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

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

Incs.95.1

Mr. K, the engagement partner of M/s KAP & Co, failed to maintain any documentation of the whole verification process and did not perform impairment testing on the PPE at the end of the financial year. Select the appropriate option as per SA 299.

- (a) Mr. K is severally responsible for his own actions and the said work was his responsibility.
 (b) No, Mr. B & Mr. K are jointly responsible as they both were joint auditors.

	(c) Mr. K is responsible as well as Mr. B is responsible, since Mr. B was compulsorily required to verify the work of Mr. K and he has not verified the same. (d) Neither Mr. K nor Mr. B is liable for the actions of Mr. K.
Incs.95.2	The management of the company has adopted a new ERP system and accordingly, the audit trail was maintained from Dec 03rd, 2023 only in the new ERP System. Whether the action of auditors with respect to reporting requirement of audit trail was justified?
	(a) Yes, the action of auditors was justified as it was the first year of implementation of ERP. Hence the auditors are not liable to report the same. (b) Yes, the action of auditors was justified as the audit trail was operational during the year and hence the auditors are not liable to report the same. (c) No, the action of the auditors was not justified as the audit trail was not operational throughout the year and hence it is the duty of the auditors to report the same in the main audit report. (d) Yes, the action of the auditors was justified as the audit trail need not to be reported in the main audit report.
Incs.95.3	Mr. B, engagement partner of M/s BMS & Co., was responsible for verifying Procure to Pay Process, he did not perform any procedure and relied upon the work of Internal Auditor, without keeping any documentation. Which of the following is correct as per SA 610?
	(a) Mr. B can rely on the work of the Internal Auditor. However, he must first discuss with Internal audit function and also evaluate the adequacy of work of Internal Auditor and must document the same regarding the evaluation of work of Internal Auditor. (b) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work without any further audit procedure and documentation. (c) Audit procedure and the scope of Internal Audit are altogether different from Statutory Audit and therefore, the Statutory Auditor cannot use the work of Internal Auditor. (d) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work of Internal Auditor after evaluating his work. However, Statutory auditor is not required to document the same.
Incs.95.4	Considering the above case, whether reporting under CARO, 2020 will be applicable to ABC Private Ltd.?
	(a) No, since the company is a private limited company. (b) No, since the company is in the business of acquisition of shares and securities. (c) Yes, since the company is wholly owned subsidiary of listed company WYZ Ltd. (d) No, since the company is a small company as per the Companies Act, 2013.
Incs.95.5	While preparing a consolidated financial statement of WYZ Ltd., division of responsibility between auditors of WYZ Ltd. and auditor of ABC Private Ltd. should be reported in:
	(a) Emphasis of Matter Paragraph. (b) Key Audit Matter Section. (c) Going Concern Paragraph. (d) Other Matter Paragraph.

Incs.96	(M25M)
	CA Harman, a practicing Chartered Accountant, intends to fill out the Multi-purpose Empanelment Form (MEF) to be included in the panel for the statutory audit of bank branches for the financial year 2023-24, as hosted by the Professional Development Committee (PDC) of ICAI. The application process requires the submission of XML files of personal income tax returns along with the computation of income. During the relevant financial year for which the information is sought, CA Harman had engaged in currency and commodity derivatives transactions, declaring the resulting income under "Business Income" in his tax return. Additionally, Pitch Private Limited approached CA Harman to digitally sign and upload a resignation form related to Mr. Rohit, one of its directors, on the Registrar of Companies (ROC) portal. However,

the signature of Mr. Rohit had been copied and pasted by another director of the company. Without verifying the authenticity of the resignation letter, CA Harman digitally signed the form, which was then uploaded to the ROC portal. Subsequently, CA Harman's actions were brought under scrutiny when the Director (Discipline) of the Institute of Chartered Accountants of India (ICAI) received complaints regarding alleged misconduct. Upon investigation, he was found guilty of misconduct, and the competent authority imposed the appropriate penalty in accordance with the provisions of the Chartered Accountants Act, 1949.	
Incs.96.1	Whether CA Harman will be held guilty for reflecting income from currency and commodity derivatives as "Business Income". If yes, under which clause? (a) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949. (b) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (6) of Part I of the First Schedule of the Chartered Accountants Act, 1949. (c) No, CA Harman will not be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under the Chartered Accountants Act, 1949. (d) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
Incs.96.2	Whether CA Harman will be held liable for misconduct for uploading the digitally signed resignation letter. If yes, under which clause of the Chartered Accountants Act, 1949? (a) Yes, CA Harman will be liable for misconduct under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949. (b) Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the Second Schedule of the Chartered Accountants Act, 1949. (c) Yes, CA Harman will be liable for misconduct under Clause (5) of Part I of the First Schedule of the Chartered Accountants Act, 1949. (d) Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
Incs.96.3	Before which authority would CA Harman's misconduct case be placed for disciplinary proceedings? (a) The High Court. (b) The Board of Discipline. (c) The Disciplinary Committee. (d) The Appellate Authority.
Incs.96.4	What is the minimum punishment that could have been imposed on CA Harman under the Chartered Accountants Act, 1949? (a) Reprimand the member. (b) Removal of name from the register of members permanently or for a specified period and fine up to ₹ 5,00,000. (c) Suspension of practice for up to 3 months. (d) Warning and fine up to ₹ 50,000.
Incs.97	(M25M)
CA Mridul, a practicing Chartered Accountant, has been appointed as the statutory auditor of PQT Limited, a reputed listed company engaged in manufacturing electronic products, as per the provisions of the Companies Act, 2013. In addition to his audit responsibilities, he is actively involved in advising the government on proposed legislation aimed at attracting investments and advanced technology in the electronic products sector. He has publicly advocated the proposed policy in TV debates, articles in	

business newspapers, and advisory submissions to the government. In all such public appearances, he has disclosed his role as the auditor of PQT Limited.

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

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

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

Based on the above facts, answer the following:

Incs.97.1 Which of the following statements is likely to be correct in regard to PQT Limited?

- (a) The described situation can involve self-interest threats to the independence of the auditor.
- (b) The described situation can involve familiarity threats to the independence of the auditor.
- (c) The described situation can involve advocacy threats to the independence of the auditor.
- (d) The described situation can involve self-review threats to the independence of the auditor.

Incs.97.2 Is the provision for Loss Assets of ₹ 2 crores correct as per RBI norms?

- (a) Yes, because the provision should be 100% of the outstanding amount.
- (b) No, the provision should be only 50% as it is secured.
- (c) No, the provision should be NIL if the asset is secured.
- (d) Yes, but only if the RBI has classified it as a fraud-related asset.

Incs.97.3 Fincorp Limited has classified ₹15 crores of loans as sub-standard assets. As per RBI norms, what should be the minimum provision required for this category?

- (a) ₹ 1.50 crores
- (b) ₹ 3.00 crores
- (c) ₹ 0.75 crores
- (d) ₹ 1.00 crores

Incs.97.4 Fincorp Limited has ₹ 8 crores in doubtful assets (one to three years) and has provided ₹ 2.00 crores. What is the shortfall in provisioning as per RBI norms?

- (a) ₹ 0.40 crores
- (b) ₹ 1.00 crores
- (c) ₹ 0.80 crores
- (d) No shortfall

Incs.98

(S25R)

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

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

(I) During last quarter of the year, company's income was significantly affected by fluctuations in foreign exchange rates, with inadequate hedging arrangements. The auditors had to evaluate the impact of these transactions on financial statements.

(II) It was observed that the server maintenance work of company was likely prone to external access, which was an area of high risk as assessed and reported by management's expert committee.

(III) The auditor had to make important judgments in areas where the management of the company also used significant judgment. One key point was that the company depended heavily on a few major clients. While management believed that the market of the company was growing and would bring in more new clients, the auditors had to carefully consider this difference in view while reviewing the financial statements.

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

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

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

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

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

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

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

Based on the above facts, answer the following MCQs:

Incs.98.1	As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", which of the above-mentioned areas should the audit committee and the auditors consider while determining the 'Key Audit Matters'?
	(a) (I) & (III). (b) (II) only. (c) (I) & (II). (d) (I), (II) & (III).

Incs.98.2	Assuming the role of the auditor of Cash Limited, based on the above observations, which aspects would you report as control failures, and what would be your rationale for considering them as such? (a) (i) & (ii) – The frequent transfer of staff without prior notice suggests a lack of adequate control within the HR department. Similarly, permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling. (b) (i) only – The frequent transfer of staff without prior notice indicates that the HR department is not having a proper control in its functions. (c) (ii) & (iv) – Permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling. Further, any unpaid cheques received in outward clearance needs to be thrashed by the bank as they cannot be held by the bank in its custody. (d) (iii) & (iv) – Cash should always be maintained under the joint custody of two authorised officers, as entrusting it to a single individual poses a significant control risk. Additionally, any unpaid cheques returned during outward clearance should either be dispatched to the customers at their recorded addresses or the customers should be appropriately notified to collect them from the bank.
Incs.98.3	Among the various passion-driven activities undertaken by CA M as discussed in the case, which of these are generally permitted by the Institute of Chartered Accountants of India (ICAI)? (a) (1) & (3). (b) (3) only. (c) (2) & (4). (d) (1), (2) & (3).
Incs.98.4	According to the provisions of the Chartered Accountants Act, 1949, under which clause would CA M be guilty of professional misconduct? (a) Clause 10 of Part I of First Schedule. (b) Clause 2 of Part IV of First Schedule. (c) Clause 11 of Part I of First Schedule. (d) Clause 1 of Part III of Second Schedule.
Incs.98.5	Is there any professional misconduct involved in the submission of the municipality tender application by BNM & Associates under the Chartered Accountants Act, 1949? (a) Yes. As per Clause 6 of Part 1 of the First Schedule, a CA in practice shall be guilty of professional misconduct if he responds to any tender. (b) No. As per the Guidelines under the Act, a member can respond to any tender where the matter relates to anything other than audit. Further members can make earnest deposits in respect of a nonexclusive area for chartered accountants. (c) Yes. Even though the Guidelines under the Act permit a member to respond to any tender where the matter relates to anything other than audit, he is not permitted to make any money deposit. Hence, the act of the firm is professional misconduct. (d) No. As per Guidelines under the Act, a member can respond to any tender which is requested by the Central government, State government or local government. Hence, there is no professional misconduct in this case.

**CASE STUDY
MCQs- ISSUED
BY ICAI
(INCS)**

01.	1	d
	2	a
	3	c
	4	c
	5	b
02.	1	b
	2	d
	3	a
	4	c
	5	b
03.	1	d
	2	c
	3	b
	4	a
	5	b
04.	1	a
	2	d
	3	b
	4	d
	5	d
05.	1	b
	2	c
	3	a
	4	c
	5	a
	6	a
06.	1	a
	2	d
	3	c
	4	b
	5	d
07.	1	b
	2	c
	3	d
	4	c
	5	b
08.	1	d
	2	a
	3	d
	4	c
	5	c
09.	1	a
	2	b
	3	c
	4	a
	5	c
10.	1	d
	2	a

11.	3	b
	4	d
	5	-
	1	c
	2	a
	3	c
	4	a
12.	5	b
	6	d
	7	a
	1	c
	2	c
	3	d
	4	b
13.	5	c
	6	c
	1	c
	2	b
	3	a
	4	c
	5	a
14.	6	d
	7	a
	1	a
	2	d
	3	a
	4	a
	5	b
15.	1	a
	2	d
	3	a
	4	-
	5	-
	1	c
	2	d
16.	3	a
	4	b
	5	-
	1	c
	2	d
	3	a
	4	b
17.	5	c
	1	a
	2	d
	3	a
	4	b
	5	c
	1	a
18.	2	d
	3	a
	4	b
	5	c
	1	a
	2	d
	3	a
19.	4	b
	5	a
	6	c
	1	a
	2	d
	3	a
	4	b

20.	1	b
	2	a
	3	c
	4	d
	5	c
21.	1	d
	2	a
	3	c
	4	d
	5	-
22.	1	b
	2	b
	3	a
	4	d
	5	-
23.	1	d
	2	b
	3	d
	4	c
	5	-
24.	1	d
	2	b
	3	d
	4	a
	5	-
25.	1	b
	2	c
	3	d
	4	d
	5	-
26.	1	a
	2	b
	3	d
	4	-
	5	-
27.	1	c
	2	d
	3	a
	4	a
	5	c
	6	a
	7	c
28.	1	b
	2	b
	3	a
	4	a
	5	b
29.	1	d
	2	a
	3	b
	4	-
	5	-
30.	1	d

31.	2	a
	3	d
	4	b
	5	b
	6	c
32.	1	c
	2	b
	3	b
	4	d
	5	b
33.	1	d
	2	a
	3	c
	4	b
	5	a
34.	1	b
	2	b
	3	d
	4	a
	5	d
35.	1	b
	2	a
	3	c
	4	d
	5	d
36.	1	c
	2	d
	3	a
	4	c
	5	b
37.	1	b
	2	d
	3	b
	4	c
	5	a
38.	1	c
	2	b
	3	c
	4	d
	5	d
39.	1	a
	2	d
	3	c
	4	a
	5	b
40.	1	b
	2	a
	3	b

41.	4	d
	5	c
	1	b
	2	a
	3	b
42.	4	d
	5	c
	1	a
	2	d
	3	b
43.	4	a
	5	b
	1	d
	2	c
	3	d
44.	4	d
	5	d
	1	c
	2	d
	3	d
45.	4	b
	5	b
	1	b
	2	a
	3	b
47.	4	d
	5	c
	1	a
	2	c
	3	c
48.	4	a
	5	b
	1	d
	2	a
	3	c
49.	4	b
	5	b
	1	c
	2	d
	3	a
50.	4	b
	5	a
	1	d
	2	a
	3	b
51.	4	c
	5	d

	2	a
	3	c
	4	b
	5	b
	52.	1 b
	2	b
	3	c
	4	b
	5	a
	53.	1 c
	2	c
	3	b
	4	c
	5	b
	54.	1 b
	2	b
	3	d
	4	c
	5	b
	55.	1 d
	2	a
	3	a
	4	d
	5	A
	56.	1 a
	2	a
	3	b
	4	c
	5	c
	57.	1 b
	2	c
	3	b
	4	d
	5	b
	58.	1 c
	2	a
	3	a

	4	b
	5	D
	59.	1 c
	2	c
	3	d
	4	c
	5	c
	60.	1 d
	2	a
	3	c
	4	c
	5	b
	61.	1 a
	2	a
	3	b
	4	b
	5	c
	62.	1 c
	2	b
	3	a
	4	c
	5	b
	63.	1 c
	2	b
	3	d
	4	c
	5	c
	64.	1 c
	2	c
	3	a
	4	c
	5	b
	65.	1 a
	2	b
	3	b
	4	c
	5	d

Chapter 01		
66.	1	c
	2	c
	3	a
	4	c
	5	b
Chapter 02		
67.	1	b
	2	a
	3	c
	4	c
	5	d
Chapter 03		
68.	1	c
	2	a
	3	d
	4	a
	5	b
Chapter 04		
69.	1	a
	2	d
	3	d
	4	d
	5	C
Chapter 05		
70.	1	a
	2	a
	3	d
	4	B
Chapter 06		
71.	1	c
	2	d
	3	a
	4	d
	5	a
72.	1	d
	2	a

	3	d
	4	c
	5	c
Chapter 07		
73.	1	c
	2	c
	3	d
	4	c
	5	b
Chapter 08		
74.	1	a
	2	c
	3	b
	4	a
	5	d
Chapter 09		
75.	1	b
	2	c
	3	b
	4	a
	5	c
Chapter 10		
76.	1	b
	2	b
	3	a
	4	d
	5	a
Chapter 11		
77.	1	c
	2	a
	3	b
	4	c
	5	a
Chapter 12		
78.	1	c
	2	a
	3	d

	4	a
	5	a
Chapter 13		
79.	1	b
	2	c
	3	c
	4	a
	5	d
Chapter 14		
80.	1	c
	2	d
	3	c
	4	c
	5	a
82.	1	c
	2	d
	3	a
	4	c
	5	d
Chapter 15		
83.	1	b
	2	a
	3	c
	4	b
	5	b
Chapter 18		
84.	1	c
	2	d
	3	d
	4	a
	5	b

85	1	a
	2	d
	3	a
	4	c
	5	c
86	1	c
	2	d
	3	b
87	1	c
	2	b
	3	b
	4	b
88	1	a
	2	c
	3	b
	4	a
	5	b
89	1	c
	2	c
	3	d
	4	a
	5	b
90	1	d
	2	a
	3	c
	4	a
91	1	d
	2	b
	3	c
	4	d
92	1	b
	2	a
	3	c
93	1	d
	2	a
	3	b
	4	c

94	5	a
	1	a
	2	d
	3	b
	4	c
95	5	a
	1	a
	2	c
	3	a
	4	c
96	5	d
	1	a
	2	b
	3	c
97	4	a
	1	c
	2	a
	3	a
98	4	a
	1	a
	2	d
	3	c
	4	c
	5	b