

6. "Completion and Review"

PART- I DESCRIPTIVE QUESTIONS

6.1 – SA 560 "Subsequent Events"

Q.1. "Move Fast Limited" is engaged in the manufacturing of shoes and slippers located in Bahadurgarh in Haryana. Due to unprecedented rains in the area in the month of September 2022, many areas of the town got inundated due to the choking of sewer systems. As a result of the above, the company's premises located in town were also affected, resulting in damage of stocks. The company has lodged a claim with the insurance company for ₹ 1 crore, and the same is shown as a claim receivable as of 31st March 2023, as the claim was not settled at year end.

The insurance surveyor appointed in the case submitted a report to the insurance company recommending a claim of ₹ 45 lacs in the month of April 2023. The company has also given its consent for the same, and the settled amount of ₹ 45 lacs were transferred to the bank account of the company on 15th May 2023.

You have just finished performing substantive procedures of the company by the end of May 2023. Is there any responsibility cast upon you as auditor of the company in the above situation?

Ans: **Events occurring after Balance Sheet Date:**

- The given situation provides evidence of conditions that existed at the date of financial statements. Initially, the company had lodged claim of ₹ 1 crore and the same is reflected as claim receivable in financial statements as on 31st March, 2023.
- However, subsequent events occurring have provided evidence claim was settled for ₹ 45 lacs only. Such settled amount has already been accepted by the company by providing its consent. Therefore, such events have provided fresh information about items included in financial statements.
- Further, performance of substantive procedures has been finished implying that audit report is not yet issued.

Conclusion: Financial statements as on 31st March, 2023 should be adjusted to reflect fresh information emanating from described events and management should be asked to take appropriate action in this regard so that adjustment pertaining to above is properly reflected in financial statements in accordance with applicable financial reporting framework.

Q.2. CA Anuj is the auditor of a listed company, and he is in the midst of conducting an audit of the said company for the financial year ending 31st March 2023. At a meeting of the Board of Directors held on 17th April 2023, a dividend of ₹ 1 crore is proposed to equity shareholders @ ₹ 10/- per share, and such a proposal has a good chance of being approved in the AGM of the company to be held after few months.

His audit procedures are near completion. He is contemplating finalizing the audit report by 31st July 2023. Is there any responsibility thrust upon him as auditor of the company?

Ans: **Disclosure Requirements w.r.t. proposed dividend:**

- In the given situation, dividend has been proposed by Board of Director on 17th April, 2023. It is an example of condition that arose after reporting period. No liability exists for company on the reporting date because there is no obligation to pay at the reporting date in accordance with Ind AS 1.

- Therefore, above situation does not require recognition of above proposed dividend in financial statements. It is an example of events which does not require adjustments. However it should be disclosed in financial statements in notes to accounts

Conclusion: It should be ensured that dividend proposed is disclosed in notes to accounts in financial statements. Auditor should verify in accordance with SA 560 that dividend proposed is disclosed in notes to accounts.

Q.3. Ramadhan & Co. are the Auditors of XYZ Company Ltd., for the year ended on 31.03.2023. The Audit Report for that year was signed by the Auditors on 04.05.2023. The Annual General Meeting was decided to be held during the month of August 2023. On 06.05.2023, the Company had received a communication from the Central Government that an amount of ₹ 5,800 Crore kept pending on account of incentives pertaining to Financial Year 2022-23 had been approved and the amount would be paid to the Company before the end of May 2023. To a query to Chief Financial officer of the company by the board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the financial year and due to uncertainty of receipt. Now, having received the amount, the board of Directors wished to include this amount in the Financial Statements of the company for the Financial Year ended on 31.03.2023. On 08.05.2023, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report for the year ended on 31.03.2023. Analyse the Issues involved and give your views as to whether or not the Auditor could accede to the request of the Board of Directors.

Ans: **Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued:**

- As per SA 560, "Subsequent Events", auditor has no obligation to perform any audit procedures regarding the F.S. after date of the auditor's report. However, when, after the date of the auditor's report but before the date the F.S. are issued, a fact becomes known to the auditor that had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
 - (i) Discuss the matter with management and, where appropriate, TCWG.
 - (ii) Determine whether the financial statements need amendment and, if so.
 - (iii) Inquire how management intends to address the matter in the financial statements.
- If management amends the financial statements, the auditor shall: Meeting Was
 - (a) Extend the audit procedures to the date of the new auditor's report: and
 - (b) Provide a new auditor's report on the amended financial statements.
 New auditor's report shall not be dated earlier than the date of approval of the amended F.S.
- In the instant case, XYZ Company Ltd. received an amount of ₹ 5,800 crore on account of incentives pertaining to year 2022-23 in the month of May 2023 i.e. after finalisation of financial statements and signing of audit report. Board of Directors of XYZ Ltd. amended the accounts, approved the same and requested the Ramadhan & Co. (auditor to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2023

Conclusion: After applying conditions given in SA 560. Ramadhan & Co. can issue new audit subject to date of audit report which should not be earlier than the date of approval of the amended financial statements.

Q.4. You are the auditor of PQR Ltd. which is in the business of supplying food products to various companies operating aircrafts in domestic circle only. As per terms of agreement with airlines, the company needs to stock various non-perishable food items for coning one month (average holding of inventory to the tune of INR 75 Crores). Also the payment terms have been settled and the company receives payment in 45 days after the supply of goods. Everything was going-on well till the end of March 2021 when pandemic Covid hit the world and everything came to a standstill. Aviation sector was hit hard and there were no flights from April 2021 onwards.

Consequently, the business of PQR Ltd. also got severely affected and the scheduled supplies of goods to airlines also were not made. Also, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates.

As the auditor of PQR Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended on 31.03.2021 represent true and fair view?

Ans: Audit Procedures on subsequent Events:

- SA 560 “Subsequent Events” deals with the auditor’s responsibilities relating to subsequent events in an audit of financial statements.
- As per SA 560 the term, Subsequent Events may be defined as the events occurring between the dates of balance sheet and audit report and the facts that become known to the auditor after the date of the auditor’s report.
- The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements have been identified.
- The auditor’s procedures on subsequent events shall include the following:
 - (a) Obtaining an understanding of the procedures through which management has identified subsequent events.
 - (b) Inquiring of management and, TCWG as to occurrence of subsequent events which might affect the financial statements.
 - (c) Reading minutes of management & TCWG meetings that have been held after the date of the financial statements.
 - (d) Reading the entity’s latest subsequent interim financial statements, if any.
- When, as a result of the procedures performed as required the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

Q.5. M/s LMP Associates, Chartered Accountants while conducting the audit of PQR Ltd want to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. Guide M/s LMP Associates with the matters where specific enquiry may be conducted to evaluate subsequent events.

Ans: Specific Inquiries having effect on the financial statements:

SA 560 “Subsequent Events” deals with the auditor’s responsibilities relating to subsequent events in and, where appropriate, TCWG as to whether any subsequent events have occurred which might an audit of financial statements. SA 560 requires from the auditor to conduct

inquiry of management affect the financial statements. The matters where specific inquiry may be conducted are as listed below:

1. Whether new commitments, borrowings or guarantees have been entered into.
2. Whether sales or acquisitions of assets have occurred or are planned.
3. Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
4. Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
5. Whether there have been any developments regarding contingencies.
6. Whether any unusual accounting adjustments have been made or are contemplated.
7. Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case for example, if such events call into question the validity of the going concern assumption.
8. Whether any events have occurred that is relevant to the measurement of estimates or provisions made in the financial statements.
9. Whether any events have occurred that are relevant to the recoverability of assets

6.2 SA 570 "Going Concern"

Q.6. CA. Somya is auditor of a company engaged in rearing of poultry birds and obtaining eggs there from. The company has performed very well since its incorporation in 2013. Its sales had also grown and the company had expanded its market from the native northern state of promoters to far-flung areas in eastern parts of country.

However, since last two years, company's fortunes have nosedived. First, due to the effects of the pandemic and then due to recurrent outbreaks of bird flu thrice in a span of two years. The company's sales have dipped from around 50 crores to? 10 crores. Further, a major part of its livestock was also wiped off during bird flu. She is not optimistic about the going concern assumption followed by management.

The management now wants to start with new batches of birds. The earlier working capital facilities of the company granted by bank have also been restructured to support the business. She was informed that the repayments of restructured working capital term loans are to begin from ensues year. No fresh credit facilities have been granted by the bank. The company also plans longer credits from animal feed suppliers.

The company plans to take additional measures to prevent the safety of live stocks, including aggressive vaccination, preventive health check-ups, and more frequent visits of veterinary staff.

The villagers in surrounding areas have accused the company of spreading air pollution.

The management has prepared a cash flow forecast for her examination.

Discuss the approach to be adopted by her in examining the "going concern" assumption keeping in view above with specific reference to cash flow forecast.

Ans: Auditor's Approach in examining "Going Concern" Assumption w.r.t. Cash Flow Forecast:

- In accordance with SA 570, "Going Concern" if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going SAAE to concern, auditor shall obtain determine whether or not a material uncertainty exists

related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern by performing additional audit procedures, including consideration of mitigating factors.

- Where the entity has prepared a cash flow forecast, and analysis of forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions, it includes:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- In the above situation, cash flow forecast has been prepared by management. Therefore, she should carefully evaluate assumptions underlying forecast and also reliability of data to prepare the forecast. For example:
 - (a) She should verify assumption regarding fresh batch of livestock. The bankers have not provided fresh credit facilities. How funds from the same would be arranged? The Reasonability of assumption in cash flow forecast needs to be looked into.
 - (b) She needs to check loan sanction letters/agreement to verify when repayments are beginning to see their accuracy in cash flow forecasts.
 - (c) The company plans to avail longer credits from animal feed suppliers. In the downturn situation of the company, how would suppliers extend longer credits? This is going to have effect on the cash flow forecast.
 - (d) Whether company has accounted for increased expenditure on preventive health check-up, vaccination and more frequent visits of veterinary staff in cash flow forecast.
 - (e) Since villagers have accused the company of spreading air pollution, how does the company plan to deal with the same? Whether any proposed expenditure in this regard is accounted for in the cash flow statement. She may also consider other implications of this issue and possible effect on cash flows.

Q.7. CA Sooraj finds that key financial ratios of a company, like current ratio, debt-service coverage ratio, Inventory turnover ratio, and trade receivables turnover ratio, are in red and have deteriorated considerably as compared to last year. The company is also not able to pay to its creditors on time.

The company is requesting time and again to its bankers to grant additional credit facilities but bankers are not listening.

There have been significant losses to the company due to the lack of response of the company's products in the market. As a result of it, many products are sold at below cost price. There have been situations where the company is not able to pay the salaries of staff on time.

All these negative findings have led him to conclude that the use of going concern as the basis of accounting is not appropriate. He brings this matter to the knowledge of CFO of the company. What is reporting duty cast upon him in such a scenario?

The CFO informs him that the management, in turn, is ready to include in the disclosures the inappropriateness of its use of going concern assumption of accounting.

How should it impact the auditor's opinion in case management itself discloses the inappropriateness of its use of going concern assumption of accounting now?

Ans: Inappropriate Use of Going Concern Assumption of Accounting:

- If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the auditor shall express adverse opinion.
- The requirement for an auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

Conclusion: Even if management discloses that its use of going concern assumption of Accounting is inappropriate; it would have no impact on auditor's opinion. He would need to express adverse opinion.

Q.8. Toddle Limited had definite plan of its business being closed within a short period From the close of The accounting year ended on 31st March. 2023. The financial statements for the year ended on 31/03/2023 had been prepared on the same has is as it had been in earlier periods with an Additional note that the business of the company shall cease in near future and the assets shall he disposed of in accordance with a plan of disposal as decided by the management. The statutory auditors of the company indicated this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, thereto to be made t the time of cessation only. Comment on the reporting by the statutory auditor as above.

OR

TBR Limited has plan of its business being closed due to huge loss incurred due to the recent outbreak of global pandemic, within a short period from the close of the accounting year ended on 31st March, 2023. The Financial Statements for the said year have been prepared on the same basis as in earlier periods with an additional note that the business of the Company shall cease in near future and the assets shall be disposed off in accordance with a plan of disposal as decided by the Management. The Statutory Auditors of the Company indicate this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, to be made at the time of cessation only. Comment on the reporting by the Statutory Auditor as above.

Ans: Reporting of cessation of business as a Key Audit Matter:

- As per SA 570 "Going Concern", management intentions to liquidate the entity or to cease operations are one of the events or conditions that may cast significant doubt on the entity's ability to continue as going concern. As per SA 570, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, the auditor Shall evaluate whether, in view of the requirements of the applicable FRF, the financial statement provides adequate disclosures about these events or conditions.
- Further, as per SA 701 "Communicating Key Audit Matters in the Independent Auditor's Report" when matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a Key Audit Matter. SA 701 also puts emphasis on auditor's responsibility to communicate Key Audit Matters in the auditor's report.

- As per the facts given in the case, intention of TBR Limited has a plan of its business being closed as huge loss is incurred due to the recent outbreak of global pandemic, within short period from 31st March 2023. However, financial statements for the year ended 31.03.2023 have been prepared on the same basis as it had been in earlier periods with an additional note. Thus, management's intention to liquidate the entity or to cease operations is one of the events or conditions that may cast significant doubt on the entity's ability to continue as going concern is a Key Audit Matter.

Conclusion: Auditor is required to Communicate the Key Audit Matters in accordance with SA 570 as stated above. Simple reference as to a possible cessation of business and making of adjustments, if any, he made at the time of cessation only by the auditor in his report is not sufficient.

Note: It is assumed that financial statements of current period as well as of earlier period are Not prepared on going concern basis of accounting.

Q.9. M/s Airlift Ltd, carrying on the business of Passenger Transportation by air s running into continuous financial losses as well as reduction in Sales due to stiff competition and frequent break down of its own aircrafts. The Financial Statements for the year ended on 31.03.2023 are to be now finalized. The Management is quite uncertain as to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad situation. Till the study is Completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the “Going Concern” would suitably be disclosed in notes to accounts. State the reporting requirement if any, in the Independent Auditors report in respect of this matter.

Ans: Reporting Requirements in the Independent Auditor's report in respect of Going Concern:

- As per SA 570 "Going Concern", if the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
 - (a) Adequately describe the principal events that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
 - (b) Disclose clearly that there is a material uncertainty related to going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
- If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "**Material Uncertainty Related to Going Concern**" to:
 - (i) Draw attention to the note in the financial statements that discloses the matters set out above; and
 - (ii) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.
- In the instant case, the auditor should disclose about the material uncertainty and express an unmodified opinion and in his audit report shall include a separate section under the

heading "Material Uncertainty Related to Going Concern" to draw attention to the note in the financial statements that discloses the matters set out above; and state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditors opinion is not modified in respect of the matter.

Q.10. AQP Limited is one of the prominent players in the chemicals industry. The company is a public company domiciled in India and listed on BSE and NSE. The Company was facing extreme liquidity constraints and there were multiple indicators that casted doubt over the company's ability to continue as a going concern.

The Company was led into insolvency proceedings by consortium of banks led by PNB and the NCLT ordered the commencement of corporate insolvency process against the Company on 31st August 2022. The company invited prospective lenders, investors and others to submit their resolution plans to the Resolution Professional (RP) latest by 1st January 2023. The RP reviewed the resolution plans and ensured conformity with Insolvency and Bankruptcy Code 2016. The compliant plans were presented to Committee on Creditors (CoC) on 2nd February 2023 and the resolution plan submitted by PQR Ltd. was evaluated as highest evaluated Compliant Resolution Plan. CoC of AQP Ltd approved the Resolution Plan submitted by PQR Ltd. on 2nd March 2023. The approval of NCLT was finally obtained on 4th May 2023.

PQR Ltd submitted detailed plans and commitments as part of the resolution plan including clearance of all outstanding debts which were leading to negative cash flows

Please suggest how would you deal with this situation as the auditors of AQP Ltd.

Ans: Evaluation of Appropriateness of Going Concern Basis of Accounting:

- As per SA 570 Going Concern, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (herein after referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors.
- Additional procedures shall include:
 - (i) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
 - (ii) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
 - (iii) Where the entity has prepared a cash flow forecast evaluate the reliability of the underlying data generated to prepare the forecast and determine whether there is adequate support for the assumptions underlying the forecast.
 - (iv) Considering whether any additional facts or information have become available since the date on which management made its assessment.
 - (v) Requesting WRs from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.
- The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding and shall conclude on, the appropriateness of management's use of the

going concern basis of accounting in the preparation of the financial statements.

- If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.
- In the instant case, the approval of the resolution plan is a significant mitigating factor to counter the going concern issues of AQP Ltd. PQR Ltd has submitted a detailed plan and commitments that has been given as part of the resolution plan which includes clearance of all outstanding debts which were leading to negative cash flows.

Conclusion: Events and conditions are mitigated effectively and there is no material uncertainty in relation to the ability of the company to continue as a going Concern.

Q.11. Star Ltd. is a power generating company which uses coal as raw material for its power generating plant The Company has been allotted coal blocks in the state of Jharkhand and Odisha. During the FY 2022-23, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Star Ltd. This happened in the month of Dec. 2022 and as such entire power generation process of Star Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the Company. There were delays in the payment of wages and salaries and the banks from whom the Company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the Company.

Further, when discussed with the management, the statutory auditor understood that the Company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the financial statements of Star Ltd. What course of action should the statutory auditor of the Company consider in such situation?.

Ans: Evaluation of appropriateness of Going Concern Basis of Accounting:

- As per SA 570- "Going Concern" auditor is required to obtain SAAE about appropriateness of management's use of going concern basis of accounting in preparation of the F.S. and to conclude whether a material uncertainty exists about the entity's ability to continue as a going concern.
- When use of going concern basis of accounting is inappropriate, auditor shall express an adverse opinion.
- In this case. following circumstances indicate inability of Star Ltd. to continue as a going concern:
 - (a) Ban on the allotment of coal blocks.
 - (b) Halt in power generation
 - (c) Key Managerial Personnel leaving the Company.
 - (d) Banks decided not to extend further finance and not to fund the working capital
 - (e) Requirements of the Company.
 - (f) Non-availability of sound action plan to mitigate such circumstances.

Conclusion: Considering factors as stated above, it is clear that going concern basis is inappropriate and such circumstances are not reflected in F.S. As such, the statutory auditor of Star Ltd. should:

- (i) Express an adverse opinion in accordance with SA 705: and

(ii) In the Basis of Opinion paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern & that the F.S. inadequately disclose this matter.

Auditor is also required to report as per clause (xix) of CARO 2020 that on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying F.S., auditor's knowledge of HOD and management plans, whether auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as & when they fail due within a period of one year from the balance sheet date.

Q.12. TUV Ltd. is a company engaged in the business of manufacture of spare parts. Saroj & Associates are the statutory auditors of the company for the FY 2022-23. During the course of audit, CA Saroj noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of TUV Ltd. ended for an unforeseeable time period. When discussed with the management, CA Saroj was told that the company is in the process of identifying new customers for their products. CA Saroj understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly reflected in the financial statements of TUV Ltd. for the FY 2022-23. How should CA Saroj deal with this matter in the auditor's report for the FY 2022-23? [MTP-Nov. 21; April 23]

Ans: **Evaluating appropriateness of going concern assumption:**

- SA 570 "Going Concern" requires that the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Loss of a major market or a key customer is one of the operating indicators that may cast significant doubt on the company's ability to continue as a going concern.
- In the present case, TUV Ltd. has a key customer in South Korea from which the demand for its products has ended on account of outbreak of war, subsequent destruction and government ban on import and export in South Korea. Further, the company has not yet identified new customers and is in the process of doing the same. As such, the identification of new customer is a material uncertainty that cast a significant doubt on the company's ability to continue as a going concern. However, this matter is duly disclosed by the management of TUV Ltd. in the financial statements for the year ended on 31.03.2023.

Conclusion: Considering that the going concern assumption is appropriate but a material uncertainty exists with respect to identification of new customer, CA Saroj should:

- (1) Express an unmodified opinion and
- (2) include in his audit report, a separate section under the heading "Material Uncertainty Related to Going Concern" to:
 - (i) Draw attention to the note in the financial statements that discloses the matters and
 - (ii) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Q.13. Abhinandan Limited a chemical manufacturing company, having its factory located at Nanded Village, for the year 2022-23 appointed Subahu & Co. as their statutory auditors. During the course of the audit, Subahu & Co. Identified that Abhinandan Limited received a show cause notice from National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Abhinandan Limited was dumping toxic solid waste, without treating it, on the nearby grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Abhinandan Limited. A show cause notice was already issued to Abhinandan Limited by the National Green Tribunal for levying the penalty of an amount of ₹ 500 crore. The unaudited profit for the financial year 2022-23 of Abhinandan Limited was 35 crore and the unaudited turnover was 100 crore. Upon inquiry it was identified that Abhinandan Limited has disclosed this matter in the financial statements by way of footnote, the extract of which is provided below:

"The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company's legal department has assessed and found that the judgment would be in favour of the company. Accordingly, no provision has been created for such notices."

In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter. [RTP-Nov. 22]

Ans: Evaluating appropriateness of going concern assumption:

- As per SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor is required to obtain an understanding and need to evaluate the impact of other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements.
- The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:
 - (a) Inquiring of management and, where appropriate, TCWG, as to whether the entity is in compliance with such laws and regulations; and
 - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
- As per Sec. 143(3)(1) of the Companies Act, 2013 read with Rule 11 of Companies (Audit and Auditor's) Rules, 2014, the auditor is required to report whether the company has disclosed the Impact, if any, of pending litigations on its financial position in its financial statement.
- As per SA 570, "Going Concern", if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

- (i) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
 - (ii) Disclose clearly that there is material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
- If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall
 - (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705; and
 - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
 - In the current scenario, Abhinandan Limited has received a show cause notice from the National Green Tribunal of an amount which is more than the net profit and the turnover of the company for the year. In the event of an unfavorable order for Abhinandan Limited, there will be an impact on Abhinandan Limited's ability to continue as a going concern. As a result, appropriate disclosure should be provided by management for such events which cast significant doubt on the entity's ability to continue as a going concern.

Conclusion: As no appropriate disclosure has been provided by Abhinandan Limited for show cause notice, Subahu & Co. should report this matter in their audit report under "Going Concern Para" as per SA 570 and under clause (1) of Sec. 143(3) of the Companies Act, 2013. Also, the auditor is required to issue an adverse opinion as per SA 705, "Modifications to the Opinion in the Independent Auditor's Report"

Q.14. Joy Ltd. is an entertainment company which runs a circus and travels around the country to entertain the masses. The circus began losing its popularity over the past few years and attendance has reportedly dropped by as much as 75% in the current financial year. Animal rights activists continuously targeted the circus for its use of animal creatures like elephants in the show. The CEO noted that the audience seemed to be abandoning the circus due to their expanding entertainment options. The high cost of moving the show from city to city eventually made the business model untenable. As a result, many key managerial personnel of the company left the company, there were delays in the payment of wages and salaries, and the bank from whom the company had taken funds also decided not to extend further finance or to fund further working capital requirements of the company.

When discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances (Use of going concern assumption is inappropriate). Further, all such circumstances were not reflected in the financial statements of Joy Ltd. What course of action should the statutory auditor of the company take in the auditor's report in such situation?

Ans: **Evaluation of appropriateness of Going Concern Basis of Accounting:**

- SA 570 "Going Concern" deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
- The auditor's responsibilities are to obtain sufficient appropriate audit evidence

regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

- When the use of going concern basis of accounting is inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion
- Also, when adequate disclosure of a material uncertainty is not made in the financial statements the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705; and in the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
- In the present case, the following circumstances indicate the inability of Joy Ltd. to continue as a going concern
 - (a) Expanding entertainment options of the audience
 - (b) High cost of moving the show
 - (c) Key Managerial Personnel leaving the Company.
 - (d) Banks decided not to extend further finance and not to fund the working capital requirements of the Company.
 - (e) Non availability of sound action plan to mitigate such circumstances.

Conclusion: Considering the above factors it is clear that the going concern basis is inappropriate for the Company. Further, such circumstances are not reflected in the financial statements of the Company. As such, the statutory auditor of Joy Ltd. should:

- (1) Express an adverse opinion in accordance with SA 705; and
- (2) In the Basis of Opinion paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

6.3 – SA 580 “Written Representations”

Q.15. Following is a written representation given by RES Limited to its statutory auditors Le. M/s CTK & Associates for audit of financial year 2022-23. The audit was completed and report dated 31.7.23 was issued.

Point out, if there is any, anomaly in written representation reproduced below. 15th April, 2023

To CTK & Associates
Chartered Accountants

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of RES Limited for the year ended March 31, 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable accounting standards in India.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we

considered necessary for the purpose of appropriately informing ourselves):

Financial Statements

- (a) We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 17th August 2022 for the preparation of the financial statements in accordance with financial reporting Standards, in particular, the financial statements give a true and fair view in accordance with the applicable accounting standards in India.
- (b) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- (c) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of applicable ASs in India. (SA 550).
- (d) All events subsequent to the date of the F.S. and for which applicable accounting standards in India require adjustment or disclosure have been adjusted or disclosed. (SA 560)
- (e) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (SA 450)

Information provided

- (a) We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- (b) All transactions have been recorded in the accounting records and are reflected in the F.S.
- (c) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- (d) We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- (e) We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- (f) We have disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing F.S.
- (g) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (SA 550)

Chief Financial Officer

Ans: Anomalies as to Date of Written Representation:

- The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. As the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as

practicable to, but not after, the date of the auditor's report on the financial statements.

- In the given situation, written representation is dated 15th April 2023. The audit report is dated 31st July 2023. There is a considerable lag between date of written representations and date of audit report.
- It could signify that all subsequent events after date of financial statements requiring adjustments or disclosure may not have been adjusted or disclosed in the financial statements by management.

Conclusion: As audit report is dated 31st July, 2023, it reflects that auditor has considered subsequent events occurring between date of financial statements and date of auditor's report. However, written representations pertain to 15th April 2023.

Q.16. In the course of audit of K Ltd., its auditor Mr. 'N' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders 'it was not provided. In absence of the special audit report, Mr. 'N' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also the management remained silent. Please guide Mr. 'N'

Ans: Auditors Responsibilities Relating to Fraud:

- As per SA 240, "The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements", the primary responsibility for the prevention and detection of fraud rests with both TCWG of the entity and management. In addition, an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
- As per SA 580, "Written Representations", if management does not provide the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.
- The auditor shall disclaim an opinion on the financial statements if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or management does not provide the written representations.
- In the instant case, in the course of audit of K Ltd., its auditor Mr. N observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report, which was not provided by the management despite of many reminders. Mr. N also insisted for written representation in respect of fraud on/by the company. For this request also, management remained silent.
- Section 143(12) of Companies Act, 2013 requires that if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed. For this purpose, Rule 13 prescribes the amount of ₹ 1 Cr. or more.
- Para 3(xi) of CARO, 2020 also requires the company auditor to report whether any fraud

by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

Conclusion: Auditor is required to state the facts in his report and he should also disclaim an opinion on the financial statements. In exceptional circumstances, he may also consider whether it is appropriate to withdraw from engagement.

Q.17. PRSH & Co. is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2000 Crores and profits are INR 190 Crores. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the financial statements and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advice about the date of and period covered by written representation in view of SA 580.

Ans: **Date of and period covered by written representation:**

SA 580 "Written Representations" provides the following:

- The date of the written representations shall be as near as practicable to the date of the auditor's report. However, it should not be after the date of auditor's report. The written representations shall be for all financial statements and period(s) referred to in the auditor's report.
- In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.
- WRs are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.
- Situations may arise where current management was not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

Q.18. Comment on the following: Statutory auditor of O Ltd requested the management for a written representation in respect of obsolescence of inventory and warranty obligations recognized by the company in its financial statements. The management denied the representation on the ground that during the course of audit, all the required procedures were performed by the auditor and after obtaining sufficient appropriate audit evidence, auditor has issued a clean report. Please comment.

Ans: **Written Representations as to Accounting Estimates:**

- SA 540 "Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures" requires auditor to obtain WRs from the management and, where appropriate, TCWG whether they believe significant assumptions used in making accounting estimates are reasonable.
- Depending on nature, materiality and extent of estimation uncertainty, WRs about accounting estimates recognised or disclosed in the financial statements may include representations:
 - (a) About the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable FRF, and the consistency in application of the processes.
 - (b) That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - (c) That disclosure related to accounting estimates are complete and appropriate under the applicable FRF.
 - (d) That no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.
- For those accounting estimates not recognised or disclosed in the financial statements, written representations may also include representations about:
 - (a) The appropriateness of the basis used by management for determining that the recognition or disclosure criteria of the applicable financial reporting framework have not been met.
 - (b) The appropriateness of the basis used by management to overcome the presumption relating to the use of fair value set forth under the entity's applicable financial reporting framework, for those accounting estimates not measured or disclosed at fair value.

Conclusion: Management's contention on the ground that during the course of audit, all the required procedures were performed by the auditor and after obtaining sufficient appropriate audit evidence, auditor has issued a clean report, for not providing written representation is not correct. The management should provide written representations to the auditor.

Duty of the auditor if management refuses to provide written representations:

As per SA 580 "Written Representations", if the management does not provide one or more of the requested written representations, the auditor shall:

- (i) Discuss the matter with management,
- (ii) Re-evaluate the Integrity of the management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general, and
- (iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

- (iv) Disclaim an opinion on the financial statements in accordance with SA 705 "Modifications to the Opinion in the Independent Auditor's Report".

PART- II COMPREHENSIVE CASE STUDY

Infinity Hospitality Private Limited was established in 1996 and was in the business of running hotels in tourist destinations in state of Kerala. It took lease properties on long-term leases ranging from 10 to 12 years, most with a lock-in of a whole term. The terms did not cover the force majeure clause. The company was family-owned business and had created a good reputation as value for a money budget hotel. Most of the time hotels clocked 60 to 75% occupancy rate and during the festive season/ vacations, hotel business clocked 100% Occupancy.

The capital structure of the company was debt oriented and over-leveraged.

Primary working capital was blocked in maintaining and up keeping the leased properties, running the restaurant, leases, food and beverages, salary, Director's remuneration etc.

The owners looked at the business as a cash cow and did not plough back the funds to expand the business but were content with the decent profits the hotels were generating.

As the properties were leased and not owned, most of the cash flow generated from operations was used in servicing the property and huge loans from financial institutions. What was left was withdrawn as Directors' remuneration and dividend.

Everything was going on smoothly. However, there were flash floods in Kerala due to unprecedented rains. There were landslides and roads were blocked. The entire tourist season was washed away due to infrastructural challenges. Accessibility to resorts and hotels was badly hindered. Logistics support took time to reach in far flung areas. Visit to the "The God's own country" was last on the mind of tourists. The company was hardly trying to get back to some semblance of normalcy when pandemic struck. It was double whammy for the company.

The impact on travel, tourism and hospitality business was very severe. The management of Infinity Hospitality Private Limited believed that bad days would end soon and the business would be back to normal. They also were optimistic about the government coming up with support for the industry and were hopeful of negotiating with lessors and Financial institutions for relief. They decided on humanitarian grounds not to terminate the employees and continued paying them a regular salary, maybe deferring 25% to be paid after one year. The immediate fallout was on the top line as suddenly, the business stopped.

The auditors, M/s XYZ and Associates, were conducting the audit of the company and were grappling with the situation and are seeking your guidance for the course of action they need to follow.

Theoretical Questions:

- Q.1.** What additional audit procedures must the auditor undertake as per requirements of SA 570 based on the facts given in the case?
- Q.2.** According to your judgment, what risk assessment procedures should the auditor consider for arriving at a conclusion based on the management assertion of the entity being Going Concern?
- Q.3.** What should be approach of the auditor if the management agrees that the material uncertainly exists, but the entity is a Going Concern? Also discuss reporting requirements.
- Q.4.** What if the auditor believes, on the basis of his additional audit procedures conducted to

conclude that the entity is not a Going Concern, but the management is not accepting the same? What course of action the auditor needs to undertake?

- Q.5.** What kind of written representation does the auditor need to obtain in case of the scenario covered in Q.3 above?

Multiple Choice Questions

- Q.1.** Which of the following is not a financial event/ condition as per SA 570 Going Concern?
(a) Change from credit to cash on delivery model with suppliers
(b) Arrears or discontinuance of dividend
(c) Opening of a new chain of hotels by renowned competitor near the entity's area
(d) Adverse key financial ratios
- Q.2.** Please choose the mitigating measure as the management is unable to pay lease rentals.
(a) Cancel the lease
(b) Restructure the lease agreement as ml negotiate for deferment and relief
(c) Terminate the employees and pay the lessor.
(d) All the above
- Q.3.** Which one of the following is not a responsibility of the auditor relating to communicating events or conditions identified that may cast significant doubt on the entity's Going Concern assertion?
(a) Perform additional audit procedures to identify events/ conditions beyond 12 months from the date of financial statements
(b) Whether the events constitute a material uncertainty
(c) The adequacy of related discloses in the financial statements
(d) The implications for the auditor's report
- Q.4.** Written Representation need to be mandatorily obtained from:
(a) Audit Committee
(b) Client relationship Managers
(c) Company Secretary
(d) CFO
- Q.5.** Which of the following is not main pillar of written representations?
(a) The management responsibility for preparation of financial statement
(b) Assertion related to completeness
(c) Assertion related to access to data and information
(d) Written representation provides sufficient appropriate audit evidence

Part A - Theoretical Questions

1. Additional Procedures to be performed by Auditor:

In the given situation, events and conditions have been identified which cast significant doubt on the entity's ability to continue as a Going Concern, the auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty and gather evidence including of mitigating factors. It can be done by performing following additional procedures:

- (A) Analysing and discussing cash flow, profit and other relevant forecast with management.

- (B) Analysing and discussing the entity's latest available interim financial statement.
- (C) Reading the terms of loan agreements and determining whether any have been breached.
- (D) Reading minutes of the meetings of shareholders, TCWG and relevant committees for reference to financing difficulties.
- (E) Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- (F) Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third party and assessing the financial ability of such parties to provide additional funds.
- (G) Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- (H) Confirming the existence, terms and adequacy of borrowing facilities.
- (I) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (J) Evaluating management's plans for further actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether the management's plans are feasible in the circumstances.
- (K) Evaluating management's plans for future actions may include inquiries of management as to its plan for future action, including, for example, its plan to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
- (L) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (M) Requesting written representation from management and, where appropriate, TCWG, regarding their plans for future actions and the feasibility of these plans.

2. Risk Assessment Procedures to be performed:

- When performing risk assessment procedures as required by SA-315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue the going concern. In so doing, the auditor shall consider whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern.
- The auditor shall discuss the assessment with management and determine whether management has identified events and conditions that, individually or collectively, cast significant doubt on the entity's ability to continue as a going concern and if so, management's plan to address them.
- The auditor shall specifically draw attention of Management on following events or condition and get the response on how they plan to address them.
- The company is debt heavy and over leveraged. The leased properties are having considerable lock-in period with absence of force majeure clause. There are no contingency reserves available with company. All these factors shall be taken into account while performing risk assessment procedures.

3. Auditor's approach in case of existence of Material Uncertainties :

- If the auditor concludes that the management's use of going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, auditors shall determine whether the FS.:

- (a) Adequately disclose the principal events or conditions that make a significant doubt on the entity's ability to continue as a going concern and management's plan to deal with these events or conditions, and
- (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern and therefore, that it may be unable to realize its assets, and discharge its liabilities in the normal course of business.
- (c) The disclosures may include:
 - (i) Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations;
 - (ii) Significant judgements made by management as a part of its assessment of the entity's ability to continue as a going concern;
 - (iii) Disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of the occurrence;
- Auditor shall express an unmodified opinion and the auditor's reports shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:
 - Draw attention to the note in the financial statement that discloses the events or conditions and
 - State that these events are conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and the auditor's opinion is not modified in respect of the matter and how the matter was addressed in the audit

4. Reporting Requirements in case of Inappropriate use of Going Concern:

If management has prepared financial statements using the Going Concern assertion to which auditor differs as according to his judgement, the Going Concern assertion by the management is not appropriate, then the auditor is required to express an adverse opinion.

5. Written Representations :

The auditor needs to obtain written representation from management and where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

Part B - Multiple Choice Questions

1. (c) Opening of a new chain of hotels by renowned competitor near the entity's are
2. (b) Restructure the lease agreement and negotiate for deferment and relief
3. (a) Perform additional audit procedures to identify events/ conditions beyond 12 months from the date of financial statement
4. (d) CFO
5. (d) Written representation provides sufficient appropriate audit evidence

PART- III MULTIPLE CHOICE QUESTIONS

1. When the management amends the financial statements, which were already issued, what audit procedures is the auditor required to perform?
 - (a) Carry out the audit procedures necessary to gain sufficient appropriate audit evidence over the event.
 - (b) Extend the audit procedures to the date of the new auditors report.
 - (c) Provide a new auditors report on the amended financial statements. The new auditors report shall not be dated earlier than the date of approval of the amended financial statements.
 - (d) All of above

2. If the use of going concern basis of accounting in the preparation of financial statements considered appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall
 - (a) Express an adverse opinion or a qualified opinion as per SA 705(Revised).
 - (b) Express a disclaimer of opinion.
 - (c) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material uncertainty Related to Going Concern" to highlight the note disclosing the matter.
 - (d) Express an unmodified opinion and consider including an Emphasis of Matter paragraph to highlight the note disclosing the matter.

3. Which of the following statements is not correct about performing audit procedures to identify subsequent event?
 - (a) The procedures are to be performed by the period between the date of financial statements & date of auditor's report or as near as practicable.
 - (b) Obtain written representation from the management that events have been adjusted or disclosed as per applicable financial reporting framework.
 - (c) Perform additional procedures on matters which have already yielded satisfactory conclusions.
 - (d) The auditor has to perform procedures in respect of all the facts which would have an impact on the auditor's report.

4. Arrange the following audit procedures in proper order, in case of requested written representations not provided:
 - I. Take appropriate actions including determining possible effect on audit opinion.
 - II. Re-evaluate integrity of management.
 - III. Discuss matter with management.
 - IV. Evaluate effect on reliability of representations (oral or written) and audit evidence.
 - (a) 1-4, 11-2, III-1; IV-3
 - (b) 1-2; 11-3; III-4; IV-3
 - (c) 1-2; 11-4; III-1; IV-3
 - (d) 1-4; II-1, III-3; IV-2

5. Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for FY 2022-23 as an engagement partner on behalf of Verma & Associates having

six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

The financial statements of Upshaant Ltd. for FY 2022-23 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.

Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?

- (a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.
- (b) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the basis of opinion paragraph.
- (c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
- (d) Original Dates to provide new or amended audit red and aditional date will be included. Alternative available was to provide now or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.

6. If the use of going concern basis of accounting in the preparation of financial statements is of considered appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall:
- (a) Express an adverse opinion
 - (b) Express a qualified opinion.
 - (c) Express a disclaimer of opinion
 - (d) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" to highlight the note disclosing the matter
7. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall:
- (a) Express an adverse opinion
 - (b) Express a qualified opinion
 - (c) Express a disclaimer of opinion
 - (d) Express an unmodified opinion and consider including an Emphasis of Matter paragraph to highlight the note disclosing the matter
8. Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:
- (a) Net liability or net current liability position
 - (b) Cancellation of company's production license due to change on government policies.
 - (c) Non-declaration of dividend to equity shareholders.

- (d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.

Answer Key

1. (d) All of above
2. (a) Express an adverse opinion or a qualified opinion as per SA 705 (Revised).
3. (c) Perform additional procedures on matters which have already yielded satisfactory conclusions.
4. (a) 1-4; 11-2; III-1, IV-3
5. (d) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
6. (d) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" to highlight the note disclosing the matter
7. (a) Express an adverse opinion
8. (c) Non-declaration of dividend to equity shareholders.

PART- IV INTEGRATED CASE SCENARIO

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 Rs. 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: -

- Q.1.** What should be the appropriate date of signing of the new audit report?
- (a) 20.07.2023
 - (b) Anytime between 15.07.2023 & 18.07.2023
 - (c) On or after 25.07.2023
 - (d) Anytime between 15.07.2023 & 25.07.2023
- Q.2.** CA Sneha would have taken into account a lot of procedures to get knowledge of the events occurring after the balance sheet date up to the date of the audit report relating to the company. Which of the following does not fall under such audit procedures as per SA 560?
- (a) Obtaining an understanding of the management's procedures set up to identify subsequent events.
 - (b) Inquiring of the management w.r.t the occurrence of any such subsequent events.
 - (c) Reading the minutes of the meetings of the board held after the balance sheet date during this period.
 - (d) Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report
- Q.3.** W.r.t the first audit report dated 15.07.2023, which type of opinion was most likely provided by her?
- (a) Modified opinion
 - (b) Unqualified opinion.
 - (c) Disclaimer of opinion
 - (d) Including a statement in Emphasis of Matter/Other matters para.
- Q.4.** W.r.t the new audit report issued, which type of opinion is most appropriate?
- (a) Disclaimer of opinion
 - (b) Unqualified opinion
 - (c) Adverse opinion
 - (d) Unqualified opinion and a statement in Emphasis of Matter/Other matters para.
- Q.5.** The fire event occurring on 27.6.2023 in the company's plant requires the following action on part of management:-
- (a) Disclosure in notes to accounts
 - (b) Adjustment in financial statements
 - (c) Waiting for the insurance company to settle the claim
 - (d) Preparing financial statements afresh

Answer Key - Integrated Case Scenario

- 1. (c) On or after 25.07.2023
- 2. (d) Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report

3. (a) Modified opinion
4. (d) Unqualified opinion and a statement in Emphasis of Matter/Other matters para.
5. (a) Disclosure in notes to accounts

Integrated Case Scenario - 2

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 & 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 accounting exemption. 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 standard on auditing.

He tells Manpreet to prepare a list of procedures as she thinks that an auditor should carry out when identifies that the company is facing a downfall in business never seen before due to never technology 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 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 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:-

Q.1. CA Namit tells Manpreet about the auditor's responsibilities in the above case on the water discussion. Which of the following doesn't fall under the auditor's responsibilities?

- (a) Obtaining sufficient and appropriate audit evidence on the matter under discussion.
- (b) Conclude on the appropriateness of the management's use of going concern.
- (c) Assessing whether a material uncertainty exists about the company's ability to continue concern.
- (d) Guarantee the company's ability to continue as a going concern based upon his audit procedures.

- Q.2.** Identify which set of audit procedures are relevant in the above case scenario as per the list prepared by Manpreet,
- (I), (II), (IV), (V) & (VII)
 - (I), (III) & (V)
 - (I), (IV), (VI), (VII) & (VIII)
 - (I), (II), (VI), (IV) & (V)
- Q.3.** CA Namit's conclusion to the above case will lead him to give which type of audit opinion from the following?
- Modified opinion
 - Unmodified opinion.
 - A separate section "Material uncertainty w.r.t. "Going concern" in his audit report.
- (I) only
 - (II) only
 - (I) & (III)
 - (II) & (III)
- Q.4.** Consider the following statements:
- 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.
- Q.5.** Which of the following is most appropriate regarding "going concern" assumption?
- 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 foreseeable future.
 - It signifies that assets are likely to be recorded at the prices they would fetch.

Answer Key - Integrated Case Scenario 2

- (d) Guarantee the company's ability to continue as a going concern based upon his audit procedures.
- (a) (I) (II), (IV), (V) & (VII)
- (d) (II) & (III)
- (c) Both statements are correct.
- (c) It signifies that company has no intention of curtailing materially the scale of its operations foreseeable future.