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Standards on Auditing

SQC-1 & SA 220

1. PMP Ltd is an associate of PMP Inc, a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures. The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2019. For the financial year ended 31 March 2020, the auditors made some changes in their audit team. While the audit partner remained the same, the field incharge has been replaced, as the field incharge who was engaged in the audit of the financial statements for the year ended 31 March 2019 has left the firm.

The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client. The audit team commenced the work for audit of the year ended 31 March 2020 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant. The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?

- (a) The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).
- (b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner.
- (c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report.
- (d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.

Ans. (a)

Summary: EQCR should be a member of ICAI.

2. VKPL & Associates, a firm of Chartered Accountants, have been operating for the last 5 years having its office in Gurgaon. The firm has staff of around 25 persons with 3 Partners.

The firm has been offering statutory audit, risk advisory and tax services to its various clients. The major work of the firm is for taxation services.

The audit partners also discussed that the firm needs to work significantly to improve the quality of the services they offer and that would also help the firm to grow its business. Considering this objective, the firm started training programmes for the staff which were made mandatory to be attended.

During one of the training programmes on quality, a topic was discussed regarding the information that should be obtained by the firm before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. It was explained that the following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate (as per SA 220):

- (i) The integrity of the principal owners, key management and those charged with governance of the entity;
- (ii) The qualification of all the employees of the entity;
- (iii) Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- (iv) The remuneration offered by the entity to its various consultants;
- (v) Whether the firm and the engagement team can comply with relevant ethical requirements; and
- (vi) Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

We would like to understand from you which of the above mentioned points are relevant for the topic under discussion?

- (a) i, ii, iv and v.
- (b) ii, iv, v and vi.
- (c) iii, iv, v and vi.
- (d) i, iii, v and vi.

Ans (d)

Summary: Following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate (as per SA 220):

- (i) The integrity of the principal owners, key management and those charged with governance of the entity;
- (ii) Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- (iii) Whether the firm and the engagement team can comply with relevant ethical requirements; and
- (iv) Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

SA 200

1. Professional scepticism is defined as:

- (a) An attitude to avoid significant mistakes which could influence the economic decisions of users taken on the basis of the financial statements.
- (b) The application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
- (c) An analysis of management decisions in terms of failed outcomes.

(d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

Ans (d)

Summary: Professional scepticism is defined as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

2. Professional judgement is defined as:

- (a) The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
- (b) An attitude to avoid significant mistakes which could influence the economic decisions of users taken on the basis of the financial statements.
- (c) Decision making about the requirements of the accounting profession.
- (d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

Ans (a)

Summary: Professional judgement is defined as the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

3. Judgements about materiality are made in the light of surrounding circumstances, and are affected by:

- (a) The auditor's perception of the financial information needs of users of the financial statements.
- (b) Both the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement.
- (c) The size or nature of a misstatement.
- (d) The company's control environment.

Ans. (b)

Summary: Judgements about materiality are made in the light of surrounding circumstances, and are affected by both the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement.

4. The following inherent limitations in an audit affect the auditor's ability to detect material misstatements except:

- (a) Test and sampling.
- (b) Audit process permeated by judgement.
- (c) Poor corporate governance.

(d) Audit evidence.

Ans (c)

Summary: Poor corporate governance isn't an inherent limitations in an audit that affect the auditor's ability to detect material misstatements

SA 210

AJ Private Ltd is in the business of telecom and have significant operations across India predominantly in Northern India.

The statutory auditors of the company have been continuing for the last 3 years and have been issuing clean report.

For the financial year ended 31 March 2021, the statutory auditors commenced their work in March 2021 as per discussions with the management and with a plan to complete the audit by first week of May 2021.

The audit team concluded the work as per the agreed timelines and the financial statements and audit report were signed on 5 May 2021 along with the engagement letter for the financial year ended 31 March 2021.

In the given situation, please advise which of the following would be correct.

- (a) The engagement letter should have been signed before commencing the audit work.
- (b) The engagement letter should have been signed at least a day before signing the audit report.
- (c) The engagement letter should have been signed at least a day before signing the financial statements.
- (d) The engagement letter is optional in case of a private company and hence can be signed anytime.

Ans (a)

Summary: The engagement letter should have been signed before commencing the audit work.

SA 230

1. KPL Private Limited is a large software company based out of Hyderabad. The annual turnover of the company is INR 2,100 crore. The company sells software and is also involved in the implementation of those software for its clients.

The major chunk of the revenue though comes from sale of software only. The company works on a completely paper-less office and accordingly, most of the documents are available in soft copy.

During the financial year ended 31 March 2020, the auditors during the course of their audit obtained various audit evidences some of which were in hard copy but mostly in soft copy. On conclusion of the audit, the auditors are in a dilemma whether to maintain their documentation entirely in hard copy or soft copy or can it be mixed of both.

After consultations with various persons, the auditors stood that the documentation for this company, being operated in fully automated environment should be in soft copy only.

Please advise whether this understanding is correct.

- (a) This is a matter of documentation of audit evidence for a client working in fully automated environment and hence it should be in soft copy only.
- (b) As per the requirements of auditing standards, this documentation can be in a mix of both soft and hard copy.
- (c) Since the client is operating in a fully automated environment, it would be important to check with them because all this documentation has come from the client only.
- (d) As per the requirements of auditing standards, documentation is not required in case of a client working in automated environment because everything is automated and can be accessed easily at any point of time.

Ans (b)

Summary: As per SA 230, Audit documentation can be in a mix of both soft and hard copy.

2. The company has requested its previous auditor to give back its audit documentation ("working papers") and warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:

- (a) The previous auditor is bound to return the workpapers as the company has raised the confidentiality clause over the audit firm. Thus, the SA – 230 is not applicable in such scenario as the original owner itself is requesting to return the working papers.
- (b) The auditor has a right over its working paper, and he is the owner of the workpapers but he cannot give the workpapers to any person even at the request of the company.
- (c) The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company.
- (d) The auditor has a right over its working papers but the owner of them is the company. He should make available the workpapers to the company at its request and SQC-1 mandates the auditor to make copies made available to its clients.

Ans (c)

Summary: The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company.

SA 250

1. M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2019-20. While conducting the audit, CA Aman, the engagement partner noticed the following:

- Payments of various fines and penalties
- Unusual cash payments
- Payments to various government employees not supported by any document
- Notices received from various regulatory authorities.
- Heavy payments to legal counsels.

CA Aman should consider the above as indicative of:

- (a) Doubt on Internal Controls of PQR Ltd.
- (b) Doubt of non-compliance to laws by PQR Ltd.

- (c) Doubt on the accounting system of PQR Ltd.
- (d) Doubt on the going concern assumption of PQR Ltd.

Ans (b)

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

Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?

- (a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge.
- (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.
- (c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material.
- (d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company.

Ans (b)

Summary: Non-compliance of law that could result in significant penalty should be appropriately disclosed in Financial statements

3. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of noncompliance with law, what would NOT be the audit procedure to be performed?

- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
- (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of noncompliance seems to be material, legal advice may be obtained.
- (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
- (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.

Ans (c)

Summary: Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly is Management responsibility not part of audit procedures.

4. M/s Sati and Associates were appointed as the statutory auditors of Power King Limited for the audit of financial year 2021-22. Power King Limited has a power generating plant in Sikkim. At the time of accepting the engagement, it was decided among the engagement partner (CA Sati) and the management that since CA Sati and his team is doing the audit of a client having power plant in Sikkim for the first time, it will be the duty of the management to update the audit team regarding all the taxes and statutes applicable to units situated in Sikkim. Which of the following is correct in this regard?

- (a) The engagement team, being the auditor of Sikkim based power plant for the first time can always rely on the management's information and can work accordingly.
- (b) The engagement team should understand the Power King Limited business environment and should obtain knowledge about the laws and statutes applicable in this case.
- (c) The engagement team should not accept the audit of such power plant situated in Sikkim of which he has no prior knowledge.
- (d) The engagement team can very well accept the audit of Power King Limited and with respect to aspects related to Sikkim law he can give disclaimer of opinion, if required.

Ans (b)

SA 260

Ms Kee, the engagement partner of Best Hospitality Limited's audit team did not perform the necessary communication with those charged with governance over some critical issues identified during the course of the audit. Moreover, when management identified that the engagement partner has not communicated to those charged with governance of the Best Hospitality Limited, they also chose not to communicate. Upon identification of this issue, the personnel charged with governance inquired with management and auditors as to why there was no communication of the critical matters to them.

Upon such inquiry, Engagement Partner contended that it was the responsibility of Management to communicate first, then only the audit team should communicate. However, Management was of the view that they are not liable to communicate to those charged with governance. As an Engagement Quality Control Reviewer, what will be your opinion?

- (a) The auditor is responsible for communicating matters required by SA 260 to those charged with governance. Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility.
- (b) SAs are not applicable to the management and hence the management was not responsible for communicating the same to those charged with governance. Also, as per SA 260, Auditor can only communicate when management has already informed those charged with governance about the matters. Auditors cannot communicate first without management's communication.
- (c) Communication by management with those charged with governance of matters that the auditor is required to communicate does relieve the auditor of the responsibility to also communicate them if the

management has already communicated. Hence, in the current case Management should have communicated as it was their responsibility.

(d) SA 260 requires the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance which includes matters already communicated by the management of non-material nature. Hence, it was the responsibility of the Auditor to communicate.

Ans (a)

Summary: Auditor is responsible for communicating matters required by SA 260 to those charged with governance. Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility.

SA 265

1. A significant deficiency exists in the process of flow of approval of travel re-imbursements of the officials. This was communicated in the previous year to those charged with Governance and no remedial action was taken on the same so far. The auditors are of the opinion that it need not be communicated again. Is the opinion of the auditors on NOT to communicate the deficiency in internal control reported in the previous year correct?

- (a) Yes, the auditor is not required to communicate the same again as it is the duty of the management and those charged with governance to maintain the internal control system.
- (b) No, the current year's communication may repeat the description from previous communication or simply reference the previous communication.
- (c) Yes, the auditor is not required to communicate the same again as written representation is being obtained from management and those charged with governance that they are responsible for maintaining internal control.
- (d) No, it needs to be communicated again but an oral reminder to those charged with governance on the matter may suffice.

Ans (b)

Summary: If auditor has communicated a deficiency in internal control in previous audit but management hasn't taken any remedial action then the same needs to be repeated. The current year's communication may repeat the description from previous communication or simply reference the previous communication.

2. Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon:

- I. Nature, size and complexity of the entity
- II. Nature of the significant deficiencies identified
- III. Estimated time required by management to resolve the deficiency
- IV. Fees charged from the client

- (a) I and II.
- (b) I, II and III.
- (c) III and IV.

(d) Only II.

Ans. (a)

SA 300

1. AK & Co, a firm of Chartered Accountants, have been operating for the last 6 years. Due to the quality of service offered by the firm, it has made its name and is quite renowned especially in Southern India where its head office is located. The firm has a staff size of 240 including graduates, Chartered Accountants, Management Consultants, Company Secretaries and lawyers. The firm has 3 branches other than head office at Bangalore, Chennai and Pune. The firm has got many clients for statutory audit over the period and ensures that to maintain the quality of work, proper planning is done by each team before starting any engagement. One of the engagement team, picked up for statutory audit of Sun Private Ltd, was involved in the process of planning of audit for the financial year ended 31 March, 2020. The audit for the financial year ended 31 March, 2019 was conducted by a different engagement team. However, the engagement team of Sun Private Ltd for the current year has got the industry experience. The audit team is confused during the planning work and would like to have your views on following points. Please advise by answering one of them.

- (a) The engagement team should consult the previous year's engagement team during the course of their planning.
- (b) The engagement team should be independent and hence, cannot consult the previous year's engagement team during the course of their planning.
- (c) The engagement team needs to maintain confidentiality and hence, cannot consult the previous year's engagement team during the course of their planning.
- (d) Only the Partner who is going to sign the audit report may consult the previous year's audit team.

Ans. (a)

Summary: If engagement team changes from prior period then the engagement team should consult the previous year's engagement team during the course of their planning.

2. Kshitij Private Ltd is a company based out of Kochi having operations primarily in Europe. Because of the nature of the operations of the company, it is required to prepare its financial statements as per International Standards for reporting to the local regulatory authorities over there. Since the business is based in Europe, the audit team is also required to visit the locations wherever the company has offices and is accordingly, required to perform certain audit procedures over there. During the audit of this company for the financial year ended 31 March, 2020, the auditors, who had planned their work appropriately and had a large team for conducting the audit, were facing lot of challenges at various stages. They were also required to revisit their materiality level during the course of the work. However, at the time of final reviews when this was discussed with the Audit Partner (Audit Incharge), he was not convinced with the approach of the audit team wherein they reassessed their plans continuously resulting in waste of time. In this situation, please advise which one of the following would be correct.

- (a) Audit Partner being the senior most team member is right and same thing should be considered by audit team by documenting it in the audit file.
- (b) Audit Partner's view is not correct as the audit team did the right thing.

- (c) Audit Partner was correct, however, during the course of an audit which required visits at various locations it was mandatory.
- (d) Audit Partner's view is not correct because the materiality was revised by the audit team which is a big thing and same should have been considered by the audit partner.

Ans (b)

Summary: If the audit team plans & faces challenge during the audit, they can revise the plans & materiality levels.

3. RJ Private Limited having its office at Bangalore and operations spread across Southern India, had a discussion with its statutory auditors regarding the audit plan and the timelines. In the past years, there have been significant delays in completion of audit work and the management wanted that for the current year, audit should get completed on time. For doing this, the audit team suggested that the information for the purpose of audit should be ready on time and only then the timelines as agreed can be achieved. On the basis of the discussions with the client & the auditors and internal discussions amongst the audit team members, a detailed audit programme was prepared by the audit team for the current year's audit. But the audit team discussed that they will not document this audit programme till the completion of the audit work because at various stages, the work may require changes. If the audit team documents the audit programme then it would create problems later on at the time of assembling of the audit file wherein the audit team would have to show the changes made by them in the audit programme during the course of the audit.

You are required to share your views in respect of this understanding and approach of the auditor.

- (a) The decision of audit team regarding not documenting the audit programme is very good as this would avoid unnecessary problems of documentation of changes made in the audit programme at the time of assembly of file.
- (b) Instead of considering the audit programme, the audit team could have prepared a checklist. In case of a checklist, such problem will not arise. Because in case of a checklist if any changes are made then the final checklist can be kept in the file along with old working checklist used during the audit.
- (c) The approach of the audit team not to document audit programme is not correct. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations.
- (d) The decision of audit team not to document the audit programme is not correct. Their concern that the changes may arise in the audit programme is valid, however, to take care of that, the audit team can take approval from the ICAI later on when those changes will be made. The audit team will have to document the changes and the approval note of the ICAI.

Ans (c)

Summary: Documenting the initial audit programme is compulsory. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations.

4. CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore, a deviation from the already set audit strategy is felt necessary. In this case, he should

- (a) Continue with the Audit Plan without considering the Audit Strategy.
- (b) Drop the audit and withdraw from the engagement.
- (c) First Modify the audit strategy and thereafter, prepare the audit plan according to the modified strategy.
- (d) Devise a new audit plan and then, change the strategy as per the Revised Plan.

Ans. (c)

Summary: Audit strategy is modified before the modification in audit plan.

5. Gamma Private Ltd. duly appoints CA Palak as the tax auditors of their Company and the appointed Tax-auditor chalks out a detailed Audit Programme to be assigned to her audit engagement team to carry out the tax audit efficiently & effectively. Which of the following situations wouldn't warrant an alteration in the Audit Programme during the course of Audit by the Tax Auditor of Gamma Private Limited during the next Financial Year ?

- (a) Significant changes in Procedures and Personnel of the Company subsequent to audit Procedures.
- (b) A Substantial increase in the volume of turnover as against the anticipated results of the Company.
- (c) An extraordinary increase in the amount of Book Debts as compared to that in the First Year.
- (d) A New Contract received by Gamma Ltd. from a Foreign Client during the course of the audit.

Ans (d)

SA 320

The amount of materiality initially determined needs to be revised as the audit progresses:

- (a) If there is a delay in the audit.
- (b) In the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.
- (c) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a higher amount (or amounts) initially.
- (d) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a lower amount (or amounts) initially.

Ans (b)

SA 402

XYZ Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third party organization and requests for audit access to such data centre. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organisation is regularly being conducted.

What the auditor should do?

- (a) Do not ask for any thing else since the Third Party is ISO certified.
- (b) Insist on conducting audit in the Third Party.
- (c) Take the ISO certificate.
- (d) Take the Service Organisation control audit report to review.

Ans (d)

Summary: For the auditor of user entity, if he wants to gain confidence over risk mgt process of service organisation, he should take Service auditor's report regarding the controls.

SA 500

You are the audit senior of Tey & Co are responsible for the audit work to be managed for the fixed assets of the company. Tey & Co has 4 properties amounting to ₹ 12.5 crore. One of the important tasks ahead for you is to confirm the ownership of these properties.

Which of the following would provide the most persuasive evidence of the ownership?

- (a) To conduct a physical inspection of all the properties located at different areas.
- (b) To ask the management registration documents of these properties and inspect and verify them.
- (c) To check whether all the properties are recorded properly in the fixed asset register and depreciation has been calculated correctly.
- (d) Enquire with the management, if these properties are insured and review the insurance documentation.

Ans. (b)

Summary: Registration documents of property provide more persuasive evidence regarding ownership of property.

SA 505

1. MNO Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Ajay Vijay & Associates have been appointed as statutory auditors of MNO Ltd. for the FY 2019-20. During the course of audit, CA Ajay, the engagement partner asks the management about the email addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The management of the company asked its sales supervisor to send confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of MNO Ltd. also informed CA Ajay that confirmation with respect to two of its trade receivables namely Sports Star Ltd. and Kids Zone Ltd. won't be available as a dispute between MNO Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA Ajay with all the balance confirmation. With respect to the balance confirmation request, which of the following is warranted as per the requirement of the relevant SA?

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

Ans (c)

Summary: For trade receivables for whom confirmation can't be obtained auditor shall perform alternate audit procedures & in other cases direct response should be obtained by the auditor.

2. BC Ltd. is the business of manpower consulting. The company has a huge cash and bank balance including fixed deposits with banks. During the course of audit of the financial statements of the company for the year ended 31 March 2021, auditors circulated independent bank balance confirmations. The auditors received all the balance (covering fixed deposits) confirmations independently. Auditors observed that the fixed deposits balances as per the independent balance confirmation did not match with the books balances in some cases. Management produced the fixed deposit certificates to the auditors wherein the balances of fixed assets matched with the balances as per the books. How should the auditor deal with this matter?

- (a) Auditor should qualify the audit report in respect of differences in book balances of fixed deposits vis-a-vis independent balance confirmations.
- (b) Auditor should consider the fixed deposit certificates produced by the management and basis that any differences in book balances of fixed deposits vis-a-vis independent balance confirmations should be ignored.
- (c) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should obtain balance confirmations again.
- (d) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.

Ans (d)

Summary: In case auditor finds an exception i.e. difference between amount as per confirmation & represented by management, auditor shall perform alternate audit procedures.

3. The audit team has obtained the following results from the trade receivables circularization of Nemi Co for the year ended 31 March 2021.

Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment
AM Co	2,25,000	2,25,000	
AN Co	3,50,000	2,75,000	Invoice raised on 29 March 2021
AO Co	6,20,000	4,80,000	
AP Co	5,35,000	5,35,000	
AR Co	1,78,000	No reply	

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

- (a) No further audit procedures need to be carried out in relation to the outstanding balances with AM Co. and AP Co.
- (b) The difference in relation to AN Co. represents a timing difference and should be agreed to a pre year-end invoice.
- (c) The difference in relation to AO Co. represents a timing difference and should be agreed to pre year-end bank statements.
- (d) Due to the non-reply, the balance with AR Co. cannot be verified and a different customer balance should be selected and circularized.

Ans (b)

4. The notes to the account statement of Nemi Ltd. shows the break-up of accounts payable for the Financial Year 2020-21 as follows:

Accounts Payable	Amount (in ₹)
Mr K	1,20,000
Mr R	40,000
Mr B	14,56,000
Total	16,16,000

CA. Raju, the auditor of Nemi Ltd., wants to investigate the valuation of accounts payable of Mr. B amounting to ₹ 14,56,000.

Which of the following procedures is best fitted & more reliable to be followed by CA. Raju to get more reliable evidence for the existence of such balance as on 31st March, 2021?

- (a) Inspect each and every journal entry passed in the books of Nemi Ltd.
- (b) Ask Nemi Ltd. to provide the details of payment made during the year 2021-22.
- (c) Inspect the invoices issued by Mr. B and the payments made.
- (d) Interrogate the cash manager of Nemi Ltd.

Ans. (c)

SA 520

ZOV is a private limited company engaged in the business of mining. The company's operations are fairly large and its turnover is INR 4,000 crore on an annual basis. Due to the nature of the business and the size

of the company, the company has appointed a firm of Chartered Accountants as its statutory auditors who have the relevant experience of the industry in which the company has been operating.

During the course of the audit of the financial statements for the year ended 31 March 2020, the audit team had various observations which resulted in many adjustments in the financial statements of the company and that was also appreciated by the CFO of the company.

At the time of final reviews of the audit team, the audit partner requested working paper on final analytical procedures from the engagement team, however, the engagement team explained that they performed substantive testing procedures which also resulted in some adjustments and the same was incorporated in the final set of financial statements given to the audit partner for the review and accordingly there was no need to perform final analytical procedures. Audit partner was not convinced with this and requested the engagement team to perform this procedure. Considering that the timeline to conclude the audit was approaching, the audit partner also requested the CFO that the audit team would need some more time to perform final analytical procedures. CFO was very impressed with the engagement team and agreed for the time but he also told the audit partner that work of the team was excellent and hence the audit partner should avoid these additional procedures.

You are requested to give your view in respect of this matter as per SA 520.

- (a) The explanation of the audit team was correct. After doing substantive testing which also resulted in audit adjustments, there was no need to perform final analytical procedures.
- (b) The suggestion of CFO should have been considered by the audit partner as the CFO was observing the work of the engagement team and hence he could assess that better than the audit partner.
- (c) The requirement in view of the audit partner was valid. The conclusions drawn from the results of final analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.
- (d) The audit team did the right thing by not performing final analytical procedures, however, one additional procedure in that case should have been - obtain the document containing the analysis performed by the client on the financial statements. This document is required to be assembled in the audit file.

Ans (c)

Summary: The conclusions drawn from the results of final analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. So, final analytical procedures should be performed towards the end of audit in addition to other procedures.

SA 530

1. BDJ Private Ltd was established in 2001 and since then the company's operations have grown significantly. The company is based in Kanpur and has branch offices outside Kanpur.

The company is engaged in tours and travels business and because of the nature of the business, it has voluminous transactions. The annual turnover of the company is INR 700 crore.

During the audit of the financial statements of the company for the year ended 31 March 2020, the auditors observed wide variation in various details of sales and various expenses as compared to last year. Various balances of trade receivables, loans and advances, statutory liabilities showed significant increase and many balances were found to be non-moving which were aged for more than 3 years. On the basis of the materiality and planned procedures, the audit team requested the client for testing of various samples for sales, expenses etc.

The client observed that the number of samples that the team has requested increased as compared to last year and asked the team to cut down on the number of samples so that it is the same number of samples which were tested in the previous years.

The audit team did not agree with this and explained various factors which the team had considered for sample selection and the reasons for changes in the samples and also explained the requirements of SA 530 to the client but the client still did not agree. Now there is a situation of deadlock and you are requested to provide your guidance to resolve this matter.

(a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.

(b) The explanation of the audit team is not valid. Referring SA 530 was not correct in this case. The audit team should have explained their entire approach around risk assessment to the client before starting the fieldwork and should have formally shared that with the client in writing.

(c) In the given situation, the audit team instead of getting into any arguments should cut down the number of samples and should increase their procedures around analytical work. That would resolve the problem.

(d) The audit team should make a formal request in writing for these details from the client and if the client still refuses then they should report this matter to the audit partner. In that case, the auditing standards require audit partner to check some of the documents which may not be provided by the client to the audit team.

Ans. (a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.

Summary: No. of samples to be selected can change from year to year as its based on audit team's professional judgment. Client should provide the information asked by audit team.

2. Auditors do not normally examine all the information available to them as it would be impractical to do so and using audit sampling will produce valid conclusions. Random selection ensures that all items in the population have an equal chance of selection, e.g. by use of random number tables or random number

generators. Block sampling method includes selection of a block or blocks of continuous items from within the organisation. Which of the following selection can be considered as block sampling method?

- (a) Auditor Mr. A divided the trade receivables into 2 groups as: balances above ₹ 20 lakh and balances between ₹ 10 lakh to ₹ 20 lakh and selected different percentage of items from each group.
- (b) Auditor Mr. A determined the starting point as 10 for the list of receivables and selected every 10th balance for receivables thereafter as samples to perform the tests.
- (c) Auditor Mr. A selected sample size as all the high-value balances from the list of trade receivables to ensure that these balances shown are correctly recorded.
- (d) Auditor Mr. A uses a sample of 50 consecutive cheques to test whether cheques are signed by authorised signatories rather than picking 50 single cheques throughout the year.

Ans. (d)

Summary: Block selection involves selection of a block(s) of contiguous i.e. consecutive items from within the population.

3. While auditing Veer Ltd., CA. Vardhman divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata' and started taking a sample from each of them. He treated each stratum as if it was a separate population. He divided the trade receivables balances of Veer Ltd. for the Financial Year 2020-21 into groups on the basis of personal judgment as follows:

S No.	Particulars
1	Balances in excess of ₹ 10,00,000
2	Balances in the range of ₹ 7,75,001 to ₹ 10,00,000;
3	Balances in the range of ₹ 5,50,001 to ₹ 7,75,000;
4	Balances in the range of ₹ 2,25,001 to ₹ 5,50,000;
5	Balances ₹ 2,25,000 and below

From the abovementioned groups, CA. Vardhman picked up different percentage of items for examination from each of the groups, for example, from the top group i.e. balances in excess of ₹ 10,00,000, he selected all the items to be examined; from the second group, he opted for 25 % of the items to be examined; from the lowest group, he selected 2% of the items for examination; and so on from rest of the groups. Which one of the following methods of sample selection is he following?

- (a) Systematic sampling.
- (b) Stratified sampling.
- (c) Section sampling.
- (d) Selection sampling.

Ans. (b)

SA 540

1. Company has made an estimate for allowance of debtors @5%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?

- (a) Judgments about the outcome of pending litigation with PX Ltd against the company.
- (b) Estimates made for inventory obsolescence that are frequently made and updated.
- (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in market place.
- (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.

Ans (a)

Summary: Accounting estimates with relatively high estimation uncertainty, based on significant assumptions, for eg:

- Accounting estimates relating to outcome of litigation.
- FV accounting estimates for derivative financial instruments not publicly traded.
- FV accounting estimates for which a highly specialised entity-developed model is used or for which, there are assumptions or inputs that cannot be observed in marketplace. Accounting estimates in cases of Wage Revision Agreements wherein negotiations with Trade Unions is on the way or Government's sanction is awaited leading to uncertainty.

SA 550

1. M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. for the FY 2019-20. During the year, the company has entered into some related party transactions. CA Ram, the engagement partner has taken a management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions. Is there any further responsibility of CA Ram with respect to the other procedures to be performed for related party transactions?

- (a) No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter.
- (b) No, there is no further responsibility of CA Ram as the audit firm is responsible for verifying the balances and disclosure of related party transactions. The identification of related party transactions is the responsibility of the management of Venus Ltd.
- (c) Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.
- (d) Yes, the auditor has the responsibility to detect fraud and error with respect to the related party transactions.

Ans. (c)

Summary: Auditor has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.

2. XYZ & Associate Chartered Accountants were appointed auditors for Weknow LLP. The engagement manager of the audit team, while designing the auditor response to assessed risk, concluded that there are no requirements of the applicable financial reporting framework for disclosing the related party transaction in the Firm's Financial Statement and hence the audit team is not required to perform any audit procedures with respect to identification and disclosure of related party relationship and transaction in financial statement. You as an engagement partner guide the engagement manager by selecting the appropriate response from below:

(a) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions achieve a true and fair presentation and are not misleading.

(b) If the applicable financial reporting framework establishes minimal or no related party requirements, then the auditor is not required to obtain an understanding of the entity's related party relationships and transactions.

(c) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, as a whole, are free from all the material related party transactions.

(d) Because related parties are not independent of each other, hence auditor can obtain the written representation from the Related Party's auditor regarding the accuracy and completeness of the related party transactions disclosed in Firm's Financial Statement. This should only be carried where the applicable financial reporting framework establishes minimal or no related party requirements.

Ans (a)

Summary: Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions achieve a true and fair presentation and are not misleading.

3. As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?

- (a) Friend of a family member of a person who has the authority and responsibility for planning.
- (b) Holding debentures in the entity.
- (c) The entity's holding of debentures in other entities.

(d) The entity's holding of equity in other entities.

Ans. (d)

SA 560

SKJ Private Ltd is engaged in the business of construction. The company has also got some real estate projects few years back on which it started the work in the last 2 years. The annual turnover of the company is INR 600 crore and profits of INR 40 crore.

The statutory auditors of the company got rotated by another audit firm due to mandatory audit rotation requirements as per the Companies Act 2013.

The new statutory auditors of the company started audit of the financial statements for the year ended 31 March 2020 in May 2020. The audit team also requested the client to provide certain information on the opening balances to perform their audit procedures. Initially the management did not provide any information to the auditors on the opening balances thinking that this is not within the scope of their work, however, after going through the auditing standards, the management agreed and provided the required information.

Later on, the audit team also started requesting information for the period from 1 April 2020 to 31 May 2020. With this requirement, CFO of the company got very upset and angry and set up a meeting with the senior members of the audit team. CFO raised a concern that the audit team has not been doing the work properly and has been asking for unnecessary information like information on opening balances and then the information for the period after 31 March 2020. The audit partner explained to the CFO that everything requested by the audit team has been as per the auditing standards, however, CFO said that in the earlier years, the previous auditors never asked for such information.

You are requested to give your view in respect of this matter.

(a) The requirement of the auditors for opening balances was valid but for the period after 31 March 2020 is completely wrong as that is out of their scope for the current year's audit. They can ask for those details during the audit of next year.

(b) The concern of the CFO was valid. He has seen the previous auditors not performing such audit procedures and hence the new audit team should also follow the same approach which was followed by previous auditors as that would lead to efficient in audit.

(c) The audit team should set up a meeting with previous auditors wherein it should be assessed why different approach was followed by the previous auditors. On the basis of that discussion with the previous auditors, next course of action should be decided.

(d) The requirement of the auditors for opening balances as well as for the period after 31 March 2020 is valid. As per the requirements of SA 510 and SA 560, audit team is required to perform these procedures.

Ans. (d)

Summary: As per SA 510, auditor is required to test opening balances & as per SA 560 auditor is required to check events occurring after reporting date & till the date of auditor's report.

SA 570

1. Though the company MINSAN Ltd had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed?

- (a) Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.
- (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.
- (c) Evaluating management's future plan and strategy to increase market share of product.
- (d) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts.

Ans (d)

Summary: Audit procedures for assessing entity's ability to continue as going concern shall include analysis and discussion of company's projected cash flows and profit statements not the statements of the previous years.

Q2. 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.

Ans (c)

SA 610

1. KJ Private Ltd has a business of pharmaceuticals and has an annual turnover of INR 1,500 crore. During the last few years, considering the environment in which the company operates, its profit has reduced and are still reducing. Hence, the management has been looking at various ways to cut the costs. AD & Associates are the statutory auditors of the company and RM & Associates are the internal auditors of the company. Initially, the company did not want to appoint any internal auditors to save costs, however, at insistence of the statutory auditors, the company appointed the internal auditors. During the course of the statutory audit for the financial year ended 31 March, 2020, the statutory auditors requested for the detailed working papers of the internal auditors which the internal auditors refused. However, the statutory auditors told the management if the same are not provided then they would qualify their report. In this situation, please advise which of the following would be correct.

- (a) The statutory auditors should review the detailed working papers but they cannot qualify their report on this ground.
- (b) The statutory auditors may review the detailed working papers and even after that they may qualify their report.
- (c) The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors.
- (d) The statutory auditors may review the detailed working papers of internal auditors but for that purpose they would require prior approval of the ICAI.

Ans (c)

Summary: The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors.

2. M/s Viaan Viraj & associates are the statutory auditors of ABC Ltd. for the FY 2019-20. The company has a strong internal audit team. During the course of audit, CA Viaan, the engagement partner found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Viaan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Gaurank, the Chief Internal Auditor of ABC Ltd. to provide him a report on the wages expenses across all factories. Which of the following requirements as per SA 610 are required to be fulfilled by CA Viaan prior to using the direct assistance of the Internal Audit Team of the company?

- (a) CA Viaan should obtain written agreement from the management of ABC Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions.
- (b) CA Viaan should obtain written agreement from Mr. Gaurank that his team will keep the matters confidential.
- (c) Both a & b
- (d) CA Viaan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required.

Ans. (c)

Summary: Prior to using internal auditors to provide direct assistance for purposes of audit, external auditor shall:

- (a) Obtain written agreement from an authorized representative of entity that IA will be allowed to follow external auditor's instructions, and that entity will not intervene in work the internal auditor performs for the external auditor; and
- (b) Obtain written agreement from internal auditors that they will keep confidential specific matters as instructed by external auditor and inform external auditor of any threat to their objectivity.

3. D.M. Ltd. appointed M/s K.K. & Co., Chartered Accountants as Statutory Auditors. The Statutory Auditors found the internal audit function reliable and effective. The Statutory Auditor assigned the task of assessing the inventory levels of a few branches where the Statutory Auditor believed that there might be some risk of material misstatement to one of the internal auditor Mr. Ryan. Since the Internal Auditor had recently done such assessment as a part of their internal audit program, therefore, the Statutory Auditor believed that they could rely on the former's report. Besides this, because of the paucity of time the Statutory Auditors also requested Mr. Ryan to help them in some paperwork including audit documentation. Before the audit was concluded, Mr. Ryan got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Ryan was not complete. Accordingly, Statutory Auditor further checked the inventory work delegated to the Internal Auditor, however, it was found to be satisfactory. In view of the above case scenario, state which of the following statement(s) hold true:

- (a) The working of Internal Audit function was reliable and satisfactory; therefore, the allocation of inventory level work was within the authority of the Statutory Auditor. This was further confirmed by the satisfactory work of Internal Auditor, as found out later.
- (b) The documentation would be considered complete as far as the Statutory Auditor's responsibility is concerned as the missing documentation was because of the oversight of the Internal Auditor. (c) Since the Internal Audit had conducted the similar inventory level checking activity recently, therefore, because of familiarity with the audit the Statutory Auditor was right in delegating the same to the Internal Auditor.
- (d) The Statutory Auditors should not have delegated the inventory level checking to the Internal Auditor, as the risk assessed was material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain confidentiality during all the stages of the audit. Therefore, it was wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.

Ans (d)

Summary: The Statutory Auditors should not delegated the areas to the Internal Auditor, where the risk assessed is material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain confidentiality during all the stages of the audit. It'll be wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.

4. You are the audit manager in-charge of the audit team this year and your 1st year trainee asks you the following questions listed down. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

- The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as

the reports given by him are designed in a marvellous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.

The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:

- (a) As the work done by the internal auditor is marvellously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co.
- (b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co need to reduce the unnecessary work as the same has been performed by the other auditor.
- (c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.
- (d) The work performed by the internal auditor can be used by the External Auditor in this case if the architect is not an employee of the company but is in private practice.

Ans (c)

Summary: The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor.

SA 620

An auditor's expert may be either an auditor's internal or an external expert. Which of the following cannot be an auditor's internal expert?

- (a) Partner of the Auditor's Firm
- (b) Temporary Staff of the Auditor's Firm
- (c) Permanent Staff of Auditor's Network Firm
- (d) A Prospective CA, soon to join the Auditor's Firm as a Partner.

Ans. (d)

Audit Reporting (SA 700 Series)

1. SKJ Private Ltd has an annual turnover of INR 200 crore and profits of INR 25 crore. The company is engaged in the business of textiles and has fairly stable operations over the years. There has not been much growth in the company in the last few years despite the attempts of the management. Currently the management is more focused towards cost cutting and has been considering all the options to achieve that objective.

The statutory auditors of the company have been auditing the financial statements for the last 3 years and have issued clean reports over these years.

During the financial year ended 31 March 2019, management got a large project from a new customer which resulted in significant increase in the turnover of the company. However, the profitability of the company did not improve much because the margins in the contract were not high.

The statutory auditors during the course of their audit of financial statements for the year ended 31 March 2019 (their fourth year of audit) did not agree with the revenue recognition criteria followed by the company. Since the matter was significant, lot of discussions/ debates happened between the auditor and the management. But it was finally agreed that the auditors would qualify their audit report.

Auditors wanted that the management should explain this matter in detail in the notes to accounts to the financial statement over which the auditors are qualifying the audit report. However, the management had a different view. Management said that if the auditor is qualifying his report then why should the management also highlight that matter in the financial statement and hence refused to include any note for the same.

On account of the conflict, since audit is not getting concluded. You are required to suggest how the matter get resolved?

- (a) In the given situation, if the management does not agree to give a note in the financial statements then the auditor should not hold the audit report. However, in such a case, the auditor would need to give disclaimer of opinion in his report instead of qualification.
- (b) The argument of the management seems correct. Auditor cannot do both the things i.e. to qualify and then also get that highlighted in the financial statements. That note would not be beneficial for the users of the financial statements.
- (c) In case of such matters related to revenue recognition, it is always better to give detailed explanation in the notes to accounts to the financial statements. If the explanation is satisfactory then the auditor should also consider giving emphasis of matter instead of qualification.
- (d) The requirement of the auditor is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. In that case, auditor while giving the qualification can give reference to the notes to accounts otherwise the entire matter would form part of the audit report. However, the auditor should not hold his report if the management does not want to give any explanation in the notes to accounts.

Ans (d)

Summary: Management should explain this matter in detail in the notes to accounts to the financial statement over which the auditors are qualifying the audit report. This is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. The auditor should not hold his report if the management does not want to give any explanation in the notes to accounts.

2. QRP had given an advance amounting to INR 50 crore to its subsidiary, RPS Ltd (RPS), on 12 January 2016 for carrying out certain projects. The net worth of the subsidiary had eroded substantially as at 31 March 2020 and looking at the future projections there was no certainty regarding profitability of the subsidiary in the future years.

How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?

- (a) In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS.
- (b) In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS.
- (c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.
- (d) In respect of QRP, auditors of QRP would need the management to include a note in the financial statements of QRP explaining about the recoverability of advances from RPS.

Ans (c)

3. The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?

- (a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.
- (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.
- (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.
- (d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.

Ans (d)

Summary: Auditor should include Emphasis of Matter Para to draw user's attention to the matter presented in the financial statement by way of clear additional communication when there is an uncertainty relating to the future outcome of the litigation.

4. During the conduct of audit, it was found that the management has intentionally made material misstatements in the several items of the financial statements to deceive the users of the financial statements, to reduce the pressures of meeting market expectations and to increase the reputation of the company. What would be the implications on the auditor's report if no adjustments are made to the financial statements regarding the misstatements made by the management?

- (a) The auditor would issue a qualified audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

(b) The auditor would issue an adverse audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

(c) The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Adverse Opinion' paragraph below the opinion paragraph.

(d) The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

Ans (c)

Summary: If auditor concludes there's material misstatement in financial statements which is pervasive to financial statements as whole, auditor shall issue adverse opinion with basis for adverse opinion paragraph mentioning the reason.

5. While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup. How should the auditor deal with this issue?

(a) The auditor should issue a disclaimer of opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence.

(b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion.

(c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls.

(d) The auditor can rely on the SAP data and there is no need for qualification of report.

Ans (b)

Summary: If auditor isn't able to obtain audit evidence then he should perform alternate procedures before disclaiming the opinion.

6. CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2020-21. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to Rs. 46 crores (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to Rs. 33 crores (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the material discrepancies just before the finalisation of the audit report for the year ending 31.03.2021. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent.

What is correct course of action that CA Kamal should consider in such a situation?

(a) CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2020-21.

- (b) CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor's report.
- (c) CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor's report.
- (d) CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor's report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.

Ans (b)

Summary: If auditor concludes there's material misstatement in financial statements which is pervasive to financial statements as whole, auditor shall issue adverse opinion with basis for adverse opinion paragraph mentioning the reason.

7. Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of ABC Ltd. Which of the following is correct in regard to the disclosure of such management responsibility?

- (a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.
- (b) The management may undertake to accept such responsibility through an engagement letter itself.
- (c) The auditor's report should describe the management responsibility in a section with heading "responsibility of management for financial statements".
- (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.

SAs Mix

Ans (c)

Summary: The auditor's report should describe the management responsibility in a section with heading "responsibility of management for financial statements".

8. CA Ram identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA Ram. Guide CA Ram on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?

- (a) In accordance with SA 710, CA Ram should give unmodified opinion, but include Other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.
- (b) In accordance with SA 710, CA Ram should seek legal opinion.
- (c) In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only.
- (d) In accordance with SA 710, CA Ram should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of matter paragraph.

Ans (c)

Summary: If auditor's report on prior period, included qualified, disclaimer of opinion, or adverse opinion and matter which gave rise to modification is unresolved, auditor shall modify auditor's opinion on current period's F.S.

9. While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non- consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?

- (a) M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters.
- (b) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.
- (c) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'
- (d) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non-consolidation of a subsidiary.

Ans (c)

Summary: Even when there's no KAM to be reported, KAM para has to be added & auditor is required to state that except for the matters stated in Basis for _____ Para, we have determined there are no other KAM to communicate in our report

10. M/s Brahmi and Associates have been appointed as the statutory auditor of Prompton Leaves Limited, a manufacturer of gas geysers for the FY 2021-22. During the course of audit, the auditor found that two customer complaints have been filed against the company in the FY 2021-22, for the use of sub standard pipes and wires in manufacture of gas geysers. The gas geyser blasted at high temperature leading to severe injuries to the family of complainant along with damage to their property. They have sought a demand of rupees 10 crore. However, the lawyer of Prompton Leaves Limited believes that such claim is unsustainable as the incident occurred due to short circuit at both the complainants place. The management of Prompton Leaves Limited accordingly did not include any reference to the litigation in the financial statements. The auditor obtained legal advice from some independent lawyer according to whom the outcome of the case is not ascertainable as of now.

- (a) The statutory auditor should give an unqualified opinion.
- (b) The statutory auditor should give an unqualified opinion with Emphasis of Matter paragraph.

- (c) The statutory auditor should withdraw from the audit engagement.
- (d) The statutory auditor should give a qualified opinion.

Ans (d)

Summary: If management doesn't give disclosure of customer claims → auditor shall issue qualified opinion.

11. If the prior period financial statements were not audited, the auditor shall state the same in .

- (a) Key audit matter section
- (b) Emphasis of matter paragraph
- (c) Going concern paragraph
- (d) Other matter paragraph

Ans. (d)

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

Ans (c)

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

Ans (a)

Risk Assessment & Internal Control + SA 315/330

1. The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2019-20. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same.

Which of the following questions need not be framed under internal control questionnaire relating to purchases?

- (a) Are authorized signatories for purchases limited to elected officials?
- (b) Are payments approved only on original invoices?
- (c) Does authorized officials thoroughly review the documents before signing cheques?
- (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?

2. Adequate design and effective implementation of Internal Controls may not lead to the identification of:

- (a) Frauds and errors.
- (b) Design and Implementation gaps in Processes.
- (c) Abuse by Process Owners.
- (d) Segregation of Duties.

3. ABC Private Limited uses in-house developed application system for Accounting. The auditor observed that user ID and password is mandatory to access the application system and felt that this is a good control. What type of control is this?

- (a) IT General Control.
- (b) Application Control.
- (c) Detective Control.
- (d) Preventive Control.

4. Raj Private Limited is engaged in the business of retail and has its retail outlets concentrated towards Northern India. Currently, the company has 59 outlets and the plan of the management is to take this to at least 100 over the next 2 years. The company is audited by Raj & Associates, a firm of Chartered Accountants, who have been operating for over 20 years, however, they don't have much experience in the retail sector. Because of this fact the audit team decided to plan efficiently for the audit of the financial statements of the company for the year ended 31 March 2020, being their first year of audit. During the course of risk assessment by the auditors, it was discussed that the company is operating in an industry where the operations are not very complicated and mostly the processes are known to all. Considering the same they decided that assessment of inherent risk should not be done for this company as that would be inefficient. However, the auditors will take due care of the control risks. The same assessment was deliberated upon and after lot of discussions it was finalized like this.

In the given situation, please advise which one of the following would be correct.

- (a) The assessment of audit team is correct.

- (b) The assessment of audit team is wrong considering the fact that this is a private company wherein such assessment is not possible.
- (c) The assessment of audit team is wrong for this company.
- (d) The assessment of audit team is correct considering the fact that this has been thoroughly discussed.

5. Kshitij Private Ltd is a company based out of Noida having operations in India and Dubai. The company's operations in Dubai have increase over the last 2 years and the management is earning very good profits. Because of the profits, the management also planned that they should now focus on strengthening of internal controls of the company and for that purpose they have discussed with the statutory auditors to carry out the audit for the financial year ended 31 March 2020 very rigorously. The report on internal financial controls is also applicable to the company and hence the auditors during the course of their work asked for Risk-control matrices from the company. During the year ended 31 March 2019, Risk-control matrix was not available with the company and was prepared in a draft manner and the same was shared with the audit team during that year and the auditors completed their work on the basis of that. However, for the year ended 31 March 2020, the auditors would like to have robust documentation and are not ready to accept the same Risk control matrices.

In the given situation, please suggest what should be the course of action.

- (a) The request of audit team is correct and the management should provide that.
- (b) The requirement of audit team is not justified considering the fact that last year same documentation was used by them.
- (c) The requirement of audit team is not justified considering the fact that it's a private company and auditor anyways is required to perform rigorous audit procedures.
- (d) In case of a private company on which internal financial controls report is required, the auditor is not allowed to take any Risk- control matrix from the management. Seems to be an ethical issue.

6. SK Private Limited is a medium-sized company having operations in Jharkhand. The company manufactures some parts and sells that to various dealers on ex-works basis. The financial statements of the company are prepared as per Ind AS and internal financial controls report is also applicable on the same. During the course of audit of the financial statements for the year ended 31 March 2020, the management of the company had a detailed discussion with the auditors for audit planning. Further it was also decided that any observations of the auditors should also be discussed with the management before conclusion by the audit team which was not done in the past years. Considering this, the auditors started the risk assessment and requested the management to share their documentation for the same on which the management said that they don't have any risks and if the auditors come across any such thing they can discuss that with the management. But the auditors were not convinced with the view of the management and the same thing has happened in the past years as well.

You are required to provide your inputs to resolve this matter.

- (a) The requirement of the audit team is not correct.
- (b) The view of the management is correct because of the applicability of Ind AS.
- (c) The view of the management is correct because of the applicability of internal financial controls reporting.
- (d) The view of the management is not correct.

7. KJ Private Ltd is engaged in the business of e-commerce wherein most of the operations are automated. The company has SAP at its ERP package and is planning to upgrade the SAP version. Currently, the version of SAP being used is fine but the higher version would lead to increased efficiencies and hence the company is considering this plan which will also involve a huge outlay.

KPP & Associates, were appointed as the statutory auditors of this company for the year ended 31 March 2020 and the statutory audit firm has been working in this industry for long but most of the work which the firm did was more of risk advisory or internal audit.

For the first time, this audit will be conducted and that's why the audit team started obtaining understanding of the operations of the company which included understanding of the SAP system of the company.

However, the management of the company was not comfortable with this approach of the audit team particularly because audit team was spending good time on understanding of the IT systems of the company.

The management suggested that the auditors should limit their understanding and should perform audit procedures rather than getting into business/ operations. But the auditors have a different view on this matter and because of which work has got stuck.

In the given situation, please suggest what should be the course of action.

- (a) The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate.
- (b) The management's concern regarding the approach of the auditors seems reasonable. The auditors are spending time on understanding of the systems/ business and not performing their audit procedures.
- (c) This being a private company and that too into the business of e-commerce, the auditors should have knowledge about the operations of the company through their understanding of the industry and hence should not get into this process of obtaining detailed understanding at the client place.
- (d) The audit team could have planned their work differently. They should involve IT experts who would have knowledge of the systems of the company and hence lot of time can be saved. Further in case of such type of industry, involvement of IT experts is anyways required mandatorily as per the legal requirements.

8. AR Private Limited is a medium-sized company engaged in the business of trading of electronic equipment. The company has various warehouses where all of these equipment are kept and has an inventory levels of generally 2-3 months.

The internal environment of the company is driven by various processes some of them are manual and some automated. Accordingly, the management has also set up various controls both manual and automated and is comfortable with their design and operating effectiveness.

During the course of audit of the financial statements for the year ended 31 March 2020, the auditors raised various queries regarding various processes where the controls were operating effectively. This was because of the fact that auditor was considering either only manual controls or only automated controls in a process.

As per the auditor, the management should have adopted the same approach and hence they would like to increase the substantive audit procedures because they had a view that as per the current approach of the

management, controls should be considered as ineffective irrespective of the fact that the testing which the audit team had performed resulted in the controls being effective.

Currently, the concern was regarding the approach on which management was also stuck on their point.

You are required to provide your inputs to resolve this matter.

- (a) The approach of the management doesn't seem to be correct because of the nature of the operations of the company. The current approach which the management has followed can be accepted only in case of manufacturing industry.
- (b) The management should have discussed their approach with the auditors before appointing them. The Companies Act 2013 provide specific guidance on these matters wherein the management of the company can follow such approach by taking pre-approval from their auditors and in such a case, the report of the auditors is always clean.
- (c) The approach of the management is completely fine. The auditors need to correct their understanding of the internal controls and the application of internal controls. A process cannot be limited to have either only manual control or automated control.
- (d) Considering the size of the company, such matters should be ignored by the auditors. Even if the approach of the management is not correct, it would not have any impact on the work of the auditors because all such matters get resolved at the time when auditors perform final analytical procedures.

9. AJ Private Ltd is in the business of construction and infrastructure having an annual turnover of INR 1,100 crore. The operations of the company are run efficiently driven by the well laid out policies and procedures. The processes of the company are very strong and are well documented and properly communicated to its employees, as required.

The management had also done a detailed risk assessment in the earlier years and currently the risk management system of the company is considered to be very effective. The internal controls include both automated and manual. During the course of the audit of the financial statements of the company for the financial year ended 31 March 2020, the statutory auditors did their risk assessment and also reviewed the general IT controls which were found to be effective. Considering the same, one of the senior audit team members asked the team to start performing the substantive audit procedures taking the approach that controls are effective. However, the audit team did not find this approach correct and discussed that they should also check the effectiveness of other manual and automated controls by testing them and then move on to substantive testing. The audit team recently had a training on the internal controls and hence their understanding was different from the audit senior. This led to a conflicting situation between the audit senior and remaining audit team. In the given situation, please advise which of the following would be correct.

- (a) The audit senior is correct because general IT controls were found to be effective and hence no further work may be required on controls.
- (b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls cannot be said to be operating effectively.
- (c) The audit senior seems reasonable in his approach because general IT controls were found to be effective. However, it would be more appropriate to also test application controls before concluding on the effectiveness of the controls.

(d) The argument of the audit team looks better because every audit requires significant time to be spent on testing of internal controls and by only covering general IT controls, it would be difficult to justify this requirement later on in the audit file.

10. QRP was using a customized ERP package upto 31 March 2019. However, with effect from 1 April 2019, QRP moved to SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP were of the view that for the financial year ended 31 March 2020, being the first year of SAP implementation, no work on IT controls would be required and they were also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past they had found that the IT controls in the first year of ERP implementation were very weak.

Do you agree with the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report. What would be your suggestion here?

- (a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files.
- (b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.
- (c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation.
- (d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation.

11. The acceptable detection risk needs to be _____ in order to reduce the audit risk to _____ in the area of inventories management and handling.

- (a) low in order to reduce audit risk to an acceptably high level.
- (b) high in order to reduce audit risk to an acceptably high level.
- (c) low in order to reduce audit risk to an acceptably low level.
- (d) high in order to reduce audit risk to an acceptably low level.

12. Which of the following is an example of Direct Entity level control:

- (a) Company code of conduct and ethics policies.
- (b) Human resource policies.
- (c) Job roles & responsibilities of employees.
- (d) Monitoring of effectiveness of controls activities by Internal Audit function.

13. KPC Limited is a garment manufacturing company having Head Office in Mumbai, 4 factories, 10 marketing offices across the country. The company uses SAP ERP for almost all its business processes except Payroll which is being outsourced to an Agency in Bangalore. Once payroll is processed, data is sent to the HR department at HO. HR department shares such details with Finance Department at HO for making the payment. Journal entries are recorded in SAP. Employees complained about incorrect Income Tax calculation and KPC Limited appointed a CA firm to review the payroll system in detail. It was observed that logic of Income Tax calculation is not as per the requirements of the Act and when the outsourced Agency

confirmed that they carried out program changes recently and error may be due to such changes. The Auditor attributed the error of such incorrect software changes to:

- (a) Loss of Application Controls.
- (b) Loss of Overall Controls.
- (c) Loss of IT General Controls.
- (d) Human oversight.

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

i. In relation to Corporate Governance and in compliance of Regulations 17 and 17A, what should be the minimum number of independent directors on the board of Premium Ltd.?

- (a) 8.
- (b) 6.
- (c) 11.
- (d) 2.

ii. What should be correct statement from below in regard to number of independent directors for audit committee of Premium Ltd?

- (a) There should be at least 5 independent directors in audit committee and 5 directors should have knowledge to read the financial statements.
- (b) There should be at least 5 independent directors in audit committee and 9 directors should have knowledge to read the financial statements.
- (c) There should be at least 6 independent directors in audit committee and 9 directors should have knowledge to read the financial statements.
- (d) There should be at least 6 independent directors in audit committee and 6 directors should have knowledge to read the financial statements.

S No.	Ans	11	c
1	d	12	d
2	c	13	c
3	d	14	
4	c	i	a
5	a	ii	c
6	d		
7	a		
8	c		
9	b		
10	b		

Company Audit & CARO 2020

1. Section 130 re-opening of accounts on Court's or Tribunal's orders: of the Companies Act, 2013 states that a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board of India (SEBI), any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect. Jain Ltd. has an annual turnover of ₹ 350 crore and has been into losses for the last 2 years. The operations of the company are good. Due to some technology changes, the company started facing competition and hence, started incurring losses. The company plans to revive in the next 1-2 years with the improvements in its processes. During the year ended 31 March, 2020, the management of the company came across certain transactions relating to the financial year ended 31 March 2019 which were erroneously missed to be accounted for. This would result into losses and hence, the management is considering to take this to the right financial year and for that purpose to re-open its accounts for the financial year ended 31 March 2019. Please advise.

- (a) The position of the management is correct.
- (b) The action of the management is correct, however, the reason behind reopening the accounts of last year does not seem to be correct.
- (c) The action of the management would have been correct had it been advised by the auditors of the company and for the same management should have taken approval from SEBI.
- (d) The action of the management is not correct.

2. M/s MNO & Co. (a CA firm with 3 partners) are the statutory auditors of PCL Limited, a company engaged in real estate business. PCL Limited recently launched a real estate project in Bangalore Whitefield location at an all- inclusive price of ₹ 5,500. PCL Limited also announced that their first 50 customers would be allowed a special inauguration discount of 10%. Mr. M, one of the partners with MNO & Co. and the audit engagement partner for PCL Limited booked one 3 BHK flat and he was offered the all- inclusive price of ₹ 4,950 (after 10% inauguration discount). Another partner- Mr. N also booked one 3 BHK flat at the all-inclusive price of ₹ 5,500.

Which of the following statements is correct:

- (a) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client since Mr. N was not offered any discount in the booking price.
- (b) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transactions by Mr. M and Mr. N with PCL Limited since the third partner- Mr. O had not done any business transaction with PCL Limited.
- (c) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transactions by Mr. M and Mr. N with audit client since business transactions with audit client in the ordinary course of business, are allowed, without any consideration on transaction price.
- (d) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client if Mr. M qualified as among the first 50 eligible customers as per the marketing scheme and it can be demonstrated that PCL Limited has passed on similar 10% inauguration discount to other 49 customers and further, the discount of 10% offered to Mr. M was in the nature of routine commercial transaction, in the ordinary course of business of PCL Limited.

3. Mr. P, a partner of XYZ Ltd. is a statutory auditor of PQR Ltd since 1st April, 2014. Mr. P also provides services of tax audit and represents before tax authorities for various litigation matters. PQR Ltd now wishes to avail internal audit and booking keeping services from Mr.P. Mr. P is required to give his views for whether he can render such services to PQR Ltd. in addition to existing services.

You are required to choose an appropriate option from the following alternatives:

- (a) Mr. P can provide additional services by taking approval from Board of Directors of PQR Ltd.
- (b) Mr. P can provide additional services by taking approval from shareholders of PQR Ltd.
- (c) Mr. P can provide additional services by informing ICAI and MCA.
- (d) Mr. P cannot provide additional services.

4. Gama Ltd. is a renowned limited liability partnership firm specialized in retendering services relating to statutory audits, tax audits, consultancy relating to direct and indirect taxes etc. Gama Ltd. is appointed as a statutory auditor for the year ended 31st March, 2020 of Beeta Ltd., a listed Company. Alfa Ltd, Chartered Accountants were retiring auditors of Beeta Ltd. You are required to suggest, Gama Ltd. is required to carry out which audit procedures with retiring auditor, Alfa Ltd. before start of audit:

- (a) To obtain no objection certificate from Alfa Ltd before start of the audit.
- (b) To start the audit and then obtain no objection certificate.
- (c) No objection certificate is not required to be obtained.
- (d) No objection certificate has to be obtained from Beeta Ltd.

5. VBN & Associates, chartered accountants are Statutory auditors of Gold Ltd. for the year ended 31st March, 2020. While conducting audit for the year, the auditor have come to know that the fraud amounting to 2 crore was done by one of the employees. Under Sec 143(12) of Companies Act, 2013, you are required to suggest whether as a statutory auditor, VBN & Associates is required:

- (a) To report fraud to Audit Committee/ Board of Directors of Gold Ltd and in Auditor's Report.
- (b) To report fraud to shareholders of Gold Ltd and no further reporting.
- (c) To report fraud only in Auditor's Report.
- (d) To report fraud to Central Government and in Auditor's Report.

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

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

On 27th August 2020, Mr. JJ, the auditor of PQR Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities.

To whom should have Mr. JJ informed about his resignation? What could be the possible consequence for his non-compliance? (a) He should have informed the registrar and PQR Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 5 lakh.

(b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than ₹ 50,000 (c) He should have informed the registrar and FDI & Co. As a consequence of his failure, he is liable to a fine of ₹ 500 per day for each day of failure.

(d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of ₹ 45,000/-.

7. PQR Ltd is subsidiary of GDP Ltd. FDI & Co. Chartered Accountants appointed as statutory auditors of PQR Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems.

Mr. F, who is one of the partners of the firm (NOTE- Mr. F does not sign the financials of PQR Ltd.) had borrowed a sum of ₹ 3.89 lakh from GDP Ltd which is holding of PQR Ltd. He had also purchased goods worth ₹ 1.09 lakh from the company which was in ordinary course of business, at arm's length price. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. F.

With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of PQR Ltd.?

- (a) It is valid since the indebtedness is within prescribed limits.
- (b) It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakh.
- (c) It is valid since Mr. F is not signing the financials of PQR Ltd.
- (d) It is valid since the indebtedness is not with PQR Ltd.

8. Sarvodya Ltd. is a public company engaged in the business of manufacture of tyres. The company had turnover of ₹ 300 crore during the financial year 2019-20. M/s Sita Gita and Associates have been appointed as statutory auditors of the company for the financial year 2019-20. This audit firm has also been the tax auditor of the company since the FY 2017-18 and continues to be the tax auditors for the FY 2019-20. During the course of audit, M/s Sita Gita and Associates received a notice from the company regarding general meeting to be held to discuss the prospective merger and acquisition by the company. The engagement partner, CA Sita decided not to attend the same by herself and to send CA Rohan (another partner working with her in the firm, having COP and recently joined the firm) to attend the same as her authorized representative. Also, she understood that there is no obligation as such on them to attend such meeting though they have a right to receive such notice. Further, the auditor came across a fraud whereby an accounts officer of Sarvodya Ltd. has made unauthorized payments amounting to ₹ 0.80 crore using bogus cheques. The auditor understands that as per the Companies (Audit and Auditors) Rules 2014 since fraud amount does not exceed ₹ 1 crore, the reporting in this regard is not to be done to the Central Government and only the company is bound to disclose such fraud in the Board's report.

Further, during the financial year 2017-18 Sarvodya Ltd. acquired five companies out of which two were foreign companies. Sarvodya Limited made consolidated financial statements including the three Indian companies while the two foreign companies were not consolidated mistakenly. The management of Sarvodya Ltd. decided to voluntarily revise its accounts of financial year 2017-18 and subsequent year and discussed the matter with the auditor. Also, when the statutory audit was going on, Sarvodya Ltd. started the process to declare interim dividend for the financial year 2019-20 out of the profits of the same year. However, the company did not transfer any profits to reserves for the financial year. This is not correct as per the auditor. Further, the management of Sarvodya Ltd. did not intend to transfer the amount of dividend so declared to a separate bank account as they have declared interim dividend and according to them, such transfer is required in case of declaration of final dividend only.

During the course of audit, the auditors found that the company has not made provision for tax even though such liability was anticipated at the time of finalizing accounts for the FY 2019-20. When the auditor discussed the same with the management, they were told that since the company has declared dividend out

of the current year profits, the company has not made provision for tax liability so anticipated and the same will be duly paid at the time of return filing. During the month of August 2020 i.e. FY 2020-21, the company had sold tyres to a two wheeler manufacturer namely Super X Ltd. valuing ₹ 10 lakh at arm's length price. MDS bank has given guarantee to Sarvodya Ltd. for Super X Ltd. The Branch Manager of MDS bank is Mr. Shyam, son of CA Sita. This may attract disqualification of M/s Sita Gita and Associates as statutory auditor's for the next financial year i.e. FY 2020-21.

Based on the above facts, answer the following:

(i) Whether the understanding of CA Sita regarding their right and duty to attend the general meeting is correct? Further, is she correct in not attending the general meeting by herself and sending CA Rohan to attend the general meeting for which the former has received a notice?

(a) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to compulsorily attend such meeting. Further she is correct in sending CA Rohan to attend the meeting.

(b) Ms. Sita is not correct as the auditors have a right to receive notice of every general meeting; also, it is their duty to attend such meetings. Further she is not correct in sending CA Rohan to attend the meeting as her authorized representative as she can attend the meeting by herself and not through authorized representative.

(c) Ms. Sita is not correct as though the auditors have a right to receive notice of every general meeting; they also have a duty to attend such meetings. Further, she is correct in sending Mr. Rohan to attend the meeting as her authorized representative.

(d) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to attend such meeting. Further she is not correct in sending Mr. Rohan to attend the meeting as her authorized representative.

(ii) With respect to the fraud committed by the accounts officer, is there any other reporting requirement apart from the disclosure in the Board's report?

(a) M/s Sita Gita & Associates should report the fraud to the Board of Directors and Central Government within 2 days of the knowledge of fraud.

(b) M/s Sita Gita & Associates should report the fraud to the Audit Committee/Board of Directors within 2 days of the knowledge of fraud.

(c) M/s Sita Gita & Associates should report the fraud to the Audit Committee within 2 days of the knowledge of fraud which will in turn report such fraud to the Central Government within 45 days of their knowledge.

(d) M/s Sita Gita & Associates should report the fraud to the Audit Committee and Central Government within 2 days of the knowledge of fraud.

(iii) What should CA Sita advise the management regarding the voluntary revision of financial statements related to FY 2017-18 and subsequent year?

(a) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval of the Tribunal and the order passed by the Tribunal shall be filed with Registrar.

(b) The management of Sarvodya Ltd. cannot revise the financial statements.

(c) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval from the Ministry of Corporate Affairs and such approval shall be filed with Registrar.

(d) The management of Sarvodya Ltd. cannot revise the financial statements of FY 2017-18 but can revise the financial statement pertaining to FY 2018-19.

(iv) With respect to the revision of financial statements of FY 2017- 18 and subsequent year, can M/s Sita Gita & Associates revise the corresponding tax audit report also for those years if the financial statements are revised?

(a) M/s Sita Gita & Associates cannot revise the tax audit reports as there is no provision of revision of Tax audit report under the Income Tax Act 1961.

(b) M/s Sita Gita & Associates cannot revise the tax audit reports as the accounts of FY 2017-18 & 2018-19 have been adopted in the Annual General Meeting by the company.

(c) M/s Sita Gita & Associates can revise the tax audit reports if the accounts are revised by the company and they should specify the reason for such revision with a reference to the earlier reports.

(d) M/s Sita Gita & Associates can revise the tax audit reports at their own discretion for any purpose and for as many times as required.

(v) Is management of Sarvodya Ltd. correct in not transferring any percentage of profits to the reserves before it declares the interim dividend out of current year profits of FY 2019-20?

(a) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is optional.

(b) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is required in case of declaration of final dividend and not interim dividend.

(c) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as the company has declared the dividend out of current year profits.

(d) The management of Sarvodya Ltd. is not correct in not transferring any percent of profits to reserves as such transfer to reserves is mandatory in all cases.

(vi) Is the contention of management correct in not transferring the amount of dividend declared to a separate bank account?

(a) The management of Sarvodya Ltd. is correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend and not in case of interim dividend.

(b) The management of Sarvodya Ltd. is correct as the company declaring interim dividend has an option to transfer the amount so declared in separate bank account within 7 days from the date of such declaration.

(c) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 7 days from the date of declaration of such dividend.

(d) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 5 days from the date of declaration of such dividend.

(vii) With respect to the non-provision of income tax liability by Sarvodya Ltd., what course of action should M/s Sita Gita & Associates follow in their audit report?

- (a) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability hampers the true and fair view of the state of affairs of the company.
- (b) M/s Sita Gita & Associates should give an unqualified report as provision of tax liability is the sole discretion of the management of Sarvodya Ltd as the tax amount will be duly paid at the time of filing of the income tax return.
- (c) M/s Sita Gita & Associates should give an unqualified report as the company has not made the provision of tax for a valid reason given by the management of Sarvodya Ltd.
- (d) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability leads to over statement of current liabilities and provisions in the balance sheet.

(viii) Can M/s Sita Gita & associates be appointed as the statutory auditors of Sarvodya Ltd. for the next financial year, FY 2020-21?

- (a) Yes, M/s Sita Gita & Associates can be appointed as the statutory auditors of Sarvodya Ltd for the next financial year.
- (b) No, M/s Sita Gita & Associates cannot be appointed as the statutory auditors of Sarvodya Ltd for the next financial year.
- (c) Yes, M/s Sita Gita & Associates can be appointed as the statutory auditors of Sarvodya Ltd for the next financial year but only CA Gita can conduct such audit and CA Sita is disqualified from taking such audit assignment.
- (d) Yes, M/s Sita Gita & Associates can be appointed as the statutory auditors of Sarvodya Ltd for the next financial year subject to the approval of C&AG.

9. QRP Lifecare Private Limited, (the 'Company' or 'QRP'), is engaged in the business of pharmaceuticals. The Company is based in Hyderabad and has an annual turnover of INR 400 crore. One of the directors of the Company did not give declaration to the Company under section 164(2) of the Companies Act 2013 as at 31 March 2020. The auditors of the Company completed their audit of the financial statements for the year ended 31 March 2020 and were awaiting this declaration. But the management was of the view that they will not be able to receive this declaration. All other directors had given the required declarations and the auditors had also verified that.

How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?

- (a) Auditors may perform alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act.
- (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality.
- (c) There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on.
- (d) Auditors would need to report this matter in their main report.

10. The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the

assignment without communicating about the same to the previous auditor. At a later point, certain shareholders of the firm opposed the appointment, but the issue was solved afterwards.

What could be the possible reason for the objections raised by the shareholders of the listed company?

- (a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment.
- (b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment.
- (c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment.
- (d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment.

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

Which of the following statements is correct for Tata Tea Ltd in regard to section 148 of the Companies Act, 2013 read with Rule 4 on Applicability of cost audit?

- (a) Tata Tea Ltd will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than ₹ 50 crore.
- (b) Tata Tea Ltd will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than ₹ 35 crore.
- (c) Tata Tea Ltd will have to maintain cost records but would not be subject to cost audit.
- (d) Tata Tea Ltd is not required to maintain cost records.

12. AJ Associates a chartered accountant firm is acting as an auditor of the XYZ Ltd. Provisions of the cost audit are also applicable to the XYZ Ltd. Two years ago, ABC Associates was appointed as cost auditor of the XYZ Ltd. However, this year due to some reason the Cost Auditor firm resigned. The management being of the opinion that AJ Associates being the auditor of the company knows everything about the company so AJ Associates should be appointed as the cost auditor of the XYZ Ltd for the current year. Select the correct statement with respect to the appointment of AJ Associates as the cost auditor of the Company?

- (i) Practicing CA/CWA/CMA can be appointed as cost auditor of the company, so appointment of AJ Associates as cost auditor being a company auditor is valid.
- (ii) Only Practicing CWA/CMA can be appointed as cost auditor of the company, but appointment of AJ Associates as cost auditor being a company auditor is invalid.
- (iii) Company Auditor can be appointed as cost auditor subject to fulfilment of certain conditions as specified under section 148 of the Companies Act 2013.
- (iv) Company Auditor cannot be appointed as cost auditor of the company.

- (a) (i) and (ii).
- (b) (ii) and (iv).
- (c) (ii) and (iii).
- (d) (i) and (iv).

13. Andy & Co; a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company “Daiva Swaroopam Private Limited” by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year and your 1st year trainee asks you following question.

The trainee asked you whether the IND AS is applicable to the group or not?

- (a) Yes, but only Manava Swaroopam Limited need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.
- (b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.
- (c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company’s net worth is below 250 crore and is not listed in any recognised stock exchange in India.
- (d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.

14. Kiwspack Ltd. is an unlisted public company incorporated in the year 2009, having 90 shareholders with an equity share capital of ₹ 27 lakhs. There are total four directors in its board. For the financial year 2020-21 as well as for the quarter ended on 30th June, 2021, Kiwspack Ltd. had suffered a loss. Despite of such loss, the board of Kiwspack Ltd. declared a total interim dividend of ₹ 20 lakhs for quarter ended March, 2021 on 25th April, 2021. The details of dividends declared by Kiwspack Ltd. during preceding financial years are tabulated, as below:-

Financial Year	Rate of dividend declared
2019-20	12%
2018-19	16%
2017-18	10%
2016-17	15%
2015-16	20%
2014-15	14%

The said dividend was paid to the shareholders on 10th June, 2021, through account payee cheque, by withdrawing an amount of 5% from the total free reserves available with Kiwspack Ltd. The balance of free reserves after such withdrawal fell to 20% of its paid up share capital as appearing in the latest audited financial statements.

One of the shareholders, Mr. Mahesh, had submitted a transfer deed to the company on 28th April, 2021, for registration relating to transfer of all shares held by him in Kiwspack Ltd. in the name of Mr. Govardhan, along with an authorization letter for paying the amount of dividend on his shares to Mr. Govardhan.

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

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

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

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

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

(i) At what maximum rate, the board of Kiwapack Ltd. would have declared the interim dividend for quarter ended March, 2021?

- (a) 10.6%.
- (b) 12.67%.
- (c) 14.5%.
- (d) 15%.

(ii) How much amount of interest shall be payable by Kiwapack Ltd. for delay in payment of dividend to the shareholders?

- (a) ₹ 13,151.
- (b) ₹ 8,877.
- (c) ₹ 10,521.
- (d) ₹ 15,781.

(iii) In which account, Kiwapack Ltd. would have transferred the dividend amount in relation to shares which were held by Mr. Mahesh?

- (a) Account of Mr. Mahesh.
- (b) Account of Mr. Govardhan.
- (c) Unpaid Dividend Account.
- (d) Investor Education and Protection Fund.

(iv) How much maximum amount of fine could be levied on every director of the company who was knowingly a party to the default in payment of dividend to the shareholders?

- (a) ₹ 9,000.
- (b) ₹ 11,000.
- (c) ₹ 16,000.
- (d) ₹ 1,00,000.

(v) By what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account and also by what date, the statement in relation to details of such Unpaid Dividend should have been prepared by Kiwapack Ltd. and placed on its website?

- (a) 01st June, 2021 and 13th September, 2021, respectively.

- (b) 25th May, 2021 and 15th July, 2021, respectively.
- (c) 01st June, 2021 and 15th July, 2021, respectively.
- (d) 25th May, 2021 and 13th September, 2021, respectively.

15. Kinfin Private Limited had taken overdrafts from three banks (Bank A, Bank B and Bank C) with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution (Financial Institution X) of ₹ 36 lacs.

As on 30th October 2019, the management used the overdraft fully of the A & C bank to the tune of ₹ 40 lacs each. However, the overdraft of second bank (Bank B) was not used until 31st December, 2020. On 31st December, 2020, Management took overdraft of B bank and very next day management paid the overdraft of C bank as the rate of interest charged by Bank C on overdraft facility was 15% whereas, the rate of interest charged by Bank B was 12%.

As at 31st March 2021 only overdraft of Bank A and Bank B were used fully, overdrafts of Bank C and Financial Institution X were unused. The paid-up capital and reserves of the company as at that date was ₹ 85 lacs and its revenue for the financial year ended on 31st March 2021 was ₹ 8.95 crores. The management of the company is of the opinion that CARO, 2020 is not applicable to it because turnover and paid-up capital were within the limits prescribed. With respect to the loans, management was of the view that the total outstanding as at 31 March 2021 is less than the prescribed limit. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment.

- (a) The CARO 2020 is applicable to the company as the turnover of the company exceeds the prescribed limit.
- (b) The CARO 2020 is not applicable to the company as the turnover of the company does not exceeds the prescribed limit.
- (c) The CARO 2020 is not applicable to the company as the borrowing of the company does not exceeds the prescribed limit.
- (d) The CARO 2020 is applicable to the company as the borrowing of the company exceeds the prescribed limit.

16. SuperFin Rollers Ltd. has declared dividend of 10% on 22nd April, 2021, for the year ended 31 March 2021. The company did not pay or transfer the dividend declared to its 4 shareholders (Mr Sunil, Mr Mukesh, Mr Rakesh & Mr Haresh) who were entitled to receive the dividend. Upon inquiry by the auditor regarding the reason, the Executive Director Mr. Ram provided that there is a legal dispute regarding the right to receive the dividend for these four shareholders. Executive Director Mr. Ram decided not to take any further step to pay the dividend till the time the disputes were not resolved. In the light of the same, kindly guide the auditor with respect to the penalty in the current case as per section 127 of the Companies Act.

- (a) Executive Director Mr. Ram shall be liable shall be liable to pay simple interest at the rate of twelve per cent per annum during the period for which such default continues.
- (b) Executive Director Mr. Ram shall be liable to pay simple interest at the rate of eighteen per cent per annum during the period for which such default continues.
- (c) Executive Director Mr. Ram punishable with imprisonment which may extend to two years and with fine which shall not be less than one thousand rupees for every day during which such default continues.

(d) Executive Director Mr. Ram is not liable for punishment as there is no offence under section 127 section of the Act.

17. M/s Shiva & Associates have been appointed as statutory auditors of Kailash Ltd. which is the company registered under Section 8 of the Companies Act 2013. During the course of audit, CA Shiva noticed that the Board of Directors have held their meetings only twice, in the financial year under audit. How should CA Shiva deal with the same in the compliance certificate to be issued by him?

- (a) CA Shiva should give an adverse statement stating that the meeting of board of directors were held only twice as against the minimum requirement of 4 meetings of financial year.
- (b) CA Shiva need not mention regarding the same in the compliance certificate as there is no minimum requirement of meeting of board of directors in case of companies registered under Section 8.
- (c) Kailash Ltd. being a company registered under Section 8 of the Companies Act 2013 is exempt from obtaining compliance certificate from the statutory auditors.
- (d) Kailash Ltd. is correct in conducting two meeting of board of directors therefore, CA Shiva should not give an adverse or qualified statement in this regard.

18. While reporting under clause (ii) of Paragraph 3 of CARO 2020, which of the following is correct:

- (a) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory.
- (b) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory.
- (c) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory.
- (d) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory.

19. The Company has paid state excise duty (due date of payment – 5th of Next Month) on alcohol for the months of August (₹ 5 lakh), September (₹ 3 lakh), October (₹ 4 lakh) and March (₹ 2 lakh) on 05.06.2021. The same is not disputed. The excise duty has been debited to Profit and Loss Account.

As a statutory auditor of Ginasome Ltd., State the aggregate amount which shall be reported under clause (vii) of Para 3 of CARO, 2020 on account of late payment of state excise duty?

- (a) ₹ 5,00,000.
- (b) ₹ 8,00,000.
- (c) ₹ 12,00,000.
- (d) Nil Amount.

20. CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around ₹ 50 lakh. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country.

During the course of audit for the financial year 2021-22, the following observations with respect to the company were made by the auditors:

- The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to ₹ 1.50 crore approximately.
- Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2020.

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

Is the decision of CA & Co. of not reporting the issues of ZXC in CARO, 2020 justified? If so, under what reason?

- No. CARO, 2020 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO.
- Yes. CARO, 2020 is not applicable to ZXC and hence the same need not to be reported.
- No. As per SA 240, the auditor has to maintain professional skepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.
- Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.

21. The Bank has also granted Term Loan of ₹ 20 crore to Samarth Ltd (An Unlisted Company) on 01.02.2021. The sanction letter read as follows: “The Facility shall be used for Repayment of Unsecured Loans of Promoters – ₹ 10 crore and towards development & construction expenses (Other than Land Cost) of the company’s new office to be situated in Faridabad, Haryana – ₹ 10 crore”.

The company has utilized the facility as follows as on 31st March 2021-

- Land Purchased for New Office: ₹ 4 crore;
- Development and construction Expenses of New Office: ₹ 11 crore;
- Repayment of Unsecured Loans of Promoters: ₹ 3 crore;
- Investment in Fixed Deposit: ₹ 2 crore (Temporarily);

As Statutory Auditor of Samarth Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained?

- ₹ 4 crore.
- ₹ 5 crore.
- ₹ 7 crore.
- ₹ 2 crore.

22. CA David was appointed as a statutory auditor of Growth Limited having its headquarter at Mumbai. Growth Limited was involved in retail & packaging business and had branches in 6 states of India; Mumbai being its headquarter. It had a policy to appoint different auditor for each branch in different state and a central auditor for Mumbai headquarter. For the FY ended 31st March 2021, all branch audit reports were received by CA David in a timely manner. There was an increase in sales for all the branches, except for the

branch of Kerala where sales declined by 17% in comparison to last year. Hence CA David requested CA Chinnaswami, auditor of Kerala branch, to share audit working papers of Growth Limited's Kerala Branch.

During the year, Growth Limited used its securities premium of ₹ 7 crore for writing off unabsorbed depreciation of ₹ 2.5 crore and issue of bonus shares for ₹ 4.5 crore. All the provisions of section 63 of the Companies Act, 2013 for issue of bonus share and applicable rules in respect of issue of Bonus shares were complied with by Growth Limited. CA David also took a written representation which was certified by the Company Secretary employed by Growth Limited in regard to compliance of applicable provisions for usage of securities premium and thus, CA David issued unmodified audit report. The company created provision for doubtful debts amounting to ₹ 8 lakh and presented that under head short term provisions under liabilities in its financial statements. CA David was confused with presentation of such provision in accordance with Ind AS 37.

Advocate Tanay was a practicing advocate representing in the court of law. Tanay and CA David agreed that advocate Tanay will recommend CA David in case of matters relating to finance & other matters and CA David will recommend advocate Tanay in case of matters relating to tax litigations. Further they also decided to share profits with each other in relation to such assignments. With the increased quantum, CA David has to increase his office capacity. He purchased 10 office chairs, tables and other office furniture from Growth Limited. The same were purchased with huge 90% discount under clearance sale.

The purchase amounted to ₹ 9 lakh which was not more than statutory audit fees of CA David. CFO of Growth Limited contented that, as a result of this purchase, there exist a business relation between Growth Limited and CA David, hence CA David will be disqualified under section 141(3) of the Companies Act, 2013. Based on the above facts, answer the following:-

i. Was the opinion formed by CA David in respect of usage of securities premium correct?

- (a) No, as securities premium cannot be used by company for adjusting unabsorbed depreciation.
- (b) No, as securities premium cannot be used for issuing bonus shares.
- (c) Yes, as CA David has taken written representation signed by the Company Secretary. Hence CA David will not be liable to check the compliance of applicable provision.
- (d) Yes, as per section 52 of the Companies Act, 2013, premium can be used for adjusting unabsorbed depreciation and for issuing bonus shares.

ii. In your opinion, was the presentation of provision for doubtful debts correct in accordance with Ind AS 37?

- (a) Yes, as Ind AS 37 specifies that such provision should be presented under short term provision.
- (b) No, as Ind AS 37 specifies that such provision should be presented net of trade receivables.
- (c) Yes, because Ind AS 37 doesn't specify anything for presentation, hence we will have to follow practices which require that such provision should be presented under short term provision only.
- (d) Yes, as it won't make any impact so it is at the discretion of Growth Limited whether to present it under short term provision or net it off from trade receivables.

iii. What is the validity of CFO's contention for disqualification under section 141(3) and will CA David be disqualified?

- (a) The contention of CFO is valid and CA David will have to vacate office as he has purchased his office furniture at 90% discount.
- (b) The contention of CFO is valid but CA David will not have to vacate office as the purchases are less than audit fees as there exist business relation.
- (c) The contention of CFO is invalid but CA David will have to vacate office as he has purchased his office furniture at 90% discount.
- (d) The contention of CFO is invalid and CA David will not have to vacate office as no business relation exists there.

S No.	Ans	Summary
1	d	Company can't revise its financial statements unless its by order of Tribunal u/s Sec 130 or with permission of Tribunal u/s 131.
2	d	Person having business relationship with Co. is disqualified to be its auditor but transactions at Arm's Length Price are exception to this rule.
3	d	Sec 144 disallows Auditor to render certain services to Audit client which includes Internal audit & book keeping services.
4	a	No objection certificate should be obtained from retiring auditor by the newly appointed auditor.
5	d	For fraud ≥ 1 Cr, its has to be reported to CG + mentioned in audit report
6	d	If auditor of govt co. retires, need to inform ROC & C&AG. On failure penalty of 50,000 or remuneration (lower) + 500/day max. 2 Lakh
7	a	Indebtness limit for Co. auditor is 5L, if its within limits, auditor is not disqualified.
8		
i	c	Auditor have right to receive notice of General meeting, also they have duty to attend such meeting either themselves or through authorised representative who should be eligible to be auditor.
ii	b	If fraud < 1 Cr, it shall be reported to AC/Board within 2 days.
iii	a	Mgt can voluntarily revise F.S. only after obtaining approval of Tribunal + tribunal order to be filed with ROC
iv	c	Tax audit report can be revised if the accounts are revised & reason for revision needs to be specified.
v	a	Transfer of profits to reserves before declaring dividend is optional.
vi	d	For both Final/interim dividend amount is to be transferred to Separate bank a/c with scheduled bank within 5 days from date of declaration of dividend.
vii	a	In case of non-provision of income tax, auditor should qualify audit report as it affects true & fair view of state of affairs of entity.
viii	a	Business transaction at Arm's length price don't attract disqualification u/s 141(3)

9	d	As per Sec 143(3)(h), auditor will be required to report whether any director has been disqualified from appointment u/s 164(2).
10	d	As per Sec 139(8), Casual vacance on resignation of auditor shall be filed by BOD & shall be approved by members within 3 months from date of appointment.
11	c	Producing electricity from captive plant for captive consumption exempts a Co. from Cost Audit applicability NOT Cost records.
12	b	Only practicing CWA/CMA can be appointed as cost auditor of Co. & Company auditor can't be appointed as cost auditor of the Co.
13	b	Ind AS applicable to every Co. which is listed or in process of listing. If IND AS becomes applicable to any company, then IND AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of such companies.
14		
i	b	In case of loss in current FY, if Co. wants to declare interim dividend then rate shall not be more than avg of last 3 FY i.e. $(12+16+10)/3$
ii	d	If the Co. doesn't pay dividend within 30 days from date of declaration, Interest is payable @ 18% p.a. for each day of delay beyond 30 days i.e. $18\% * 16/365 * 20 L$
iii	b	If a Shareholder transfers shares to person and authorises Co. to pay dividend to transferee then Co. shall pay the dividend to transferee.
iv	c	If Co. fails to disburse dividend timely to shareholders then directors liable to penalty of 1000 per day of default after the 30 days i.e. $1000 * 16 = 16,000$
v	a	Unpaid dividend has to be transferred within 7 days from end of 30 days & information on website to be hosted within 90 days from transfer to unpaid dividend account.
15	d	If borrowings from bank or Financial institutions exceed 1 Cr at any time during the FY, CARO gets applicable. So, CARO 2020 will be applicable as borrowings have exceeded the prescribed limit.
16	d	There shall be no liability on any officer of Co. regarding dividend if there's legal dispute regarding the right to receive dividend.
17	d	
18	c	
19	a	
20	b	CARO 2020 not applicable to Sec 8 Co.
21	c	
22		
i	a	Securities premium cannot be used by company for adjusting unabsorbed depreciation.
ii	b	Ind AS 37 specifies that such provision should be presented net of trade receivables.
iii	d	

Audit Committee & Corporate governance

1. ABC Ltd is one of the top 1000 listed entities on the basis of market capitalisation. The Board of Directors of ABC Ltd does not comprise of any women director. The Statutory Auditor who is certifying Corporate Governance as per SEBI regulations, has to ascertain that –

- (a) the Board of directors will have at least 2 independent woman director.
- (b) the Board of directors will have at least 1 independent woman director.
- (c) the Board of directors will have at least 5 independent woman director.
- (d) the Board of directors need not have any independent woman director.

2. The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of –

- (a) not less than 7 directors.
- (b) not less than 4 directors.
- (c) not less than 6 directors.
- (d) not less than 2 directors.

3. The Board of Directors of XYZ Ltd, one of the top 2000 listed entities meets 4 times a year. What should be the quorum of the Board of Directors from 1st April 2020-

- (a) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director.
- (b) 1/3rd of its total strength or 4 directors, whichever is higher, including at least 1 independent director.
- (c) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 2 independent director.
- (d) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 non-executive director.

4. XYZ Ltd. is a Public Limited Company engaged in the manufacturing of TMT Bars. M/s. UV & Associates are the statutory auditors of XYZ Ltd. for the FY 2019-20. The company is listed on National Stock Exchange. CA Udhav, the engagement partner is considering the requirements with respect to Regulation 27 and Schedule II (LODR) for corporate governance compliance of XYZ Ltd. Which of the following is correct in this regard?

- (a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
- (b) XYZ Ltd. shall submit a monthly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the end of the month. The report shall be signed either by the General Manager of the accounts department of XYZ Ltd.
- (c) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
- (d) XYZ Ltd. shall submit the annual compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the year end. The report shall be signed either by the General Manager of the Accounts Department of the Company.

5. While conducting audit, auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

What is the responsibility of Auditor so far as the Management Discussion and analysis report of PNGC Ltd. is concerned?

- (a) M/s Bajaj & Associates should verify and comment on the non-financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.
- (b) M/s Bajaj & Associates should verify the non-financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analysing and commenting on the same.
- (c) M/s Bajaj & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non-financial information reflected in the Management Discussion and analysis report.
- (d) M/s Bajaj & Associates can verify and comment on the non-financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.

6. ABC Limited Company had not conducted any meeting of Stakeholders Relationship Committee during FY 2019-20 and there was no disclosure provided in the annual report. Company wants to know frequency of conducting meeting of Stakeholders Relationship Committee. Whether it is in compliance with as per LODR Regulations?

- (a) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least once in a year. Therefore, there was non-compliance as per LODR Regulations.
- (b) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least four times in a year. Therefore, there was non-compliance as per LODR Regulations.
- (c) As Stakeholders Relationship Committee has authorized Mr. P who is Company Secretary to deal with any queries and concerns of the Stakeholders. Further, there were no Stakeholders concerns during FY 2019-20. Therefore, there was no non-compliance of LODR regulation.
- (d) It is voluntary for companies to conduct meeting of Stakeholders Relationship Committee. Therefore, there was no non-compliance as per LODR Regulations.

7. Mr. I was appointed as statutory auditor of M/s New Limited and M/s Old Limited. Both the companies were having their base in Chennai they had recently listed their shares on the stock exchange. For the financial year 2020-21, Mr. I had signed limited review reports for each quarter, till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased work load, he tendered his resignation to M/s New Limited on 30th January 2021 and asked the company to appoint another auditor to issue audit report for the remaining quarter and the FY 2020-21 as a whole. But the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.

However, Mr. I continued to act as auditor for M/s Old limited. During the 1st week of March 2021, Mrs. W (wife of Mr. I) had borrowed a sum of ₹ 6 lakh from the company for her personal use. Having come to know about this, Mr. I immediately informed the management that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter. But once again, the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.

Based on the above facts, answer the following:-

i) Is the management (of M/s New Limited) right in asking Mr. I to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? What could be the reason for the same?

(a) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole.

(b) Yes. If the auditor resigns within 45 days from the end a quarter, he is obligated to issue audit report for such quarter.

(c) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue audit report for the financial year as a whole if he resigns during last quarter.

(d) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.

ii) From the aspect of SEBI LODR regulations and the recent circular on 'Resignation of Statutory Auditors from listed entities', is the management (of M/s Old Limited) right in asking Mr. I to issue audit report for the last quarter? What could be the reason for the same?

(a) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters.

(b) No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable.

(c) Yes. The disqualification affects Mr. I from issuing audit report from next quarter only.

(d) Yes. If the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter.

8. RST Ltd. has a Net Worth of ₹ 80 crore and a market capitalisation of ₹ 350 crore. However, its ranking is 800 among all the Listed Companies based on the said capital for the previous year. It has a subsidiary Company PQR Pvt Ltd. whose net worth is ₹ 25 crore. Whether RST Ltd. and PQR Ltd. are required to undertake Secretarial Audit?

(a) Both RST Ltd. and PQR Ltd. shall undertake Secretarial Audit.

(b) Only RST Ltd., being a listed entity, is required to undertake Secretarial Audit.

(c) None of them are required to undertake Secretarial Audit since they are not among the top 500 Companies on the basis of Market Capitalisation.

(d) Only RST Ltd. shall undertake Secretarial Audit since it is among the top 1,000 Companies on the basis of Market Capitalisation.

S No.	Ans	Summary
1	b	Top 1000 listed entities shall have at least 1 independent woman director.
2	c	The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of not less than 6 directors.

3	a	Quorum of BOD → 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director.
4	a	Quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the Co.
5	c	Auditor is required to review the compliance with the disclosure requirement and need not verify the facts related to the non-financial information reflected in the Management Discussion and analysis report.
6	a	As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least once in a year.
7		
i	d	Auditor is responsible to issue audit report for last quarter since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.
ii	b	If an auditor is disqualified u/s 141, he can't be asked to issue audit report.
8	a	Both listed entity & material subsidiary shall be subject to Secretarial Audit.

Consolidated Financial Statements

1. Rimmi Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31 March, 2020, the company acquired two companies in India and France in September, 2019 and January, 2020 respectively.

The company controls both of these companies as per the criteria laid down in the Companies Act 2013 as well as the applicable accounting standards. The management started discussions with the auditors regarding the audit wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements (CFS), if they want.

Management needs your advise on the same.

- (a) Management must prepare the CFS as per the requirements of the Companies Act, 2013.
- (b) Management has a choice not to prepare CFS but should go for that considering that its true performance and financial position can then be demonstrated.
- (c) Management could have prepared CFS if the acquired companies would have completed at least one year post acquisition.
- (d) Management must prepare CFS but it should include only the company acquired in India.

2. BCO Private Limited is operating in India for the last 15 years. It has three group companies – one subsidiary in India and the other two in Ireland and France. All these subsidiaries were acquired one by one and investments were made in these companies gradually i.e. initially control was not obtained and after investment for some period, control was obtained. The statutory auditors have evaluated that all the group companies are significant for the purpose of audit of consolidated financial statements. During the year ended 31 March 2019, the audited financial statements of all the components are available except for French company whose audit got delayed and would not get completed before the release date of CFS of parent company. For the purpose of consolidation, the parent company has provided the audited financial statements of other components.

Please suggest what can be the possible situation in respect of financial statements of French company for the purpose of consolidation for the purpose of audit of CFS.

- (a) Since the audit of French company is in progress, its financial statements subject to audit can be considered by auditor of parent company and audited signed financials can be given to auditors even after release of audited CFS as this is matter of documentation only.
- (b) The management should give management accounts to the auditors of CFS and auditor can mention the same point in other matters paragraph in his audit report which is an acceptable approach.
- (c) Auditor should get the financial statements of French company excluded from CFS.
- (d) If the auditor does not receive audited financial statements of French company, he should modify his audit report.

3. KB Ltd is engaged in the business of construction. It has multiple subsidiaries and associates in India. The company acquired PPP GmbH in Germany on 1 February 2019. The company also obtained control in PPP GmbH on the same date. Its investment in PPP GmbH was of a huge amount. The company has been

preparing its CFS over the last few years and this has also become a matter of concern for the company for the year ended 31 March 2019. The management is of the view that consolidation of PPP Gmbh would not be required in CFS for the year ended 31 March 2019 because this is the first year of acquisition. However, the auditors have not been agreeing for the same. The timeline of submission of audited financial statements is due in few months time.

In the meantime, the management moved on the consolidation of PPP Gmbh taking audited financial statements of PPP Gmbh which are available in the GAAP of its local country and GAAP conversion adjustments from its local GAAP to Indian GAAP have been made by the parent company. GAAP conversion adjustments are significant at CFS level. In the meantime, the management has also been consulting whether the consolidation would be required or not also considering the fact that comparative figures in case of PPP Gmbh would not be available.

Further the auditors have also raised observations regarding the GAAP conversion adjustments over which management has a disagreement. As per the management the auditors are not required to comment on GAAP adjustments because audited financial statements of PPP Gmbh have been given to the auditors. Please help to resolve these matters.

- (a) Consolidation of PPP Gmbh should be done but GAAP conversion adjustments are not required to be audited.
- (b) Consolidation of PPP Gmbh should not be done and accordingly, GAAP conversion adjustments would not arise.
- (c) Consolidation of PPP Gmbh should be done and GAAP conversion adjustments are also required to be audited.
- (d) Consolidation of PPP Gmbh is a choice of management as the accounting standard does not mandate this. However, in case it is done then the GAAP conversion adjustments would be required to be audited.

4. VDN Ltd is a medium-sized company engaged in the business of retail. It has two subsidiaries and one joint venture. Both the subsidiaries are larger in size as compared to the parent company. The accounting policies of the parent company, its subsidiaries and joint venture were same. However, during the year ended 31 March 2019, one of its subsidiary, SMA Pvt Ltd changed the method of depreciation of Property, plant and equipment (PPE) to written down value method which is different from the method followed by the parent company i.e. Straight line method. Further this subsidiary also changed the method of valuation from FIFO to Weighted average method which has become different from parent as the parent follows FIFO method.

These changes were made by the subsidiary because it reflected the better picture of its standalone financial statements. Now for the purpose of CFS, the auditors have asked the management of parent company to ensure that accounting policies of the group companies should align with that of parent in line with the requirements of accounting standard. But the management of parent and subsidiary company believe that out of three group companies other than parent, only one group company requires this change for the purpose of consolidation and the same should be ignored by the auditors. Please suggest.

- (a) The view of management is correct.
- (b) For CFS, method of depreciation of SMA Pvt Ltd may continue to be different, however, method of valuation of inventory should be aligned with that of the parent.

(c) For CFS, method of valuation of inventory of SMA Pvt Ltd may continue to be different, however, method of depreciation should be aligned with that of the parent.

(d) The auditor should get these changes made in the standalone financial statements of SMA Pvt Ltd.

5. AJ Private Ltd is engaged in the business of retail having annual turnover of ₹ 1,800 crore. The company has a plan to get listed on Bombay Stock Exchange next year. The company has 3 associates, 4 subsidiaries, and 1 joint venture. The company prepares its consolidated financial statements on a quarterly basis for the purpose for internal purposes. The quarterly financials are reviewed by the statutory auditors of the company.

The group companies of the parent company have increased in terms of their size looking at the total assets and revenue of the group.

For the purpose of audit of consolidated financial statements for the year ended 31 March 2020, management has request the statutory auditors that it would be able to provide management certified accounts of the joint venture as its audit would not get completed on time and even without joint venture, the auditors would be able to cover 75% of the total assets of the group at consolidated level.

However, the statutory auditors are insisting that they need to cover at least 80% of the total assets of the group at consolidated level as per the requirements of the Auditing Standards and for that financials of the joint venture should also be audited. Please advise.

(a) Auditors should accept the management certified accounts of joint venture; evaluate implications on audit report as qualification will be required for unaudited components as per SA 705.

(b) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Registrar of Companies.

(c) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Securities and Exchange Board of India, considering the plan to get listed next year.

(d) Auditors should accept management certified accounts of joint venture provided the revenue of the joint venture is less than 10% of the total revenue of the group

6. Advik Ltd is an unlisted public company. The company acquired few companies in the last 3-4 years which have been assessed as its subsidiaries/ associates/ joint ventures (hereinafter jointly called as 'components'). The company prepares its condensed consolidated financial statements every quarter to review the performance of the group. In the past years, the company used to get the financials of its components reviewed/ audited on a quarterly basis. AJ & Co LLP is the statutory auditor of parent company and KSH & Associates is the statutory auditor of all the components. Quarterly condensed consolidated financial statements of the group are reviewed by the statutory auditors as per the terms of the engagement letter.

AJ & Co LLP has communicated to Advik Ltd that in line with the requirements of the Companies Act 2013, it would also be required to undertake audit/ limited review of all the components which would be consolidated with those of Advik Ltd and for which KSH & Associates are the statutory auditors currently.

Management is not agreeing with the same as they don't want to change KSH & Associates as auditors of the components and the requirement mentioned by AJ & Co LLP would lead to duplication of work of auditors as well as the management. Please advise.

- (a) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with SA 600, Using the work of another auditor and hence the requirement of auditor is valid.
- (b) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with the requirements of the Companies Accounts and Audit Rules 2014 and hence the requirement of auditor is valid.
- (c) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is not required to re-perform audit/ limited review of the components and hence the requirement of auditor is not correct.
- (d) Management and the auditor need to decide this mutually as this is based on the contractual arrangement between them.

7. Entity P, is audited by a different auditor than the parent entity Q. The principle auditor i.e. the auditor of entity Q, decides to use the work of auditor of component i.e. entity P, in relation to audit of consolidated financial statements. In doing so, he should comply with requirements of:

- (a) SA 600, "Using the work of Another Auditor".
- (b) SA 299, "Joint Audit of Financial statements".
- (c) SA 720, "The Auditor's Responsibilities Relating to Other Information".
- (d) SRS 4410, "Compilation Engagements".

8. Papa Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 2 crore, determination of amount of minority interest of ₹ 50 lakh and some intra-group transaction adjustment of ₹ 15 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of 30 lakh.

Which of the following statement is true as per given situation?

- (a) For giving the effect of merger, permanent consolidation adjustment of 250 lakh and current period consolidation adjustment of 45 lakh was made.
- (b) For giving the effect of merger, permanent consolidation adjustment of 280 lakh and current period consolidation adjustment of 15 lakh was made.
- (c) For giving the effect of merger permanent consolidation adjustment of 295 lakh.

(d) For giving the effect of merger, permanent consolidation adjustment of 265 lakh and current period consolidation adjustment of 30 lakh was made.

9. Andy & Co; a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador.

i) Your Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:

- (a) The company need to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.
- (b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.
- (c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.
- (d) Both (a) & (b).

ii) The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:

- (a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.
- (b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.
- (c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.
- (d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.

10. B Limited controls entity C Limited (75%) and entity A Limited (an investment company). Entity B Limited reduced the control of entity C Limited from 75% to 60%. With regard to that certain adjustments were made to account for the change in the shareholding of entity C Limited which is consolidated. These adjustments are known as:

- (a) Memorandum adjustments.
- (b) Current period consolidation adjustments.
- (c) Permanent consolidation adjustments.
- (d) Temporary period consolidation adjustments.

S No.	Ans	Summary
1	a	Management must prepare the CFS as per the requirements of the Companies Act, 2013 if they have a subsidiary.
2	d	If the auditor does not receive audited financial statements of subsidiary, he should modify his audit report.
3	c	Consolidation of subsidiary should be done and GAAP conversion adjustments are also required to be audited.
4	b	For CFS, method of depreciation of subsidiary may continue to be different, however, method of valuation of inventory should be aligned with that of the parent.
5	a	Whenever auditor unable to obtain audited accounts of components to be consolidated, auditor shall accept mgt certified accounts & evaluate a qualification as per SA 705
6	c	Auditor of Parent Co. isn't required to audit/review the F.S. of components if they are audited by another auditor. But in case of Listed Entities, Limited Review required for all entities whose accounts are to be consolidated with listed entity as per SEBI LODR
7	a	SA 600, "Using the work of Another Auditor" is applied when using work of component auditor.
8	a	Examples of Permanent & Current period consolidation adjustments.
9		
i	d	When a Co. has transactions with its subsidiary, <ul style="list-style-type: none"> the company need to prepare the CFS and the same need to be audited by auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor. The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.
ii	a	Role of auditor in case the investment in Subsidiary is increased in the next year: The auditor need not do any additional procedures compared to previous year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.
10	c	Adjustments due to change in shareholding of subsidiary are permanent consolidation adjustments.

Bank Audit

1. PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?

- (a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly.
- (b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions and advise the bank to segregate the PMS transactions from its own investments and provide the certificate of external auditor.
- (c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.
- (d) Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills rediscounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.

2. Your firm has been appointed statutory auditor by a Nationalised Bank for the year 2019-20. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2020. While verifying you observed that one of the accounts was regularised on 28th March 2020, for which the interest and instalment amount was overdue from the quarter ending 30th September 2019. The account was regularised after the repayment of overdue interest and instalment amounts was done on 26th March 2020. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank.

As a statutory auditor will you agree with the Bank's policy?

- (a) As the interest charged in the account was overdue for more than 90 days from the end of quarter, it should be classified as NPA and should be considered as sub-standard asset for the balance sheet as on 31st March 2020.
- (b) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA.
- (c) The auditor should not agree with the Bank's policy to regularise the account before balance sheet date as overdue interest indicates more than normal risk attached to the business.
- (d) Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.

3. XYZ bank had an NPA account of M/s Glenpark showing recoverable amount of ₹ 55 lakh in the books. It sold the NPA for ₹ 56 lakh. Please select as to which of the following options is the correct accounting:

- (a) Credit the excess of 1 lakh to profit on sale of assets.

- (b) Let the amount remain in Glenpark account.
- (c) Credit the excess of 1 lakh to Provision for loss on sale of NPAs.
- (d) Return 1 lakh to the party purchasing the NPA.

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

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

What is the total amount of loans that should be classified as NPA by KD Bank?

- (a) 79 lakh.
- (b) 100 lakh.
- (c) 204 lakh.
- (d) 104 lakh.

5. Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?

- (a) Guarantee given by KD Bank on behalf of constituent located in Myanmar.
- (b) A percentage of the total bills purchased by KD Bank.
- (c) Claims against the bank acknowledged as debt.
- (d) Unpaid salary of ₹ 5 lakh to five staffs of KD Bank Ltd., who are currently undergoing a court trail.

6. Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2020. Total Deposits of the bank on 31.03.2019 was ₹ 50,000 crore.

The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2019- 20 are PK & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following:

- (a) The Advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue since November 2019.
- (b) As on 20.04.2020, the ad hoc limit of account of Mr. Y has not been reviewed even though 120 days of date of ad hoc sanction were over.

As an audit manager of the firm, advice which advance(s) shall be classified as Non Performing Asset?

- (a) Mr. X.
- (b) Mr. Y.
- (c) Both Mr. X and Mr. Y.
- (d) Neither Mr. X nor Mr. Y.

7. While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement

was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	2 nd	Thursday
May	5 th	Saturday
June	5 th	Friday
July	31 st	Friday
August	31 st	Monday
September	1 st	Tuesday
October	30 th	Friday
November	1 st	Sunday
December	1 st	Tuesday
January	10 th	Sunday
February	8 th	Monday
March	7 th	Tuesday

List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?

- January, February and March.
- July, August and October.
- June, July and October.
- May and November.

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

While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March?

- 191 crore.
- 200 crore.
- 197 crore.
- 185 crore.

9. M/s Venus & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of FDHC Bank., (referred to as 'Bank') for the Financial Year 2019-20. During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank.

The auditor understands that such balance is a matter of important consideration in the audit of the bank. The engagement partner, Mr. A, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.

- Amount of interest accrued and not due on deposits amounting to ₹ 95,50,000/-.

- The balance of Interest rate swaps amounting to ₹ 84,95,000/-. Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements. The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team.

The details with respect to unaudited branches are as under:

Interest Income: ₹ 25,97,000/-.

Interest Expense: ₹ 15,45,220/-.

Total advances: ₹ 5,00,20,000/-.

Total deposits: ₹ 4,22,00,000/-.

The auditors also discussed the following with the audit staff and the bank management during the course of the audit:

- Computation of Demand and Time Liabilities.
- Computation of Tier I & Tier II capital of the Bank.

Based on the above facts, answer the following:

i. The balance of FDHC Bank with the Zurich based Bank should be converted into Indian Currency at the following rate:

- The exchange rate prevailing on the Balance sheet date.
- The average of opening and closing exchange rates during the year.
- The exchange rate as prescribed by Reserve Bank of India.
- The exchange rates applicable on the respective dates of transaction in the account.

ii. What should be the treatment of Interest on deposits accrued but not due amounting to ₹ 95,50,000/- appearing in the financial statements of FDHC Bank.

- The amount should be included in deposits amount.
- The amount should not be included in amount of deposits.
- The amount should be shown under the head other liabilities and provisions.
- Both b & c.

iii. The amount of Interest Rate Swaps amounting to ₹ 84,95,000/- should appear as in the financial statements of the bank :-

- Contingent Liabilities.
- Other Liabilities and provisions.
- Current Liabilities.
- Deposits.

iv. Which of the following is correct statement related to the requirement laid down by the RBI for Venus & Associates while verifying the compliance with the SLR requirements of the bank?

- M/s Venus & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.
- M/s Venus & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.

(c) M/s Venus & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays.

(d) M/s Venus & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.

v. With respect to the unaudited branches what information is the auditor required to disclose in his audit report?

(i) Number of unaudited branches.

(ii) Quantification of advances, deposits, interest income and interest expense for such unaudited branches.

(iii) Quantification of advances and deposits as such amounts exceed ₹ 5 crore and ₹ 2 crore respectively. However, quantification of interest income and expense is not required as such amounts do not exceed the limit of ₹ 30 lakh and 20 lakh respectively.

(iv) Quantification of advances and deposits is not required as the respective amounts are less than ₹ 10 crore. However, quantification of interest income and expense is required.

(a) (i) & (ii).

(b) (i) & (iii).

(c) (i) & (iv).

(d) Only (i).

vi. While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:

(a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.

(b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.

(c) Net credit balance in branch adjustment accounts including these relating to foreign branches.

(d) Margins held and kept in sundry deposits for funded facilities.

10. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2020. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2020-21.

(i) Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill rediscounting.

(ii) Allahabad branch which started foreign exchange business from February 2020.

(iii) Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Sista and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Associates, Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit.

At the Kanpur branch of the bank there were high value cash deposits in one of the current account during April 2020. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year

2020-21. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2020 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance. Answer the below questions based on the above paragraph:

i) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the five branches, so whether Sista and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches?

Select correct option from the following:

- (a) Sista and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors.
- (b) Sista and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.
- (c) Sista and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit.
- (d) Sista and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.

ii) Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following:

- (a) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.
- (b) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.
- (c) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.
- (d) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.

iii) You have been asked by your senior to verify the high value cash deposits at the Kanpur branch. What parameters/ documents will you verify as the concurrent auditor of the branch? Select correct option from the following:

- (a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only.
- (b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc.
- (c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly.
- (d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.

iv) How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report? Select correct option from the following:

- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
- (b) The auditor should verify the details from e-mail sent to currency chest and close the matter.
- (c) As it is a minor irregularity the auditor can ignore the same.
- (d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

11. A bank has some non-interest-bearing staff advances. In the Balance Sheet these should be presented under:

- (a) 'Term loans' under 'Advances'.
- (b) 'Cash Credits, Overdrafts and Loans Repayable on Demand' under 'Advances'.
- (c) 'Advances in India – Others' under 'Advances' Schedule.
- (d) 'Others' under 'Other assets'.

Question	Answer	Summary
1	b	PMS Investments are to be audited separately by External auditor & PMS investments records to be maintained separately.
2	d	Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.
3	c	Excess of realisation over the book value of NPA is not treated as profit rather provision is created to meet loss on sale of other NPAs.
4	d	$(29 + 3 \times 25 = 104)$
5	a	Guarantee on behalf of constituent is a contingent liability.
6	a	Advance guaranteed by SG to be classified as NPA if overdue > 90 days
7	c	SLR compliance to be checked on days other than Fridays.
8	a	[200-3-6] Demand & time liability computation
9		
i	a	The balance of a Bank with a foreign Bank should be converted into Indian Currency at the the exchange rate prevailing on the Balance sheet date.
ii	d	Interest on deposits accrued but not due not be included in amount of deposits rather shown under the head other liabilities and provisions.
iii	a	Interest rate swaps to be shown under contingent liabilities.
iv	b	Verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.
v	a	<p>With respect to the unaudited branches following information is to be disclosed by auditor in his audit report?</p> <p>(i) Number of unaudited branches.</p> <p>(ii) Quantification of advances, deposits, interest income and interest expense for such unaudited branches.</p>

vi	c	Net credit balance in branch adjustment accounts including these relating to foreign branches is to be included in demand & time liabilities.
10		
i	d	Audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
ii	a	Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.
iii	c	For high value cash deposits → Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly.
iv	d	Any discrepancy in concurrent audit should be first discussed with the Branch Manager.
11	d	Non-interest-bearing staff advances to be shown as 'Others' under 'Other assets.

NBFC Audit

1. RCE Ltd was set up under the Companies Act 2013 and got itself registered as non-banking financial company with the Reserve Bank of India, fulfilling the required criteria. During the financial year ended 31 March 2020, the company's operations have started. The company's total assets were rupees 298 crore out of which trade receivables, loans receivable in cash, cash and bank balances comprised of rupees 199 crore. During the financial year ended 31 March 2020, the company's operations generated total income of rupees 99.50 crore. The management also did an assessment and observed that income from its financial assets was not much during the year and amounted to only rupees 60 crore. The management is looking at various alternatives to improve its operations, if required, to generate better income in the coming years.

Further, the company during the year also accepted and gave demand deposits which have been very efficient for the company. Management has a plan to significantly increase these deposits in the next 2 years as that would help in the overall functioning of the company.

In the context of the above, please answer which of the following options would be correct.

- (a) The company does not meet the criteria of financial assets and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.
- (b) The company does not meet the criteria of income and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.
- (c) The company meets the criteria of financial assets and income. An NBFC can only accept demand deposits but cannot give demand deposits. Hence in this case, the statutory auditors should report regarding the same.
- (d) The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter

2. 50:50 test determination is popularly used in :

- (a) Banking Company.
- (b) Insurance Company.
- (c) NBFC Company.
- (d) Stock Trading Company.

3. M/s Vardhman and Associates have been appointed as the statutory auditors of a NBFC (UVW Ltd.) for the financial year 2021-22. The company is required to comply with the Indian Accounting Standards.

During the course of audit CA Vardhman found that the company has classified its Assets and Liabilities as financial and non-financial instead of current and non-current. What should CA Vardhman advice the management of NBFC UVW Ltd. in this regard?

- (a) The management of NBFC UVW Ltd. is correct in classifying the Balance Sheet items as financial and non-financial as per requirement of Division III of Schedule III of Companies Act 2013.

(b) The management of NBFC UVW Ltd. is not correct in this regard and should classify the Balance Sheet items as current and non-current as is required by all other companies as per the requirement of the Division III under Schedule III of the Companies Act 2013.

(c) The management of NBFC UVW Ltd is right in this regard as the NBFC has the option to classify the balance sheet items either as current and non-current or as financial and non- financial.

(d) The management of NBFC UVW Ltd. should classify the Balance Sheet items as current and noncurrent as per the requirement of Division II of Schedule III of the Companies Act 2013 applicable in case of NBFC.

S No.	Ans	Summary
1	d	NBFC can only give demand deposits but it cannot accept demand deposits.
2	c	NBFC has to fulfil the test. wherein its financial assets > 50% of total assest & income from such financial assets > 50% of gross income.
3	a	The management of NBFC UVW Ltd. is correct in classifying the Balance Sheet items as financial and non-financial as per requirement of Division III of Schedule III of Companies Act 2013.

Insurance Audit

1. KIC Ltd is a company engaged in the business of general insurance and has been in existence for over 15 years. The company has a subsidiary company, PIC Ltd, which is also engaged in the business of insurance other than general insurance.

The previous statutory auditors of PIC Ltd have completed their tenure as an auditor and accordingly have resigned and the management of PIC Ltd is looking for new statutory auditors.

KB & Associates, a firm of Chartered Accountants, have vast experience of audit of insurance companies and would like to get appointed as auditor of PIC Ltd. KB & Associates is a large firm and have also employed experts – engineers, valuers, lawyers for various client services. The firm is evaluating as to what should be the criteria for get appointed as auditors of PIC Ltd because in the past they have audited only the holding companies and considering a subsidiary company for the first time.

In this context, please help the firm by answering which of the following options would be correct?

- (a) The firm should be appointed by the Board of Directors of PIC Ltd and should ensure that they don't take up audit of more than 2 insurance companies.
- (b) The firm should be appointed by the Comptroller and Auditor General of India and should ensure that they don't take up audit of more than 3 insurance companies.
- (c) The firm cannot take audit of PIC Ltd because they have employed experts which is not permitted by the IRDAI Guidelines.
- (d) The firm can take up audit of PIC Ltd by ensuring that they are eligible to be appointed as per the criteria laid down in the Companies Act 2013 for audit of subsidiary companies and they would need to submit a certificate in this respect to the ICAI.

2. NIC Ltd. is a large company engaged in the business of insurance for the last 9 years. The company has expanded its business considerably over the years and have set up various divisions across India.

The accounting and the operational systems of the company are centralized wherein the accounts of all the divisions, trial balances and their balance sheets are prepared by the Head Office. AJ & Co, a firm of Chartered Accountants, are the statutory auditors of this company and audit all the divisions and the head office. The auditors have completed the audit of the financial statements of the company for the year ended 31 March 2020 and the company's financial statements are approved.

Before the annual general meeting of the company, the company received a notice from the Insurance Regulatory and Development Authority of India (IRDAI) which has asked the company to respond within 7 days as to why this company breached the requirement of IRDAI guidelines by having a single auditor for all the divisions and head office.

The management of the company has been doing this over the years and were never aware of this requirement. To respond to this, the management has consulted many legal experts and also the auditors. They would also like to understand your views as to how to respond to IRDAI in this critical situation. Please advise carefully.

- (a) There has been breach of IRDAI guidelines and accordingly the management should respond.

- (b) The management can request IRDAI to consider relaxation in respect of this provision for the company for the current year as relaxation for the same is permissible as per IRDA Guidelines.
- (c) The management should respond to IRDAI that this provision is applicable to a company only after 15 years of its existence and hence there is no breach of IRDAI guidelines.
- (d) The management should respond to IRDAI that this provision should have been ensured by the auditors only hence they should not be held liable for this breach of provision of the IRDAI guidelines.

3. BIC Ltd is an insurance company looking to expand their operations in the Northern India. The company's operations have been considerable in the Southern India and its head office is also based at Chennai. The company had strong processes and controls from its starting days and have appointed consultants over the years to ensure their operative effectiveness at various points of time.

Shivam Ltd exercises significant influence over BIC Ltd and the financial statements of Shivam Ltd are prepared as per Ind AS (Indian Accounting Standards) and audited by Shubham & Associates.

Advik & Associates are the statutory auditors of BIC Ltd. For the financial year ended 31 March 2020, BIC Ltd also requested Advik & Associates to certify the Investment Risk Management Systems and Processes of BIC Ltd as per discussions with Shivam Ltd. Advik & Associates completed this task and also submitted the required certificate which the management has submitted to the required authorities.

After submission, BIC Ltd received notice from the Insurance Regulatory and Development Authority of India (IRDA) that the company has not complied the provisions in respect of submission of certificate. The company discussed this matter with Shivam Ltd and would also like to have your views on this.

- (a) BIC Ltd, being an associate of a company and because of the fact that Ind AS is applicable on Shivam Ltd, should have appointed another firm of Chartered Accountants along with Advik & Associates for this certification work.
- (b) BIC Ltd should have got this certification work done from their internal auditors as per the required provisions of IRDA.
- (c) BIC Ltd should not have got this certification work done from their statutory auditors.
- (d) The certification work should have been done by Shubham & Associates.

4. The Statutory auditors of Royal General Insurance are AK & Co, Chartered Accountants (Firm based in Mumbai).

Brief Financial Information is as under as on 31st March 2020:

- Value of Assets: ₹ 700 crore.
- Amount of Liabilities: ₹ 415 crore.
- Capital: ₹ 200 crore.

Based on above data, state whether Royal General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If No, then state what further action will be done?

- (a) Yes, solvency margin has been maintained therefore no action is required.
- (b) No, It shall deemed to be insolvent.
- (c) No, It shall submit a financial plan to the authority.
- (d) The requirement of Solvency Margin is not applicable in case of general insurance companies.

5. The Royal General Insurance has entered into reinsurance contract with ABC Reinsurance Co Ltd against the risk of fire only. ABC Reinsurance Co Ltd is one of the largest reinsurers in India.

Identify the type of reinsurance contract between Royal General Insurance and ABC Reinsurance Co Ltd:

- (a) Treaty Reinsurance.
- (b) Proportional Treaty Reinsurance.
- (c) Non Proportional Treaty Reinsurance.
- (d) Facultative Reinsurance.

6. CA & Co. a CA Firm was Offered to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of ₹ 113 crore, of which preliminary expenses of ₹ 17 crore were included.

Whether CA & Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason?

- (a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India.
- (b) Yes. The insurance company should have a minimum paid up share capital of ₹ 100 crore which shall exclude the preliminary expenses.
- (c) No. The insurance company should have a minimum paid up share capital of ₹ 100 crore which also includes the preliminary expenses.
- (d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority.

7. M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the year 20XX:

- To conduct the management audit of M/s BR Ltd.
- To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd.
- Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of ₹ 15,000 lakh, which includes preliminary expenses of ₹ 3400 lakh. During audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled.

What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd as per section 64VA of the Insurance Act?

- (a) ₹ 50 crore.
- (b) ₹ 7500 lakh.
- (c) ₹ 5.8 crore.
- (d) ₹ 750 lakh.

8. CA. Dev was statutory auditor of Safety Limited. It was an insurance company having fire, and marine insurance products. In case of marine insurance, it had a risk of nearly ₹ 100- 120 crore and in case of fire insurance, 70% of its fire insurance premium was received from Star Hotels. Safety Ltd has a policy that in case of marine insurance, it will not hold risk of more than ₹ 50 crore, hence Safety Ltd signed a contract for

5 years with Help Ltd, which was involved in the business of reinsurance, to cede risk above ₹ 50 crore for 40% of marine insurance premium. Because of change in business environment, Safety Limited entered a separate contract with Help Ltd to reinsure fire insurance of Star Hotels where Help Ltd will bear 40% risk in returns of 40% of premium from Star Hotels. Net premium used for calculation of unexpired risk reserve of marine hull insurance is ₹ 70 crore and marine cargo insurance is ₹ 40 crore. Total net premium of fire insurance was ₹ 80 crore at the end of the year. CA Dev was confused as to how to calculate unexpired risk reserve.

i) What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Marine business?

- (a) Surplus proportional treaty reinsurance.
- (b) Quota share proportional treaty reinsurance.
- (c) Facultative reinsurance.
- (d) Non- proportional treaty reinsurance.

ii) What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Star hotel's assets?

- (a) Facultative reinsurance.
- (b) Proportional treaty reinsurance.
- (c) Quota share proportional treaty reinsurance.
- (d) Surplus proportional treaty reinsurance.

9. On 31st March the company had taken insurance (value insured = ₹ 1 lakh) for its new godown and the premium was to be paid on next day. However, on the night of 31st, a huge fire accident took place and goods worth ₹1.5 lakh were lost. The company informed the insurance agent about the incident and included the loss value as receivables in its financials.

What should be the right value to be recognised by the company as receivables from the insurance company?

- (a) Zero.
- (b) ₹ 1 lakh.
- (c) ₹ 1.5 lakh.
- (d) ₹ 50,000/-

10. Anant & Co. is the auditor of ST Insurance Company. The insurance company is also involved in re-insurance business and necessary provision for re-insurance premium has been made in the books of accounts. The insurance company is into a re-insurance whereby their contract relates to one particular risk and is expressed in the reinsurance policy. Each transaction is negotiated individually, and each party has a free choice i.e. for the insurance company to offer and the re-insurer to accept. What kind of a re-insurance business is the insurance company into?

- (a) Facultative Re-insurance.
- (b) Stop loss treaty re-insurance.
- (c) Auto-fac re-insurance.
- (d) Proportional treaty re-insurance.

11. Pradyuman & Co. was one of the joint auditors of Lok Sahay Insurance Co. Ltd. Mr. Vicky, one of the engagement team members, of the said joint auditor, was examining the expenses included in different accounts. While verifying the expenses incurred in relation to employees, Mr. Vicky made a list of the same as follows, which he was going to discuss with his senior: -

Particulars	Amount	Included in which Account
Payment of salaries to employees	100 lakh	Employees' Remuneration and Welfare Benefits Account
Reimbursement of premium in respect of employees' health cover	20 lakh	Employees' Remuneration and Welfare Benefits Account
Training and nontraining expenses incurred for employees	30 lakh	Employees' Remuneration and Welfare Benefits Account
Expenses incurred towards medical treatment of employees not having health cover	10 lakh	Employees' Remuneration and Welfare Benefits Account
Incentives paid to employees of the company who have solicited insurance policies	40 lakh	Commission Account

Whether it can be said that Lok Sahay Insurance Co. Ltd. has properly accounted for the expenses incurred in relation to employees?

- (a) No, reimbursement of premium in respect of employees' health cover should be included in 'Others' account and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- (b) No, non-training expenses have to be shown separately and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- (c) No, expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account and non-training expenses have to be shown separately.
- (d) No, training and non-training expenses incurred for employees should be bifurcated and shown separately and expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account.

12. Vasanth & Co. is the auditor of UV Ltd., a life insurance company and a public sector undertaking. The following are the events during the course of the audit:

- (a) In addition to the statutory audit, the management of the company asks the auditor to certify the investment risk management system and processes of the insurance company.
- (b) The auditor during the course of verification finds that an amount has been refunded to one of the insured client due to free lock cancellation. The policy document has been returned by the insured within 15 days from the date the insured received it. The insurance company has retained the medical charges incurred by it and proportionate risk premium and refunded the balance premium amount.

(c) The insurance company is also involved in re-insurance business and necessary provision for re-insurance premium has been made in the books of accounts. The insurance company is into a re-insurance whereby their contract relates to one particular risk and is expressed in the re-insurance policy. Each transaction is negotiated individually and each party has a free choice i.e. for the insurance company to offer and the reinsurer to accept.

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

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

i. Can the auditor accept the assignment of Investment risk management systems and process audit?

Answer by choosing the correct reasoning?

- (a) No, as per IRDAI circular, a chartered accountant, which is not a statutory auditor of the concerned insurer shall certify that the investment management systems and processes are in place.
- (b) No, as per Section 144 of the Companies Act 2013, investment risk management and process audit is a prohibited service for the statutory auditor.
- (c) Yes, investment management system and process audit is a part of statutory audit and it is duty of auditor to certify the same in his audit opinion of the books of accounts.
- (d) Yes, though it is not part of statutory audit, the auditor is free to accept the assignment of certification of investment risk management system and process.

ii. Which among the following is NOT a content of the management report that is required to be prepared as per Schedule A of IRDA?

- (a) Confirmation regarding the continued validity of the registration granted by the authority.
- (b) Certification that all dues payable to the statutory authorities have been duly paid.
- (c) Ageing of claims indicating the trends in average claim settlement time during the preceding five years.
- (d) Certification of the party wise list of the quantum of reinsurance business.

iii. The auditor has verified the amount refunded under free lock cancellation. Is the procedure followed by the company correct? Choose the correct reasoning.

- (a) Yes, the amount is refunded correctly however the medical expense incurred cannot be retained by the insurer and that also has to be refunded.
- (b) No, the amount should not be refunded because as per free lock cancellation, the policy document should be returned within 10 days to be entitled for a refund.
- (c) Yes, the procedure followed by the company of refunding the amount after retaining medical expenses and proportionate risk premium is in order.
- (d) No, the company should refund the entire premium with no retention as this is a free lock cancellation.

iv. What kind of a re-insurance business is the insurance company into?

- (a) Facultative Re-insurance.

- (b) Stop loss treaty re-insurance.
- (c) Auto-fac re-insurance.
- (d) Proportional treaty re-insurance.

- v. The auditor cannot hold the assistant responsible for the misstatement occurred solely because he has verified the same. Which among the following reasons substantiates the auditor's liability the best?
- (a) The auditor should not delegate prospectus verification to assistants and he should directly verify the same and satisfy himself on the statements made thereunder.
 - (b) An auditor who does not personally supervise into the accounts but merely delegated it to his assistants cannot be said to be acting with due skill and care.
 - (c) As per Council General Guidelines, any work that may give rise to a civil and criminal liability should be delegated only to qualified assistants.
 - (d) None of the above, recent case laws state that an auditor can escape from personal liability owing to misconduct of assistants if he has exercised due skill and care.

S No.	Ans	Summary
1	b	Auditor of GIC is appointed by C&AG and can audit max. 3 insurance companies.
2	a	Insurance Co. can't have a single auditor for all the divisions and head office.
3	c	IRDA advised that the CA firm, which is not the Statutory or Internal or Concurrent Auditor of concerned Insurer shall certify that the Investment Risk Management Systems and Processes are in place.
4	a	
5	d	Reinsurance for single risk --> Facultative
6	b	The insurance company should have a minimum paid up share capital of ₹ 100 crore which shall exclude the preliminary expenses.
7	a	Min solvency margin 50% of 100 Cr = 50 Cr
8		
i	a	Surplus proportional treaty reinsurance.
ii	a	Facultative reinsurance.
9	a	Insurance Co. isn't liable for claim if premium is not received.
10	a	The insurance company is into a re-insurance whereby their contract relates to one particular risk and is expressed in the reinsurance policy. Each transaction is negotiated individually, and each party has a free choice i.e. for the insurance company to offer and the re-insurer to accept --> Facultative Reinsurance
11	b	Non-training expenses have to be shown separately and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
12		
i	a	As per IRDAI circular, a chartered accountant, which is not a statutory auditor of the concerned insurer shall certify that the investment management systems and processes are in place.
ii	d	Certification of the party wise list of the quantum of reinsurance business isn't part of mgt certificate

iii	c	Procedure followed by the company of refunding the amount after retaining medical expenses and proportionate risk premium is in order.
iv	a	Facultative reinsurance.
v	b	An auditor who does not personally supervise into the accounts but merely delegated it to his assistants cannot be said to be acting with due skill and care.

PSU Audit

1. Setir Ltd is a company in which 59% of the paid up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects.

The Punjab Government is also planning to induct funds in the company in future, if required. Nocri Ltd is a company controlled by Setir Ltd. The business of Nocri Ltd is construction and has an annual turnover of INR 2500 crore approx. The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2020 got completed but Nocri Ltd observed that during the course of audit, there was lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&AG on the audit report of the auditors.

Nocri Ltd is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid. In this context, please advise which of the following should be correct?

- (a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&AG.
- (b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditors.
- (c) C&AG involvement could have been accepted if this was the audit of Setir Ltd but not in case of Nocri Ltd and hence Nocri Ltd should also reach out to its parent company to get this resolved.
- (d) Stand of Nocri Ltd is wrong as the C&AG may get involved in the audit of Nocri Ltd.

2. CGN Ltd is a large company engaged in the business of oil exploration in India. The Tamil Nadu Government and the Central Government hold 37% and 20% respectively of the paid-up share capital of this company.

The C&AG appointed the statutory auditors of this company as per requirements of the Companies Act 2013. The company had a concern regarding this appointment because company wanted to appoint another auditors as per their assessment, however, considering the legal hassles which would have got involved, the company decided to go ahead with this.

The audit of the financial statement for the year ended 31 March 2020 got completed by the auditors appointed by the C&AG. Subsequent to this, the C&AG also issued an order to conduct test audit of the accounts of the company which was objected by the management of the company.

The management objected saying that the complete set of financial statements have been audited by auditors appointed by the C&AG and hence this order is not acceptable because this would lead to duplication of work.

Moreover, the management has also written to the C&AG that for the next financial year, the existing auditors should either resign so that the management may bring in their own auditors or the C&AG should have faith in the work of the auditors appointed by them. Please suggest how to resolve this matter.

- (a) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Companies Act 2013. (b) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Indian Penal Code.
- (c) The management is correct and in this situation they get the right to appoint another auditor considering the fact that the C&AG has lost faith in the work of auditors appointed by them.
- (d) Such type of matters should be taken to arbitration as per the requirements of the Arbitration Act.

3. NOP Ltd is a joint venture of Central Government and a private company and is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company.

The company is acknowledged for its consumer-friendly practices. Initially it was completely owned by the Government and was running into significant losses but after the joint venture, the aggregate technical and commercial losses of the company showed a record decline.

The operations of the company have improved significantly as claimed by the management of the company.

The C&AG wants to conduct the performance audit of one of the departments of the company through a subordinate office of Indian Audit and Accounts Department.

For this purpose, the audit programme has also been finalized and the Accountant General has intimated the company that the audit would start within a day's time. The company is concerned because the programme which has been received from the Accountant General is quite detailed and would involve significant time. Further the management of the company is quite surprised as to why this audit should be conducted as this is not a company subject to such types of audits as per law.

The management of the company would like to have your inputs in respect of this matter. Please guide.

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

4. AJ Petroleum & Refining Ltd is a Maharatna Central Public Sector Undertaking (PSU) in India having its registered office in Uttaranchal. It is engaged in the business of oil refining, pipeline transportation & marketing, exploration & production of crude oil & gas, petrochemicals, gas marketing and other downstream operations. The PSU has global aspirations for which its management is working on various plans/ programmes so that the same can be achieved in future. It is also planning to pursue diverse business interests by setting up of various joint ventures with reputed business partners from India and abroad to explore global opportunities. Considering these objectives and other factors, the C&AG directed the

performance audit in respect of its certain activities/ functions which has been in progress. Before starting the audit, the detailed scope and composition of audit team was shared with the management of the company and tentative timelines were also given with which the management was fine.

However, during the course of the audit the audit team changed its audit programme to achieve the desired objectives which was approved by the competent authority, however, the management was not happy with those changes. The management wants the audit team to conclude the audit with the same scope as this is a special type of audit wherein such flexibility cannot be accepted as that would defeat the purpose of the law. However, the audit team has a different view.

Please guide.

- (a) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014.
- (b) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014 and the Ministry of Law.
- (c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.
- (d) The C&AG should get involved in this matter after taking permission from the Central Government and would require to change the audit team if the scope requires any changes as the same should have been properly assessed by the audit team before commencing the audit.

5. In Case of PSU, Direct Reporting Engagement does not include

- (a) Performance audits.
- (b) Compliance audits.
- (c) Financial audits.
- (d) Comprehensive Audit.

6. A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by

- (a) Public Accounts Committee (PAC).
- (b) Committee on Public Undertakings (COPU).
- (c) Estimates Committee.
- (d) Public sector Committee.

7. You have been given an assignment of audit of IT department of a PSU. A checklist was handed over to you which contained many questions such as,

- ◆ Are separate user names and passwords assigned to individual users?
- ◆ Are periodical changes of passwords ensured?
- ◆ Are external (offsite) data backups maintained at a place outside the premises?

The type of audit being conducted is likely to be:

- (a) Comprehensive audit.
- (b) Propriety audit.
- (c) Compliance audit.
- (d) Financial audit.

S No.	Ans	Summary
1	d	C&AG has powers under Sec 143(5),(6) & (7) which it can exercise not only over Audit of Govt Co but also subsidiary of Govt Co.
2	a	As per Sec 143(7), C&AG can order test audit of a Govt Co.
3	b	Performance audit can be done for Govt Co.
4	c	Audit program can be changed provided those are discussed with the management and approved by the Competent Authority.
5	c	Financial Audits aren't Direct Reporting Engagements.
6	b	A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by Committee on Public Undertakings (COPU).
7	c	

Liabilities of Auditor

1. Kshitij and a group of persons subscribed to the shares of JNN Ltd. JNN Ltd had issued a prospectus for issuance of shares against which these persons had subscribed the shares.

It was later on found that some information as included in the prospectus was misleading. These persons filed a case against the company covering all the parties who were responsible for the prospectus on the ground that the information contained in the prospectus was misleading and they suffered losses by relying on that information.

The company consulted this matter with its legal consultants in respect of the course of action to be taken and also consulted that if the outcome of the case goes against the company then which all parties may be held liable and what could be the other consequences. The prospectus included auditor's report who had also given his clearance. Some of the experts were also involved in respect of the information on which the litigation was filed.

Subsequently, it was proved that the contention of Kshitij and those persons was correct. It was held that the directors, promoters of the company and the experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage.

The auditors of the company were also asked to make good the losses but they refused with an argument that it is limited to directors, promoters and experts. In this context, please suggest which of the following statement is correct.

- (a) The argument of the auditors is valid. As per the final outcome of the litigation the auditors were not held liable. However, on moral grounds the auditors should contribute towards the losses suffered by any person.
- (b) The argument of the auditors is valid. Since the final outcome of the litigation did not held them liable, they cannot be asked to contribute towards the losses suffered by any person.
- (c) The argument of the auditors is not valid. The final outcome of the litigation covers the experts and hence the auditors also get covered to contribute towards the losses suffered by the persons.
- (d) The outcome of the litigation seems to be completely wrong. The directors and experts were held liable but along with that the statutory auditors, internal auditors, tax auditors, Company Secretary, tax consultants and the legal advisors should also have been held liable. Further the promoters cannot be held liable in such matters.

Summary: If information in prospectus found to be misleading, then directors, promoters of the company and the experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage. Auditors are covered in this as experts.

2. JK Ltd is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of INR 25,000 crore. The operations of the company are increasing constantly, however, the focus of the management is more on cost cutting in the coming years to improve its profitability.

In respect of the financial statements of the company which are used by various stakeholders, some deficiencies were observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders went for a civil action against the company including all the parties who had the responsibility in respect of those financial statements. The statutory auditors of the company were also roped in.

The statutory auditors went against this civil action and were able to prove that there was no professional negligence on their part. It was decided that the loss was occasioned through the negligence of directors and the fault of the auditor in failing to verify the asset was considered to be only technical.

On the basis of above mentioned facts, what should be the correct option out of the following?

- (a) A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.
- (b) Both the auditors and the directors should be held liable in respect of the deficiencies identified. Both of them should compensate these stakeholders in respect of the damages and a further penalty of INR 10 lakh would be imposed on them.
- (c) Auditors and directors should be held liable in this case. Further because the fault of directors is bigger, they would be subject to a penalty of INR 10 crore or losses suffered by the stakeholders, whichever is higher.
- (d) Since the fault of the auditor is limited to technical in nature, he cannot be held liable for any penalty or damages. However, he would not be allowed to work for this company and any other company in similar industry for a period of next 5 years as per the requirements of the Companies Act 2013.

3. KKR Ltd is a medium-sized company engaged in the business of ecommerce. The company's operations have remained stable over the years and its profitability has been going down. The company also ventured into different markets over the last few years but that has not helped much in terms of growth of business or increasing the profitability. The company's immediate plan is to expand its operations with focus on increasing the profitability. The company was looking for funds to achieve this objective and issued a prospectus to the public to subscribe to its shares. The financial statements of the company for the year ended 31st March 2020 included in the prospectus showed a very different picture of the company particularly in respect of its profits. It was later on found that some of the information contained in the prospectus was misstated i.e. it was untrue and misleading to attract the public to subscribe the shares of the company.

Legal action was taken by the stakeholders against the company including its auditors and the company's management/ directors were confident that they would not be required to face any action considering the fact that the financial statements were duly audited by a reputed firm of Chartered Accountants. If at all any problem arises, it would be the responsibility of the auditors.

Please advise whether anyone can be held liable in this matter or not. If yes, what action can be taken against him/them? If no, what should be the corrective action?

- (a) The understanding of the directors is correct and the auditors should be held liable under section 447 of the Companies Act.
- (b) The understanding of the directors is wrong. They would be held liable under section 447 of the Companies Act and not the auditors because responsibility for the prospectus lies with the management.

(c) This may lead to criminal liability wherein every person who authorises the issue of such prospectus shall be liable under section 447 of the Companies Act.

(d) This may lead to civil liability wherein every person who authorises the issue of such prospectus shall be liable under section 447 of the Companies Act.

4. Vimal Kumar, a Chartered Accountant by profession, has been into practice for the over 6 years. He developed a specialization in respect of matters related to Income Tax and hence got various clients to whom he was advising. Other than the taxation work, Vimal was also good in accounting matters but he could not develop his business/ clientele the accounting services over the period. He used to represent his clients in respect of income tax returns.

For one of his clients, he, as an authorised representative, prepared the return of income and furnished the same and other required documents (the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return) to the Assessing Officer. He had also conducted an examination of those records and submitted a report on the scope and results of his examination.

The assessee in this case was a very old client of Vimal and also used to pay him very good remuneration. In order to provide some benefits to the assessee, Vimal provided certain information to the assessing officer which was found to be false later on. In the given case, which of the following options should apply?

(a) Since Vimal only acted as a representative of the assessee, he cannot be held liable. The assessee is the primary person responsible and accordingly the assessee would be liable to rigorous imprisonment which may extend to seven years and to a fine.

(b) The given matter does not only relate to submission of the return of income but also covers an examination of those records and a report on the scope and results of examination by a Chartered Accountant. Because of the professional responsibilities placed on a CA, it becomes his duty to carry out all the tasks in an objective manner free from any bias. Hence Vimal would be liable to a penalty of Rupees seven crore and imprisonment of seven years.

(c) Vimal would be liable to rigorous imprisonment which may extend to seven years and to a fine.

(d) Vimal and his assessee would be liable to a penalty which may extend to ₹ 1 crore. Further because of the fact that the particulars submitted with the assessing officer belong to the assessee, hence the assessee would also be liable to imprisonment for three years under the Indian Penal Code.

S No.	Ans
1	c
2	a
3	c
4	c

Internal, Management & Operational Audit

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

You will:

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

2. Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with Simony Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency.

Which audit do you feel the management should opt for?

- (a) Internal audit, as it relates to examining the operational efficiency of the organisation.
- (b) Management audit, as it is an audit desired by the management.
- (c) Performance audit so as to assess the performance of the Simony travels appointed by the organisation.
- (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organisation.

3. The Board of Directors of Young Ltd., a listed company, appointed Mr. Old, a Cost Accountant (not in practice), to conduct an internal audit of the functions and activities of the company. The job of Mr. Old would be of an independent management function, involving a continuous and critical appraisal of the functioning of the company with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the company, including the entity's strategic risk management and internal control system. However, some of the officers of the company are against the appointment of a Cost Accountant who is not in practice as an internal auditor.

State whether those officers are correct or not in their viewpoint by referring to the provisions of the Companies Act, 2013?

- (a) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a chartered accountant in practice only.
- (b) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall a cost accountant in practice only.

- (c) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be an employee of the company only.
- (d) The view point of the officers is incorrect because as per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.

4. RMI Ltd is a listed company in the business of manufacturing and trading of furniture and has annual turnover of INR 1,800 crore. The company's business has declined in the last 2 years. The internal auditors of the company have been very helpful in terms of coming up with observations/ suggestions which have helped the management improve its operations over the years.

The Company set up a plant around 4-5 years ago and the internal auditors have observed that the management needs to strengthen controls around compliance with Minimum Wages Act, 1948 and rules framed thereunder. Following were the observations of the internal auditors:

Weekly offs not provided : As per Minimum Wages (Central) Rules, 1950, Rule 23 (2), "Employee shall not be required or allowed to work in a scheduled employment on the rest day unless he has or will have a substituted rest day for a whole day on one of the five days immediately before or after the rest day, provided that no substitution shall be made which will result in the employee working for more than ten days consecutively without a rest day for a whole day". However, on review of the attendance records of contractual workers, it was noted that contractual staff worked continuously for more than 10 days, ranging from 13 to 31 consecutive days.

Working hours exceed the maximum limit of 12 hours a day: As per rule 24(2), "The working day of an adult worker shall be so arranged that inclusive of the intervals of rest, if any, shall not spread over more than twelve hours on any day". However, on a sample review of attendance records of workers for the month of April for contractual workers, it was noted that there were 24 exceptions wherein workers have worked more than 16 hours up to 23 hours a day.

Management explained to the auditors that this has been the practice in the area in which the company is operating. Further the management also told that they will review the working schedule of workers and ensure the compliance with the requirement, ensure that weekly offs and extended hours of labour will be as per legal requirements.

Please suggest the internal auditors in respect of this matter.

- (a) This is a good recommendation by the internal auditors which the management plans to implement. However, it should not be reported as an observation.
- (b) If the management agrees to implement the corrective action by the current financial year end, internal auditor should not report this matter in his report.
- (c) Internal auditor observation should be reported in his report along with management comments.
- (d) Internal auditor should look at the significance of this matter and looking at that can ignore this point.

5. Strong Steel Ltd. has reported a higher turnover of ₹650 crore in the year 2020-21 as compared to earlier years but its sales return has also increased to 10% from only 4% upto the last year. The management is concerned about the high sales returns and feels a need to get the operational audit done for sales and

production department of the company. The company is also having an internal audit department in the company. Elaborate the possible reason/s, why management is getting operational audit done when internal audit has already been done for both the departments?

- (i) Because the management is not satisfied with the performance of the internal audit department.
- (ii) As the operational audit will be done by an independent person and will provide suggestions for improvement.
- (iii) Because management audit is qualitative in nature and will analyse all aspects of operations as per management policies, objectives and goals.
- (iv) Because internal audit is restricted to financial accounting and internal controls only.

- (a) (i) only.
- (b) (ii) & (iii) only.
- (c) (ii), (iii) & (iv) only.
- (d) (i), (ii), (iii) & (iv).

Question	Answer
1	b
2	d
3	d
4	c
5	c

Due Diligence, Investigation & Forensic Audit

1. IMIR Inc is a major technology, engineering, manufacturing and financial services conglomerate, with global operations having its registered office in US. The Company's manufacturing footprint extends across eight countries in addition to US. It has several international offices and a supply chain that extends around the globe. HIN Private Limited is a medium-sized Fast-Moving Electrical Goods (FMEG) company and is also involved in power distribution equipment manufacturing. This company is based in India and enjoys a good market share in a wide spectrum of products like Industrial & Domestic Circuit Protection Devices, Cables & Wires, Fans, Commercial and Industrial Applications. IMIR Inc (Acquirer) is currently in talks to acquire HIN Pvt Ltd (Target).

The initial price has been agreed for the acquisition of business based on net worth and profitability of the target company with an assumption that all contingent liabilities of the target company impacting its future business have been considered. The acquirer appointed a firm to carry out the financial due diligence review of the target company and advised that the firm should strictly work as per the scope. The firm during the course of its review found some show-cause notices (which have not matured into demands) being issued against the target company. The firm also found that there could be a potential high value labour claim which may arise out of the negotiation which was ongoing between the target company and the labour union and the labour wage agreement has already expired. The firm discussed all these matters with the management of the target company.

The target company confirmed that these matters are under discussion and was confident that these matters would not result into any liability and hence it did not consider the same in the initial price. The firm after its discussion with the target company reported these matters to the acquirer. In the given situation, please suggest which one of the following should be correct?

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

Ans (d)

Summary: Show cause notice & labour claims are examples of hidden liability that need to be reported in Due diligence

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

Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.

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

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

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

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

(a) The investigating accountant should not have asked for the records of the profits of last 7-8 years, as that would be too much of the information for his review. Also, the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.

(b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.

(c) The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.

(d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.

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

(a) The objection raised by FC Leathers is correct, as due diligence doesn't include review of financial projections.

(b) The objection raised by FC Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.

(c) The objection raised by FC Leathers is correct, as reviewer cannot comment on financial projections in his report.

(d) The objection raised by FC Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.

4. Bhuvan & Co, Chartered Accountants, mainly into statutory audit and tax audit, is now exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:

(a) One of the clients of Bhuvan & Co. is planning to acquire another company to expand its business. In this regard, due diligence is to be carried out to check if the proposed merger would create operational synergies. Also, a full-fledged financial due diligence is planned to be carried out after a price has been agreed for the business acquisition they want to include, Cash flow, Accounting Policies, Brief history of the target and background of its promoters, Accounting Information System etc. in the scope of the same.

(b) During the course of due diligence, an articled assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank.

(c) Further, Bhuvan & Co. has also received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under Sec 210 of the Companies Act 2013. With respect to this investigation, Bhuvan & Co. is contemplating on the getting the assistance of an expert with respect to certain matters.

(d) During the course of carrying out investigation as above, Bhuvan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. From the above facts, answer the following questions by choosing the correct option.

(i) Whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below?

- (a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.
- (b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.
- (c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.
- (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.

(ii) Which among the following is NOT a matter included in the scope of a full-fledged financial due diligence?

- (a) Cash flow.
- (b) Accounting Policies.
- (c) Brief history of the target and background of its promoters.
- (d) Accounting Information System.

(iii) Which among the following is NOT an instance of where the Central Government may order an investigation into the affairs of the company under Sec 210?

- (a) On a request from creditors to investigate the affairs of the company.
- (b) On the receipt of a report of the Registrar or inspector.
- (c) On intimation by a special resolution passed by a company that the affairs of the company ought to be investigated.
- (d) In public interest.

(iv) Can Bhuvan & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?

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

(v) What should be the procedure of Bhuvan & Co. to seek evidence from outside India for the investigation?

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

Question 5

Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments – printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange. The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment.

The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2015.

The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2016.

Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out a forensic audit in the financial year 2016-17. During the audit, certain transactions were identified highly risky, on which the management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner.

For the financial year ended 31 March 2020, a due diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself.

At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.

The company had various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from professionals and renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the

documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

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

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

i) The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years. Which of the following statement should be correct?

- (a) The contention of the management was correct.
- (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.
- (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer.
- (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.

ii) The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2020. However, the reviewer asked for financial statements for the year ended 31 March 2019, which was already audited by the statutory auditors of the company and the management of the company declined this request.

- (a) The management is correct.
- (b) Reviewer can ask for documents even for the period for which audit is completed.
- (c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards.
- (d) Reviewer has no right to review the financial statements of the period other than the period under review.

iii) The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

- (a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management.
- (b) The company should not have provided the documents as those are confidential.
- (c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant.
- (d) Tax and legal matters are not a part of review of due diligence exercise.

iv) The management may refuse to share the details of promoters? Comment on this?

- (a) Since the company has already went through due diligence and forensic audit in the previous years, the management may refuse to provide promoters details to the reviewer.
- (b) As the background of promoters has no bearing on the financials of the company, the reviewer should not ask for the details of promoters and the management may refuse to provide the same.
- (c) Since the company went through processes of forensic audit in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters.
- (d) The contention of the management is not correct.

6. In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector?

- I. Minaj & Associates, a firm.
- II. CA Mehul.
- III. Rahim Pvt. Ltd, a body corporate.
- IV. XYZ & Partners LLP, a body corporate.

- (a) I, III & IV.
- (b) I only.
- (c) III & IV.
- (d) II only.

7. Bhagwan & Co. has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. During the course of carrying out investigation as above, Bhagwan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. What should be the procedure of Bhagwan & Co. to seek evidence from outside India for the investigation?

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

Ans (b)

8. A special resolution was passed by Dunk Ltd., an unlisted public company, for the purpose of conducting investigation into the affairs of the company by getting order of the Central Government for the same.

The Central Government on receipt of such application from Dunk Ltd. supported by a copy of special resolution did not deem fit to pass an order for investigation and thereby, rejected such request. Thereafter, certain specified number of members of Dunk Ltd. made an application to the Tribunal for seeking

investigation and the Tribunal upon being satisfied that such investigation was required, passed an order which was forwarded to the Central Government.

On receipt of such order from the Tribunal, the Central Government passed an order for investigation into the affairs of Dunk Ltd., by appointing Mr. Rajesh as an inspector for the same, who is practicing as a chartered accountant in partnership firm named RS & Co.

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

Mr. Rajesh, at the later stage of investigation, also initiated investigation into the affairs of Sinq Ltd., an unlisted public company, which was being managed 2 years ago by an ex-manager of Dunk Ltd., Mr. Jayesh, as he considered it necessary to do so, after obtaining required approvals.

Mr. Rajesh examined on oath by summoning and enforcing attendance of following persons:-

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

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

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

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

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

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

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

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

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

(iii) For which of the following person(s), Mr. Rajesh was required to obtain prior approval of Central Government for examining them on oath by summoning and enforcing their attendance?

- (a) Mr. Jayesh, Mr. Sunny and Mr. Raj, respectively
- (b) Mr. Sunny and Mr. Raj, respectively
- (c) Mr. Sunny
- (d) Mr. Raj

(iv) Whether it was justifiable on the part of Mr. Rajesh for not forwarding the investigation report of Sing Ltd. to the Central Government and what type of fraud had been identified by the Central Government on perusal of investigation report of Dunk Ltd.?

- (a) Yes, provided reasons for not forwarding the same are recorded in writing by Mr. Rajesh and the type of fraud identified is in the nature of 'Teeming and Lading', respectively.
- (b) No, as it is the responsibility of the inspector to forward to the Central Government, the results of investigation of all the companies done by him and the type of fraud identified is in the nature of 'Tampering of receipts', respectively.
- (c) No, because at the first place, Mr. Rajesh was not only having the authority to investigate into the affairs of Sing Ltd. and the type of fraud identified is in the nature of 'Teeming and Lading', respectively.
- (d) Yes, if according to Mr. Rajesh such report was not relevant to the investigation of affairs of Dunk Ltd. And the type of fraud identified is in the nature of 'Advance billing', respectively.

(v) Whether it was mandatory for the Tribunal to take into consideration the representations made by the Central Government before passing the order for re-opening of accounts and till what financial year, Tribunal can make such order of re-opening of accounts?

- (a) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2016-17.

(b) No, provided reasons for the same are recorded in writing by the Tribunal for not taking into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2014-15.

(c) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14.

(d) Yes, it was mandatory for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14.

Question	Answer
1	d
2	c
3	b
4	
i	a
ii	d
iii	a
iv	a
v	b
5	
i	b
ii	b
iii	a
iv	d
6	d
7	b
8	
i	d
ii	c
iii	d
iv	d
v	d

Peer Review & Quality Review

1. Shivam & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. The firm has 6 offices in India – Delhi, Noida, Bangalore, Kolkata, Chennai and Chandigarh.

The firm has 35 partners across various offices. The staff size of firm is 250 approximately. The firm is offering various services to its clients and has accordingly set up separate departments for those services which are headed by the Partners.

The firm has clients as both listed and unlisted companies to whom services include statutory audit, internal audit, risk advisory, due diligence, tax support etc. The firm also has a Managing Partner who sits in Chandigarh office. All in all one can say it's an all solutions firm as far as services of a CA are concerned.

The firm focuses significantly on its quality and accordingly has set up various controls in place. The firm ensures that the engagements of each partners are reviewed in terms of quality of work by other partner of the firm independently every year.

For this purpose, firm has set up a process and one or two engagement files of a partner is selected. Quality assessment also carries weight in terms of assessment of profit sharing of the partners.

The firm has been subject to peer review which was last conducted 3 years back. During the financial year ended 31 March 2020, the firm got an intimation for the peer review on 1 July 2020, with which it was before time considering that the Review was done only 3 years back and was not due.

The firm discussed this matter with the relevant authorities, but the authorities did not change their stand. The process of peer review got started on 1 August 2020 and completed on 15 September 2020 which included the on-site review from 1 August 2020 to 20 August 2020.

Since the firm was not happy with the selection of engagements for review by the Peer Reviewer and also faced some problems during the peer review process, it also consulted another firm of his friend, Shubham, Shubham & Associates. One of the engagements of Shubham & Associates was picked up for quality review by the Quality Review Board and this firm also faced various challenges during that process in terms of the selection criteria and also the observations of the reviewer. Considering the abovementioned facts, you are required to advise on the following matters:

(i) Shivam & Co LLP submitted a list of its assurance and due diligence services in respect of selection of the engagement for the peer review.

- (a) Peer reviewer may select any sample out of assurance and due diligence engagement.
- (b) Peer reviewer may select any sample out of assurance engagement.
- (c) Peer reviewer may select any sample out of due diligence engagement.
- (d) Peer reviewer may select an engagement on a piecemeal basis covering any service - assurance or due diligence.

(ii) The concern of Shivam & Co LLP regarding its selection of peer review arose because it assessed itself as Level II entity which was different from assessment by the Peer Review Board.

- (a) The firm should be Level I based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards.
- (b) The firm should be Level II based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards.
- (c) The firm should be Level I based on its engagements/services.
- (d) The firm should be Level II based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards and its engagements/services.

(iii) Shivam & Co LLP also objected to the time taken by the Peer reviewer on site, however, as per Peer Reviewer, the entire review process got completed within 60 days from the date of notifying the firm about its selection for review.

- (a) The time for onsite review should not have extended beyond 7 working days.
- (b) The time for onsite review should not have extended beyond 15 working days.
- (c) The time for complete review should be completed within 120 days.
- (d) The time for complete review should be completed within 90 days.

(iv) In case of Shubham & Associates, to improve upon the quality and strengthen the base, the Board took the current member of the Regional Council of the ICAI as a technical reviewer.

- (a) The Reviewer should not currently be a member of the Regional Council.
- (b) If the reviewer is a member of the Regional Council then the time allotted for review should be 60 days.
- (c) If the reviewer is a member of the Regional Council then the time allotted for review would be 30 days.
- (d) If the reviewer is a member of the Regional Council then he can not accompany any staff with him for the purpose of the review.

(v) In case of Shubham & Associates, the reviewer raised on observation that one of the audit team member (when the team on the audit engagement was large) signed the independence confirmation dated 1 August 2020 when the audit report was signed i.e. 1 August 2020. This was objected by Shubham & Associates because the audit team completed the documentation as required by the auditing standard.

- (a) Observation of reviewer was correct.
- (b) Observation of reviewer was not correct.
- (c) Observation of reviewer was correct but when only one audit member has not complied then it should have been dropped.
- (d) Observation of reviewer was not correct and also the fact that out of a large team, it involved only one audit member.

Solution:

S No.	Solution
i	(b) Peer reviewer may select any sample out of assurance engagement.
ii	(c) Entity is decided as Level I/II based on its type of engagement and services.
iii	(a) Onsite review shouldn't exceed 7 days. Peer review process should be completed in 60 days from the date PU is notified.
iv	(a) The Reviewer should not currently be a member of the Regional Council.

v	(a) Independence confirmation should be obtained from engagement team members before beginning the engagement.
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2. Mr Q, a peer reviewer appointed for the firm ABC & Co. for the period under review starting from 2017-18 to 2019-2020 decided to select 5 samples of audit engagement. All samples were appropriate, and no deviations or issues were identified in the review with respect to those samples. Post that, Mr Q reviewed the training & development program for the staff, article assistant and other assistant and he found that the training and development program were not appropriate and rather outdated. The staff, article assistant and other assistant placed on the audits were not trained related to the specific matters of the industries to which the audit client belonged. As a result, the peer reviewer included a comment in the preliminary report regarding training programmes for staff (including article assistant and other audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. Upon receiving such preliminary report, the Practice Unit raised concerns that the said comment of peer reviewer is related to the matter which is out of scope of the peer review.

Kindly decide whether the comment of peer reviewer on the training programmes for staff (including article assistants and other audit assistants) concerned with assurance functions is within the scope of peer review or not?

(a) The Review shall only cover Compliance with Technical, Professional and Ethical Standards, Quality of reporting, Systems and procedures for carrying out assurance services, Compliance with directions and / or guidelines issued by the Council to the Members and Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants. Hence the comment of peer reviewer on the training programmes for staff (including article assistant and other assistants) concerned with assurance functions is not within the scope of peer review.

(b) The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including article assistant and audit assistants involved in assurance engagements. Hence the comment of peer reviewer on the training programmes for staff (including article assistant and other assistants) concerned with assurance functions is within the scope of peer review.

(c) The Statement of Peer Review makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical, Professional and Ethical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards but only seeks to ensure that they are implemented, both in letter and spirit. Therefore, it is evident that the scope of peer review is restricted to the compliance Technical, Professional and Ethical Standards

(d) The scope of Peer Review is decided by the Practice Unit and Peer Reviewer Mutually and hence if the Practice Unit is contending that it is out of scope then it should be considered as out of scope.

Ans (b)

Summary: The Statement on Peer Review defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements.

Tax Audit

1. AV Ltd is in the business of manufacturing of chemicals and has a net worth of INR 700 crore. The company has been preparing its financial statements as per Ind AS. For the purpose of Form 3CD, management did not identify any items which may require adjustments because of the differences between Ind AS and ICDS. However, the tax auditors during the course of their audit identified few items where adjustments are required to be made and accordingly, should be reported under Clause 13(e) of Form 3CD. Further tax auditors also are of the view that disclosures in respect of ICDS should be made in Clause 13(f) of Form 3CD which the management has not done.

In this case, please suggest which of the following would be the correct option.

- (a) If the impact of the adjustments related to ICDS identified by the auditors is material then such adjustments need to be reported in Form 3CD. And disclosures in respect of ICDS should in any case be given in Form 3CD.
- (b) If the impact of the adjustments related to ICDS identified by the auditors is immaterial even then such adjustments need to be reported in Form 3CD. To give disclosures in respect of ICDS is the management choice.
- (c) Both the impact of the adjustments related to ICDS identified by the auditors, whether material or immaterial, and disclosures need to be mandatorily reported in Form 3CD.
- (d) ICDS and Ind AS don't have any differences and hence assessment of the auditor doesn't seem to be correct. Hence no reporting would be required under Clause 13(e) of Form 3CD. If there is no reporting under Clause 13(e) then reporting under Clause 13(f) would also not be required in Form 3CD.

2. OSK Ltd was incorporated on 15 February 2020. The company chose to prepare its financial statements for the purposes of Companies Act 2013 for the period from 15 February 2020 to 31 March 2021 as its first reporting period. The company had a turnover of INR 6 crore for the period ended 31 March 2020 which is expected to increase to INR 50 crore for the period from 1 April 2020 to 31 March 2021. The company filed its income tax return for the financial year 31 March 2020 before 30 September 2020 i.e. before the due date of filing return of income for the financial year 2019-20 (before considering any extension). The company would prepare its financial statements for the period from 15 February 2020 to 31 March 2021 and would get them audited from its statutory auditors.

In this case, please suggest which of the following would be correct.

- (a) The company would be exempt from tax audit for FY 2019-20. For 2020-21, the company would need Form 3CB under tax audit.
- (b) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CA for both these years.
- (c) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CB for both these years.
- (d) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CB for FY 2019-20 and Form 3CA for FY 2020-21.

3. Mr. Lalit while doing tax audit (Form 3 CD) of another client Ginasome Ltd seeks the help of his senior Mr. Rahul on the following issues:

- During the FY 2019-20, the company has purchased a plot of land at Sitarganj having stamp duty value of 31,00,000 at a consideration of 30,00,000. The plot has been purchased from Mr. K who is not the related party of Ginasome Ltd.
- The Company has paid state excise duty (due date of payment – 5th of Next Month) on alcohol for the months of August (5 lakh), September (3 lakh), October (4 lakh) and March (2 lakh) on 05.06.2020. The same is not disputed. The excise duty has been debited to Profit and Loss Account. Based on the above facts, answer the following:-

i) Based on the above data, advise as a tax auditor how shall the “purchase of plot at Sitar Ganj” be dealt in tax audit report in Form 3CD?

- (a) An amount of ₹ 1,00,000 shall be reported under Clause 29.
- (b) An amount of ₹ 50,000 shall be reported under Clause 29B.
- (c) An amount of ₹ 1,00,000 shall be reported under Clause 29B.
- (d) No Reporting requirements will arise in Form 3CD.

ii) Based on the above data, advice as a Tax Auditor how the reporting under Clause 26 shall be done in Tax Audit Report in Form 3CD regarding state excise duty?

- (a) Amount of ₹ 14 lakh shall be reported under Clause 26(A)(b).
- (b) Amount of ₹ 14 lakh shall be reported under Clause 26(A)(a).
- (c) Amount of ₹ 14 lakh shall be reported under Clause 26(B)(b).
- (d) Amount of ₹ 14 lakh shall be reported under Clause 26(B)(a).

Q4

4. Among the below transactions which were undertaken by PQR Ltd(Govt Co), which needs to be reported by the auditors under fiscal laws?

- (i) ₹ 10 crore loan taken, which is exceeding the limit specified u/s 269 SS of Income Tax Act.
- (ii) Changed its method of accounting from the previous financial year.
- (iii) Repayment of deposits of ₹ 75 lakh, which is exceeding limit specified u/s 269 T of Income Tax Act.
- (iv) Reporting of Closing stock of raw material worth ₹ 2 lakh only.

- (a) (i), (iii) & (iv).
- (b) (ii) & (iv).
- (c) (i) & (iii).
- (d) (i), (ii), (iii) & (iv).

5. CA took an assignment of Registration of a ‘RCO Trust’ which was started on 31st December 2020. He also took the tax audit assignment for the same. Within which date should the registration of RCO Trust should be done and what is the form in which tax audit report for the same should be submitted?

- (a) Registration: Before 31st March 2021; Tax audit report: Form 10 B.
- (b) Registration: No specific time limit; Tax audit report: Form 3 CB & 3 CD.
- (c) Registration: Before 31st December 2021; Tax audit report: Form 10 B.
- (d) Registration: Before 31st March 2021; Tax audit report: Form 3 CA & 3CD.

6. Kaai (P) Ltd. is involved in the wholesale business of vegetables across various cities of India. The company delivers all the orders using its own vehicles. However, during peak season, the company would hire vehicles

to deliver its orders. M/s PAZH & Co. Chartered Accountants were the auditors of the company for past two years. For the year ended 31st March 2020, the statutory & tax audit was conducted by the firm, and following were the observations made:

Observation - 1: During the year, the company had made payment for three invoices of (I-1) ₹ 17,500/-, (I-2) ₹ 18,750/-, (I-3) ₹ 11,250/- to M/s Rent Vehicles Ltd. for services of hiring vehicles (I-1&2 above) and for wages for the driver sent by them (I-3 above). All payments were settled by way of cash on 15th March (I-1) and 23rd March (both I-2&3)

i) With regards to tax audit of Kaai (P) Ltd., what should the auditor do with respect to observation - 1?

- (a) He need not report anything as the cash payments as well within limits specified in Income tax Act.
- (b) Disallow ₹ 17,500/- and give the details of the same under clause 21 of tax audit report.
- (c) Disallow ₹ 18,750/- & ₹ 11,250/- and give the details of the same under clause 21 of tax audit report.
- (d) Disallow ₹ 11,250/- and give the details of the same under clause 21 of tax audit report.

Observation – 2: With respect to the expenditure made by the company, the following were to be disclosed in tax audit report, but the management did not accept the decision of the auditor.

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

ii) Which among the points under observation – 2 should be reported by the auditor in the tax audit report?

- (a) (i) & (ii).
- (b) (ii) & (iii).
- (c) (i) only.
- (d) (ii) only.

7. For the year ending 31st March 2021, SabkaVikas & Sons has made a claim for refund of custom duty for Rs. 2 crore but such refund was as admitted as due by authority in April 2021. SabkaVikas & Sons neither credited the claim in Profit and Loss account nor reported the same in clause 16 of Form 3CD.

Can you please guide the auditor of SabkaVikas & Sons for reporting of refund of custom duty in accordance with clause 16 of Form 3CD?

- (a) Refund of custom duty to the extent of Rs. 2 crore should be reported in clause 16 as the same is admitted by the custom authorities.
- (b) Refund of custom duty to the extent of Rs. 2 crore need not be reported in clause 16 as it is admitted by custom authorities in the next financial year.

- (c) No disclosure is required as refund of custom duties is not covered under clause 16.
- (d) Auditor should take a written representation from the management stating that refund of custom duty of Rs. 2 crore will be credited to profit and loss account for the financial year ending 31st March 2022 and thus, no reporting is required.

8. M/s. ASH Brothers is a partnership firm engaged in the business of selling old vehicles. Mr. A, Mr. S and Mr. H are the three partners of the firm. In the month of January 2021, Mr. H's son (a minor) was admitted for the benefit of partnership who attained majority in April 2022, but no change was made in the Partner's share during the year. Whether the tax auditor is required to mention the details of Mr. H's son admitted to the partnership during the year, as per clause 9 of Form 3CD of the Income Tax?

- (a) Since the minor has not attained majority during the audit period, no details need to mention in Form 3CD.
- (b) The auditor is not required to give details of minor admitted to partnership as there was no change in the Partner's Share during the year.
- (c) Any change in the Partners since the last date of the preceding year has to be mentioned under clause 9(b) of Form 3CD.
- (d) As the father of minor is his guardian till he attains majority and Mr. H was already partner in the firm, there is no need to mention the details of minor in Form 3CD.

Q	Ans	Summary
1	a	If tax auditors are of the view that disclosures in respect of ICDS should be made in Form 3CD which the management has not done then if the impact of the adjustments related to ICDS identified by the auditors is material then such adjustments need to be reported in Form 3CD. And disclosures in respect of ICDS should in any case be given in Form 3CD.
2	d	If the turnover of Co. > 1 Cr its required to get Tax Audit done. Report of tax audit shall be 3CB if no audit is done in any other statute & it shall be 3CA if statutory audit done.
3		
i	d	Clause 29B requires reporting of income u/s 56(2)(x) of Income Tax Act, 1961. One of such incomes is purchase of Immovable property at less than stamp duty value. However difference isn't treated as income if difference is upto 50,0000 or if the SDV is upto 110% of consideration.
ii	d	Payment of Statutory dues like excise duty which were incurred during PY paid on or before due date of furnishing return of income u/s 139(1), shall be reported under Clause 26(B)(A)
4	b	269 SS & 269 T reporting not applicable for Tax audit of Govt companies.
5	c	Clause (a) of section 12A requires a charitable or religious trust or institution to make an application for registration within one year from the date of creation of the trust or establishment of the institution. The report of audit of accounts of a trust or institution which is required to be furnished under Clause (b) of Section 12A should be in Form No. 10B.
6		
i	d	Payments > 10,000 in a single day to single person shall reported under clause 21. However the limit is 35,000 in case of payments to transporters.
ii	b	Expenditure against exempt income & payment to clubs for entrance fees have to be reported.

7	b	<p>Clause 16: Amounts not credited to the profit and loss account, being,-</p> <p>(a) the items falling within the scope of section 28;</p> <p>(b) the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;</p> <p>(c) escalation claims accepted during the previous year;</p> <p>(d) any other item of income;</p> <p>(e) capital receipt, if any.</p> <p>If custom duty is admitted in next FY then it is not to be reported.</p>
8	c	<p>Any change in the Partners since the last date of the preceding year has to be mentioned under clause 9(b) of Form 3CD.</p>

Professional Ethics

1. CA. D, a chartered accountant in practice, availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct?

- (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- (b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- (c) Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- (d) Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

2. CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2020, he was awarded 'Best Faculty of the year' as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct?

- (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- (b) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- (c) Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- (d) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3. Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of articleship. Mr. Witty, the principal, offered him stipend at the rate of ₹ 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on the plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. As per Chartered Accountants Act, 1949, under which clause Mr. Witty is liable for misconduct.

- (a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.
- (b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- (c) Mr. Witty is paying interest thus he is not liable for misconduct.
- (d) Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

4. CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA Ram. He approached CA Ram to take guidance on some topics of financial management subject related to his course. CA Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 3 days in a week and for 2 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the

condition that the direct teaching hours devoted to such activities taken together should _____ in order to be able to undertake attest functions.

- (a) not exceed 25 hours a week.
- (b) not exceed 21 hours a week.
- (c) not exceed 25 hours a month.
- (d) not exceed 21 hours a month.

5. Whether the acting of Mr. P as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?

- (a) Yes, as specific permission from the council shall be required.
- (b) No, as general permission from the council has been granted.
- (c) No, as specific permission from the council can be obtained at any point of time.
- (d) Yes, as general permission is not granted for above occupation.

6. The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. At a later point, certain shareholders of the firm opposed the appointment, but the issue was solved afterwards. Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?

- (a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty.
- (b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.
- (c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to noncommunication to previous auditor.
- (d) They are not guilty of any professional misconduct.

7. CA. Y, accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. Y realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Y be held guilty of professional misconduct under the Chartered Accountants Act, 1949?

- (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. Y will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
- (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.

(c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

(d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

8. YS & Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS & Associates get their website developed as www.ysassociates.com from KPY Ltd. The colour of their website was very bright and attractive to run on a “push” technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

Whether, website designed for www.ysassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949:

- (a) Yes, website can have names of partners and major clients along with its fess.
- (b) Yes, as the websites can be designed on a “push” technology.
- (c) Yes, as there is no restriction on the colours used in the website.
- (d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator.

9. M/s IM & Co. Chartered Accountants is a newly started firm. Their first assignment was to conduct statutory audit of M/s CD Crackers Ltd (a cracker manufacturing company). Since it was their first audit, the partners immediately accepted the work, without paying attention to the relevant procedures. They started their audit work from 25th May 2020 for the financial year (say previous year) ended on 31st March 2020.

Is M/s IM & Co. guilty of professional misconduct for violating any of the provisions of Chartered Accountants Act? If so, as per which clause?

- (a) Clause 1 of Part I of Second Schedule.
- (b) Clause 8 of Part I of First Schedule.
- (c) Clause 2 of Part II of Second Schedule.
- (d) No. The firm has not violated any of the provisions and hence not guilty of professional misconduct.

10. M/s Hire (P) Ltd., a recruitment agency contacted Mr. I regarding a vacancy in one of the leading manufacturing company. Eventually Mr. I resigned as the partner of IM & Co. and joined the company. The agency raised an invoice for the service rendered by them, which amounted to 0.2% of the CTC offered. Mr. I agreed to pay the amount. However, since his friend was a manager at the agency, he received full discount on the invoice.

Is Mr. I guilty of professional misconduct, if so, under what clause?

- (a) Clause 1 of Part I of First Schedule.
- (b) Clause 2 of Part II of Second Schedule.
- (c) No. Mr. I is not guilty of professional misconduct.
- (d) Clause 1 of Part II of First Schedule.

11. Mr. M was engaged as a Registration Authority for obtaining digital signatures for his clients. A complaint was filed against Mr. M stating that he was guilty of misconduct for violating the provisions of the Chartered Accountant Act. Is Mr. M guilty of professional misconduct, if so, under what clause?

- (a) No. Mr. M is not guilty of professional misconduct.
- (b) Clause 11 of Part I of First Schedule.
- (c) Part III of Second Schedule.
- (d) Clause 1 of Part II of Second Schedule.

12. Mintcoin Ltd was involved in the business of assisting startups to raise funds from venture capitalists. It had a huge network of venture capitalists which was very helpful in serving the clients. But Mintcoin Ltd lacked a finance expert who can present the financial statements of startups to venture capitalist. Mintcoin Ltd contacted CA Dev who was a practicing chartered accountant.

But as he holds COP (Certificate of Practise), he cannot work as full time employee of Mintcoin Ltd. So, it was agreed that rather than fixed salary, CA Dev will charge 2% of the amount raised as consultancy fee and will continue with his practice. It was also agreed that he will not be an employee of Mintcoin Ltd and will provide direct fund raising services to startups in collaboration with Mintcoin Ltd. Is the act of CA Dev of charging 2% consultancy fees for amount raised by startups a professional misconduct?

Please answer specifying the relevant clause.

- (a) No, it is not a misconduct if a specific permission is granted by the ICAI in this regard under regulation 190A.
- (b) No, it is not a misconduct. Regulation 192 allows CA to charge percentage based fees in case of fund raising services.
- (c) Yes, it is a misconduct under clause 10 Part (1) of First Schedule.
- (d) Yes, it is a misconduct under clause 3 Part (1) of First Schedule.

13. Mr. Z an articled assistant was offered 0.5% of Total Profits of AB & Co.(CA Firm) for performing very well in the audit of PQR Ltd by Mr. D(Partner of AB& Co.) as a token of appreciation. Is Mr. D liable for professional misconduct by sharing profits with Mr. Z? If yes, under which clause?

- (a) No, as the profits were given as a token of appreciation
- (b) Yes, under clause (2) Part I of First Schedule..
- (c) Yes, under clause (2) Part I of Second Schedule.
- (d) Yes, under clause (1) Part II of Second Schedule.

14. A firm was appointed To act as financial advisor to M/s NBE Mutual Fund Ltd. for a professional fee of ₹ 1 lakh per annum. Does the act of being appointed as financial advisor to M/s NBE Mutual Fund Ltd attract professional misconduct? What is the reason?

- (a) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as equity research advisor it would attract professional misconduct.

(b) Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a mutual fund company and receive fees from them.

(c) No. Only if the firm acted as financial advisor to NBFC or Insurance company, it would attract professional misconduct

(d) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as financial advisor for commission income, it would attract professional misconduct

15. A CA firm received the following assignments:

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

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

(iii) Offer to be appointed as internal auditor for YY Ltd. And simultaneously, they were also appointed to perform GST Audit for the company.

Among the assignments (i), (ii) and (iii) given in the scenario which PAZH & Co. received, undertaking which would have led to professional misconduct?

(a) (ii) only.

(b) Both (i) & (ii).

(c) (iii) only.

(d) (i) only.

16. AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits, but the same clients had some other firms as their tax auditors. In the current year (FY 2020-21), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits up to the maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed.

You are requested to advise the firm in this matter.

(a) There is no limit on no of tax audits in case of LLP.

(b) All the partners of the firm can collectively sign 450 tax audit reports.

(c) All the partners of the firm can collectively sign 600 tax audit reports.

(d) All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.

17. Which among the below are permitted as per Chartered Accounts Act, 1949?

(i) Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company.

(ii) Select and recruit personnel, conduct training programmes for and on behalf of client.

(iii) Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession.

(a) (i) & (ii).

(b) (iii) only.

(c) (ii) & (iii).

(d) (i), (ii) & (iii).

18. KB Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2020-21. It consists of two partners CA K & CA B. CA K is brother of the father of the finance director of the company. CA B is an old friend of the finance director of the company.

What kind of ethical threat is associated with appointment of KB Associates as an auditor of ABC LTD.?

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

19. CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2020 and on 4th October 2020, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him?

- (a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine upto Rs. 5,00,000.
- (b) Yes, it is a misconduct under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000.
- (c) Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000.
- (d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine upto Rs. 5,00,000.

20. Mr. Chitragupta Bakutra, a Chartered Accountant is a sole proprietor of Bakutra & Co. which has been appointed as a statutory auditor of Kraftic Ltd. from FY 2020-21, for a term of 5 years. Mr. Chitragupta is a director simplicitor of Kalavitur Ltd. which acquired 55% shares of Kraftic Ltd., for the first time, on 25th May, 2020. Mr. Chitragupta's term as a director of Kalavitur Ltd. got expired on 31st March, 2021 and he was not re-appointed. Kalavitur Ltd. made a proposal to Mr. Chitragupta for appointing Bakutra & Co. as its statutory auditor from FY 2020-21, for a term of 5 years, which was accepted by Mr. Chitragupta. Is there any violation of the Code of Ethics by Mr. Chitragupta Bakutra?

- (a) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor and also he cannot accept appointment of auditor of a Kalavitur Ltd. Without finishing of the cooling period for the same.
- (b) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor. However, by accepting appointment as an auditor of Kalavitur Ltd. Without finishing of the cooling period for the same, he has violated the Code of Ethics.
- (c) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor. However, there is no bar in becoming an auditor of a company of which a person has been its director.
- (d) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor and also there is no requirement of following the cooling period by a director simplicitor who on expiry of its term, wants to become auditor of such company.

21. Upon hearing about the efficient services provided by FDI & Co. Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.?

- (i) To charge fees as percentage of Net Profits, or
(ii) To charge fees of ₹ 101/-.

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

Question	Answer	Summary
1	d	Non-payment of loan instalment due to insufficiency of funds is an 'Other misconduct'.
2	a	Posting of only passport size photo of partners permitted not framed photograph on the website.
3	a	Non-payment of stipend on timely basis is contravention of ICAI Regulation, hence CAiP shall be guilty.
4	a	Council of ICAI allows only 25 hrs/week for teaching activities to undertake attest functions
5	b	General permission to become Surveyor & Loss assessor as a CAiP
6	b	Communication with previous auditor required as per Clause 8 of Part I of First Schedule
7	c	Communication with previous auditor required as per Clause 8 of Part I of First Schedule is applicable for all types of Audits where previous auditor was a CA.
8	d	Website should run on Pull technology & names of major clients can't be shown without disclosure requirement of any regulator
9	b	Communication with previous auditor required as per Clause 8 of Part I of First Schedule
10	d	Member(other than in Practice) can't share any share of emoluments with any person for securing employment.
11	a	Ethical std board has allowed Member to engage as registration authority for obtaining digital signature for his clients.
12	b	Fees for fund raising services can be charged as % of funds raised.
13	b	Sharing of profits with articles asst as token of appreciation or otherwise will make CAiP guilty under clause 2-1-1
14	b	CA Firm can't act as financial advisor for Mutual fund Co.
15	c	Internal auditor can't perform GST audit of same entity
16	c	Single partner can sign 60 Tax audits à 10 partners can sign 600 tax audits
17	c	Selection & recruitment of personnel on behalf of client and taking teaching profession along with signing financials is allowed.
18	c	

19	c	Giving article in newspaper regarding inauguration of branch office by CAiP shall be professional misconduct under clause 7-1-1 with fine upto 1L & removal of name from register upto 3 months.
20	a	CAiP cannot be continued to be director of a company, the subsidiary of which he is an auditor and also he cannot accept appointment of auditor of Co. in which he has been director unless he completes 2 years cooling period.
21	c	

Integrated Case Scenarios (Mix)

Q1 (MTP Apr-21)

CA D was a practicing Chartered Accountant in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd, a listed entity, which was involved in the business of manufacturing of motor cars for FY 2019-20. CA D was appointed as joint auditor along with CA T and CA P. They have divided the responsibility for conducting audit in accordance with SA 299.

As the company has huge amount of property, plant and equipment, it was decided that all 3 auditors will verify the records relevant to property, plant and equipment. While forming an opinion, CA D was having a different opinion on property, plant and equipment but CA T and CA P were having same opinion. CA D wants to qualify capitalisation of post-acquisition costs incurred on machinery whereas CA T and CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common audit report which is in accordance with the opinion of CA T and CA P. While assessing the applicability of CARO, 2016, CA D found that issued share capital of Giant Motors Ltd is Rs. 500 crore along with Rs. 30 crore of calls which are being unpaid as they are receivable from retail investors. In the month of July 2019, Giant Motors Ltd. forfeited shares of worth Rs. 10 crore. There were no reserve and surplus as it was transferred to parent entity. Also, along with equity shares of Rs. 300 crore, there was preference share capital of Rs. 200 crore. CA T while reporting under clause (vi) of CARO, 2016 did not report anything under clause (vi) of CARO 2016 as the government has not ordered Giant Motors Ltd. to conduct cost audit for its books of account. Hence CA T did not report anything under clause (vi). Giant Motors Ltd has a total number of 11 directors. Mr. Talent is the Executive Chairman of the company. Out of 11 directors, 5 were independent directors.

Mrs. D was not aware that CA D was the statutory auditor of Giant Motors Ltd. She purchased shares of Giant Motors Ltd worth Rs. 1,50,000 (book value) on 3rd October 2020 but when she came to know about the statutory auditor of Giant Motors Ltd, she sold her shares on 10th November 2020. One of the shareholders of Giant Motors Ltd contended that CA D is disqualified and shall vacate his office of statutory auditor. On the basis of the abovementioned facts, you are required to answer the following MCQs:

(i) Can you please guide whether CA D really needs to go with the opinion formed by CA T and CA P or not?

- (a) CA D will have to go with the opinion formed by majority auditors.
- (b) CA D can add a separate audit opinion paragraph in the common audit report and the same should be highlighted in emphasis of matter paragraph.
- (c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in emphasis of matter paragraph.
- (d) CA D can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.

(ii) What should have been CA D's opinion on applicability of CARO, 2020 for FY 2019 -20 assuming forfeited shares are not included in equity share capital?

- (a) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 1 crore.

- (b) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 10 crore.
- (c) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 1 crore.
- (d) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 10 crore.

(iii) Was the approach followed by CA T for not reporting under clause (vi) of CARO correct?

- (a) Yes, as reporting under said clause is required only if the Giant Motors Ltd were ordered by government to conduct cost audit under section 148(1).
- (b) Yes, reporting under this clause is only applicable to entities involved in production of electricity.
- (c) No, Clause (vi) should be reported irrespective of whether Giant Motors Limited has been ordered to conduct cost audit by the Central Government or not.
- (d) No, should be reported only if there is any discrepancy found while examining the cost records.

(iv) Was there any non-compliance on the part of Giant Motors Ltd in case of appointment of independent directors?

- (a) No, there was no non-compliance as independent directors were more than 2 directors specified in the Companies Act, 2013.
- (b) Yes, there was a non-compliance as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.
- (c) No, there was no non-compliance as independent directors were 5, which is more than 2/3 of the total directors in accordance with Regulations 17 and Regulation 17A.
- (d) Yes, there was a non-compliance as all the directors should have been independent directors except the Chairman of the company.

(v) Was the contention of shareholder that CA D should vacate the office of statutory auditor correct?

- (a) No, as Mrs. D has sold the shares within a grace period of 60 days.
- (b) No, as Mrs. D is holding shares of less than book value of Rs. 2,00,000.
- (c) Yes, as Mrs. D has purchased shares which are more than book value of Rs.1,00,000.
- (d) Yes, as Mrs. D hold share during the financial year and his husband is statutory auditor of Giant Motors Ltd.

S No.	Solution
i	(d) As per SA 299, joint auditor if he doesn't agree with views of other joint auditors, then he shall issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.
ii	(a) CARO will be applicable on entity if paid up share capital and reserves are more than Rs. 1 crore.
iii	(c) Reporting under clause (vi) of Para 3 is required irrespective Co. is ordered by government to conduct cost audit under section 148(1) or not.
iv	(b) If Co. has executive chairman then atleast 50% of Board shall comprise of Independent Directors.

v	(a) If relative (not auditor or partner) acquires interest > 1 lakh then corrective action to maintain limit within 60 Days of acquisition. If such corrective action is taken auditor shall not be disqualified.
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Question 2 (MTP Mar-21)

Well & Associates, an audit firm, was selected for the purpose of Quality Review by the Quality Review Board (QRB) as it was having many of statutory audit assignments of clients engaged into sectors identified as prone to fraud.

There were adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh an engagement partner of Well & Associates because of which the QRB selected 5 audit engagements of the firm for Quality review.

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

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

Name of the entity under audit of AFUR	Type of Entity	Date of Approval Financial Statements	Date of Audit Report	Date of assembly of Final Audit File	Date of written communication of significant deficiencies in internal control by AFUR
Req Ltd	Listed	31.05.2021	25.06.2021	03.09.2021	05.06.2021
TIMCO (P) Ltd	Unlisted	15.06.2021	18.08.2021	05.11.2021	25.08.2021
Gles Pvt Ltd	Unlisted	16.07.2021	28.07.2021	15.09.2021	18.09.2021
Findley Ltd	Listed	12.05.2021	01.06.2021	01.08.2021	05.05.2021
DM Ltd	Unlisted	25.04.2021	18.05.2021	25.06.2021	04.07.2021

On the basis of the abovementioned facts, you are required to answer the following MCQs: Multiple Choice Questions (5 questions of 2 Marks each):

(i) Well & Associates should have obtained a written confirmation of compliance with its policies and procedures on independence from all of its firm personnel as per requirements of which Statute / Standard and in what frequency?

- (a) As per the requirements of Council Central Guidelines, 2008, at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.
- (b) As per the requirements of Standard on Quality Control 1 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.
- (c) As per the requirements of SA 220 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.
- (d) As per the requirements of Code of Ethics at least half yearly, Well & Associates should have obtained a written confirmation from all of its firm personnel.

(ii) In case of which entities under audit of Well & Associates, there was delay in assembly of Final Audit File?

- (a) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and Findey Ltd., respectively.
- (b) Req Ltd., TIMCO (P) Ltd. and Findey Ltd., respectively.
- (c) Req Ltd. and TIMCO (P) Ltd., respectively.
- (d) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd., Findey Ltd. and DM Ltd., respectively.

(iii) In case of which entities under audit of Well & Associates, there was delay in written communication of significant deficiencies in internal control?

- (a) TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.
- (b) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.
- (c) DM Ltd.
- (d) Req Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.

(iv) For at least how many more years, Well & Associates should have retained the engagement documentation in respect of the two audit engagements as referred above?

- (a) 3 years and 1 year, respectively.
- (b) 4 years and 2 years, respectively.
- (c) 1 year and for other audit engagement documentation was retained for requisite period.
- (d) 6 years and 4 years, respectively.

(v) How many audit engagements of Well & Associates the QRB might have selected if there were no adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh, partner of Well & Associates?

- (a) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh.
- (b) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh
- (c) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh
- (d) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh.

S No.	Solution
i	(b) As per the requirements of SQC 1 at least annually, firm should obtain a written confirmation regarding independence from all of its firm personnel.
ii	(b) Audit file has to be assembled within 60 days of Audit Report.
iii	(d) Communication of significant deficiencies to TCWG : Listed Entities: Before date of approval of F.S. Other Entities: Before assembly of audit file (60 days from date of audit report)
iv	(a) Audit documentation has to be retained for 7 years from date of Audit Report.
v	(d) Technical reviewe can select max 3 assignments, however if last time no deficiency was found he'll not select more than 1.

Question 3 (RTP May-21)

M/s. Suresh & Co., a partnership firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Alkis Ltd., an unlisted public company, for financial year 2020-21.

Mr. Suresh is the engagement partner for the audit assignment of Alkis Ltd. The engagement team, before starting the assignment, was made to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken.

Mr. Suresh, referred the engagement letter, signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of following circumstances in the Company during F.Y. 2020-21:

- Two senior whole time directors of the Company have retired out of total five directors.
- 40% stake in the Company was held by promoters, which was reduced to 5%, by selling shares to general public.
- One more factory unit was set up in Gorakhpur, this year.
- Management has requested to cover 90% of the transactions with respect to each revenue line item, this time, instead of 80% of the transactions, as was set out in the audit plan, considering the materiality and other factors.

The following data is presented from the audited financial statements of Alkis Ltd., for the financial year 2019-2020:

- (I) Paid up share capital - ₹ 8 crore;
- (II) Turnover - ₹ 55 crore;
- (III) Outstanding Borrowings - ₹ 14 crore;
- (IV) Outstanding Public Deposits - ₹ 28 crore.

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

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

Statutory Dues	Undisputed Amount (₹ in lakh)	Date Payable	Date Paid
Income Tax Demand for A.Y. 2018-19	2	25.09.20	28.03.21
GST	1.5	03.10.20	04.04.21
Custom Duty	.80	20.09.20	10.04.21
Provident Fund	0.45	12.10.20	Not paid till date

Also, a representation was made to GST Department for waiving a penalty of ₹ 1 lakh for late payment of GST demand.

The board of Alkis Ltd. declared interim dividend of ₹ 20 lakh on 20th May, 2021, to its 180 shareholders, out of surplus in the profit and loss account and such dividend amount was deposited in a separate bank with a branch of SBI.

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

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

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

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

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

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

(iii) What total amount of statutory dues needs to be reported by Mr. Suresh as per Para 3 of CARO?

- (a) ₹ 2.75 lakh.
- (b) ₹ 0.80 lakh.
- (c) ₹ 2.80 lakh.
- (d) ₹ 2.30 lakh.

(iv) How much amount of interest Alkis Ltd. would be liable to pay with respect to unpaid dividend amount?

- (a) ₹ 575.
- (b) ₹ 1,216.
- (c) ₹ 1,726.
- (d) ₹ 1,151.

(v) By what date, the amount of interim dividend should have been deposited in the scheduled bank after being declared and also by what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account?

- (a) 25th May, 2021 and 24th June, 2021, respectively.
- (b) 25th May, 2021 and 26th June, 2021, respectively.
- (c) 30th May, 2021 and 19th July, 2021, respectively.
- (d) 27th May, 2021 and 26th June, 2021, respectively.

S No.	Solution
i	(c) Just need to consider the applicability criteria of Audit Committee, Internal Audit & Rotation of Auditors
ii	(b) Under the Report on Other Legal and Regulatory Requirements section of Audit report, Auditor is required to report whether remuneration paid to directors within limits of Sec 197.
iii	(b) Undisputed statutory dues overdue for more than 6 months as on Balance sheet date need to be reported by the Auditor.
iv	(d) Interest @12% p.a. applicable on delay in transfer of funds to unpaid dividend account beyond 7 days from end of 30 days from date of declaration of dividend $[1L * 12\% * 36/365]$
v	(b) After being declared dividend should be deposited within 5 days in separate account with scheduled bank. Also dividend remaining unclaimed for 30 days from date of declaration shall be transferred to Unpaid dividend account within 7 days.

Question 4 (RTP May-21)

Victor & Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million Copper suits. The Company has started the production of version 10 under its flagship and tags it as "Why to worry about a vehicle, when you have steel man". The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of 'Copper Man' and thus, the managerial decision making is left to each version manager. You have assigned the 'Fixed Assets area' to Mr. Mamma Mia and he came out to you with the following points. You need to answer the questions raised by him and go through the notes prepared to reach a reasonable conclusion over Property, Plant and Equipment FSLI (Financial Statement caption):

- The Company is holding the property in its name in Andaman & Nicobar while the land is registered in another person's name. The property is in dispute for the past 20 years. This is the major plant for the

Company and it is the critical success factor for the client. The Company's 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn't be halted as the restart of operations will cost huge amounts and a month's time to get the Company back to current position.

- The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed.
- The Company follows the depreciation policy as per the Schedule II across all the factories even when the factory at Andaman & Nicobar is the only factory that runs 24*7. The useful life has been taken as it is mentioned in the Schedule II without modifications and the Company's future prospects are good, there are no impairment indications.

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

(i) The audit team has asked you about the Benami Transaction:

- (a) There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988.
- (b) As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit.
- (c) The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO.
- (d) The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.

(ii) The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:

- (a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO.
- (b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO.

(c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO.

(d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.

(iii) The audit team has asked you about the impairment of assets of the Company.

(a) The Company has no impairment condition as the Company expects positive future cash flows from the assets and thus no need to assess the impairment.

(b) The Company need to assess the impairment condition for the assets and need to assess the fair value of the assets used to generate income from the older versions. The auditee needs to take a decision based on the cash inflows of a Company as a whole for assessing the existence of the impairment condition.

(c) There exists an impairment condition as the Company does not expect much business from the older versions due to anticipation of the huge demand of the new product. The Company need to assess the cash inflows at each version level.

(d) The Company need not assess impairment of assets as this is very common in dynamic industries where the older versions become obsolete when the new one is introduced by the Company.

(iv) The audit team is sceptical about the Depreciation policy followed by the Company for the Andaman and Nicobar plant:

(a) As the Company is following the Schedule II, the depreciation policy and the useful life is in line with the Companies Act, 2013. Hence the Company's depreciation policy is good to go.

(b) As the Company is operating the plant 24*7, it will be eligible for extra shift depreciation as per Schedule II. For the assets where the condition of extra shift depreciation does not exist, the Company will be eligible to claim 50% extra depreciation as per schedule II.

(c) As the Schedule III is applicable for the whole Company, the policy including useful life for the assets need to be same. There cannot be different useful lives for different assets across different locations. Thus, the depreciation policy of the Company is good to go.

(d) As the Company is operating the plant 24*7, it will be referred to as continuous process plant. For the assets where the condition of extra shift depreciation does not exist, the Company will not be eligible to claim 100% extra depreciation as per Schedule II.

(v) The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same:

(a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc.

(b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the integrity of the management about the appointment of the foreign brand ambassador.

(c) As per the SA 250, “Consideration of laws and regulations in an audit of Financials Statements” the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications.

(d) The auditor needs to qualify its audit report as the Company is against the “Vocal for Local” policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.

Question	Answer
1	a
2	d
3	c
4	d
5	a

Question 5 (RTP Nov-21)

Ulip Ltd. is a public company listed on the National Stock Exchange since the year, 2015, with share capital of ₹ 150 crore.

SRS & Co. is being appointed as its statutory auditor for F.Y. 2020-21 and Mr. Raj is appointed as the engagement partner, on behalf of the firm, to conduct the said audit assignment including conducting of limited reviews and other statutory assignments.

Mr. Raj was conducting limited review for second quarter and during the same while adhering to the responsibilities as conferred upon by SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”, he evaluated the implications of non-compliance in relation to other aspects of the audit, including the auditor’s risk assessment and the reliability of written representations and concluded that withdrawal from engagement was necessary in the given circumstances, after seeking legal advice, even though the non-compliance was not material to the financial statements but as the management or those charged with governance refrained from taking the remedial action that he considered appropriate in the circumstances. Such a withdrawal was not prohibited by any law or regulation.

Mr. Raj, on behalf of SRS & Co., brought to the notice of the Audit Committee of Ulip Ltd., all his concerns with respect to the proposed resignation, along with relevant documents.

After issuing the necessary reports, as required in the circumstances, SRS & Co gave its resignation letter to Ulip Ltd. at 1:00 p.m. on 20th November, 2021 vide its official email-id, which contained the detailed reasons for such resignation.

Such a letter was forwarded to the stipulated authority by Ulip Ltd. at 4:00 p.m. on 21st November, 2021 vide its official email-id.

SRS & Co. filed the statement with respect to its resignation as a statutory auditor in prescribed form with Ulip Ltd. and the Registrar on 15th January, 2021, respectively, after receiving a notice from MCA.

For the purpose of filling the casual vacancy in the office of auditor, the Audit Committee of Ulip Ltd. gave recommendation of an audit firm for being appointed as the statutory auditor to which the Board disagreed and it referred back the recommendation to the committee for reconsideration citing reasons for such disagreement.

However, the Audit Committee, after considering the reasons given by the Board, decided not to reconsider its original recommendation, so, the Board of Ulip Ltd. after recording the reasons for its disagreement with the committee appointed Chavda & Co. as its new statutory auditor on 15th December, 2021.

Such an appointment of Chavda & Co. was also approved by the members of Ulip Ltd. at a duly convened general meeting on 3rd February, 2022.

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

(i) Whether the reasons for withdrawal from the engagement by SRS & Co. can be considered to be justifiable in the light of the fact that the non-compliance was not material to the financial statements?

- (a) Yes, as such a withdrawal was not prohibited by any law or regulation.
- (b) Yes, as the auditor had obtained legal advice for the same and also such a withdrawal was not prohibited by any law or regulation.
- (c) Yes, in exceptional cases, the auditor may consider for such withdrawal provided that such a withdrawal is not prohibited by any law or regulation.
- (d) Yes, as it does not matter whether non-compliance is material or not, management or those charged with governance should not refrain from taking the remedial action which the auditor has considered necessary, provided that such a withdrawal is not prohibited by any law or regulation.

(ii) In continuation of Question no. 6, above, if it is assumed that the auditor was prohibited by any law or regulation from such withdrawal from engagement, then how he would have reported the non-compliance in the audit report?

- (a) In the "Basis for Qualified Opinion" paragraph.
- (b) In the Other Matter(s) paragraph.
- (c) In the Emphasis of Matter(s) paragraph.
- (d) In the "Basis for Disclaimer of Opinion" paragraph.

(iii) Ulip Ltd. Was required to disclose to which authority, the detailed reasons for resignation of the auditor and by what time limit as per LODR 2015?

- (a) Such reasons were required to be disclosed to MCA till 1:00 p.m. – 21st November, 2021.
- (b) Such reasons were required to be disclosed to NSE & SEBI till 1:00 p.m. – 23rd November, 2021.
- (c) Such reasons were required to be disclosed to NSE till 1:00 p.m. – 21st November, 2021.
- (d) Such reasons were required to be disclosed to the Registrar till 1:00 p.m. – 22nd November, 2021.

(iv) What could be the penalty specified under the Company Act, 2013 that could be levied upon SRS & Co. for failure in filing the statement with respect to its resignation, within the prescribed time limit, with Ulip Ltd. and the Registrar, respectively, if its remuneration was ₹ 40,000?

- (a) ₹ 62,500.
- (b) ₹ 50,000.
- (c) ₹ 40,000.
- (d) ₹ 52,500.

(v) What was the last date available with board of Ulip Ltd. For filing the casual vacancy in the office of the auditor and by what last date, the general meeting for approving the auditor as appointed by the board should have been made in accordance with the provisions of the Companies Act, 2013?

- (a) 27th November, 2021 and 27th February, 2022.
- (b) 20th December, 2021 and 15th February, 2022.
- (c) 20th January, 2021 and 20th April, 2022.
- (d) 20th December, 2021 and 15th March, 2022.

S No.	Answer
i	C
ii	B
iii	C
iv	D
v	D

Question 6 (MTP Nov-21)

Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for F.Y. 2020-21 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

Upshaant Ltd. changed its employee remuneration policy from 1st April, 2020, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2021, the company obtained an actuarial valuation for leave encashment liability. As and when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it and obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable.

Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company.

Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness.

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

The financial statements of Upshaant Ltd. for F.Y. 2020-21 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.

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

On the basis of the abovementioned facts, you are required to answer the following MCQs: Multiple Choice Questions (5 questions of 2 Marks each):

(i) For what type of control in inventory handling and maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing?

- (a) Application control
- (b) Automated control
- (c) Process Level control
- (d) Entity Level control

(ii) Whether Mr. Sunil is permitted to hold license as a life insurance agent?

- (a) Yes, general permission has been granted by the Council of the ICAI for the said purpose.
- (b) Yes, if specific permission has been obtained by Mr. Sunil for the same.
- (c) No, it is not permitted for a chartered accountant to do so as per recent Decisions of Ethical Standards Board.
- (d) License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession.

(iii) Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet?

- (a) To be equal to or less than materiality in order to cover all reasonable outcomes.
- (b) To be equal to or less than performance materiality in order to cover all reasonable outcomes.
- (c) To be equal to or less than materiality in order to cover all possible outcomes.
- (d) To be equal to or less than performance materiality in order to cover all possible outcomes.

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

- (a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.

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

(v) What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?

- (a) Provision should be created each time when the company makes provident fund contribution.
- (b) Provision should not be created because as and when the employees availed leave encashment, the provident fund contribution was made.
- (c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation.
- (d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.

Solution:

S No.	Solution
(i)	(b) Since the Co. is having inherent consistency of IT Processing, auditor need not increase testing of automated controls.
(ii)	(a) General permission granted by Council of ICAI for holding Life insurance licence for the purpose of getting renewal commission.
(iii)	(b) As per SA 540, ordinarily, a range that is narrowed to be equal or less than performance materiality is adequate for purpose of evaluating reasonableness of Point estimate.
(iv)	(d) As per SA 560, Where there is an amendment in Audit Report after amendment in Financial statements, that can be incorporated by adding additional date. Alternative to this is to provide amended report or new report with EOM or OM Para as per SA 706
(v)	(c) As per AS15/Ind AS 19, provision should be created for leave encashment based on actuary valuation.

Question 7 (MTP Nov-21)

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

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

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

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

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

On the basis of the abovementioned facts, you are required to answer the following MCQs: Multiple Choice Questions (5 questions of 2 Marks each):

(i) Whether Mr. Tushar can be held guilty under Part-I of First Schedule to the CA Act, 1949?

- (a) No, as he is not a member in practice.
- (b) Yes, as per Clause (7) he can be held guilty.
- (c) No, as it is permitted for member to mention such designations in his visiting card.
- (d) No, provided he has been permitted to do so.

(ii) Whether any civil liability can be imposed upon Mr. Danish?

- (a) No, if he is able to prove what he is contending.
- (b) Yes, as he had not withdrawn his consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.
- (c) Yes, provided such omission of a matter in the valuation report was misleading in nature.
- (d) Yes, as the omission of a matter was in the valuation report prepared by the expert himself irrespective of whether the consent was withdrawn or not.

(iii) Whether it was appropriate for Mr. Raj to take direct assistance from Mr. Tushar for the matter as aforesaid?

- (a) No, as it tantamount to taking direct assistance of internal auditor for making significant judgments in the audit.
- (b) Yes, as inquiry is allowed to be done and having a discussion with respect to the said matter is not appropriate.
- (c) No, as it tantamount to taking direct assistance of internal auditor relating to higher assessed risks of material misstatement.
- (d) No, as it tantamount to taking direct assistance of internal auditor relating to decisions the external auditor makes in accordance with SA 610 regarding the internal audit function and the use of its work or direct assistance.

(iv) In accordance with SA 610, with what Standards on Auditing, respectively, Mr. Raj would have made communication for taking direct assistance of Mr. Tushar and also directed, supervised and reviewed the work performed by him?

- (a) As per SA 580 and SA 500 respectively.
- (b) As per SA 260 and SA 240 respectively.
- (c) As per SA 265 and SA 220 respectively.
- (d) As per SA 260 and SA 220 respectively.

(v) To which authorities, Vedya & Co. would have made the communication and whether there was any obligation on part of Kesar & Associates with respect to such communication made?

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

S No.	Solution
i)	(b) As per Sec2(2) of Chartered Accountants Act 1949 a member shall be deemed to be in practice if he offers to perform or performs service involving auditing or preparation, verification or certification of F.S. or holds himself out as accountant; Since in given case accepted an assignment to write books & file income tax returns he'll be deemed to be in practice. Also as per Clause (7) of Part I of First Schedule to CA Act 1949, a CAiP shall be deemed to be guilty if he uses designation other than Chartered Accountant.
ii)	(a) As per Sec 35(2), expert can't be held guilty when as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that person making statement was competent to make it and that said person had given the consent required by subsection (5) of section 26 to issue of the prospectus and had not withdrawn that consent before delivery of a copy of prospectus for registration or, to the defendant's knowledge, before allotment thereunder.
iii)	(b) Making inquiries from Internal auditor on any matter related to audit is allowed as per SA 610. Use of words direct assistance given just to confuse the students.
iv)	(d) SA 260 deals with Communication with TCWG & SA 220 deals with direction, supervision & review when using the work performed by others.
v)	(c) when Auditor resigns he's required to file reasons with BOD & ICAI + the new auditor is required to consider the same before accepting the audit.

Q8 MTP Mar-22

M/s Head Limited, had recently issued right shares for all the existing shareholders. The total proceeds collected amounted to ₹ 200 crore, out of which 50 % was planned to be used for construction of a new factory next to the existing one and the balance was to be used for working capital purpose. However, due to the Covid-19 pandemic, the proposed factory work was affected and hence the company decided to park 9% of the specific fund in a debt mutual fund instead of keeping it idle. Similarly, the company decided to park 11% of the working capital fund in government securities.

M/s Legs Limited, an unlisted associate entity of Head Limited had similarly raised funds through qualified institutional placement & used the funds fully for the specified purpose. The auditor of the Legs Limited (Mr. G, partner of M/s GK & Associates) and the auditor of Head Limited (Mr. Q, partner of M/s CYQ & Associates) suggested that they shall mandatorily disclose the details of utilization of funds, as per SEBI LODR Regulation 32.

However, Mr. C, one of the partners of M/s CYQ & Associates argued that there is no need to report the above matter under SEBI LODR Regulations, but the same shall be reported under CARO 2020. Mr. Q argued that the matter need not be reported under CARO 2020. This argument had spoiled the relationship between the two partners, as a result of which, Mr. C decided to quit from the partnership and started his own practice. Mr. C then decided to induct Mr. J, a newly qualified Chartered Accountant as a partner in his firm. After this, the firm got an audit assignment from M/s Bank Limited. Mr. C consulted with his partner whether to accept the offer. Mr. J told that he has a loan (amounting to 75% of FD) against fixed deposit (of ₹6.8 lakh) in the said bank and feared that they cannot accept the offer. However, Mr. C told that since the loan is against fixed deposit there is no problem in taking up the offer, but he didn't want to force Mr. J in giving his acceptance. Therefore, the offer was dropped.

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

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

Multiple Choice Questions (5 questions of 2 Marks each):

i. Is the advice of Mr. Q correct in case of Head Limited? If yes what are the details which need to be disclosed by the company?

- (a) Yes. The company shall indicate the deviations in use of proceeds and category wise variation between projected utilization and actual utilization.
- (b) No. There is no need to indicate the statement since such deviations were due to Covid-19 pandemic.
- (c) Yes. The company shall indicate the deviations in use of proceeds in form of an explanatory statement.
- (d) Yes. The company shall indicate the % of deviation if such deviation is more than 10% of the total funds allotted for the specified purpose. Hence, the company shall indicate only the deviation in utilization funds allocated for working capital purpose.

ii. In case if Head Limited is to report the deviation in use of funds, at what interval should it report the same?

- (a) Disclose it every year in its Annual Report
- (b) Biannual reporting
- (c) Every quarter
- (d) Monthly reporting, till the funds are fully utilised.

iii. Assuming yourself as the auditor of Head Limited, what would be your stand on reporting the deviation in utilization of funds under CARO 2020?

- (a) There is no need to report the matter under CARO, since such deviations were due to Covid -19 pandemic.
- (b) The matter should be reported under CARO, under clause (xi)(a)
- (c) The matter should be reported under CARO, under clause (x)
- (d) The matter should be reported under CARO, under clause (xvi)(b)

iv. In the above case, is the act of Mr. J to deny share of profits to legal representative of Mr. C right? What is the relevant provision of the Chartered Accountants Act which you need to refer in this case?

- (a) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 2 of Part I of First Schedule of Chartered Accountants Act.
- (b) Mr. J has all right to deny the share of profit since it shall lead to professional misconduct. The relevant provision to be considered here is clause 2 of Part I of First Schedule of Chartered Accountants Act.
- (c) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 4 of Part I of First Schedule of Chartered Accountants Act.
- (d) Mr. J is correct in denying the share of profit. Though the same is mentioned in the agreement, it is against the provisions of Chartered Accountants Act. The relevant provision to be considered here is Clause 1 of Part II of Second Schedule.

v. Had the firm accepted the audit assignment of Bank Limited, would it have led to invalid appointment as per the Companies Act, 2013? If yes, under what provision?

- (a) No. As explained by Mr. C, since the loan was against a fixed deposit (loan against a collateral) appoint of the firm would not be void had they accepted the offer.
- (b) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(ii) of the Companies Act, 2013.
- (c) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(iii) of the Companies Act, 2013.
- (d) Yes. The acceptance of the offer would have led to professional to invalid appointment of the firm as per the section 141(3)(c)(ii) of the Companies Act, 2013.

Question	Answer
i	(a) Yes. The company shall indicate the deviations in use of proceeds and category wise variation between projected utilization and actual utilization.
ii	(c) Every quarter
iii	(c) The matter should be reported under CARO, under clause (x)
iv	(a) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 2 of Part I of First Schedule of Chartered Accountants Act.
v	(b) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(ii) of the Companies Act, 2013.

Q9 [MTP Mar-22]

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

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

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

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

Few days after the resignation of CA New, the following things happened:

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

On the basis of the abovementioned facts, you are required to answer the following MCQs:
Multiple Choice Questions (5 questions of 2 Marks each):

i. Assuming yourself to be a fellow team member of Mr. Junior, explain him what is a three-way match internal control involved in P2P process.

- (a) Matching of Purchase order, Sales order & Invoice raised to ensure all ordered quantity of intended goods have been invoiced and proper control over quantity of inventory is maintained.
- (b) Matching of Sales order, Goods delivery note & invoice to ensure all ordered quantity of intended goods have been delivered and invoiced accordingly.
- (c) Matching of Sales order, Invoice & Payment receipt details to ensure all ordered quantity of intended goods have been invoiced and payment for the same is received.
- (d) Matching of Purchase order, Goods receipt note & invoice to ensure all ordered quantity of intended goods have been received and invoiced accordingly.

ii. Assuming yourself to be the statutory auditors of the company, would you need to mention about the details in the internal audit under CARO 2020? If yes, under what clause should it be mentioned?

- (a) The above matter should be reported under clause (xiv) of CARO 2020
- (b) The above matter need not be reported under CARO, but it shall be reported under Emphasis of Matter Paragraph as per SA 706.

- (c) The above matter should be reported under clause (xviii) of CARO 2020
 (d) The above matter should be reported under clause (xv) of CARO 2020

iii. From the above information that M/s Manufacturing Limited appointed an internal auditor, what could you infer about their Paid-up share capital, outstanding deposit & turnover?

- (a) Paid up share capital of ≥ 40 crore Outstanding deposits > 20 crore; Turnover ≥ 190 crore
 (b) Paid up share capital of ≥ 25 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 100 crore
 (c) Paid up share capital of ≥ 50 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 200 crore
 (d) Paid up share capital of ≥ 45 crore Outstanding deposits ≥ 15 crore; Turnover > 100 crore

iv. Will accepting the Tax Audit offer lead to professional misconduct? If yes, as per which clause?

- (a) No. There will be no professional misconduct on the firm, if it accepts the offer.
 (b) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 4 of Part I of Second Schedule read along with Council Guidelines.
 (c) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 12 of Part I of First Schedule.
 (d) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 2 of Part I of Second Schedule read along with Council guidelines.

v. Comment on following incidents (i) & (ii) discussed in the scenario from the perspective of Professional Ethics as per the Chartered Accountants Act.

(i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the magazine.

(ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites.

- (a) Incident (ii) makes CA New guilty of professional misconduct, since he is advertising for seeking partnership.
 (b) Neither of the incidents violate any provisions of Chartered Accountants Act. Hence, there is no professional misconduct.
 (c) Incident (i) makes M/s Audit & Co. firm guilty of professional misconduct, as the advertisement is published in newspaper other than that issued by the Institute.
 (d) Incident (ii) makes CA New guilty of professional misconduct, since he has provided the addresses of his social networking sites.

Question	Ans
i	(d) Matching of Purchase order, Goods receipt note & invoice to ensure all ordered quantity of intended goods have been received and invoiced accordingly.
ii	(a) The above matter should be reported under clause (xiv) of CARO 2020
iii	(c) Paid up share capital of ≥ 50 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 200 crore
iv	(b) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 4 of Part I of Second Schedule read along with Council Guidelines.
v	(b) Neither of the incidents violate any provisions of Chartered Accountants Act. Hence, there is no professional misconduct.

Q10 [MTP Apr-22]

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

Particulars	Note No	31.3.22	31.3.21
Equity & liabilities			
Current Liabilities			
(a) Financial Liabilities			
(ii) Trade Payables	10		
(A) total outstanding dues of micro enterprises and small enterprises; and		300	
(B) total outstanding dues of creditors other than micro enterprises and small enterprises.		210	
(iii) Other financial liabilities (other than those specified in item (c))			

Note 10: Ageing of Trade Payables

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

Additional Information:

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

2. When Audit Committee inquired with Mr. A as to how they have verified and validated the segregation of the trade payables, Mr. A replied that they purely relied upon the management representation as there was no alternate procedure available to gather sufficient and appropriate audit evidence to validate the said information. Moreover, they informed the management that they have not qualified their audit opinion as they have relied in true faith upon management representation.

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

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

Also, Mr. A specified that :

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

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

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

6. Other than the disputed trade payables disclosed, there were claims against the company which were not yet acknowledged as debt. The aggregate amount and exposure for such claims were ₹ 25 Lakh. As per an expert hired by the management, no amount is required to be provided in books of accounts as in all the claims there are high chances that the decision will be in favour of the company.

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

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

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

Multiple Choice Questions (5 questions of 2 Marks each):

i. In the given situation whether Mr. A will be held guilty of professional Misconduct.

- Yes, Mr. A, is guilty of professional misconduct under Clause 7 of Part I of First Schedule.
- Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of First Schedule.
- Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of the Second Schedule.
- No, Mr. A is not guilty of professional misconduct as he has performed all the audit procedures appropriately.

ii. Whether Financial statements given in the scenario are in confirmation with the requirements of Division II of Schedule III?

(a) Yes, the financial statements are in confirmation with requirements mentioned in Division II of Schedule III

(b) No, management should have eliminated the Intercompany Trade Payables balance from the amount disclosed in the Standalone Balance Sheet. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.

(c) No, Management should not have disclosed the disputed trade payables less than 3 years as these trade payables are still under the period of limitation as per Limitation Act and they should not be disclosed in Financial Statement.

(d) No, management should have added the Intercompany Trade Payables balance to the ageing schedule. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.

iii. In continuation to MCQ no 12, what is an appropriate way to report the above-mentioned issues?

(a) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed trade payables. Moreover, he should have modified or issued an adverse opinion as Financial Statements were not in confirmation with requirements of Division II of Schedule III.

(b) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the intercompany trade payables. Moreover, he should have been unmodified as Financial Statements were not in confirmation with requirements of Division II of Schedule III.

(c) Mr. A should have expressed an unmodified opinion as per SA 700, as he was able to obtain all the explanation and information required and sought by him. Moreover, he should have modified it as the Cash Flow Statement was not in confirmation with the requirements of Division II of Schedule III.

(d) Mr. A should have reported matters related to Trade Payables Ageing as a qualification in Key Audit Matters, as he was not able to obtain all the explanation and information required and sought by him.

iv. Whether the reporting performed by Mr. A related to intercompany trade payables under the paragraph/section of Key Audit Matter in the audit report appropriate? Select from the below option to support your answer.

(a) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.

(b) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the

current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.

(c) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, the auditor shall report the matter in Key Audit Matters in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

(d) The auditor shall express an adverse opinion and report the said matter in Key Audit Matter Para when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the current case, the auditor has appropriately disclosed the said matter in Key Audit Matter Paragraph.

v. As per the expert appointed by the Auditor, the exposure for the company can be ₹ 20 lacs as in past in similar cases, the judgement was delivered against the company. However, the management of ABC Limited was of the view that when management has already hired an expert, then there is no need to hire another expert by the auditor. Seeking your advice, kindly guide the auditor by selecting the below option, and what next steps should perform.

(a) The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. Also, if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert. Hence auditor can appoint his expert to validate the assumption and estimate performed by the management's expert.

(b) The auditor shall rely upon the work performed by the management's expert. Management expert will be equivalent to the auditor's expert and hence no other expert is required to be appointed.

(c) The auditor shall not rely upon the management's expert unless he evaluates the adequacy of the expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence. Although in the current case, there is no consonance between the management's expert's findings and other audit evidence, the auditor is still required to rely upon the findings of the management's expert.

(d) The auditor shall rely upon the management's expert without evaluating the adequacy of the expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence. Hence auditor is required to rely upon the findings of management's expert in the current case.

Question	Solution
i	c
ii	d
iii	a

iv	b
v	a

Q11

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

After the completion of the financial year, UVW & Co. started the statutory audit and tax audit for HF limited.

During the course of the audit, the management disagreed on the following matters:

- (I) The company had revalued a particular class of its asset (no intangible asset was revalued). The carrying value before revaluation was ₹ 77 lakh and the value post revaluation was ₹ 84.70 lakh. The auditors wanted to mention the same along with the amount of change in CARO.
- (II) It was found that an amount of ₹ 5 lakh had been written off as bad debts. The complete amount was not admissible as per the Income tax Act and hence the auditor decided to mention about the same under clause 19 of the tax audit report and disallow the inadmissible amount.

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

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

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

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

Multiple Choice Questions (5 questions of 2 Marks each):

i. Why the auditor advised HF Limited – ND, a Non-Banking financial company not to apply for certificate under section 45 IA ?

- (a) Since the company is Non-Deposit taking NBFC, there is no need to apply for certificate of registration.
- (b) The company needs to completed one year of operations before applying for the certificate.
- (c) Net owned funds are below the stipulated limit of ₹ 250 lakh, hence the company need not apply for certificate.
- (d) The company falls under exempt category as notified by RBI.

ii. Is the auditor's decision to report issue I given in the situation correct? What is the reason?

- (a) Yes. Since the revaluation of asset has brought a change of 10% in the carrying amount, the same shall be reported in CARO, including the amount.
- (b) No. The reporting requirement under CARO relates to physical verification of assets, record maintenance, etc. only. It does not require the details of revaluation to be provided.
- (c) No. Since no intangible asset is revalued, the above matter need not be reported.
- (d) No. Since the revaluation of asset has not reduced the carrying value, the same need not be reported.

iii. Assuming yourself to be a part of the management, how would you respond to point II relating to reporting of written off Bad debts in Tax Audit Report ?

- (a) Completely agree with the above matter as told by the auditor.
- (b) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD.
- (c) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD, but under clause 25 of Form 3CD.
- (d) Partially agree with respect to reporting the same, but not with respect to the amount being disallowed by the auditor.

iv. Assuming all responsibilities & protocols being fulfilled properly, from the above case scenario, what can you infer about the appointment of M/s UVW & Co. as auditors for HF limited?

- (a) They were appointed by Shareholders.
- (b) They were appointed by Empanelment Committee.
- (c) They were appointed by Board of Directors.
- (d) They were re-appointed as auditors.

v. In the above case of Mr. U, which act of his could have led to professional misconduct?

- (a) Obtaining registration as category IV merchant banker.
- (b) Allowing the caption 'Advisor to the Issue' in the offer document and advertisement.
- (c) Accepting the offer of HF limited without communicating the same to their auditors.
- (d) Allowing his name and address to be displayed prominently in the offer document and advertisement.

Question	Solution
i	D
ii	A
iii	B
iv	C
v	D

Q12

M/s Bajaj & Associates have been appointed as the statutory auditors of PNGC Ltd. for the FY 2020-21. PNGC Ltd. is a listed company dealing in the manufacture of iron and steel bars and it is among the top 1000 listed entities. FY 2020-21 is the first year after the incorporation of the company. The company has duly complied with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

When the audit was started, the management of PNGC Ltd. Discussed with Mr. Bajaj (the engagement partner) about the strong internal control system of the company. The management discussed about the whistle blowing policy of the company, the HR policies, company code of conduct and ethics policies. Mr. Bajaj was told that the audit team can rely on the information provided to them and the entity level controls without any second thought. The management advised the auditor not to waste time in checking the direct entity level controls and instead to concentrate on indirect entity level controls during their conduct of audit. Further PNGC Ltd. has constituted its qualified Audit Committee and a Risk Management Committee as per the relevant regulations. Since FY 2020-21 was the first year after incorporation of the company, the meetings of both the committees were held twice during the year based on the company's requirement where all the company's important matters were duly discussed.

The Board of Directors of the company had their meeting four times in the FY 2020-21. Till the second meeting, the company had 5 directors and two more directors joined the company after the first meeting only. The statutory auditors considered its implication while certifying Corporate Governance as per SEBI Regulations. The annual remuneration of one of the non-executive directors, Mr. Sushil, exceeds 10% of the total annual remuneration payable to all nonexecutive directors. The Company however, did not obtain the approval of shareholders by special resolution. Also, the auditors found that one of the independent directors, Ms. Rupali, is already independent director in seven other entities. Out of the seven entities, equity shares of four entities are listed on stock exchange. Further, while conducting the audit, the auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

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

Based on the above facts, answer the following:-

(i) What should be Mr. Bajaj's audit plan regarding the checking of direct entity level controls and indirect entity level controls after considering the management's advise?

- (a) Mr. Bajaj should check the indirect entity level controls in detail and he can skip the checking of direct entity level controls as the company has a strong internal control system.
- (b) Mr. Bajaj should check the direct entity level controls in detail and he can skip the checking of indirect entity level controls as the company has a strong internal control system.
- (c) Mr. Bajaj should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures.

(d) Mr. Bajaj should check the indirect entity level controls in detail as it relates the business process and account balance and contribute indirectly to the effective operation of direct ELC. Thus, he can skip the checking of direct entity level controls.

(ii) Is the company justified in holding meeting of its Audit Committee and Risk management Committee twice in the FY 2020-21?

(a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings.

(b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year.

(c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company is justified in holding two meetings of Risk management committee.

(d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.

(iii) With respect to the meeting of Audit Committee attended by Mr. Bajaj, what all rights can be exercised by Mr. Bajaj?

(a) Mr. Bajaj has right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report.

(b) Mr. Bajaj has right to vote in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report.

(c) Mr. Bajaj, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd. even if it considers the auditor's report. Such rights vest with the internal auditors of the company.

(d) Mr. Bajaj has right to be heard in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report but shall not have right to vote.

(iv) With respect to the annual remuneration payable by PNGC Ltd. to Mr. Sushil, is the company correct in not obtaining the approval of shareholders by special resolution?

(a) The company is not correct in not obtaining the approval of the shareholders through special resolution.

(b) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required in this case.

(c) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required irrespective of the amount of annual salary payable to Mr. Sushil as a percent of total annual salary payable to all non executive directors.

(d) The company is correct in not obtaining the approval of the shareholders through special resolution as the salary payable to the directors is a matter of concern to be discussed among all the directors. The shareholders are concerned with the financial position of the company.

(v) What is the responsibility of M/s Bajaj & Associates so far as the Management Discussion and analysis report of PNGC Ltd. is concerned?

(a) M/s Bajaj & Associates should verify and comment on the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.

(b) M/s Bajaj & Associates should verify the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analysing and commenting on the same.

(c) M/s Bajaj & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report.

(d) M/s Bajaj & Associates can verify and comment on the non financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.

vi. What should M/s Bajaj & Associates do with respect to the management's request to the auditor regarding mentioning about company's future viability?

(a) M/s Bajaj & associates can mention about the company's future viability in its compliance certificate as auditor's report is not an assurance as to future viability of the entity.

(b) M/s Bajaj & associates can mention about the company's future viability in its audit report as compliance certificate is not an assurance as to future viability of the entity.

(c) M/s Bajaj & associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity.

(d) M/s Bajaj & associates can mention about the company's future viability in either its compliance certificate or auditor's report as both the documents act as an assurance as to future viability of the entity.

S No.	Answer
i	c
ii	c
iii	d
iv	b

v	c
vi	c

Q13

M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2019-20. Delco Ltd. deals in the manufacture of shoes.

During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates.

Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements.

At the time of finalization of the Audit Report of the company for the year ended March 31, 2020, the auditors are considering their reporting responsibility for non-consolidation of the financial statements of Soccer Limited.

The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts.

Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2018-19.

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

Based on the above facts, answer the following:-

(i) With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?

- (a) The auditor should give a disclaimer of opinion.
- (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
- (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.
- (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.

(ii) With respect to the corresponding figures of the financial year 2018-19 in the current year financial statements, what are the auditors reporting responsibility for the same?

- (a) The auditor's opinion should refer to each period for which the financial statements are presented.

- (b) The auditors need to report on the current year financials only be it comparative or corresponding figures.
- (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.
- (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.

(iii) What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?

- (a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.
- (b) The auditors need to report such matter in the other matter paragraph in his report.
- (c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.
- (d) Both b & c.

(iv) Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility:-

- (a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.
- (b) The management may undertake to accept such responsibility through an engagement letter itself.
- (c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".
- (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.

(v) If the auditors of Delco Ltd. decides to give a qualified/ adverse opinion in the current financial year with respect to the non consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter:-

- (a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.
- (b) EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.
- (c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.
- (d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.

(vi) If the management discloses the fact of non-consolidation of financial statements of Soccer Ltd. in the notes to accounts of current financial year, what will be the impact on the audit report:-

- (a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.

- (b) The auditor can ignore the issue of non consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts.
- (c) The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph.
- (d) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.

S No.	Answer
i	b
ii	c
iii	d
iv	c
v	b
vi	a

Q14

ABC Ltd. is in the business of trading garments. Within a span of five years since its incorporation, the company has gained a good market reputation. Last year, in its Kochi warehouse the inventory was less than 1% of total inventory value, so the auditor instead of witnessing or performing the physical count of inventory relied upon the management's inventory confirmation and management in turn relied upon the warehouse keeper's stock register without verifying the actual count. The same year there was some difference between the store register and books of accounts closing balance. The management considered it to be an immaterial amount and wrote it off through "Miscellaneous Profit and Loss Account".

In the current year, while performing analytical procedure, the auditor saw a significant reduction in sales through Kochi warehouse, whereas there was a spike in freight charges to Kochi. Through further examination, the auditor noticed that there was increase in number of shipments to Kochi and increase in number of invoice cancellation instances and sales return instances from the customers of GST unregistered category. However, this year the inventory lying at Kochi is 4.5% as per books.

The Auditor enquired on the periodicity of physical verification and sales process through Kochi warehouse. The management gave the following response to the auditor:

1. The physical verification takes place every six months and the warehouse keeper is responsible for physical verification and sending records back to the head office.
2. Because of low operations in past years the warehouse keeper himself takes care of invoicing and dispatching the goods.
3. Monthly invoice details along with the monthly stock register is sent to the head office.
4. Further, this year too there is a substantial difference among inventory as per books, inventory as per stock register and inventory as per physical verification in descending order. The auditor decided to visit the Kochi warehouse and conduct the root cause analysis and get the correct closing value of the inventory.

After the visit, the auditor concluded that the warehouse keeper was issuing the stocks with invoices, however on the sales return the credit notes were issued to various customers and the entry was made in the stock register of "Goods received on sales return" but physically the goods were never returned.

The Auditor also doubts that the same instance might have happened last year as well because of which there was a difference between physical stock and the books.

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

Based on the above facts, answer the following:-

(i) In the view of the above case scenario, which according to you is the correct statement:

- (a) Only the errors can be expected to be identified during the audit.
- (b) Only the statutory compliance can be expected out of a Statutory Audit.
- (c) The Auditor contends that last year the inventory levels in Kochi was not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk.
- (d) The Management is of the view that all the frauds and errors must be identified with the statutory audit.

(ii) Which components of audit risks are represented in the aforesaid scenario?

- (a) Inherent Risk & Control Risk – Inherent risk due to its nature of business or operations and Control risk due to inappropriate design and ineffective implementation of internal controls.
- (b) Control Risk & Detection risk- Control risk due to inappropriate design and ineffective implementation of internal controls and audit detection risk due to possibility of auditor not identifying risk of misstatement.
- (c) Fraud risk due to nature and size of operations and high likelihood of fraud due to its significance.
- (d) Risk of Error because there was error in the presentation in the financial statement last year.

(iii) Which Internal Control seems to have been compromised as the root cause here?

- (a) Lack in safeguarding the assets of company.
- (b) Lapse in compliance controls leading to non-compliance of sharing inventory level with the GST department.
- (c) Segregation of Duty.
- (d) Inadequate Records and Documents leading to nonrecording of correct inventory value.

(iv) To ensure that such instances are not taking place in other warehouses as well, the management wants to get an audit done. Which of the following audits is right in the above case scenario:

- (a) Management Audit as there seems to be a lapse at decision making.
- (b) Internal Audit as there seems to be lapse in internal control system and other such lapses in internal controls can also be identified.
- (c) Operational Audit as there is lapse in general working of operations.
- (d) Tax Audit as the Tax Auditor needs to value the inventory and identify the differences.

(v) Which Segregation of Duties aspect seems to have been compromised here?

- (a) Authorization, Execution & Record keeping.
- (b) Authorization, Execution & Custodian.
- (c) Execution, Custodian & Record keeping.
- (d) Custodian, Record keeping & Authorization.

S No.	Answer
i	C
ii	B
iii	C
iv	B
v	C

Q15

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

During the financial year ended 31st March 2019, the management had noted extra-ordinary shrinkages of inventories at one of their stores. Post examination/ analysis by the in-house inventory shrinkage team, the management came to know about fraud of ₹ 19 lakh by the employees of the Company comprising of Head Cashier, Cashier and Public Relations Officer.

TMRT has a joint venture, DT Ltd., which is engaged in the business of trading of goods. DT Ltd. appointed new tax auditors for the financial year ended 31st March 2019. DT Ltd. follows calendar year i.e. year ending 31st December for statutory reporting after obtaining requisite approvals. The appointment of the new tax auditors was done after 31st March 2019.

For the reporting year ended 31st March 2021, TMRT's management plans to have BKP & Associates as their internal auditors. BKP & Associates also happen to be the statutory auditors of TMRT. However, the management has been advised by a consultant that it cannot appoint statutory auditors as their internal auditors because it would lead to the issue of independence.

BKP & Associates have been auditing TMRT for the last 3 years and had considered management override of controls as fraud risk and revenue recognition as significant risk for TMRT. BKP & Associates are evaluating whether they should drop both management override and revenue recognition as significant risks for the financial year ending 31st March 2022 considering they did not find any problems/ observations in respect of these two items in the past years and their reports have been clean for the last 2 years.

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

i. In respect of the fraud identified by the management, what shall be the reporting implications on the part of the auditor?

- (a) Auditors would need to report the fraud in their CARO report. Further they also need to evaluate whether their report on IFC and the main report should be qualified or not.

(b) Considering the materiality, the auditors may consider not to report this matter anywhere. This is also because of the fact that management has identified this.

(c) Auditors would need to qualify their main report as well as their CARO report.

(d) Auditors would need to qualify their main report as well as their CARO report. Further they would also need to report about this matter to the Audit Committee as well as the Central Government.

ii. The management of DT Ltd. did not carry out physical verification of inventory for the year ended 31st March 2019. What could be the reporting implications on the part of the tax auditor in such a case?

(a) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31st March 2019, tax auditors should report on the basis of statutory audit report of the same period or last audited period, as applicable.

(b) It is a common practice to appoint tax auditors after reporting year end and in such a case, the auditors should carry out the physical verification after their appointment and roll back procedures in respect of inventory. Accordingly, no reporting matter arises in such a situation.

(c) The tax auditors would need to evaluate the nature of the inventory. Further the management should give a note in respect of this matter in the financial statements basis which no reporting implication would arise.

(d) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31st March 2019, tax auditors would need to qualify the tax audit report. Tax auditor would also evaluate how the statutory auditor has reported this particular matter in his auditor's report.

iii. The management of TMRT needs your advise in respect of appointment of common auditor both for statutory auditors and internal auditor for the financial year ended 31st March 2021.

(a) Management has been advised correctly. Statutory auditors of TMRT cannot become their internal auditors.

(b) Management has not been advised correctly. Statutory auditors of TMRT can also become their internal auditors.

(c) Management has not been advised properly. Statutory auditors of TMRT can also become their internal auditors as they are familiar.

(d) Management has not been advised properly. However, in the given case, statutory auditors of TMRT would not be able to take up internal audit of TMRT because they need to mention the same at the time of giving their consent letter and eligibility certificate at the time of appointment of statutory auditor.

iv. Please advise BKP & Associates whether it would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31st March 2022.

(a) It would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31st March 2022.

(b) Management override of controls and revenue recognition should continue to be the significant risks for the financial year ending 31st March 2022 if that continues to be significant risk at inherent level.

(c) Management override of controls should continue to be the significant risk for the financial year ending 31st March 2022. Revenue recognition may not be considered as significant risk.

(d) Revenue recognition should continue to be the significant risk for the financial year ending 31st March 2022. Management override of controls may not be considered as significant risk.

S No.	Answer
i	a
ii	d
iii	a
iv	b

Q16

YS & Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS & Associates get their website developed as www.ysassociates.com from KPY Ltd. The colour of their website was very bright and attractive to run on a “push” technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

CA. Y, accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. Y realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. S, provides management consultancy and other services to his clients. During 2020, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients. Looking at his expertise in financial management, Mr. Tarak, a student of Chartered Accountancy course, is very much impressed with his knowledge. He approached CA. S to take guidance on some topics of financial management subject related to his course. CA. S, on request, decided to spare some time and started providing classes to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hours in a day. However, he has not taken any specific permission for such private tutorship from the Council. YS & Associates is appointed to conduct statutory audit of XYZ Ltd.

XYZ Ltd. is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. YS & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.

He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

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

i. YS & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.

(a) YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.

(b) CA. IA cannot assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, YS & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.

(c) YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

(d) YS & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

ii. Whether CA S is guilty of professional misconduct in providing private tutorship to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hours in a day in the absence of specific approval.

(a) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 192A.

(b) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 190A.

(c) CA. S is guilty of professional misconduct as he has not obtained specific permission for the same.

(d) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A.

iii. Before signing the tax audit report, CA. Y sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Y be held guilty of professional misconduct under the Chartered Accountants Act, 1949?

(a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. Y will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.

(b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.

(c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

(d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

iv. Whether, website designed for www.ysassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949:

(a) Yes, website can have names of partners and major clients along with its fess.

(b) Yes, as the websites can be designed on a “push” technology.

(c) Yes, as there is no restriction on the colours used in the website.

(d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator.

S No.	Answer
i	a
ii	d
iii	c
iv	d

Q17

Arogya Pradhan Limited is a public company incorporated in September 2011 with a registered office in Chennai. The company is in business of Healthcare services. The company has 151 Ayurvedic clinics and 303 Ayurvedic pharmacies throughout the country.

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

M/s Bright Moon LLP are appointed as statutory Auditors of the company for the year 2019-20. After completing the initial engagement procedures and audit planning, the audit team started with the verification of Internal Financial Controls of the company.

While understanding the controls established by the management in the ‘Revenue Process’, the audit team observed that there is only one Review Control wherein 20 executives had to prepare the sales invoice and Mr. Darshan - Sales Manager, had to review and authorise all the invoices. It was observed that on many

occasions, Mr. Darshan had more than 1000 invoices to authorise in a single day. Further, he has frequently asked 2 senior most executive to review pending invoices and he has relied on them by directly giving his authorization on the invoice. It was observed that Mr. Darshan did not take any leave during the entire year. It was observed that Mr. Darshan's performance bonus was linked with number of invoices authorised by him. In addition, Mr. Darshan was the sole authority to approve the sales commission and sales discount which was to be applied by the customers.

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

$$\frac{\text{Ledger Balance} * 100}{\text{Materiality} * 365 \text{ days}}$$

Mr. Santosh selected 30 samples for the verification of above mentioned "Review Control". It was observed that out of 30 samples, 20 samples had irregularities in invoices which was clearly due to improper functioning of review control. The amount of irregularity in 20 invoices amounted to Rs. 4 crore.

The auditor still issued the clean audit report and took the written representation letter from the management for efficient implementation of Internal Financial Controls.

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

(i) Is the Control "Designed" appropriately?

- (a) No, because there are irregularities amounting to Rs. 4 crore in the samples selected by Auditors.
- (b) No, because Mr. Darshan's performance bonus is linked with number of invoices authorised.
- (c) No, because there are no leave taken by Mr. Darshan during the entire year.
- (d) Yes. 'Review Control' is designed appropriately.

(ii) Is the Control "Implemented" effectively?

- (a) No, because Mr. Darshan delegates his work of review to other executives who are senior in experience.
- (b) No, because Mr. Darshan is heavily burdened with excessive work.
- (c) No, because Mr. Darshan is authorized to finalize sales commission and sales discount.
- (d) Yes. 'Review Control' is implemented appropriately.

(iii) In the above case, to whom should M/s Bright Moon LLP report first?

- (a) To ROC.
- (b) To Central Government u/s 143(12) of Companies Act, 2013 as the impact in above case is more than Rs. 1 crore.
- (c) To Those Charged with Governance.
- (d) To Shareholders as they are the appointing authority.

(iv) How samples are to be selected for the purpose of verification of Internal Financial Control?

- (a) Monetary Unit Sampling.
- (b) Sampling based on Materiality.
- (c) Sampling based on probability of default of the control.
- (d) Sampling based on frequency of functioning of control.

(v) In the current scenario, how should M/s Bright Moon LLP report?

- (a) Clean Report with Other Matter paragraph.
- (b) Clean Report with Emphasis of Matter paragraph.
- (c) Clean Report with reporting in Key Audit Matter.
- (d) Qualified Report (both main report and ICFR report).

S No.	Answer
i	b
ii	a
iii	c
iv	d
v	d

Q18

Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar & Co., respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2020-21 of Anitya Ltd. They were having difference of opinion with regards to following points:-

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

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

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

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

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

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

- (i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks "Office Found Locked".
- (ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

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

i. Whether the opinion of Manohar & Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?

- (a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.
- (b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement.
- (c) No, as such reference was not required by any law or regulation.
- (d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.

ii. Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?

- (a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.
- (b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.
- (c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.
- (d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.

iii. Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?

- (a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701
- (b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.
- (c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.

(d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.

iv. By what date, Manohar & Co. should have filed the statement with respect to its resignation with Anitya Ltd. as well as the Registrar and in what form?

(a) Manohar & Co. should have filed the statement in Form ADT-3 by 19th November, 2021.

(b) Manohar & Co. should have filed the statement in Form ADT-4 by 19th November, 2021.

(c) Manohar & Co. should have filed the statement in Form ADT-2 by 19th December, 2021.

(d) Manohar & Co. should have filed the statement in Form ADT-3 by 20th November, 2021.

v. Whether Namo & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?

(a) No, as the communication through registered post acknowledgment due could not be done, Namo & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.

(b) Yes, as it would be deemed that such post was delivered.

(c) No, because in such a case Namo & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.

(d) No, however, Namo & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.

S No.	Answer
i	a
ii	d
iii	b
iv	a
v	B

Miscellaneous

1. RIM Private Ltd is engaged in the business of manufacturing of steel having annual turnover of INR 10,000 crore. The company is very capital intensive and has its plants at two locations – Mohali and Hosur. During the year ended 31 March, 2019, the company carried out a detailed physical verification of its property, plant and equipment and also reassessed their useful lives by engaging a consultant. The consultant submitted its report to the management on 21 April, 2019. The statutory auditors of the company started their audit work from May 2019 and when this information was given to them regarding the physical verification and the reassessment of the useful lives of property, plant and equipment, the auditors told the management that the consultant should have submitted its report to the auditors also independently. Further, in the absence of this direct communication of the report of the consultant to the auditors, the audit team would have to review the work of the consultant which is not efficient but it cannot be avoided now. Management did not agree with both the points of the auditors that the consultant should have shared report with the auditors directly and that the auditors need to review the work of the consultant. The management would like to have your views on this matter.

(a) The view of the management seems to be correct because there is no such requirement that any consultant of the company should share his report directly with the auditor. Also when the consultant has already submitted a detailed report, no further review is required on that.

(b) Both the management and auditors are not correct. The auditor is not supposed to receive the report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not.

(c) The auditor's requirements are reasonable because he carries duty in respect of audit of financial statements and by not getting report directly from the consultant, he would not know whether it belongs to that consultant or not. And now only because of this lack of proper communication the auditor would have to review the work of the consultant.

(d) Both management and auditors should find a solution to this problem. The management may request the consultant to send the report to the auditor directly now. On the basis of the same, the auditor can avoid unnecessary procedure related to review of report of the consultant.

2. RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. It is a subsidiary of RIM GmbH, based out of Germany.

During the financial year ended 31 March 2019, the company carried out a detailed physical verification of its inventory and property, plant and equipment.

During the year, various other activities were carried out to increase efficiency in operations and reductions of costs.

The statutory auditors of the company started their audit work from April 2019 and requested for a documentation on changes in processes and activities during the year as well as any resultant impact of the same on management controls.

The management of the company told the auditors that all such documentation is maintained by the parent company as this is a closely held private company and even though internal financial controls reporting is applicable on this company, the parent company is taking due care of each and every process.

The auditors did not agree with the views of the management. Please advise both the management and the auditors.

(a) The auditors should look for documentation as per Sarbanes Oxley in this case.

- (b) The auditors are correct in this case and the management should provide the required documentation.
- (c) The auditors are correct in this case and the management should provide the required documentation. However, in case the parent company is covered by Sarbanes Oxley then it can be ignored by the auditors.
- (d) The management is correct.

3. RIM Private Ltd is engaged in the business of manufacturing of cranes and other construction equipment. The nature of the operations are such that purchases are quite significant even though the sales may or may not be very significant, in terms of number of transactions during the year.

The company's statutory auditors have also obtained certain audit tools to help the audit team on various audit procedures to bring efficiency in various audits.

During the course of the audit of the financial statements for the financial year ended 31 March 2020, the auditors used those audit tools (also known as computed assisted audit techniques) for sampling procedures and data analytics.

The outcome of the tools resulted in some analysis and requirements which the audit team requested from the client. However, the client refused to provide any such information because as per the client all these tools were those of the auditor and any outcome of the same needs to be handled by themselves instead of asking the management.

The auditors have suggested that such an attitude of non-cooperation would not help the either party and would defeat the objective of the audit. The management of the company is, however, ready to provide any other information to the auditors.

In this situation, please advise both the management and the auditors.

- (a) Since the management is ready to provide any other information, the auditor should obtain this information as well by not disclosing the management that it is outcome of any audit tool.
- (b) The view of the management is correct because audit tools are there to support the auditors and not to lead to increased work for the management.
- (c) The auditors are correct because by using audit tools they are performing their audit procedures.
- (d) The auditors should ignore all these tools and plan their audit procedures accordingly.

4. You are the internal auditor of FCD Bank Limited for the year 2019-20 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:

- (a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
- (b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
- (c) Discuss the process followed for lien marking with the branch manager.
- (d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.

5. OPE Ltd issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31 March 2020. The issue was fully subscribed. During this year, there was an abnormal rise in the profits of the company for which it was found later on that it was because of manipulated sales

in which there was participation of Whole-time director and other top officials of the company. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts. The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. The auditors were able to prove that they found internal controls to be satisfactory and did not find any circumstance to arouse suspicion. The company was not able to prove that auditors were negligent in performance of their duties. Please suggest your views on this.

- (a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.
- (b) The approach of the auditors look reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.
- (c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc., the manipulation could have been detected. Hence the auditors should be held liable.
- (d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.

Question	Answer
1	b
2	b
3	c
4	b
5	b