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Summary Version

MCQ Summary &
Time/Numerical Limits

CA FINAL AUDIT: MCQ Summary, Time & Numerical Limits

- Summary of **ICAI MCQ's** (ICAI SM & Other important ICAI MCQ's)
- **One Liner solutions of MCQ's**
- **Important points** of All the chapters from which MCQ's can be asked
- All-important **Time & Numeric limits** summarized



By: CA Hemant Somani
AIR 46

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A Motivation CUM Story

I always needed a single digit rank in CA Final, But **Luck** factor was not in my favor, just **before 15 days of my exams**, me & my family got **infected by COVID**, and last 15 days are equivalent to 3 months, But I didn't loosed hope and gave exam at that time also, During exams also I was suffering from many post COVID symptoms

And Finally, I Secured AIR 46 (Not single digit),

I just want to convey that while doing your preparation, **"Always Aim for the BEST & Prepare for the Worst scenario"**



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FEATURES OF AUDIT - ALL IN ONE BOOK:

- 1) **Concepts + Question bank together** (i.e, Questions are given just below concepts)
- 2) No need to refer separate-separate Book for Concepts & question bank
- 3) Concepts are **summarized** in best possible manner (**Approx 250 pages**)
+ 250 pages Questions = 500 pages
- 4) **All ICAI RTP/MTP/SM/PAST PAPER Questions** are covered
- 5) **Tricks & mnemonics** to remember topics are given
- 6) Its Fully in **Tabular & Chart format**
- 7) Fully **Highlighted & Bold**
- 8) Completely as per **ICAI language**
- 9) Concepts are marked as **"Less Important" / "Only for MCQ"** etc

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ICAI SM MCQ's:

CHAPTER 1- Quality Control

Q. 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 ROMM in FS were called. It was also required to show how response to assessed risks was designed and implemented and communicated with TCWG.

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.

Based upon above, answer the following questions: -

- 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? [N]
 - 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.

- 2) The auditor has reasoned that ROMM 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. [N]
- Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was arrived at.
 - Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220.
 - Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.
 - Such a query, itself, is outside the mandate of authority.
- 3) Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below: - [N]
- 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.
 - Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.
 - 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
 - Engagement quality control review is dependent upon benchmarks established under SQC 1. If those benchmarks are satisfied, such a review is necessary.
- 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?
- Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220.
 - 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.
 - Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.
 - Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220
- 5) On your overall reading of the case study, which of the following statements appears to be true? [N]
- The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA-220.
 - 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.
 - SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220.
 - SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.

Summary of above case study MCQ's:

- If auditor has no record of audit plan, it goes on to show non-compliance with SA 220.
- If Auditor has NOT submitted record of how ROMM was arrived at, it does not affect compliance with SA 220.
- EQCR is Mandatory for Audit : Otherwise Non-Compliance with SA 220
- FS is prepared as per IND-AS, But in FS Notes it was mentioned AS names: Non Compliance of SA 220 if not spotted & dealt by auditor correctly
- By considering point "a" to "d" above > it can be concluded that:
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

CHAPTER 2- General Auditing Principles & Auditor's Responsibilities

Q. 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.

On the basis of above, answer the following questions: -

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? [N]
 - (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
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? [N]
 - (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
3. Which of the following statements most appropriately describes responsibilities of auditor in relation to compliance with state pollution control legislation and regulations ? [N]
 - (a) Sufficient appropriate evidence needs to be obtained by auditor to verify compliance.
 - (b) Physical verification of workability of such systems is required from an auditor.
 - (c) **Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance.**
 - (d) Only physical verification of workability of such systems and review of correspondence with regulatory authorities are suffice to verify compliance.

4. 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? [N]
- He should obtain further information to evaluate the possible effect on financial statements.
 - He must report the matter to concerned government department.
 - 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.**
 - He should express a modified opinion in audit report
5. Which of the following statements is most appropriate about documentation of non-compliance with laws and regulations by an auditor in context of SA 250? [N]
- Instances of identified non-compliance with laws and regulations need to be documented.
 - Instances of suspected non-compliance with laws and regulations need to be documented.
 - Instances of non-compliance with L&R finally determined by Courts of law need to be documented
 - Instances of identified as well as suspected non-compliance with L&R need to be documented.**

Summary of above case study MCQ's:

- If there is **Rise in Inventory fraud** > there for physical count > It's **Not advisable to give prior intimation.**
- Since revenue Recognition have pre-assumed risk > **The auditor needs to document reasons for arriving at conclusion that there is no ROMM due to fraud related to revenue recognition**
- For Pollution Related Laws: Only inquiry of company management personnel and review of correspondence with regulatory authorities** are suffice to verify compliance
- For Child labor laws: obtain further information to evaluate the possible effect on financial statements.** Besides, he should evaluate implications of non-compliance for audit risk assessment
- identified as well as suspected non-compliance with L&R need to be documented**

CHAPTER 3 - AUDIT PLANNING, STRATEGY & EXECUTION

Q. 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.

Keeping in view above, answer the following questions:

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? [N]**
 - a) Such activities are required to be 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 be 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. **[Confusion]**
2. **The auditor has obtained risk management policy of the company. Which of the following statements is most appropriate in this regard? [N]**
 - 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.
3. **Which of the following is not likely to be a procedure for auditor to understand the company? [N]**
 - 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**
4. **Considering auditor's intention to identify significant audit risks pertaining to inventory valuation, which of the following statements is likely to be true? [N]**
 - 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.
5. **In relation to materiality levels for FS as a whole, which of following statement most appropriate? [N]**
 - a) Materiality has to be decided by auditor after identification & assessment of ROMM
 - b) **Materiality has to be decided by auditor prior to identification and assessment of ROMM**
 - 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 TOC & substantive procedures.

Summary of above case study MCQ's:

- a) **verification of integrity of promoters and key management personnel: Such activities are required to be 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**
- b) **The understanding of company's risk management policy is required by auditor. It may help the auditor in identifying ROMM that management failed to identify**

- c) Which is not a procedure for auditor to understand the company > **Seeking confirmation letters from bankers regarding outstanding balances**
- d) **Auditor intention to identify significant audit risks pertaining to inventory valuation > Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit plan.** (Not Strategy/TOC/TOD)
- e) For materiality of FS as whole > **Materiality has to be decided by auditor prior to identification and assessment of ROMM**

CHAPTER 4 - MATERIALITY, RISK ASSESSMENT AND IC

Q. 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: **(INR In lacs)**

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

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: -

- 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?
 - There is audit risk that revenue from operations is overstated.
 - There is audit risk that revenue from operations is not overstated.
 - There is audit risk that fresh customers of company do not make payments
 - There is audit risk that company is overutilizing its plant capacity leading to rapid plant obsolescence.
- 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? [N]
 - Operating expenses figures of two years can be same. There is no audit risk involved.
 - It is an anomaly. However, there is no audit risk involved.
 - 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.
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.
- In direct distribution through online platform, trade receivables turnover ratio is estimated to be high. Therefore, there is no audit risk involved.
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. Therefore, there is no audit risk involved [Confusion]
 - 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
 - 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.
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 ?
- There is audit risk that there is overstatement of cost of sales.
 - There is audit risk that margins with customers may have increased.
 - There is audit risk that closing inventories may be undervalued.
 - There is audit risk that cost of sales may not be completely recorded.
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? [All Points are confusing]
- 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.
 - Raising of inventory levels may raise locked up funds in inventories. There is audit risk that it can lead to rise in costs
 - 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.
 - There is audit risk on account of both the factors stated at [b] & [c].

Summary of above case study MCQ's:

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

- No substantial increase in plant capacity > but sales has been increased > There is audit risk that revenue from operations is overstated
- Operating expenses of last Yr. is showing exactly same as current Yr > There is audit risk that previous year figures have been presented in place of current year figures in draft financial statements
- Trade receivable ratio has been increased from last yr > 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
- GP has been increased from last yr. > There is audit risk that cost of sales may not be completely recorded

- e) Inventory turnover ratio has been increased > 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

CHAPTER 5 – AUDIT EVIDENCE

Q. 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 SAAE in this regard through alternative audit procedures either.

The team documents all the relevant information w.r.t. above facts, & CA Anu issues the audit report accordingly.

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? [Hint: not received response of positive confirmation request]
 - 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.
2. With respect to advocate Chadha's cold shoulder to CA Anu's request, what she should do? [Hint: Legal Counsel of Entity refused to communicate with Auditor]
 - a) Modify her audit opinion
 - b) Give an unqualified opinion
 - c) Give a disclaimer of opinion
 - d) Withdraw from this engagement
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.? [Hint: Mngt/CFO refused to send confirmation request]
 - 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.**
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? [**Hint**: which audit procedure not to perform for legal case SA 501]
- Inquiry of Management.
 - Inquiry of Mr. X**
 - Reviewing Minutes of Meetings
 - Reviewing Legal expenses account

CHAPTER 6- COMPLETION & REVIEW

C.S: 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:

- What should be the appropriate date of signing of the new audit report? [**Hint**: New F.S issued due to subsequent event, approved as on 25.07.2023]
 - 20.07.2023
 - Anytime between 15.07.2023 & 18.07.2023
 - On or after 25.07.2023**
 - Anytime between 15.07.2023 & 25.07.2023

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? [N]
 - a) Obtaining an understanding of the management's procedures set up to identify subsequent events.
 - b) Inquiring of the management w.r.t the occurrence of any such subsequent events.
 - c) Reading the minutes of the meetings of the board held after the balance sheet date during this period.
 - d) **Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report**

3. W.r.t the first audit report dated 15.07.2023, which type of opinion was most likely provided by her? [Hint: mngt not disclosed subsequent event in FS i.e., Due to Fire stock get damaged]
 - a) **Modified opinion**
 - b) Unqualified opinion
 - c) Disclaimer of opinion
 - d) Including a statement in Emphasis of Matter/Other matters para

4. W.r.t the new audit report issued, which type of opinion is most appropriate? [Hint: new audit report on amended FS due to subsequent event]
 - a) Disclaimer of opinion
 - b) Unqualified opinion
 - c) Adverse opinion
 - d) **Unqualified opinion and a statement in Emphasis of Matter/Other matters para.**

5. The fire event occurring on 27.6.2023 in the company's plant requires the following action on part of management: [N]
 - a) **Disclosure in notes to accounts**
 - b) Adjustment in financial statements
 - c) Waiting for the insurance company to settle the claim
 - d) Preparing financial statements afresh

Summary of above case study MCQ's:

- a) **New FS issued due to subsequent event** > approved on 25/07/2023 > Date of signing new audit report should be > on or after 25/07/2023
- b) Which is NOT a procedure to check Subsequent Events > **Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report**
- c) **Mngt not disclosed subsequent event in FS i.e., Due to Fire stock get damaged** > **Modified Opinion**
- d) For **new audit report issued on amended FS due to subsequent event** > **which type of opinion is most appropriate** > **Unqualified opinion and a statement in Emphasis of Matter/Other matters para**
- e) **The fire event occurring on 27.6.2023** > **Disclosure in notes to accounts require in FS**

C.S. 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: -

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? [Hint: For G.C.]
 - 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.**
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).
3. CA Namit's conclusion in the above case will lead him to give which type of audit opinion from the following? [Hint: Appropriate disclosure in FS for G.C. material uncertainty]
 - (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)**

4. Consider the following statements: - [N]

Statement I: - The Management is under a responsibility to make specific assessment of the company's ability to continue as a going concern.

Statement II: -. The Management is under a responsibility to make appropriate disclosures in connection with going concern in the financial statements.

- Statement I is correct only.
 - Statement II is correct only as Statement I falls under the auditor's responsibilities
 - Both statements are correct.**
 - Both statements are incorrect.
- 5) Which of the following is most appropriate regarding "going concern" assumption? [N]
- It signifies that company is reflecting net losses in its financial statements
 - It signifies that company is not modernising its plant and machinery.
 - It signifies that company has no intention of curtailing materially the scale of its operations in foreseeable future.**
 - It signifies that assets are likely to be recorded at the prices they would fetch.

Summary of above case study MCQ's:

- Auditor **can-not provide Guarantee** for G.C of entity
- Audit procedure when some event identified which can affect G.C., Does not Include:
 - Make a specific assessment of the company's ability to continue as a going concern**
 - Make appropriate disclosures in the financial statements in connection with going concerns**
 - Writing a para addressed to the stakeholders in the audit report citing the results of procedures adhered to relating to the going concern assumption**
- If appropriate disclosure is given in FS regarding material uncertainty of G.C. > "Unmodified Opinion" + " separate section "Material uncertainty wrt Going concern"
- Mngt is responsible for both > For assessing G.C as well as Appropriate disclosure in FS w.r.t GC
- GC assumption > **It signifies that company has no intention of curtailing materially the scale of its operations in foreseeable future.**

CHAPTER 7- REPORTING

C.S: CA. Raghav is in midst of finalizing audit reports of **five clients**. On reviewing each file, it is noticed as under:

- 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.
- TS Limited** has been **dragged to court by BS Limited for stealing its trade secrets using cyber theft** and filed a **claim for Rs. 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 Rs. 2 crore**, on a **turnover of Rs. 100 crore**. There is an export receivable from a chain of stores outstanding in F.S. of Rs. 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 Rs. 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 **Rs. 8 crores**. **PBT of client is Rs. 10 crores.**

Based upon above, answer the following questions: -

- 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?
 - Qualified opinion will be issued and basis for qualified opinion will also be provided.
 - Adverse opinion will be issued and basis for adverse opinion will also be provided. **[NO]**
 - 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 "FS have been audited" to "auditor was engaged to audit FS."**
 - 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."
- Considering litigation matter of TS Limited, which of the following statements is most appropriate in this regard?
 - Unmodified opinion needs to be expressed by auditor
 - It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor. **[N]**
 - It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.**
 - The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor. **[N]**
- Considering description of issue regarding non-recoverability of export receivable of Rs. 3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?
 - Disclaimer of opinion
 - Unmodified opinion
 - Qualified opinion
 - Adverse opinion**
- 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.
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 8- SPECIALIZED AREA

Q. Given below is an extract of **abridged FS** 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 Rs. 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: -

1. Given the above extract of abridged financial statements and description, which of the following statements is most appropriate? [N - as Criteria is prescribed by SEBI]
 - 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
2. Which of the following statements in reference to abridged financial statements is NOT in accordance with the requirements of SA 810? [N] - read all options
 - 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 FS have been compared with the related information in the audited FS to determine whether the abridged FS 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.
3. Which of the following paras is most appropriate to be included under heading "Auditor's responsibility" in the auditor's report? [N]
 - a) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with SA's issued by the ICAI
 - 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 FS" 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. [N]
 - 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.
4. Which of the following paras is most appropriate to be included under heading "Opinion" in auditor's report? [N]
 - 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. [N]
 - 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.
5. Which of the following is usually not an element of audit report on abridged financial statements in accordance with SA 810? [N]
- a) Emphasis of matter paragraph.
 - b) Other matter paragraph
 - c) Management's responsibility for abridged financial statements
 - d) Key audit matters.

Summary of above case study MCQ's:

- a) If criteria is prescribed by SEBI (SA 800) > Pre-assumed it as acceptable > The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable
- b) Not a requirement of SA 810 regarding abridge FS > It should be stated in auditor's report that abridged FS have been compared with the related information in the audited FS to determine whether the abridged FS agree with or can be recalculated from the related information in the audited FS
- c) Auditor's responsibility as per SA 810 > 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 FS" issued by the Institute of Chartered Accountants of India
- d) In Opinion Section > 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.
- e) "Key Audit report" is NOT an element of abridge FS as per SA 810

CHAPTER 9- AUDIT RELATED SERVICES

Q (SRS 4410). 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.

Keeping in view above, answer the following questions: -

1. In respect of errors in some of opening balances noticed as described in case, which of the following statements is most appropriate? [N]
 - 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. [N]
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. [N]
 - 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
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? [N]
 - 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. [N]
 - 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.
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? [N]
 - 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. [N]
 - 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.

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? [N]

- Final engagement file should be assembled in not more than 60 days after the date of the report
- Final engagement file should be assembled in not more than 120 days after the date of the report
- 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.**
- There is no requirement of assembling of final engagement file in a compilation engagement

Summary of above case study MCQ's:

- Error in Opening Balance > **should be brought to the knowledge of management**
- It is necessary to verify accuracy & completeness of revenue (ensure revenue matched with TB)
- Omission of expenditure by Mngt > it's integrity issue of mngt**
- SRS 4410 > File assembly time > (Not 60 days) > it's > 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**

CHAPTER 10- Review of Interim Financial Information

C.S of SRE 2410: 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

- 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.
- 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 XXXXXXXXXXXXX.
- 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 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.
- 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: -

- 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 [N]

- 2) Under para 2 of the case study, choose the appropriate sentence beginning with "Our responsibility XXXX": [N]
 - a) Our responsibility is to express an opinion on the Statement based on our review [N]
 - 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.

- 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 FI 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.

- 4) Which of the following statements is most appropriate to be inserted in sentence beginning with "A review is substantially XXXX" in para 3? [N]
 - 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. [N]
 - 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

- 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. [Author's note: Read language carefully : It means It has Disclosed all Info required ... including a/cing Policy]

- 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. [N]
- 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 - Prospective Financial Information & Other Assurance services

CS (SAE 3400):

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

Based on your knowledge and description of the case, answer the following questions:

- 1) **Whose responsibility is to list out assumptions underlying prospective financial information? [N]**
 - 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.
- 2) **Which of the following statements is most appropriate regarding "use of prospective financial information" to be included in such a report? [N]**
 - 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.
- 3) **What should be language of such unmodified assurance report regarding underlying assumptions?[N]**
 - 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.
- 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? [N]**
 - 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. [N]
- 5) **Which of the following statements is most appropriate regarding UDIN in context of examination of prospective financial information by a Chartered Accountant? [N]**
 - 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.

Summary of above case study MCQ's:

- a) It is responsibility of **Management** > to list out assumptions underlying prospective financial information
- b) SAE 3400 > **Intended use of projection is required to be disclosed. It is further necessary to caution the users regarding inappropriateness of projections for other purposes**
- c) SAE 3400 > Unmodified report on assumption > **Negatively worded to suggest assumptions are not on a reasonable basis**
- d) SAE 3400 > **Accuracy of projections is not at all vouched for in an assurance report on prospective financial information**
- e) SAE 3400 > **mandatory to state UDIN in such type of reports**

CHAPTER 12: DIGITAL AUDITING

C.S: Consider the following five situations: -

- 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:

- 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

- 2) Which type of cyber attack is referred to situation described in para [B]?
- Ransomware
 - Trojan
 - Denial of service attacks
 - Fileless Malware
- 3) In situation described at [C] above, which is NOT part of risk assessment procedures to assess cyber security risks? [N]
- Making inquiries regarding processes and controls relating to privileged account access
 - Making inquiries regarding processes and controls relating to patch management program
 - Making inquiries regarding processes and controls relating to vendor risk management program
 - Performing external network penetration testing
- 4) The kind of services being provided by an entity described at [D] above, are example of use of: -
- Blockchain technology
 - Internet of things
 - Ethical hacking
 - Cyber attestation
- 5) Which of following is false in an audit described at para [E]? [Author Hint: Remote Auditing]
- The opportunity to present doctored documents and to omit relevant information is decreased
 - Remote access to sensitive IT systems may not be allowed.
 - It provides comfort and flexibility to the audit team as they would be working from their office/home environment.
 - Time zone issues could also affect the efficiency of audits.

CHAPTER 13: Group Audit

CS: 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: -

- 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.
- 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.**
- 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.
- 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.

Based upon above information and description, answer the following questions:-

1. Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct?
 - a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.
 - b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.
 - c) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.
 - d) The said disclosure is proper.

2. What should be auditor's proper course of action pursuant to situation highlighted in para [B] relating to financial statements of a foreign subsidiary? [i.e., Author's Note: Difference is of 3 month only]
 - 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.

3. Which of the following statements is correct in respect of goodwill and other matters described in the case scenario? [N]
 - a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.
 - b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.
 - c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.
 - d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments.

4. Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 15.6.22? [N]
 - a) The auditor should verify that income and expenses of subsidiary are included in consolidated FS 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 FS 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 FS 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 FS 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 FS at the acquisition date.
5. As regards reporting under reporting CARO, 2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law? [N]
- 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 14.1: Audit of Banks

Q. CA. Madhusudan is conducting concurrent audit of a branch of a nationalized bank. It is a large branch having deposits of Rs. 350 crore and advances of Rs. 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 Rs.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.

Keeping in view above, answer the following questions: -

- 1) **As regards dormant deposit accounts in the branch, which of the following is NOT part of duty of concurrent auditor? [N]**
 - 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)

- 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? [N]**
 - 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 360degree credit profile of the customers by monitoring of transactions. Its primary purpose is assisting banks in making prudent credit decisions. [N]
 - 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 management.**

- 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? [N]**
 - 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.

- 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? [N]**
 - 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.

- 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 [N].
- d) The matter concerns branch management's decision. It does not fall in purview of concurrent audit.

Summary of above case study MCQ's:

- a) Concurrent auditor is not required to > Following up with account holders to ensure status of accounts remains active
- b) KYC guidelines contain detailed requirements in respect of customer acceptance policy, customer identification procedures, monitoring of management
- c) Temporary overlimit in cash credit > The said instances can be reported in monthly concurrent audit report. However, a discussion is necessary with Chief Manager in this respect
- d) Advance has been lending again to same type of Industry > 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
- e) Foreclosure charge need to be reversed due to some MSME guidelines .. So revenue will be loss > The matter should be reported even though it would lead to revenue loss for branch

CHAPTER 14.2: Audit of NBFC's

Q.CS: 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.

Keeping in view above information, answer the following questions: -

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? [N]
 - 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.
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? [N]
 - 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 assets/income pattern**
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? [N]
 - a) **Such instances are required to be reported under CARO, 2020 under relevant clause**
 - b) Cash embezzled amount is less than Rs.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. [N]
 - d) Such instances are to be specifically reported in auditor's report under Section 143(3) of Companies Act,2013.
4. As regards description of capital adequacy ratio as described in para [D] of case, which of the following statements meets regulatory reporting requirements? [N]
 - a) Auditor has to ascertain & verify whether such ratio has been disclosed in FS 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 FS in notes to accounts and has been correctly arrived at and is in compliance with minimum CRAR prescribed by RBI.
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 an estimates, she wants to state how it was addressed by her. How she can do that? [N]

- 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.

Summary of above case study MCQ's:

- a) For NBFC: Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company.
- b) W.r.t Certificate of Registration of NBFC > 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 assets/income pattern
- c) Cash Embezzlement > required to be reported under CARO, 2020 under relevant clause
- d) Capital Adequacy Ratio > 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
- e) Allowance for Debt Loss (ECL) as per Ind As 109 > if it's involve significant judgement > It can be KAM

CHAPTER 15: Overview of Public sector undertaking

CS Q:

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 Rs. 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.

Answer the following questions based upon above information:

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.
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.
3. As regards listed PSU described in para [C] of case, which of the following statements is most appropriate? [N]
- 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. [N]
 - 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.
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.
5. PSU engagements are generally attestation engagements or direct reporting engagements. Which of the following statements is correct in this regard? [N]
- 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