

CA Final

Advanced Auditing, Assurance & Professional Ethics

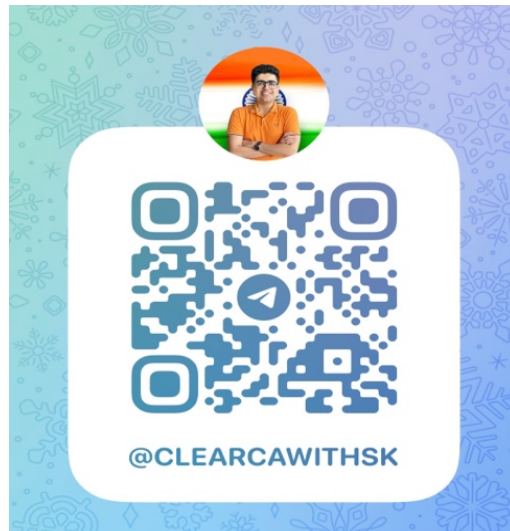
MCQ Booklet

CA Shubham Keswani

[CA (AIR 8), EY, B. Com(H), SRCC]

For all revisions, updates & notes → Join my Telegram Channel.

CA Shubham Keswani - <https://t.me/ClearCAWithSK>



Learn with Fun 😊

Index

Chapter	Topic	Pg No.
1	Standards on Auditing	
	SQC-1/SA 220	1
	SA 230	2
	SA 240	4
	SA 250	6
	SA 299	7
	SA 320	8
	SA 402	9
	SA 530	9
	SA 550	11
	SA 560	12
	SA 570	13
	SA 580	14
	SA 620	15
	SA 700/701/705	15
	SA 710	16
2	Professional Ethics	17
3	Audit Planning	25
4	Risk Assessment Internal Control	28
5	Group Audit	32
6	Bank Audit	34
7	NBFC Audit	37
8	PSU Audit	38
9	Internal Audit + SA 610	40
10/11/12	DD/ Forensic/Investigation	47
13	Specialised Areas	49
14	Audit Related Service	52
15	Review of financial info.	54
16	Std on Assurance Engg	56
17	Digital Audit	57
18	Emerging Areas	63
19	CARO 2020	65
20	Mix Case Scenarios	72



Standards on Auditing

SQC-1/SA 220

1. What is the maximum recommended time limit within which assembly of engagement files should be completed after the engagement reports have been finalized?

- a. 30 days
- b. 65 days
- c. 45 days
- d. 60 days

2. At least, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.

- a. Half yearly
- b. Annually
- c. Once in two years
- d. Once in three years

3. What is excluded from the definition of "Firm"?

- a. Sole practitioner
- b. Partnership
- c. Corporation
- d. Other entity of professional accountants

4. 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 2023.

For the financial year ended 31 March 2024, 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 2023 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 2024 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.

5. Bansal Arora & Co., a Chartered Accountants firm, is currently performing an audit for Wool Ltd., a sizable manufacturing company. Mr. Bhavesh Bansal, an experienced audit engagement partner, holds the responsibility of ensuring that the audit engagement aligns with the professional standards, adheres to regulatory requirements, and complies with the legal obligations. His duties encompass the overall supervision, direction, and the final issuance of the audit report. While conducting the audit, the engagement team encounters a complex issue pertaining to the valuation of the company's inventory. Within the team, there are difference of opinions on how to address this matter, resulting in a contentious situation. What is Mr. Bhavesh's responsibility in this situation?

- a. Mr. Bhavesh shall adhere to the firm's policies only for addressing and resolving differences of opinion.
- b. Mr. Bhavesh should secure management's representation concerning the valuation and proceed with further audit procedures.
- c. Mr. Bhavesh should ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm.
- d. Mr. Bhavesh should communicate the issue to the client's management for resolution.

Q	Ans	Reason
1	D	Recommended time limit for assembly of engagement files should be completed after the engagement reports have been finalized is 60 days.
2	B	At least annually, firm should obtain written confirmation of compliance with policies and procedures on independence from all firm personnel required to be independent as per terms of code.
3	C	Corporation excluded from definition of firm.
4	A	EQCR should be a member of the Institute of Chartered Accountants of India (ICAI).
5	C	Ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm on contentious matters.

SA 230

1. Consider the term Experienced auditor. Which of the following statements is most appropriate in relation to above?

- a. It is a term not specifically defined under Standards on Auditing. It generally means an auditor who has reasonable practical audit experience.
- b. It is a term not specifically defined under Standards on Auditing. It generally means an auditor who has minimum 5 years of experience.



- c. It is a term specifically defined under Standards on Auditing. It refers to a person who has practical audit experience and reasonable understanding of auditing processes, SAs, business environment of entity and auditing and financial reporting issues relevant to entity's industry.
- d. It is a term specifically defined under Standards on Auditing. It refers to a person who has practical audit experience of minimum 5 years and reasonable understanding of auditing processes, SAs, business environment of entity and auditing and financial reporting issues relevant to entity's industry.

2. The audit of DST Limited is near completion. CA Shweta had performed risk assessment procedures and tests of controls. Besides, various tests were performed to verify management assertions regarding transactions and balances. Further, substantive analytical procedures had also been performed. The process of finalization of audit report is in last stages. The team has started to prepare audit documentation for being placed in audit file. They are putting various information now in writing as part of audit documentation so that audit file is complete before issue of audit report. Which of following statements is in accordance with Standards on Auditing?

- a. The approach followed by team is proper as it is auditor's duty to see that audit documentation is prepared at time of issue of audit report.
- b. The approach followed by team is proper as audit file has to be assembled before issue of audit report.
- c. The approach followed by team is not proper as audit documentation is being prepared at the time of finalization of audit report.
- d. The approach followed by team is not proper as audit documentation can be prepared in 60 days from date of auditor's report.

Ans. c

Reason: The auditor has to prepare documentation on timely basis. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed in accordance with SA 230.

3. Mr. C, auditor of a listed company, DEX Limited, signed its audit report on 21.8.2022. The regulator called the audit file in connection with some proceedings on 20.7.2023. He submitted audit files in the form of editable Excel files without any security feature on 10.8.2023. It later transpired that the audit file was modified between 20.7.2023 and 10.8.2023 by deleting certain information and adding fresh information in its place.

Which of the following statements is likely to be correct in this regard?

- a. Audit file was required to be assembled by 21.8.2022. Modification in the audit file after 21.8.2022 was generally not permissible.
- b. Audit file was required to be assembled by 21.8.2022. Modification in the audit file before 20.7.2023 was generally permissible.
- c. Audit file was required to be assembled by 20.10.2023. Modification in the audit file before 20.7.2023 was generally permissible.
- d. Audit file was required to be assembled by 20.10.2022. Modification in the audit file after 20.10.2022 was generally not permissible except in certain exceptional circumstances.

Ans (d)

Reason: Audit file to be assembled within 60 days of date of Audit report & no modifications allowed after that except in exceptional circumstances.

SA 240

1. Where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to _____

- Obtain legal advice
- Modify audit opinion
- Communicate to regulatory authorities
- Withdraw from the engagement

Reason: It's only a doubt not conclusion about fraud that's why better to take legal advice then consider other actions.

2. An audit Firm is conducting an audit of a publicly listed manufacturing company. The engagement team members have a good working relationship with the company's management and have not encountered any issues related to fraud in previous audits. With regards to the discussion to be made by the engagement team, please choose the correct option from the following:-

- Since the engagement team has a good relationship with management and no prior issues of fraud have been encountered, they can skip the discussion on fraud risks.
- The engagement team should have a discussion among team members, emphasizing how and where the entity's financial statements may be susceptible to material misstatement due to fraud.
- The engagement team should solely rely on managements representations about the absence of fraud and there is as such no requirement the discussion on fraud risks.
- The engagement team should discuss fraud risks only if they have encountered issues of fraud in previous audits.

Ans. (b)

Reason: As per SA 240, Para 15, SA 315 requires discussion among engagement team members and determination by engagement partner of matters to be communicated to those team members not involved in the discussion.

This discussion place particular emphasis on how and where entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. Discussion shall occur notwithstanding engagement team members' beliefs that management and TCWG are honest and have integrity.

3. BB Ltd. is a large multinational company. The auditor is conducting a retrospective review of management's judgments and assumptions related to significant accounting estimates from the prior year's financial statements. What is the primary objective of performing such review?

- To assess the accuracy of the auditors professional judgments made in the prior year based on information available at the time.
- To determine whether there is a possible bias on the part of management in making significant accounting estimates.
- To reassess the accuracy of the auditors procedures performed in the prior year's audit engagement.
- To reassess the materiality thresholds used in the prior year's audit.

Ans. (b)

Explanation: To determine whether there is a possible bias on the part of management in making significant accounting estimates. According to SA 240, Para A46, the purpose of performing a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year is to determine whether there is an indication of a possible bias on the part of



management. It is not intended to call into question the auditor's professional judgments made in the prior year that were based on information available at the time.

Author's note: Same topic covered in SA 540

4. SK Ltd. is undergoing an audit. The auditor has performed initial risk assessments and conducted audit procedures to gather evidence. The auditor now needs to evaluate whether the assessments of risks of material misstatement at the assertion level remain appropriate. What is the purpose of such evaluation?

- To determine the financial statement assertions that are most susceptible to fraud.
- To determine the materiality thresholds for the audit only
- To gain further insight into the risks of material misstatement due to fraud and decide if additional or different audit procedures are required.
- To quantify the likelihood and magnitude of potential fraud occurrences

Ans. c

Reason: According to SA 240, Para A48, read with SA 330, requires the auditor, based on the audit procedures performed and the audit evidence obtained, to evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate. This evaluation is primarily a qualitative matter based on the auditor's judgment. Such an evaluation may provide further insight about the risks of material misstatement due to fraud and whether there is a need to perform additional or different audit procedures.

5. Dakksha Ltd. is a manufacturing company. During the audit, the auditor suspects the possibility of material misstatements in the financial statements due to fraud. The auditor has identified a specific risk related to inappropriate journal entries. How can the auditor address the risk of material misstatement in such a scenario?

- The auditor should focus on reviewing the journal entries made at the period end, as they are more likely to contain inappropriate or unauthorized entries.
- The auditor should focus on reviewing the journal entries made throughout the year or at the period end but ignore the possibility of misstatements through consolidating adjustments and reclassifications, as they are less significant in relation to fraud risks.
- The auditor should perform a comprehensive review of the financial reporting process throughout the year, including the examination of journal entries, consolidating adjustments, and reclassifications.
- The auditor should rely solely on managements representations regarding the accuracy of the financial reporting process.

Ans. (c)

Reason: As per SA 240, Para A41, material misstatements of financial statements due to fraud can involve manipulation of the financial reporting process, including inappropriate or unauthorized journal entries, consolidating adjustments, and reclassifications. In this scenario, to effectively address the risk of material misstatement due to fraud, auditor should perform comprehensive review of financial reporting process throughout the year. This includes examining not only the journal entries made at the period end but also the consolidating adjustments and reclassifications.

6. Uttama Ltd. is a large manufacturing company. The company's financial statements indicate a consistent increase in revenue and profitability over the past few years. However, during the audit, the auditor becomes aware of several red flags, including significant related-party transactions, unusual adjustments to inventory, and conflicting information provided by management. The auditor suspects the potential for fraudulent financial reporting. In this scenario, what is the auditor's responsibility?



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- a. The auditor should assume that management will not override controls and focus solely on detecting material misstatements.
- b. The auditor should exercise professional skepticism and be alert to the potential for management override of controls to manipulate the financial statements.
- c. The auditor should rely on the effectiveness of internal controls to prevent management override and minimize the risk of fraud.
- d. The auditor should primarily focus on detecting fraud using specialized forensic techniques and disregard the potential for management override of controls.

Ans (b)

7. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters _____ to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

- a. On a timely basis
- b. At the end of audit
- c. Monthly basis
- d. Quarterly basis

Ans (a)

SA 250

1. M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2023-24. 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.

2. CA D is auditor of a company having manufacturing facilities in about 10 acres of land in NCR. The premises have been newly built with promoters' funds. The company started its operations in August 2023 and an unmodified opinion was expressed on financial statements of company for year 2023-24. Subsequently, company has received a notice from Director, Town & Country planning of having failed to conform to various rules relating to covered area and floors. The company would have to pay a heavy regularisation and compounding fees or otherwise even face demolition of building. The above situation is an example of: -

- a. Inherent limitations of internal controls operating in the company
- b. Inherent limitations on auditor's ability to detect material misstatements
- c. Inherent risk
- d. Sampling risk



Ans (b)

Reason: It is an example of inherent limitations on auditor's ability to detect material misstatements due to occurrence of non-compliance with laws and regulations in accordance with SA 200 and SA 250.

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)

Reason: Auditor is responsible for communicating matters required by SA 260 to TCWG. Also, management has responsibility to communicate matters of governance interest to TCWG. Communication by auditor doesn't relieve management of its responsibility.

SA 299

X, Y and Z are joint auditors of a company engaged in manufacturing of chemicals. They have developed a joint audit plan and identified common areas. Besides, they have also identified and allocated work by signing work allocation documents among themselves. Verification of trade receivables was allocated to Z. Which of the following statements is in accordance with relevant SA in this regard?



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- X and Y should necessarily review work performed by Z to ascertain whether work has been actually performed in accordance with Standards on Auditing.
- X and Y should perform tests to ascertain whether work has been actually performed in accordance with Standards on Auditing.
- X and Y are entitled to assume that Z has actually performed work in accordance with Standards on Auditing.
- X and Y are not entitled to assume that Z shall bring to their notice significant observations relevant to responsibilities noticed during the course of the audit.

Ans (c)

Reason: Joint Auditors are entitled to assume that other Join Auditor has actually performed work as per SA.

SA 320

Performance materiality means the amount or amounts set by the auditor at ____ than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements _____ materiality for the financial statements as a whole.

- higher, exceeds
- less, exceeds**
- less, falls below
- higher, falls below

SA 402

Wani 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?

- Do not ask for anything else since the Third Party is ISO certified.
- Insist on conducting audit in the Third Party.
- Take the ISO certificate.
- Take the Service Organisation control audit report to review.

Ans (d) Take Type 1/2 Report.

SA 530

1. Lots Limited has trade receivables amounting to Rs.1.80 crore in its financial statements as on 31 March, 2023. CA Z as statutory auditor has decided to test 3 trade receivables from 15 trade receivables outstanding as on the balance sheet date. The details of the sampling method chosen by him is summarized in the table below: -

Name of Trade Receivable	Dr Balance (₹)	Cumulative balance	Sample
AK Industries	400000	400000	
BJ Trade Ltd	500000	900000	
Dot slim products	1500000	2400000	Selected Sample (1)
DN Pvt Ltd	2000000	4400000	
DST Ltd	3500000	7900000	
EE & Co.	200000	8100000	
JM & Co.	375000	8475000	Selected Sample (2)
KIM Industries	225000	8700000	
MAP Enterprises	1425000	10125000	
NIP Ltd	5600000	15725000	Selected Sample (3)
PIT Ltd	1500000	17225000	
RER Ltd	600000	17825000	
SMO & Co.	50000	17875000	
TER Systems	25000	17900000	
UTK Industries	100000	18000000	

First sample was chosen by selecting a random number from random number generator which was 2200000. This number fell in cumulative balance relating to Dot Slim products. Hence, first sample of this balance was taken. Thereafter, sampling interval was added to last value and again process is repeated to obtain 3 samples. Which of following statements is true in above depicted situation?

- The above method of sampling fits description of the systematic selection method and it promotes audit efficiency.
- The above method of sampling fits description of the monetary unit sampling method. In such a method, larger value items have a greater chance for selection.
- The above method of sampling fits description of the monetary unit sampling method. However, the method has no predisposition toward selecting large-value items.

- d. The above method of sampling fits description of the systematic selection method combined with random sampling and it promotes audit efficiency.

2. 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 2023, 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.

- 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.
- 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.
- 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.
- 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.

3. During the audit of SAT Limited, CA. K has taken a sample of 50 purchase invoices for performing certain audit procedures. The total of 50 purchase invoices is Rs. 10 lacs. Out of the above sample, he detected a misstatement in 2 purchase invoices amounting to Rs. 5,000. Tolerable misstatement related to his testing is Rs. 2,00,000. Purchases reflected in the statement of profit and loss is Rs.5 crores. Which of the following statements is most appropriate in this regard?

- Projected misstatement is likely less than tolerable misstatement. No further action is required from the auditor.
- Projected misstatement is likely less than tolerable misstatement. However, the sample size should be increased for further testing keeping in view the misstatements found.
- Projected misstatement is likely more than tolerable misstatement. Therefore, the sample size should be increased for further testing.



- d. Projected misstatement is likely more than tolerable misstatement. Therefore, controls relating to purchases need to be tested more vigorously.

4. 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?

- 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.
- 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.
- 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.
- 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.

5. CA P, as part of a statutory audit exercise, is testing a company's internal controls over purchase orders it places for acquiring capital assets. The company places huge orders for the acquisition of capital assets every year, keeping in view the nature of its business and corresponding requirements.

While testing controls in a sample of purchase orders for the acquisition of capital assets, he failed to notice a lack of adherence to certain established parameters for placing such orders. The above situation is indicative of _____

- Sampling risk
- Non-sampling risk
- Control risk
- Inherent risk

Q	Ans	Reason
1	D	Sampling interval concept is used in systematic selection method.
2	A	Sample selection is based on principles as per SA 530 and on the assessment of audit team. It may change year on year and hence client should provide required information to the audit team
3	C	Projected misstatement = $(5,000/10L) * 5 Cr = ₹2.5 L$ i.e. greater than TM of 2L. Hence, reasonable basis for conclusion not reached, more testing to be done.
4	D	Selection of contagious/continuous items in population is block selection.
5	B	Since its auditor couldn't check samples properly it's a non-sampling risk.

SA 550

M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. For the FY 2022-23. 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?

- No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter.

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- 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 ©

Reason: 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.

SA 560

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

2. CA Jayant is statutory auditor of a listed company Move and Move Limited for financial year 2023-24. On 15th June, 2024, there was an incident of fire in a logistics park where part inventories of company were also stored. It resulted in loss of inventories to the tune of Rs.20 crore for the company. Profit before tax in draft financial statements of the company for year 2023-24 is Rs.25 crore. Which statement is most appropriate in this regard?

- a. The above situation is in nature of adjusting event and auditor's duty is to see those financial statements for year 2023-24 should be adjusted to include above information.
- b. The above situation is in nature of non-adjusting event and auditor's duty is to see that its nature and probable financial impact is disclosed in financial statements for year 2023-24.
- c. The above situation is in nature of non-adjusting event and auditor's duty is to see those financial statements for year 2023-24 should be adjusted to include above information.
- d. The above situation is in nature of adjusting event and auditor's duty is to see that its nature and probable financial impact is disclosed in financial statements for year 2023-24.

3. Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for FY 2023- 24 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

The financial statements of Upshaant Ltd. For FY 2023- 24 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.

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



- Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.
- 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.
- 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.
- 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.

4. Which of the following statements is not correct about performing audit procedures to identify subsequent event?

- The procedures are to be performed for the period between the date of financial statements & date of auditor's report or as near as practicable.
- Obtain written representation from the management that events have been adjusted or disclosed as per applicable financial reporting framework
- Perform additional procedures on matters which have already yielded satisfactory conclusions.
- The auditor has to perform procedures in respect of all the facts which would have an impact on the auditor's report.

Q	Ans	Reason
1	d	All procedures required as per SA 560.
2	b	The event has occurred after closure of year. It is a non-adjusting subsequent event and it does not have effect on items of financial statements for year 2023-24. However, financial impact is material. Inventories destroyed are 80% of PBT. Impact should be disclosed in financial statements for year 2023-24 in accordance with SA 560.
3	d	Whenever F.S. are amended to give effect to a subsequent event. There are two options. Original Date of audit report remain unchanged and additional date will be included (dual dating). Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
4	c	No need to perform additional procedures on matters which have already yielded satisfactory conclusions.

SA 570

- 3. TPL Limited is engaged in business of construction of flyovers and its operations are restricted to one state. During year 2023-24, owing to adverse findings of a safety audit conducted by state government, one of the flyovers constructed by company in a city has been closed. The company has been blacklisted and issued show cause notice as to recovery of costs. Further, directors of company have also been arrested under proceedings launched under law due to shoddy quality of construction endangering lives of citizens. Even Supreme Court has denied any relief to directors. CA T is auditor of the company for financial year 2023-24. The second rung of management has provided cash flow forecast for coming years to him reflecting avenues from where cash flows would be generated and related outflows. However, he remains unconvinced regarding assumptions behind cash flow forecast. What are implications for auditor's report in this regard?**
- Express Disclaimer of opinion
 - Express qualified opinion
 - Express adverse opinion
 - Express qualified or adverse opinion depending upon circumstances.



2. Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:

- Net liability or net current liability position.
- Cancellation of company's production license due to change on government policies.
- Non-declaration of dividend to equity shareholders.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.

3. CA Chetan has noticed as part of statutory audit of a company that its key financial ratios are in red and its topline has fallen drastically over years. The company is struggling to pay its loans and even TDS deducted from employee salaries is deposited after a gap of about five to six months with interest. The company is filing its GSTR-3B just in nick of time to avoid blocking of its e-way bill generation facility on e-way bill portal. In these circumstances, company has prepared a cash flow forecast for coming years. Which is not likely to be a reliable and appropriate audit procedure in this regard?

- Check arithmetical accuracy of cash flow forecast
- Accept increase in cash flow from sales and realization from customers.
- Make inquiry regarding how piled up statutory dues would be paid
- Check whether any material payments have been left out in cash outflows

S No.	Ans.	Reason
1	c	Blacklisting by government and proceedings to recover costs and legal proceedings are examples of events which cast doubt on entity's ability to continue as going concern. The auditor is unconvinced about the going concern assumption which management has sought to justify by preparing cash flow forecast. Adverse opinion is to be issued in such case in accordance with SA 570.
2	c	Non declaration of dividend isn't a material uncertainty.
3	b	In a business where company's sales are falling, auditor has to question company regarding increase in cash flow from sales and customers. He has to ask basis of assumptions behind increased cash flows. He cannot meekly accept cash flows shown in forecast in such a situation where there is uncertainty about going concern assumption in accordance with SA 570.

SA 580

Arrange the following audit procedures in proper order, in case of requested written representations not provided:

- Take appropriate actions including determining possible effect on audit opinion.
- Re-evaluate integrity of management.
- Discuss matter with management.
- Evaluate effect on reliability of representations (oral or written) and audit evidence.

- (i)-4 (ii)-2 (iii)-1 (iv)-3
- (i)-2 (ii)-3 (iii)-4 (iv)-3
- (i)-2 (ii)-4 (iii)-1 (iv)-3
- (i)-4 (ii)-1 (iii)-3 (iv)-2

Ans (a)

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?

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

Ans (d)

SA 701

1. Description of each key audit matter in the "key audit matters section" needs to cover except following aspects:

- Reference to related disclosures, if any, in the financial statements.
- Explanation on the matter given by management.
- How the matter was addressed in the audit.
- Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter.

Ans (b)

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

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

SA 705

1. CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2023-24. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to ₹ 46 crore (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to ₹ 33 crore (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 31.03.2024. 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?

- CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2022-23.
- 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.
- 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.
- 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)

Description: Since impact of material misstatement isn't restricted to single element of F.S. its deemed to be pervasive. Also Auditor has SAAE, hence, adverse opinion issued.

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

- The auditor would issue a qualified audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
- The auditor would issue an adverse audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
- The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Adverse Opinion' paragraph below the opinion paragraph.
- The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

Ans (c)

SA 710

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?

- 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.
- In accordance with SA 710, CA Ram should seek legal opinion.
- In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only.
- 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)



Ch-2 Professional Ethics

1. 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 parttime 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.

2. CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2023, 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. How can auditors effectively mitigate intimidation threats?

- a. By forming personal relationships with the client's management to build trust.
- b. By accepting gifts and financial incentives from the client.
- c. By maintaining independence and reporting any threats or pressures to appropriate parties.
- d. By refraining from seeking clarification from the client during the audit.

4. What does NOCLAR stand for in the context of auditing?

- a. National Obligation for Compliance with Laws and Regulations
- b. Non-Compliance with Laws and Regulatory Requirements
- c. New Oversight of Client Legal and Regulatory Compliance
- d. New compliance with laws and regulations

5. CA Mridul has been appointed as statutory auditor of PQT Limited, a reputed listed company engaged in the manufacturing of electronic products, in accordance with provisions of the Companies Act, 2013. Currently, he is also actively involved in advising the government in favour of proposed legislation likely to be introduced in one of the coming sessions of Parliament to attract investments and cutting-edge technology in the electronic products sector on behalf of his client. He has participated in TV programmes on the matter, written articles in business

papers on the subject, and given key suggestions to the government in this regard. In all public appearances and statements, he has openly stated the fact of being associated with PQT Limited in the capacity of auditor. Which of the following statements is likely to be correct in this regard?

- The described situation can involve self-interest threats to the independence of the auditor.
- The described situation can involve familiarity threats to the independence of the auditor.
- The described situation can involve advocacy threats to the independence of the auditor.
- The described situation can involve self-review threats to the independence of the auditor.

6. CA. D, a chartered accountant in practice, availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct?

- Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

7. CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2023 and on 4th October 2023, 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?

- 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 ₹ 5,00,000.
- Yes, it is a misconduct under 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 ₹ 1,00,000.
- 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 ₹ 1,00,000.
- 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 ₹ 5,00,000.

8. 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.

- Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.
- Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- Mr. Witty is paying interest thus he is not liable for misconduct.
- Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.



9. 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.

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. 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.

11. 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.

12. 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:

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- a) Yes, website can have names of partners and major clients along with its fees.
- 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 website runs on push technology & major clients were displayed without any disclosure obligation from any Regulator.

13. 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.

14. 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.

15. 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.

16. 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.



17. 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

18. 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 Tax 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.

19. 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 accepts 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.

20. 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).



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

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

21. 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.

22. 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.

23. Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMY LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not positive evidence of delivery and violates the provisions of Code of Ethics if the firm accepts the audit assignment. With respect to the dilemma being faced by Mr. B, partner of the firm regarding acknowledgment of the communication from the retiring auditor's vide their official email is not positive evidence of delivery?

- a) The dilemma of Mr. B is correct as it is not positive evidence of delivery.
- b) The dilemma of Mr. B is not correct as it is positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the Code of Ethics.
- c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.

- d) The dilemma of Mr. B is correct as the email address of the outgoing auditor from which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.

24. Mr. D is a practising Chartered Accountant from Mangalore. He has been practising as a sole proprietor for past two decades. Mr. D's daughter Ms. S is a newly qualified chartered accountant, who cleared the final exam just three months ago. Immediately after qualifying, she also wanted to set up a sole proprietary concern and practice on her own. After setting up the firm, she printed her own visiting card as follows:

**S & Co., Chartered Accountants
Proprietrix: Ms. S, FCA, B. Com
Office: JJ Nagar, Mangalore.
Phone: 9123456780**

In view of above visiting card, whether Ms. S will be held guilty of professional misconduct? If so, under which clause?

- a) No, Ms. S won't be guilty of misconduct. As per recent decision of the council, a CA in practice can give any details in the visiting card, except for vision of the firm.
- b) Yes, Ms. S will be guilty of professional misconduct as per Clause 7 of Part I of First Schedule.
- c) Yes, Ms. S will be guilty of professional misconduct as per Part III of Second Schedule.
- d) Yes, Ms. S will be guilty of professional misconduct as per Clause 1 of Part III of First Schedule.

Q	Ans	Reason
1	A	For CAiP teaching activity allowed for 25 hrs a week.
2	A	Only passport size pic allowed on website not framed photograph.
3	C	All other points shall create threat.
4	B	NOCLAR stands for Non-Compliance with Laws and Regulatory Requirements.
5	C	Lobbying in favour of legislation is an advocacy threat.
6	D	Bouncing of cheque due to insufficiency of funds is other misconduct.
7	C	Advertisement in newspaper is misconduct under clause 7/1/1.
8	A	Contravention of Provision, Regulation or guideline is guilty under clause 1/2/2.
9	B	General permission to become Surveyor & Loss assessor as a CAiP.
10	B	Communication with previous auditor required as per Clause 8 of Part I of First Schedule.
11	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.
12	D	Website should run on Pull technology & names of major clients can't be shown without disclosure requirement of any regulator.
13	B	Communication with previous auditor required as per Clause 8 of Part I of First Schedule.
14	D	Member(other than in Practice) can't share any share of emoluments with any person for securing employment.
15	A	Ethical std board has allowed Member to engage as registration authority for obtaining digital signature for his clients.
16	B	Sharing of profits with articles asst as token of appreciation or otherwise will make CAiP guilty under clause 2-1-1
17	B	CA Firm can't act as financial advisor for Mutual fund Co.
18	C	Internal auditor can't perform Tax audit of same entity
19	C	Single partner can sign 60 Tax audits → 10 partners can sign 600 tax audits
20	C	Selection & recruitment of personnel on behalf of client and taking teaching profession along with signing financials is allowed.



21	C	
22	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.
23	B	Confirmation recd from official e-mail.
24	D	CAiP falsely claiming to be FCA shall be guilty under Clause 1 of Part III of First Schedule.



Ch-3 Audit Planning, Strategy, and Execution

1. 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.

2. 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.

3. 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, 2023, the auditors, who had planned their work appropriately and had a large team for conducting the audit, were facing lot of challenges at various stages.



They were also required to revisit their materiality level during the course of the work.

However, at the time of final reviews when this was discussed with the Audit Partner (Audit In charge), he was not convinced with the approach of the audit team wherein they reassessed their plans continuously resulting in waste of time.

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

- a. Audit Partner being the senior most team member is right and same thing should be considered by audit team by documenting it in the audit file.
- b. Audit Partner's view is not correct as the audit team did the right thing.
- c. Audit Partner was correct, however, during the course of an audit which required visits at various locations it was mandatory.
- d. Audit Partner's view is not correct because the materiality was revised by the audit team which is a big thing and same should have been considered by the audit partner.

4. Meta Builders Limited is engaged in business of building apartments. Not all apartments built are sold by company in a housing complex. It continues to own certain number of apartments in different housing complexes built by it. However, the company has a policy not to let these apartments vacant for a significant period of time and these are being let out from to time. During the course of audit of this company, CA J considers that rental revenues be tested based upon occupancy of premises, considering rent fixed for different types of apartments and other similar considerations to detect material misstatements at level of revenue assertion pertaining to rents.

Which of following statements is not appropriate in situation?

- a. He may choose to solely rely upon above procedures, if he considers that such procedures would reduce audit risk to an acceptably low level.
- b. He may choose to solely rely upon detailed checking of transactions pertaining to rental revenues.
- c. He cannot choose to solely rely upon above procedures described in situation.
- d. He may choose to rely upon above procedures and detailed checking of transactions pertaining to rental revenue.

5. 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, 2023.

The audit for the financial year ended 31 March, 2022 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.

Answer key:

Q	Ans	Reason
1	C	Audit team needs to document audit program properly at the time of planning stage itself and any changes made after that should also be documented with explanations.
2	C	Audit plan & strategy are inter-related, change in one would lead to change in other.
3	B	Audit plans should be revised if required by change in circumstances.
4	C	Procedures mentioned in case not enough for risk assessment.
5	A	Engagement team can consult previous year's engagement team during the course of their planning.



Ch-4 RAIC + SA 315/330

1. While assessing the risk of material misstatement at assertion level of MET Limited, CA K had an expectation that controls pertaining to revenue are operating effectively. In particular, he expects that there exist robust controls in company so that revenue of company is not overstated and it is intended to place reliance on such controls. Which of the following statements is most appropriate in the above situation?

- a. He should design and perform tests of controls that provide him with more persuasive audit evidence.
- b. He should design and perform tests of controls that provide him with less persuasive audit evidence.
- c. He should not design and perform tests of controls.
- d. He should design and perform tests of controls in such a manner that shows their operating effectiveness at year-end.

2. 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 2024, 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.

3. 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.

4. COBIT is _____

- a. best practice IT governance and management framework published by Information Systems Audit and Control Association (ISACA). It provides the required tools, resources and guidelines that are relevant to IT governance, risk, compliance and information security.



- b. one of the most popular frameworks for improving critical infrastructure cyber security published by National Institute of Standards and Technology (NIST).
- c. the most widely adopted information security standard for the payments card industry issued by Payment Card Industry Security Standards Council (PCI SSC).
- d. set of best practice processes and procedures for IT services management in a company like change management, incident management, problem management, IT operations and IT asset management in accordance with ISO 20000.

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 2024 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 2023, 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 2024, 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 it's a private company and auditor anyways is required to perform rigorous audit procedures.
- c. The requirement of audit team is not justified considering the fact that last year same documentation was used by them.
- 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. 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 2023-24. 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?

1) A 2) D 3) C 4) A 5) A 6) D

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

7. 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.

1. 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.

2. 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.



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- 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.

3. 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 noncompliance of sharing inventory level with the GST department.
- c) Segregation of Duty.
- d) Inadequate Records and Documents leading to nonrecording of correct inventory value.

4. 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.

5. 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.

1) C 2) B 3) C 4) B 5) C



Ch-5 Group Audit + SA 600

1. 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.

2. 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 2024. 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 2024. The management is of the view that consolidation of PPP GmbH would not be required in CFS for the year ended 31 March 2024 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.

3. 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".

4. CA P is statutory auditor of a group involving joint ventures, subsidiaries and associates. The parent is a listed company. While reporting for consolidated financial statements, he is in a dilemma regarding reporting of internal financial controls in the group. Which of following statements is most appropriate in this regard?

- The auditor is required to report on the adequacy and operating effectiveness of the internal financial controls over financial reporting in the case of consolidated financial statements in respect of all the components.
- The auditor is required to report on the adequacy and operating effectiveness of the internal financial controls over financial reporting in the case of consolidated financial statements in respect of those components that are Indian companies under the Companies Act, 2013.
- The auditor is required to report on the adequacy and operating effectiveness of the internal financial controls over financial reporting in the case of consolidated financial statements in respect of those components that are incorporated as companies.
- The auditor is required to report on the adequacy and operating effectiveness of the internal financial controls over financial reporting in case of standalone financial statements only.

5. ALEXA Private Limited has been operating in India for the past 15 years with three group companies – one subsidiary in India and the other two in Singapore and Germany. The acquisitions of these subsidiaries were gradual, with control obtained after initial investments. The statutory auditors have determined that all group companies are significant for the audit of consolidated financial statements. For the year ending March 31, 2023, the audited financial statements of all components are available, except for the German company, whose audit has been delayed and won't be completed before the release date of the consolidated financial statements (CFS) of the parent company. The financial statements of the German company for the consolidation audit of CFS, what could be the possible situation?

- Since the audit of the German company is in progress, its financial statements subject to audit can be considered by the auditor of the parent company. Audited and signed financials can be provided to auditors even after the release of audited CFS, as this is a matter of documentation only.
- If the auditor does not receive audited financial statements of the German company, he should modify his audit report.
- The management should provide management accounts to the auditors of CFS, and the auditor can mention this point in the "other matters" paragraph in his audit report, which is an acceptable approach.
- The auditor should exclude the financial statements of the German company from the CFS.

Q	Ans	Reason
1	C	Adjustments due to change in shareholding are permanent consolidation adjustments.
2	C	Consolidation of subsidiary is required in any case & GAAP adjustments need to be done.
3	A	SA 600 applicable to use of work of Component auditor.
4	B	Auditor is required to report on the adequacy and operating effectiveness of the internal financial controls over financial reporting in the case of consolidated financial statements in respect of those components that are Indian companies under the Companies Act, 2013.
5	B	Since all group companies are significant for audit of CFS, non-receipt of subsidiary F.S. would require modification in audit report.



Ch-6 Bank Audit

1. 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'.

2. You are the internal auditor of FCD Bank Limited for the year 2022-23 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the 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.

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. As an auditor conducting an audit of Laxmidham Bank, you while reviewing the bank's system for identification and classification of advances through CBS, discover a significant delay in the system's accuracy in determining the crystallization date of NPAs. Due to this delay, several accounts that should have been classified as NPAs were not recognized as such by the system for an extended period. What should the auditor do in this situation?

- a. The auditor should ignore the delay in the systems accuracy as it does not impact the overall financial statements of the bank.
- b. The auditor should report the system error and recommend corrective measures to ensure accurate identification and classification of advances.
- c. The auditor should rely solely on the banks classification of the loan account as an NPA.
- d. The auditor should rely solely on the banks assurance regarding the accuracy of the system despite the observed delay as CBS is in place.

5. As an auditor conducting an audit of Ramashri Bank, you are reviewing the treatment of inoperative accounts (both current and savings) to mitigate the risk of fraud. During your audit, you notice a significant reduction in the balances of certain inoperative accounts compared to the previous year. You decide to examine the authorizations for withdrawals from these accounts. Upon investigation, you discover that some of the accounts were revived without authority, and also withdrawals were made without appropriate authorisation. How should the auditor respond in this situation?



- The auditor should consider the reduction in balances as a normal occurrence but report any the lack of authority in respect to revival of such accounts.
- The auditor should report the reduction in balances only and there is no authority required for revival of such accounts.
- The auditor should report the lack of authority in respect to revival of such accounts and withdrawals made without appropriate documentation, recommending corrective measures.
- The auditor should proceed with the audit without considering the irregularities in the revival and withdrawals of accounts as there are inoperative.

6. 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 2023-24. 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?

- 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.
- 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.
- 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.
- Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills re-discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.

7. Early Warning Signals (EWS) are those, which when noticed in any loan account, should alert the bank officials about some wrongdoings in the loan account which may, later, turn out to be fraudulent. CA P has recently joined GIST Bank Limited as a credit officer. He is reviewing the credit portfolio of the branch assigned to him.

Which of the following is not likely to be an example of such early warning signals regarding a credit facility availed by a borrower from branch?

- Invocation of bank guarantee issued by branch
- Devolvement of letter of credit issued by branch
- Non-reversal of expired bank guarantee issued by branch
- Funding of interest by sanctioning additional credit facilities by branch

8. CA Somya is conducting statutory branch audit of a nationalized bank. It is noticed that branch is having "office accounts". Banks have large number of transactions with other banks, branches and controlling offices or other establishments and such transactions are carried out through office accounts.

While scrutinizing "office accounts" of branch, she notices transactions of varied nature passed through such accounts.



Which of the following type of entries passed through such accounts is likely to be objectionable?

- Cash sent to other branches
- Credit card related transactions of customers
- Parking of subsidies received from Govt on account of various schemes
- Passing entries from office accounts to customer accounts in batch mode

Q	Ans	Reason
1	A	Non-interest-bearing staff advances shown under 'Others' under 'Other assets.
2	B	Procedure to check marking lien on FDs against which loan issued: Ensure that all fixed deposit receipts, against which loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
3	C	Profit on sale of NPA retained to meet loss on sale of other NPAs
4	B	Auditor should report system error and recommend corrective measures to ensure accurate identification and classification of advances.
5	C	For inoperative a/cs: Auditor should report lack of authority in respect to revival of such accounts and withdrawals made without appropriate documentation, recommending corrective measures.
6	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.
7	C	Non-reversal of expired bank guarantee issued by branch isn't any issue for the bank.
8	D	Passing entries from office accounts to customer accounts in batch mode is objectionable.



Ch-7 NBFC Audit

1. 50:50 test determination is popularly used in :

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



Ch-8 PSU Audit

1. 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.

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

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

3. 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.

4. NOP Ltd. is a joint venture of Central Government and a private company engaged in the business of electricity distribution 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.

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- 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.

S No.	Ans	Reason
1	B	COPU reviews accounts & reports of PSUs while PAC does same for govt departments.
2	C	Financial audit is attestation engagement.
3	C	Since auditor is checking compliance with policies/controls its compliance audit.
4	B	C&AG can order performance audit of Govt Co. & notice for conducting such type of audit should give reasonable time to the management to prepare themselves.



Ch-9 Internal Audit & SA 610

1. ABC limited has appointed Mr. X to perform the internal audit for their purchase functions, while performing the audit Mr. X wanted to speak to some of the vendors to establish the authenticity of purchases? Which of the statement is true?

- a. Mr. X should not approach any third party as it is out of his scope and authority.
- b. Mr. X may approach sample vendor through the management (unless a fraud is suspected) and collected required evidences.
- c. Mr. X may approach any of the vendor on surprise basis and ask them to submit required information directly to the auditor.
- d. Mr. X should keep any such audit checks out of scope and try other methods of establishing the authenticity.

2. While doing the Internal Audit of Purchase operations of a manufacturing company, which of the following areas does not form part of scope of work.

- a. Recruitment
- b. Purchase order approvals
- c. Vendor Selection
- d. Receipt of materials

3. CFO of the Company directs the Internal Audit head for not wasting time for auditing some activities citing the reason that this may not add value to business and no major audit issue was noted in past. What action should be taken by CIA to respond to such directions from the CFO.

- a. CFO being a senior leader and responsible person should be given high importance, hence CIA should obey to his directions.
- b. CIA should ignore any such feedback and continue to do his audit checks as per approved plan and scope.
- c. CIA may reduce the coverage and sample size in such area basis the comfort provided by CFO in such areas.
- d. CIA should independently evaluate the level of risk and exposure involved in such activity and take independent judgement for reviewing such activities. The results of such evaluation and not auditing any major activities should be factored in Internal Audit plan and approved from Audit Committee.

4. As per requirements of Companies Act 2013, which of the following companies are required to appoint an internal auditor?

- a. Private Company having paid up share capital of INR 50 Crores
- b. Private Company having outstanding loans from banks for INR 50 Crores
- c. Unlisted Public Company having outstanding loans from banks for INR 50 Crores
- d. Listed Company having outstanding loans from banks for INR 50 Crores

5. While performing a complex operational audit of a large oil and gas company, CIA is assigned task to review the complex drilling function of the Company. Please suggest, which of the following step should NOT be taken by the CIA to complete the assigned audit.

- a. CIA and relevant team members should undertake business understanding and knowledge sessions from business to finalise detailed audit checks to be performed.
- b. Involve subject matter expert for adequate guidance and supervision to ensure all relevant risks and transactions are audited in such process.



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- c. Team members should be provided adequate training in advance so that they can review underlying transactions adequately.
- d. Perform detailed audit for the activities easily understood by the audit team and other activities may be excluded from scope of work for audit.

6. Which one of the following activities is performed by the internal auditor?

- a. Verify a purchase transaction to assess if company policy is followed for obtaining minimum price from vendor
- b. Negotiating a purchase contract with vendor
- c. Approving a purchase transaction on behalf of the Company
- d. Authorizing a payment transaction

7. During the dealers meet of a large FMCG company, CIA overheard some manipulations being done by dealers by taking undue favours from the sales managers that helped them withdrawing more commission than allowed as per company policy. Please suggest, best course of action to be taken by CIA in such scenario.

- a. CIA should discuss the matter with audit committee and take prior approval to include detailed audit of sales function in plan.
- b. CIA should ignore the conversation and just focus on approved audit plan and scope of coverage.
- c. If Sales Audit is not part of plan Initial review of some suspicious transaction should be performed and detailed audit should be conducted in case of any 'Red Flag'. If sales audit is part of plan - Special focus should be given to such transaction during audit to establish whether or not any such manipulation is being done.
- d. CIA should discuss the matter with CFO and Sales head and if permitted he may extend his scope of verification.

8. While doing the internal audit of production operations of a manufacturing company, which of the following areas does not form part of scope of work.

- a. Production Planning
- b. Consumption Recording
- c. Finished Good Quality Checks
- d. Receipt of materials

9. While performing the internal audit of human recourse function, which of the following would form part of the scope of work.

- a. Salary Processing
- b. Purchases
- c. Invoice Recording
- d. Payment Processing

10. What should Chief Internal Auditor do, In case of lack of sufficient resources and budget for performing the internal audit plan approved by the Audit Committee of the Company?

- a. Complete the areas which can be completed using existing resources and post-pone the balance plan to subsequent years.
- b. Apprise the audit committee of the challenges and corresponding exposure of the Company due to non-performance of the complete plan
- c. Reduce the audit scope and allocated time of each area so that complete plan can be executed in the year.



- d. Consult CFO for the key priority areas and perform the audit as per directions from the CFO.

11. While performing the internal audit of the Accounts and Finance function, CIA noted that the company has not implemented adequate segregation of duties in bill process function while CFO mentions limitation of manpower as reasons of not implementing SOD. Please suggest which of the following recommendation be given by CIA to the company to mitigate the risk.

- a. CIA should recommend compensation controls until manpower is not extended.
- b. CIA may accept the business limitation of shortage of manpower and ignore the finding.
- c. CIA should recommend deployment of additional manpower for building SOD and close the report without factoring the inputs of CFO.
- d. CIA should benchmark the manpower of similar operations at other companies and recommend to increase manpower or counter the CFO response by establishing that existing manpower is sufficient for building SOD in process.

12. ABC limited has appointed Mr. X to perform the internal audit for their taxes and government dues, while performing the audit Mr. X noted some unauthorised input credits taken by the Company. Which of the statement is not appropriate.

- a. Auditor may discuss with management to take their opinion and ignore the incorrect credits as it saves some money for the organization.
- b. Auditor should evaluate the process design failure which allows recording of such transactions.
- c. Auditor should increase sample and perform detailed checks to ensure if there are more such transactions.
- d. Auditor should report the critical findings immediately and seek management explanation.

13. While performing the audit of the procure to pay function, CIA noted that the purchase team is not using the ERP system on real time basis and all transactions are updated in the system after one week. However, on detailed review he does not find any problem in the transaction so executed? Please suggest which of the following statement would be most appropriate in such situation.

- a. CIA should raise the audit risk of delay in updating the ERP with recommendation to ensure timely updating the system.
- b. CIA may ignore the fact of delay as there is no issue noted in detailed transaction review.
- c. CIA should perform detailed root cause analyses for such delays in discussion with management and appropriate measures be recommended to mitigate the risk emanating due to delayed updating.
- d. CIA should assess whether delays are normal basis benchmark study and highlight abnormal delays to the management.

14. Who can appoint internal auditor in a Company?

- a. Chief Financial Officer
- b. Chief Executive Officer
- c. Board of Directors / Audit Committee
- d. Shareholders

15. 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.

16. Who can decide the Scope of Work for Internal Audit?

- a. Board of Directors / Audit Committee
- b. Chief Executive Officer
- c. Chief Internal Auditor
- d. Chief Financial Officer

17. "We perform Limited" is a listed company. CA K, its Chief Internal auditor, has joined recently. On taking over responsibilities, he finds that many prior audit issues highlighted in previous internal audit reports are still open. Taking the matter seriously, he compiles status of prior audit issues in the shape of ATR (Action taken report) duly ageing pending issues and genuine reasons for delay on basis of available material and inputs received. Which of the following statements is likely to be correct in this regard?

- a. The Chief Internal Auditor is responsible for closure of prior audit issues through timely implementation of action plans included in past audits.
- b. The Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through timely implementation of action plans included in past audits. However, the responsibility for implementation of the action plan lies with management.
- c. The Chief Internal Auditor, by resorting to such actions, is going beyond scope of his work.
- d. The Chief Internal Auditor should have immediately escalated such delays to top management and his approach highlighted above is not proper.

18. Which of the following is not the responsibility of the Internal Auditor?

- a. Planning an Internal Audit Engagement
- b. Perform Internal Audit checks in independent and unbiased manner
- c. Implement the internal control activities.
- d. Reporting internal audit findings to the Audit Committee

19. While performing the internal audit of Sales function, which of the following would not form part of the scope of work.

- a. Sales Planning
- b. Order Processing



- c. Performance appraisal of employees
- d. Dispatch of Materials

20. Which of the following factor would trigger to review and revisit the approved risk based internal audit plan?

- a. Statagic changes to enter new markets
- b. Replacement of CEO of the Company
- c. Automation and changes in the critical business processes.
- d. Increase in sales by 25%

21. Sam Ltd. appointed M/s Ajeet & Co., Chartered Accountants as Statutory Auditor. The Statutory Auditor 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. Krushna. 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. Krushna to help them in some paperwork including audit documentation.

Before the audit was concluded, Mr. Krushna got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Krushna 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 Auditor 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 3 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.

Q	Ans	Reason
1	B	During the coarse of audit if auditor feel need to approach third party it may be done after discussing with management and routing the requirement through management unless he has reasons to believe that the information may be altered or modified.
2	A	Recruitment is the area audited in HR audit, thus, Purchase function audit does not cover recruitment areas.

3	D	CIA should consider the important feedback given by any responsible authority, however should not be completely influenced to ignore his duties of independent assessment and judgement. Accordingly, CIA should perform independent assessment and take appropriate action.
4	D	Every Listed co. required to appoint internal auditor.
5	D	Scope of audit and review coverage should not be limited for the limitation of knowledge and capability. CIA need to seek relevant knowledge and experience to perform quality audit.
6	A	Internal Audit is an important element of management controlling function, it helps management to set up appropriate systems and processes in place to mitigate risk while remaining independent to the operations. Accordingly, he may verify a purchase transaction to identify gaps but cannot perform a management function of negotiation or approving a purchase transaction or payment.
7	C	Any suspicious fraud scenario need to be reviewed in detail in timely manner. CIA has authority to extended his scope for adequate coverage. Audit committee need to informed and approval be taken at the earliest.
8	D	Receipt of Material is the area audited in Supply Chain or Inventory audit and hence Production function audit does not cover Receipt of Materials areas.
9	A	Salary Processing is the process and activity reviewed under Human Resource and Payroll area.
10	B	CIA performs the audit as per the audit charter and plan approved by the audit committee. Any key decision impacting the completion of work already approved by the audit committee should be taken in discussion with Audit committee so that audit committee can provide directions for prioritisation.
11	A	CIA should recommend best and effective control to mitigate the risk by business challenges and limitations should also be factored. Hence, compensating monitoring control be implemented until budget is increased by management for manpower.
12	A	Auditor should not ignore any such non compliances whether or not financially it is in interest of the organisation. Any statutory non-ompliance or tax noncompliance should be reported by the auditor.
13	C	Internal audit has responsibility to highlight all design as well as operation gaps. Design gaps that allows delay in updating the system should be highlighted with appropriate recommendation. Further, detailed root cause analyses is important to recommend best solution for the issue noted.
14	C	As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company. Accordingly, Internal Auditor is appointed by the Board of Directors or the Audit Committee.
15	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.
16	A	For Companies required to appoint Internal Auditor as per Sec 138 of Companies Act, 2013, Rule 13(2) of Companies (Accounts) Rules 2014, states: "The Audit Committee or Board shall, in consultation with the Internal Auditor, formulate



		scope, functioning, periodicity, and methodology for conducting the internal audit." Hence, in these class of companies, the Audit Committee or the Board, in conjunction with management and the Chief of Internal Audit, is expected to exercise the responsibility to formulate the scope of work for Intern Audit
17	B	The Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through a timely implementation of action plans included in past audits. The implementation responsibility of action plans lies with management, not with the internal auditor
18	C	Internal Auditor is required to plan and conduct internal audit engagement to provide independent assurance to the audit committee. Through internal audit report, he must provide audit recommendation to improve control environment and address the highlighted audit finding. However, the responsibility of implementation of internal controls lies with management.
19	C	Performance appraisal are part of Human Resource audit. Its not covered under Sales Audit.
20	C	Risk based internal audit plan is based on the criticality of the process risk at inherent level and residual risks after factoring the controls already implemented by the organisation. Hence, key changes in the business process or automation would impact the assessment of the risk identified which should be assessed again to check the relevance and effectiveness of the existing internal audit plan.
21	D	Statutory Auditor should not have delegated inventory level checking to Internal Auditor, as risk assessed was material. Further, audit documents are Statutory Auditor's property and responsibility. Also, Statutory Auditor should maintain confidentiality during all stages of audit. Therefore, wrong on part of Statutory Auditor to handover the task of audit documentation to the Internal Auditor.



Ch-10/11/12 Due Diligence, Forensic Accounting & Investigation

1. For the financial year ended 31 March 2024, 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 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.

Which of the following statement should be correct?

- The contention of the management was correct.
- Reviewer was correct, as due diligence covers assessment of business feasibility as well.
- 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.
- Management was correct; however, it should have discussed the same with the investor as part of the sale contract.

2. 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.

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

- Cash flow.
- Accounting Policies.
- Brief history of the target and background of its promoters.
- Accounting Information System.

3. 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. 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?

- 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.
- 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.
- 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.
- No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.

4. 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 accounting 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. 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 accounting 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 accounting 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.

5. 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.

6. The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matters 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. Which of the following statement should be 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.

1) B 2) D 3) A 4) D 5) B 6) A



Ch-13 Specialised Areas

1. Who is eligible to be appointed as the auditor for summary financial statements:

- a. Chartered Accountant eligible to be appointed as auditor
- b. Auditor of the historical financial statements
- c. Any professional
- d. Any person

2. SA 805 does not apply while auditing historical financial information contained in _____

- a. A schedule of net tangible assets including related notes
- b. A statement of cash receipts and disbursements
- c. Liability for incurred but not reported claims in an insurance portfolio
- d. Complete set of financial statements

3. SA 800 defines special purpose framework to mean _____?

- a. A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.
- b. A financial reporting framework designed to meet the financial information needs of special users. The financial reporting framework may be a fair presentation framework or a compliance framework.
- c. A financial reporting framework designed to meet the financial information needs of special users. The financial reporting framework can be a fair presentation framework only.
- d. A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework can be a compliance framework only.

4. An interpretation is _____ when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

- a. Not significant
- b. Significant
- c. Material
- d. Non-material

5. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be:

- a. Applicable financial reporting framework
- b. General purpose financial statements
- c. Special purpose financial statements
- d. Regular purpose financial statements

6. In the case of an auditor's report on special purpose financial statements, the auditor's report shall also describe the _____ for which the financial statements are prepared.

- a. Objective
- b. Purpose
- c. Intend
- d. Applicable standard

7. If the auditor expresses an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, what type of audit opinion the auditor may issue for single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements.

- I. Disclaimer of opinion
- II. Unmodified opinion
- III. Modified opinion
- IV. Adverse opinion

- a. Only I
- b. Only II
- c. Only IV
- d. I or III or IV

8. In case the auditor does not accept the engagement to report on summary financial statements due to applied criteria being unacceptable or inability to obtain agreement of management, is he still required to accept and report on the summary financial statements?

- a. Yes, if required by the intended users of the summary financial statements
- b. Yes, if required by those charged with governance
- c. Yes, if required by law or regulation
- d. No, he is not required to accept the engagement

9. While auditing summary financial statements of X Limited, CA C notices that summary financial statements are not accompanied by audited financial statements. What CA C should do specifically in light of above situation?

- a. Evaluate whether summary financial statements are prepared in accordance with applied criteria.
- b. Evaluate whether summary financial statements describe clearly from whom or where the audited financial statements are available or the law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- c. Evaluate whether summary financial statements describe clearly from whom or where the audited financial statements are available and whether these are prepared in accordance with applied criteria.
- d. Evaluate whether the law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements and whether summary financial statements are prepared in accordance with applied criteria.

10. Distribution and use of the auditor's report on special purpose financial statements are:

- a. Not restricted
- b. Restricted
- c. Limited
- d. Confined

S No.	Ans	Reason
1	B	Auditor of historical financial statements is eligible to be appointed as auditor for summary F.S.
2	D	SA 805 does not apply while auditing historical financial info. contained in complete set of F.S.
3	A	SA 800 defines special purpose framework to mean a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.



4	B	An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.
5	C	Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose F.S.
6	B	In the case of an auditor's report on special purpose financial statements, the auditor's report shall also describe the purpose for which the financial statements are prepared.
7	D	If auditor expresses an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, auditor may issue adverse/modified/disclaimer of opinion for single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements.
8	C	If required by law/regulation, auditor is required to accept the engagement to report on summary financial statements even though applied criteria being unacceptable or inability to obtain agreement of management.
9	B	If summary financial statements are not accompanied by audited financial statements. Evaluate whether summary financial statements describe clearly from whom or where the audited financial statements are available or the law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
10	B	Distribution and use of the auditor's report on special purpose financial statements are restricted.



Ch-14 Audit Related Services

1. CA Y has accepted an engagement to perform agreed upon procedures in relation to sales and profits of broadcasting segment of a renowned media house. Which of following statements is likely to be false in this regard?

- a. The users are unlikely to draw their own conclusions from report of CA Y in this regard.
- b. The engagement letter should include a statement that the distribution of the report of CA Y would be restricted to the specified parties who have agreed to the procedures to be performed.
- c. CA Y should carry out procedures of an audit nature to which he and the media house have agreed.
- d. Independence is not a requirement for agreed-upon procedures engagement. A statement to that effect should be made in the report itself by CA Y.

2. SRS 4410 is applicable to an engagement when:

- a. a practitioner agrees to perform certain procedures relating to individual items of financial data in accordance with SRS
- b. a practitioner agrees to perform certain procedures relating to individual items of non-financial data in accordance with SRS
- c. a practitioner agrees to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information and to report on the engagement in accordance with SRS
- d. a practitioner agrees to assist management with the preparation and presentation of historical financial information in accordance with SRS

3. A Chartered accountant in practice has accepted an engagement to verify purchases of a company from related parties and report thereupon. Which of following statements is likely to be correct in this regard?

- a. SRS 4400 would be applicable in such type of engagement. The report would include assurance on findings.
- b. SRS 4410 would be applicable in such type of engagement. The report would not include assurance on findings.
- c. SRS 4400 would be applicable in such type of engagement. The report would not include assurance on findings.
- d. SRS 4410 would be applicable in such type of engagement. The report would include assurance on findings.

4. Which of the following is not correct about a “compilation engagement” performed in accordance with Standards on Related Services?

- a. Engagement level quality control requirements are not applicable to a compilation engagement.
- b. The practitioner obtains an acknowledgement from management that they have taken responsibility for the final version of the compiled financial information.
- c. The practitioners report includes responsibilities of management in relation to the compilation engagement.
- d. The practitioner identifies applicable financial reporting framework in report

5. While reporting under an agreed-upon procedures engagement performed under SRS 4400, the practitioner’s report is unlikely to contain _____

- a. Listing of specific procedures performed
- b. a statement regarding restricted use of report
- c. a statement that in case audit or review had been performed, other matters might have come to light that would have been reported
- d. a description of areas where improvements have been suggested

6. Which of following is false in an engagement to perform agreed upon procedures in respect of trade payables of a company and to report thereupon?

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- A listing of the procedures to be performed as agreed-upon between the parties is not an essential part of such an engagement.
- Procedures to be performed can include obtaining external confirmations.
- Procedures to be performed can include inquiry and analysis.
- The report includes a categorical assertion that had additional procedures been performed as in an audit or a review, other matters might have come to light that would have been reported.

7. Which of following is false regarding compilation engagement to be performed in accordance with Standards on Related Services?

- The practitioner may provide assistance to management with significant judgments.
- The practitioner considers materiality in such type of engagement.
- The practitioner is not in a position to propose amendments to management in compilation engagement.
- The practitioner is required to keep engagement documentation.

8. Which of following statements is most appropriate regarding a compilation engagement undertaken by practitioner in accordance with Standards on Related Services?

- It provides reasonable assurance.
- It provides moderate assurance.
- It provides no assurance.
- It provides limited assurance.

S No.	Ans	Reason
1	A	Users are likely to draw their own conclusions from report in which CA performs agreed upon procedures.
2	C	SRS 4410 is applicable when a practitioner agrees to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information and to report on the engagement in accordance with SRS
3	C	SRS 4400 would be applicable in such type of engagement. The report would not include assurance on findings.
4	A	Engagement level quality control requirements are applicable to compilation engagement.
5	D	While reporting under agreed-upon procedures engagement under SRS 4400, the practitioner's report is unlikely to contain a description of areas where improvements have been suggested.
6	A	A listing of procedures to be performed as agreed-upon between the parties is an essential part of such an agreed upon procedures engagement.
7	C	The practitioner can propose amendments to management in compilation engagement.
8	C	Compilation engagement provides no assurance.



Ch-15 Review of Financial Information

1. CA R has accepted an engagement involving review of historical financial statements of an entity in accordance with SRE 2400. Nothing has come to his knowledge which could cause him to believe that financial statements could be materially misstated. In such a situation, which of following procedures was unlikely to have been performed by CA R?

- Inquiry about complex transactions
- Inquiry about suspected frauds
- Comparing financial information with prior periods
- Sending external confirmations

2. Which of following is a defining difference between SRE 2400 and SRE 2410?

- SRE 2400 deals with practitioners responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements. However, SRE 2410 deals with auditors professional responsibilities when the auditor undertakes an engagement to review interim financial information of a client of which he is the auditor
- SRE 2400 deals with auditors professional responsibilities when the auditor undertakes an engagement to review interim financial information of a client of which he is the auditor. However, SRE 2410 deals with practitioners responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements.
- SQC 1 is not applicable to SRE 2400 whereas it is applicable to SRE 2410.
- SQC is applicable to SRE 2400 whereas it is not applicable to SRE 2410.

3. Which of following statements is most appropriate in context of an auditor performing review of financial statements under SRE 2410?

- It is, ordinarily, necessary for him to send an inquiry letter to company's lawyer for corroborating inquiries about company's litigations.
- It is, ordinarily, not necessary for him to send an inquiry letter to company's lawyer for corroborating inquiries about company's litigations.
- It is necessary for the auditor to perform other procedures to identify events occurring after date of the review report.
- It is, ordinarily, not necessary for auditor to obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to accounting records.

4. While performing review of financial information of a corporate client of which CA X is also auditor, it would not be necessary for him to _____

- communicate with management a matter that comes to his attention leading him to believe that it is necessary to make material adjustment to interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework
- make a statement that auditor is responsible for expressing an opinion on interim financial information based on a review in review report
- make a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures in review report
- obtain written representations from management on certain matters

5. If the auditor is unable to complete the review, the auditor should:

- Communicate in writing to appropriate level of management and to those charged with governance the reason why review cannot be completed
- Consider whether it is appropriate to issue a report
- Both (a) & (b)
- Either (a) or (b)

6. If the auditor's preliminary knowledge of the engagement circumstances indicates inability to complete review due to limitation on scope of the auditor's review imposed by management, the auditor:

- Should accept the review engagement
- Should communicate this fact to those charged with governance
- Should not accept the review engagement
- Both (a) & (b)

S No.	Ans	Reason
1	D	Inquiry & analytical procedures are performed in review engagement.
2	A	SRE 2400 deals with practitioners responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements. However, SRE 2410 deals with auditors professional responsibilities when the auditor undertakes an engagement to review interim financial information of a client of which he is the auditor
3	B	Under SRE 2410, It is, ordinarily, not necessary for practitioner to send an inquiry letter to company's lawyer for corroborating inquiries about company's litigations.
4	B	While performing review of financial information of a corporate client of which CA X is also auditor, it would not be necessary for him to make a statement that auditor is responsible for expressing an opinion on interim financial information based on a review in review report.
5	C	If auditor unable to complete the review, auditor should Communicate in writing to appropriate level of management and to TCWG the reason why review cannot be completed & consider whether it is appropriate to issue a report.
6	C	If the auditor's preliminary knowledge of the engagement circumstances indicates inability to complete review due to limitation on scope of the auditor's review imposed by management, the auditor should not accept the review engagement.



Ch-16 Standards on Assurance Engagements

1. Before agreeing to accept or continue an engagement, the service auditor shall determine whether the criteria to be applied by the service organization to prepare the description of its system will be:

- a. Suitable only.
- b. Suitable and available to user entities and their auditors also.
- c. Suitable and available to user entities only.
- d. Suitable and available to user auditors only.

2. In case of a type 2 report issued under SAE 3402, if work of internal audit function has been used in performing tests of controls, which of following is true regarding reporting implications in service auditors report?

- a. That part of the service auditors assurance report that describes the service auditors tests of controls and the results includes a description of the internal auditors work and of the service auditors procedures with respect to that work.
- b. Internal auditors work is not referred to in service auditors assurance report.
- c. A description of the internal auditors work and of the service auditors procedures with respect to that work are stated in service auditors responsibility section
- d. The question of reference to internal auditors work does not arise as in such assurance reports ultimate responsibility is of service auditor.

3. Which of following is a hallmark of reporting under SAE 3400?

- a. Reference to managements responsibility
- b. Identification of prospective financial information
- c. A statement of negative assurance
- d. Date of report

4. A company is in its start-up phase and its future business prospects are dependent not only upon funding by stream of VC (venture capital) funds but also how its product would be perceived by potential customers. The company asks CA P to prepare a projection for a coffee table discussion with venture capital firms and also provide a report duly signed by him providing assurance on such projections.

What is likely appropriate course of action for him?

- a. Such a reporting is outside the scope of services which can be rendered by Chartered Accountants. Therefore, such engagement should be straightaway refused.
- b. He can report in respect of examination of evidence supporting the assumptions in such financial information and on accuracy of projections.
- c. He can report in respect of examination of evidence supporting the assumptions in such financial information but not on accuracy of projections.
- d. He can report only in respect of examination of evidence supporting the assumptions in such financial information when management expects these future events described in situation to take place.

1) b 2) a 3) c 4) c



Ch-17 Digital Auditing

1. ABC Ltd uses CRM system to punch the sales orders in the system. On an hourly basis all the sales orders are transferred from CRM to SAP for further executing the delivery and invoicing. Name the IT dependency getting impacted here.

- a. Interface
- b. Restricted Access
- c. Automated Control
- d. Reports

2. Which of the following is not an example of Next Generation Technology. Select one option from the following:

- a. Metaverse
- b. Macros & scripts
- c. Drone Technology
- d. Virtual Reality

3. ABC Ltd is developing controls to ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives. Which amongst the mentioned controls is not part of access management domain?

- a. Transactions of administrative and sensitive generic IDs are monitored
- b. Development, testing and production environments are appropriately segregated
- c. Access rights to applications are periodically monitored for appropriateness
- d. Access of terminated user is removed on a timely basis

4. What are the three stages of the cyber risk? Select the correct sequence.

- a. 1) Assessing the cyber risk 2) Impact of cyber risk 3) Managing the cyber risk
- b. 1) Impact the cyber risk 2) Managing the cyber risk 3) Assessing the cyber risk
- c. 1) Managing the cyber risk 2) Assessing the cyber risk 3) Impact the cyber risk
- d. 1) Assessing the cyber risk 2) Managing the cyber risk 3) Impact the cyber risk

5. Company X has invested on automation and working towards digital audit by setting up IT infrastructure to embrace the latest technologies. What do you think is a challenge when comes to digital audit.

Select one option from the following:

- a. Informed decisions
- b. Standardized Processes
- c. Increased Efficiency
- d. Data Security

6. What is the full form of RPA? Select one option from the following.

- a. Robotic Price Automation
- b. Revenue Process Automation



- c. Revenue Price Automation
- d. Robotic Process Automation

7. Mr. A is starting an audit of the company X. He wants to understand the extent to which the company relies upon IT. What are the three stages of understanding the IT environment. Select one option from the following:

- a. Execute - Identify - Understand
- b. Understand - Execute - Identify
- c. Understand - Execute - Assess
- d. Understand - Identify - Assess

8. It is form of spoofing where an attacker impersonates a known business or person with fake website or domain to fool people into the trusting them.

- a. Email Spoofing
- b. Trojan
- c. Fileless Malware
- d. Domain Spoofing

9. Select one option which you think is not an advantage of auditing digitally.

- a. Improved Quality of Audits
- b. Automation and Ease
- c. Reluctance to change
- d. Decrease human dependency

10. Which amongst the following is not a challenge in adapting Digital Audit.

- a. Targeting the right processes ☑ this is a key for successful automation.
- b. Governance and data security in the risk framework.
- c. Improved Risk Assessment
- d. Know what benefits the organization wants to achieve with automation

11. It is a type of cyberattack that leverage domain name system queries and responses to bypass traditional security measures and transmit data and code within the network. Select the correct option of cyber-attack from the following.

- a. Phising attack
- b. DNS Tunneling
- c. Trojan
- d. Denial of Service (DOS) Attack

12. Name the type of cyber-attack which overwhelm the target system so it cannot respond to legitimate requests. In such cases the target site is flooded with illegitimate service requests and is forced to deny service to legitimate users. Select one option from the following.

- a. Ransomware
- b. Phishing



- c. Denial-of-service or Distributed denial-of-service
- d. Spoofing

13. Mr. Z is a former employee of XYZ Ltd, his termination was not timely executed and there was a delay in the termination because of which he had the direct access to the company network, sensitive data and information. Select the possibility of cyber-attack in this case.

- a. IOT Based Attack
- b. Insider Threat
- c. Smishing
- d. Malware

14. It is a type of automated tool that is based on decentralised and distributed ledger, creating a block of information. These blocks are linked using cryptography. Each block contains a cryptographic hash of the previous block, a time stamp, and transaction data. Select the correct option for the type of automated technology used here.

- a. AI
- b. Blockchain
- c. IOT
- d. RPA

15. Which emerging 3-D digital space technology which uses Augmented Reality & Virtual Reality to allow people to have lifelike personal and business experiences online. Select one option from the following.

- a. Augment Reality
- b. NFTs
- c. Drone Technology
- d. Metaverse

16. Which of these controls are not part of change management domain?

- a. Changes are adequately tracked and recorded
- b. Segregation of duties are maintained between developer and implementor
- c. Batch jobs scheduled are monitored for failures and access is restricted
- d. Emergency changes are approved

17. XYZ Ltd is in process of developing the cybersecurity framework and are at the stage of forming the policies around "protect from the risk". Select one option which does not fall under the stage of "protect from cyber risk".

- a. Data Security
- b. Information Protection processes and procedures
- c. Access Controls
- d. Recovery Planning

18. Remote audit or virtual audit is when the auditor uses the online or electronic means to conduct the audit. Select one option which is not an advantage of remote audit.



- a. Cost and time effective
- b. Easy & direct access to evidences
- c. Security and Doctored Documents
- d. Flexibility to work and involvement of global experts

19. Remote audit or virtual audit is when the auditor uses the online or electronic means to conduct the audit. What are the advantages of remote audit. Select one or more options from the following:

- a. Flexibility to work and involvement of global experts
- b. Cost and time effective
- c. Easy & direct access to evidences
- d. All of the above

20. CA K is statutory auditor of JKP Limited. The company relies heavily upon its IT systems for functioning. It has come to the notice of CA K that, during the year under audit, it tried to target the company’s IT systems using ransomware attacks by sending phishing emails. These attacks were not targeted directly at the company’s financial system. Further, these attacks were not successful and were thwarted.

Which of the following is most appropriate statement in this situation?

- a. It is an IT risk alone to be dealt with by company’s IT department. It has little importance for auditor.
- b. It is a cyber risk to be dealt with in accordance with company’s cyber security policy. It has no impact upon audit risk.
- c. It is a business risk and has impact upon assessing audit risk.
- d. It is a business risk to be considered by company management as part of its risk assessment process. The auditor is not concerned with it.

21. Safe Health Insurance Limited is a company working in the field of health insurance sector. It is now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it. The details are verified by the system against data present in it. Such system has allowed faster processing of claims, error-free data validation and increased customer satisfaction. In respect of situation regarding working of insurance company in health insurance sector, which of following technologies has likely been used?

- a. Internet of things
- b. Data analytics
- c. Robotic process automation
- d. Power BI

Q	Ans	Reason
1	a	Interfaces are programmed logic that transfer data from one IT system to another(Here from CRM to SAP).
2	b	Macros and scripts can be treated as most common technique to automated the data and this has been in the used by auditors and auditees very commonly. However other examples like Metaverse/VR/Drone technology are budding technologies.
3	b	Development, testing and production environments are appropriately segregated - Is the part of change management domain.



4	a	No organization is completely immune to a cyber risk. The three stages are first to assess the cyber risk, evaluating the impact of attack which would vary from organization to organization and attack to attack, lastly is to manage the risk.
5	d	Data security and privacy remains the prime concern while adapting technological advancement. Companies should evaluate the tools and should make sure all the regulatory compliances are adhere to
6	d	Robotic Process Automation (RPA) is the automation of the repetitive processes performed by users. It is a software technology that emulate humans' actions interacting with digital systems and software. Process efficiency, customer experience and control effectiveness contributed to RPA. Robotic Process Automation software bots can interact with any application or system the same way people do.
7	d	The auditor needs to understand where risks might arise from the entity's use of IT (required as per SA315R). Understanding the IT environment, identifying the IT system, automated and manual controls and assessing the complexity of the IT environment are the 3 stages of understanding IT environment.
8	d	Domain spoofing is a form of phishing where an attacker impersonates a known business or person with fake website or email domain to fool people into the trusting them. Typically, the domain appears to be legitimate at first glance, but a closer look will reveal subtle differences.
9	c	Training & development are critical to ensure teams understand how and why they are using the technology. Reluctance to change is obvious, however continuous training help them to get better.
10	c	Digital Audit is having an advantage that using the automation in the audit streamlines the process and testing and it ultimately improves the risk assessment procedure.
11	b	Denial of Service (DOS) Attack Description: DNS Tunneling is a method of cyber attack that encodes the data of other programs or protocols in DNS queries and responses. DNS tunneling attacks exploit the DNS protocol to tunnel malware and other data through a client-server model.
12	c	Denial-of-service or Distributed denial-of-service is a cyber-attack in which perpetrator sends more traffic than the target can handle, causing it to fail, making it unable to provide service to its normal users.
13	b	Insider Threat - When current or former employees that pose danger to an organization because they have direct access to the company network, sensitive data, and intellectual property (IP), as well as knowledge of business processes, company policies or other information that would help carry out such an attack.
14	b	A blockchain is a distributed ledger that maintains a continuously growing information and records, called blocks. These blocks are linked using cryptography. Each block contains a cryptographic hash of the previous block, a timestamp, and transaction data.
15	d	The metaverse is the emerging 3-D digital space that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online. It represents a convergence of digital technology to combine and extend the reach and use of cryptocurrency, artificial intelligence (AI), augmented reality (AR) and virtual reality (VR).
16	c	Batch jobs scheduled are monitored for failures and access is restricted Description: Batch jobs scheduled are monitored for failures and access is restricted - This control is a part of computer operations domain.



17	d	Recover Planning is a part of stage "recover from risk" which is the last step in cyber framework. Entity should undertake appropriate actions to recover from the attack and make sure the business is up and running.
18	c	Remote Audit has an disadvantage that while performing the audit they can be presented with doctored documents to omit relevant information. This may call for additional planning, some additional/different audit procedures and it increases the concern around security and confidentiality.
19	d	All are the advantages of having the remote audit.
20	c	Cyber risk is business risk. Even if cyber- attack is not directly targeted at company's financial system, access gained by attackers may provide them ability to modify financial records or automated controls. It represents risk of material misstatements. It has impact upon audit risk assessment activities.
21	C	Technology discussed is Robotic Process Automation.



Ch-18 Emerging Areas

1. Business responsibility and sustainability reporting (BRSR) has become mandatory for certain listed companies from financial year 2022-23 in accordance with SEBI circular. The mandatory reporting is applicable to: -

- a. Top 1000 listed companies by revenue
- b. Top 1000 listed companies by profits before taxes
- c. Top 1000 listed companies by market capitalization
- d. Top 1000 listed companies to decided by SEBI in accordance with certain criteria in different sectors

2. A listed company is including sustainability reporting as part of its annual report in accordance with Global reporting initiative framework (GRI) on a voluntary basis. Such reporting talks about 6 capitals of integrated reporting. The company has launched a programme under the name of “Saksham” to standardise quality of its branch accountants spread across various towns of India including turnaround time (TAT) and operational efficiency. Under which capital above description needs reporting?

- a. Intellectual capital
- b. Social and relationship capital
- c. Natural capital
- d. Human capital

3. The norms of Extended producer responsibility (EPR) are applicable to a listed company required to do mandatory BRSR reporting. EPR norms require processing of plastic packaging waste through recycling, re-use or end of life disposal. The listed company has to register on portal of Central Pollution Control Board in this regard. Which principles requires such information?

- a. Principle 1
- b. Principle 2
- c. Principle 3
- d. Principle 4

4. BRSR reporting is founded upon 9 principles. Which of following is most appropriate description of Principle 2?

- a. It states that businesses should respect the interests of and be responsive to all its stakeholders.
- b. It states that businesses should respect and make efforts to protect and restore the environment.
- c. It states that businesses should provide goods and services in a manner that is sustainable and safe.
- d. It states that businesses should promote inclusive growth and equitable development.

5. One of 9 principles of BRSR reporting requires companies to provide details of social impact assessments (SIAs) of the projects undertaken by the company based upon applicable laws. Which principle is most likely to include such indicators?

- a. Principle 8
- b. Principle 1
- c. Principle 9
- d. Principle 3



Q	Ans	Reason
1	c	BRSR reporting is mandatory from financial year 2022-23 for top 1000 listed companies by market capitalization in accordance with SEBI circular dated 10.5.2021 in this regard.
2	d	It is a capacity building programme for employees and helps in improving skills of employees.
3	b	It relates to principle 2 which states that businesses should provide goods and services in a manner that is sustainable and safe.
4	c	Principle 2 states that businesses should provide goods and services in a manner that is sustainable and safe.
5	a	Detail of social impact assessments of projects concern issue of inclusive growth and equitable development which is subject matter of principle 8.

Ch-19 CARO 2020

1. CA Aarti is in the midst of performing audit procedures in the month of March 2024 for conducting a statutory audit of Tess Products Private Limited engaged in manufacturing of footwear products for the year 2023-24. The turnover of the company as per profit and loss account for the immediately preceding financial year is ₹ 35 crores. In the last week of March 2024, she gathered that the turnover of the company during the year 2023-24 would also be just nearing ₹ 35 crores. The company is also registered as a Small Enterprise under the Micro, Small and Medium Enterprises Development Act, 2006. Its present paid-up share capital is ₹3.50 crores, which has remained unchanged for the past few years. Besides, it is availing and utilizing a working capital credit facility of ₹2 crores from a bank during all these years, including the year 2023-24. The company has acquired all shares of a company based in Hong Kong during the year 2023-24. She wants to be sure about the applicability or otherwise of CARO 2020 for suitably planning and directing her audit procedures for year 2022-23.

Identify likely correct statement in this regard:

- Reporting under CARO, 2020 would not be applicable as it is a small company.
- Reporting under CARO, 2020 would not be applicable as it is registered as a small enterprise under Micro, Small and Medium Enterprises Act, 2006.
- Reporting under CARO, 2020 would be applicable as it is not a small company.
- Reporting under CARO, 2020 would not be applicable as it meets certain threshold criteria prescribed for private companies.

Ans (c)

Reason: In definition of small Co. it clearly states it should neither be holding nor a subsidiary company, since Tess Products Pvt Ltd acquired a Hong Kong based Co., it shall fail to meet definition of small co.

2. Following is the extract of information taken from financial statements of AAF Private Limited for the financial year 2023-24: - (All Figs in tables are in ₹ 000s)

Particulars	31/03/24	31/03/23
Paid up share capital	75000	75000
Long term borrowings	24500	30000
Short term borrowings	55000	50000
Other current liabilities	350	550
Property, Plant and Equipment	48500	56000
Depreciation	7500	9500
Profit/(Loss) after tax	(5000)	(6000)

Assume that there are no taxation adjustments.

The schedule of short-term borrowings reflects as under: -

Particulars	31/03/24	31/03/23
Loans repayable on demand from MMT Bank (secured) (Cash credit limit against hypothecation of stocks guaranteed by all directors)	55000	50000

It has been further noticed during the course of audit that quarterly statements filed by company with its bank for availing cash credit facilities of ₹5.50 crores during the year vis-à-vis books of accounts reflect following details: -

Period ending	Value of stocks as per quarterly	Value of stocks per Books of
30.6.23	80000	70000
30.9.23	70000	65000
31.12.23	85000	70000
31.3.24	80000	80000

It has also been noticed that long term borrowings consist of a term loan from MMT Bank. Term loan outstanding has reduced in comparison to last year. However, during the year 2023-24, company has not paid one instalment of ₹ 5 lakhs on time which is overdue for 65 days as on balance sheet date. The credit facilities have been classified as Standard assets by the Bank in accordance with prudential guidelines of RBI Other current liabilities as on 31/3/24 include TDS payable of ₹ 1.00 lac (out of which ₹ 0.60 lac for month of Feb 24 was due for deposit on 7.3.24). The balance Rs 0.40 lac pertains to month of March 2024.

You are part of engagement team conducting audit of AAF Private Limited. As part of assigned work, you are also responsible for providing information/input to your senior for reporting under CARO, 2020 for financial year 2023-24.

Based on above, answer the following questions:

(i) Considering description about short-term borrowings in the case study, which of following statements is in accordance with CARO, 2020?

- The statutory auditor is required to provide details of differences in quarterly statements filed with bankers with its books of accounts.
- The statutory auditor is required to provide details of differences only in respect of those quarterly statements where there is discrepancy of more than 10% as compared to its books of accounts.
- The statutory auditor is not required to provide details of differences as reporting requirement is triggered only when working capital limits have been sanctioned in excess of ₹ 10 crore during any point of time of the year.
- The statutory auditor is not required to provide details of differences, as at end of year, books of accounts are in agreement with quarterly statement filed.

(ii) The company has not paid one instalment of ₹ 5 lakhs on time which is overdue for more than 65 days as on balance sheet date. Identify likely correct statement in this regard in relation to reporting under CARO, 2020: -

- The account has not become NPA as on 31.3.24. Hence, there is no reporting requirement.
- The reporting requirement is necessary only when company is declared a wilful defaulter by Bank. In the given situation, there is no reporting requirement.
- Amount of default along with period of default is required to be reported.
- The reporting requirement is necessary only when company has diverted amount of term loan for some other purpose. In the given situation, there is no reporting requirement.

(iii) As regards TDS payable of ₹ 1.00 lakh included in other current liabilities, what input would be provided by you to your senior for reporting under CARO, 2020?

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- TDS payable of ₹ 1.00 lac in financial statements shall not be reported as it does not meet necessary reporting requirements.
- It is in nature of undisputed statutory dues. Hence, outstanding amount of ₹ 1.00 lac not deposited is to be reported.
- It is in nature of undisputed statutory dues. However, only outstanding amount of ₹ 0.60 lac not deposited is to be reported.
- TDS payable of ₹ 1.00 lac does not fall under meaning of “undisputed statutory dues”. Hence there is no question of reporting.

(iv) The company has reflected losses in its financial statements for year 2023-24 and 2022-23. Which of following statements is likely to be correct in this regard while reporting under CARO, 2020 for year 2023-24?

- Losses reflected in statement of profit and loss for year 2023-24 and 2022-23 are required to be reported under CARO, 2020.
- Loss reflected in statement of profit and loss for year 2023-24 is alone required to be reported under CARO, 2020.
- There is no requirement to report losses reflected in statement of profit and loss under CARO, 2020.
- The company’s losses reflected in statement of profit and loss in financial year 2023-24 and 2022-23 are less than prescribed percentage threshold limit of paid-up capital. Hence, these are not required to be reported.

S No.	Ans	Reason
1	a	If working capital facility sanctioned > 5 Cr then statutory auditor is required to provide details of differences in quarterly statements filed with bankers with its books of accounts.
2	c	Any default on repayment of loan then auditor needs to report amount of default along with period of default.
3	a	Undisputed statutory dues overdue for more than 6 month on last day of FY need to be reported.
4	c	Only CASH losses need to be reported. There is no requirement to report losses reflected in statement of profit and loss under CARO, 2020.

3. CA Paras is in the midst of conducting statutory audit for the year 2023-24 of “Meto Chemicals Limited”, a listed company. He is collating information required for reporting under CARO, 2020 from management. Audit procedures as are necessary in the circumstances will be performed on the information so obtained. The company’s revenue from sale of products is ₹15,000 crore.

During the course of this exercise, he obtained the following information: -

A. The management has provided the following details of dues that have not been deposited on 31st March, 2023 on account of disputes: -

Name of Statute	Nature of dues	Forum where dispute pending	Period to which amt relates	Amt (₹ in cr)	Amt unpaid (₹ in cr)	Other comments
Income tax Act, 1961	Income Tax	CIT (Appeals)	AY 18-19	50	50	
Income tax Act, 1961	Income Tax	ITAT	AY 14-15	10	10	Demand stayed by ITAT pending completion of

						hearing by the Tribunal
EPF Act	PF Contribution	Hon'ble High Court of Rajasthan	FY 17-18	0.10	0.10	
Municipal Corporation Act	Property Tax	Hon'ble High Court of Rajasthan	FY 15-16	0.15	0.15	

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

B. The following information is available from financial statements / records of the company. (₹ in crore)

Non-current assets	As at 31.3.24	As at 31.3.23
PPE	3,500	4,000
Right of use asset	450	700
Intangible asset	42	40

Values stated above are as per gross block. Right-of-use assets consist of leases where the company has obtained the right-of-use asset under lease agreement in accordance with Ind AS 116.

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

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

Particulars	As per physical verification	As per book of a/c
Raw material	1,000	1,020
Work in progress	200	220
Finished goods	2,000	2,290
Stores & spares	150	120
Total	3,350	3,650

E. During the course of audit, he is informed by management that two supervisory employees have been dismissed from service due to fraud of ₹ 25 lakh committed by them during the year 2023-24. The amount has also been subsequently recovered from them during the year itself.

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

1. Select the correct statement relating to reporting of statutory dues which have not been deposited on account of disputes under clause 3(vii)(b) of CARO, 2020?



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- a. Only matters relating to income tax pending before CIT (Appeals) and PF contribution matter pending before Hon'ble High Court need to be reported.
- b. Only Income tax matter pending before ITAT needs to be reported.
- c. All the four matters for which information has been provided in the fact pattern need to be reported.
- d. Income tax matter pending before CIT (Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court need to be reported, matter pending with ITAT does not require reporting.

2. Identify the correct statement relating to reporting duties of the auditor under clause 3(i) of CARO, 2020 with regard to:

- a. It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. Similarly, there is a duty to report on whether company is maintaining proper records showing full particulars of intangible assets. However, this duty does not extend to reporting on maintenance of records for Right-of-use assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This to report on physical verification by management does not extend to Right-of-use assets.
- b. It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets.
- c. It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty does not extend to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets.
- d. It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. However, this duty to report on physical verification by management does not extend to Right-of-use assets.

3. As regards cost records is concerned, which of the following statement is correct regarding reporting under clause 3(vi) of CARO, 2020?

- a. The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.
- b. The auditor is not required to report on maintenance of cost accounts and cost records since cost auditor has already issued the cost audit report. In such situations, the auditor does not have any duty to report under CARO, 2020.



- c. The auditor is required to examine the cost audit report as well as take into account any qualifications therein and report them under clause 3(vi) of CARO, 2020. However, his duty to report on maintenance of cost accounts and cost records does not exist anymore.
- d. The auditor has a duty to report on cost accounts (or cost statements) only. The clause does not require the auditor to comment on maintenance of cost records (e.g. cost records relating to materials, labour, overheads) where specified by the Central Government.

4. Considering the values of inventories arrived upon physical verification conducted by management vis - à-vis values reflected in its books of account, select the correct option for instance in the case study to be reported by the auditor on inventories under clause 3(ii)(a) of CARO, 2020?

- a. Differences in all classes of inventories (raw material, work-in-progress, finished goods and stores and spares) should be reported irrespective of the materiality and the auditor should also comment on whether they have been properly dealt with in the books of account.
- b. There is no instance to be reported in the given case since the difference between the total value of inventories as per books and physical verification is less than 10%.
- c. To report differences in the value of work-in-progress, finished goods and stores and spares since the difference in each class of inventory is 10% or more (based on value after adjustments). The auditor should also comment on whether they have been properly dealt with in the books of account.
- d. To report differences in the value of finished goods and stores and spares since the difference in each class of inventory is more than 10% (based on value as per books of accounts). The auditor should also comment on whether they have been properly dealt with in the books of account.

5. Should the fraud described in para [E] of the case be reported by the auditor under clause 3(xi)(a) of CARO, 2020?

- a. There is no duty to report since the amount involved is less than ₹1 crore.
- b. It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved.
- c. The requirement to report the fraud does not apply in the current situation since the fraud was not discovered by the auditor.
- d. The requirement to report the fraud does not apply in the current situation since the amount has been fully recovered during the year from the employees who committed the fraud.

S No.	Ans	Reasons
1	C	All disputed statutory dues need to be reported.
2	B	It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets. Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets.
3	A	The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.



4	C	To report differences in the value of work-in progress, finished goods and stores and spares since the difference in each class of inventory is 10% or more (based on value after adjustments). The auditor should also comment on whether they have been properly dealt with in the books of account.
5	B	It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved.



Case Scenarios

1. Rainbow Non-Bank Limited, a “Non-Systemically Important Non-Deposit Taking Non-Banking Financial Company”, was operating appropriately till the start of the COVID-19 pandemic. Due to unforeseen conditions during the pandemic and after that, the operating revenue of the NBFC started decreasing. Following is the position of Net Owned Funds of the company during the last 4 financial years:

Financial Year	Net Owned Funds
FY 20-21	₹12 Cr
FY 21-22	₹5 Cr
FY 22-23	₹3 Cr
FY 23-24	₹2.5 Cr

Rainbow Non-Bank Limited appointed Tirthankara & Company as their statutory auditor for FY 2023-24. Rainbow Non-Bank was involved in re-financing of accounts payables of other companies (i.e., paying to accounts payables on behalf of the company on the due date and allowing additional credit period by charging interest).

To test for understatement in existence or valuation of accounts payable, Mr. Abhinandan (Engagement Partner) decided to test recorded & refinanced accounts payables on a sample basis. He also decided to verify refinanced accounts payable against signed contracts. Mr. Abhinandan did not identify any misstatements.

While performing audit procedures in the month of March 2024 itself, it was noticed by Mr. Abhinandan that Senior Sales Manager from Rainbow Non-Bank agreed to refinance the accounts payables of Opal Stones India Limited, but on the due date, he issued payment to his personal account instead of issuing payments to Accounts Payables of Opal Stones India Limited, The matter was flagged by him to audit committee and amount was subsequently recovered. Due to this Opal Stones had to pay an additional amount of ₹ 4 crore over and above amount of accounts payables of ₹ 25 crore embezzled by the Senior Sales Manager. As Opal Stones had to shell out extra funds due to above, it was proposing to file a suit against the company. However, negotiations were still going on between two companies to settle the matter. There was no disclosure in financial statements regarding these negotiations.

No other observation was identified by Mr. Abhinandan. He is considering to express an unmodified opinion in above situation. He has also approached EQCR to review working papers and documentation.

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

1. While reviewing working papers of Mr. Abhinandan, the Engagement Quality Control Reviewer (EQCR) identified that the audit procedure followed to test for understatement in existence or valuation of accounts payable refinanced is not relevant. However, Mr. Abhinandan did not understand the comments provided by his EQCR.

Kindly guide Mr. Abhinandan with respect to the “relevance of the audit procedure” by selecting the appropriate option from below:

- a. Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement in existence or valuation of accounts payable and not their understatement.



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- b. Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable will give comfort on completeness and valuation but not on existence.
- c. The relevance of the information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.
- d. The relevance of audit evidence is increased when it is obtained from independent sources outside the entity

2. During the review of Mr. Abhinandan's working papers, the External Conformity and Quality Review (EQCR) observed that Rainbow Non-Bank Limited's performance was subpar, with the Net Owned Funds (NOF) standing at ₹2.5 crore at the close of FY23-24. The EQCR believed that Mr. Abhandan was expected to include the NOF in the auditor's certificate for the year-end. However, Mr. Abhinandan disagreed with the same. Can you please provide guidance on the accurate reporting obligation in the current case.

- a. Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration and it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.
- b. Non-banking financial company whose NOF falls below ₹ 200 Lakh shall submit a certificate from its Statutory Auditor.
- c. A certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision. However, the same is not mandatory.
- d. Only for NBFC - MFI, a certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 should be submitted to the Regional Office of the Department of Non-Banking Supervision.

3. Considering the overall materiality of ₹ 2 crore, EQCR believes that Mr. Abhinandan should not issue an unmodified opinion. Mr. Abhinandan, however, argues that he has not identified any material misstatement. To guide Mr. Abhinandan appropriately, the following option is the most suitable:

- a. If the auditor has expressed an unmodified opinion on the financial statements, then the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.
- b. If there is a material misstatement in the financial statements that relate to the non-disclosure of information that should be disclosed, then the auditor shall discuss the nondisclosure with those charged with governance, and where the impact of non-disclosure is material but not pervasive, then the auditor should issue a qualified opinion.
- c. When evaluating the outcome of litigation, the Auditor should record in the audit report the interests and relationships of management that may create threats in the litigation and any applicable safeguards to save the company from outcomes of litigation, whether legal or not.

- d. If the auditor has expressed an unmodified opinion along with the “Emphasis of Matter” Paragraph, then the auditor shall describe in the “Basis for Emphasis of Matter” section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.

S No.	Ans	Reason
1	A	Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement in existence or valuation of accounts payable and not their understatement.
2	A	Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration and it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.
3	B	If there is a material misstatement in the financial statements that relate to the non-disclosure of information that should be disclosed, then the auditor shall discuss the nondisclosure with those charged with governance, and where the impact of non-disclosure is material but not pervasive, then the auditor should issue a qualified opinion.

2. MINSAN Ltd., an unlisted company in South India, is engaged in the business of spice oil extraction. Total paid up capital of the company is ₹ 9 crore. Details of annual turnover and profit of the company for the last 3 years are given below:

Year ended	Turnover (₹ in crore)	Profit (loss) before tax (₹ in crore)
31-03-2022	527.21 (Audited)	50.16
31-03-2023	301.37 (Audited)	01.25
31-03-2024	104.13 (provisional)	(10.25)

The company is using conventional method for extraction of oil from spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.

A new competitor viz, Natural Extracts Ltd, had come in the market during the year 2022 and by the end of March, 2023, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows whole range of automated extraction method, thus, minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of MINSAN Ltd. has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 90 lakh. The company approached SA Bank Ltd. for a term loan of ₹ 80 lakh which would be repaid in 5 years. On 28-12-2023, the bank had sanctioned the loan; and disbursed ₹ 40 lakh till 31 March, 2024.

MINSAN Ltd. has appointed M/s Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2023 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2023-2024 in February, and completed the work by the end of May, 2024. The audit team submitted following findings to the engagement partner:

- PX Ltd., one of the material suppliers, filed a case against the company on 12-09-2023 for a compensation of ₹ 3 crore.

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- **Company has made an estimate for allowance of debtors @5%.**
- **70% of the value of inventory was only covered in physical verification during the year 2021-22 due to outbreak of Novel Corona Virus (COVID-19) and subsequent lockdown thereof.**
- **Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule.**

Three incidences of fraud noticed (total ₹ 1.02 crore)- fraud committed by the Purchase manager ₹ 85 lakh, by Accounts manager ₹ 15 lakh and by a cashier ₹ 2 lakh.

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

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

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

- a. Judgments about the outcome of pending litigation with PX Ltd. against the company.
- b. Estimates made for inventory obsolescence 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.

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. 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.
- b. 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.
- c. Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.

- d. 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.

4. 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?

- Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.
- 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.
- Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.
- 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.

S No	Ans	Reason
1	D	Projected cash flows are seen not prior period.
2	A	Judgments about the outcome of pending litigation with PX Ltd. against the company have high estimation uncertainty.
3	A	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.
4	D	EOM Para included 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 FS.

3. CA. Subhadra is conducting statutory audit of a branch of FNB Bank. The branch is having deposits of ₹ 450 crore and advances of ₹300 crore respectively reflected in its financial statements as on 31st March 2024. While performing audit procedures, she noticed the following: -

1. While reviewing advances of the branch, she came across the following particulars of two cash credit accounts: - (₹ in crore)

Name of borrower	Sanctioned limit	Value of primary security	Value of collateral security	Net worth of borrower	Net worth of guarantor
KT Fab	10.00	20.00	15.00	5.00	3.00
PM Décor	15.00	25.00	12.00	7.50	5.00

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

Information pertaining to KT Fab (₹ in Cr)

As on	Drawing Power	Outstanding balances
31.12.23	9.00	9.61

31.01.24	9.25	9.55
28.02.24	9.50	9.60
31.03.24	9.50	9.75

The outstanding balance in the account has remained more than ₹9.50 crore beginning from 31st December, 2023 till 31st March, 2024 on all days.

Information pertaining to PM Décor (₹ in crore)

As on	Drawing Power	Outstanding balances
31.12.23	12.00	12.50
31.01.24	12.50	12.25
28.02.24	12.50	12.40
31.03.24	12.50	12.50

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

2. On reviewing "Statement of Accounts classified as NPA" as on 31.03.24, she finds that an education loan was granted to son of Mr. X, a customer of bank, for pursuing short duration technical higher studies abroad for ₹50.00 lakh sometime back repayable in 5 years. The loan was granted against security of residential house of Mr. X, valuing ₹60.00 lakh assessed by bank's empanelled valuer. However, the name of bank's empanelled valuer has now been removed due to certain irregularities. Later, value of residential house got reassessed from another valuer and he gave a report reflecting realisable value of residential house for ₹20.00 lakh.

Meanwhile, the instalments in education loan account are overdue for 110 days as on 31st March, 2024. The account was classified as standard asset till last year i.e., 31st March, 2023.

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

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

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

Account name	Sanctioned Amount (₹ in Cr)	Nature of facility	Date of first sanction	Date of renewal
ABC Industries	1.00	Cash Credit	10/05/23	N.A.
XY Pvt Ltd	0.50	Cash Credit	01/07/23	N.A.
SK & Sons	1.50	Cash Credit	04/04/22	04/04/23
DK Creations	0.75	Term loan	01/10/23	N.A.

5. The branch also sends substantial number of Inland outward bills for collection. The bank has a system under which account of customer on whose behalf bill has been sent for collection is credited only after the bill has been

actually collected from the drawee either by the bank itself or through its agents. One of her team members has jotted following audit procedures for Inland outward bills sent for collection: -

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

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

1. Keeping in view information stated in respect of two borrower accounts at para [1] of case scenario, which of the following statement is correct?

- The classification made by branch is not proper. Both accounts should be classified as non - performing assets.
- The classification made by branch is not proper. Borrower account of KT Fab should be classified as Standard asset. However, borrower account of PM Décor should be classified as non-performing asset.
- The classification made by branch is not proper. Borrower account of KT Fab should be classified as nonperforming asset. However, borrower account of PM Décor should be classified as Standard asset.
- The classification made by branch is proper.

2. Considering issue relating to education loan described in para [1] of case scenario, how should it be classified in books of branch as on 31st March, 2024?

- Sub-standard asset
- Doubtful asset
- SMA
- Loss asset

3. As discussed in para [3] of case scenario, one of team members has suggested certain audit procedures described in case scenario for verification of inoperative accounts. Which of audit procedure(s)/ combination of procedures are relevant in such a situation?

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

4. Quick mortality cases are required to be stated in LFAR by statutory branch auditor. With reference to the particulars in para [4] above, which of the following statement is correct?

- All the four cases reflected in the table in para [4] are quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.
- Only the case of DK creations is in nature of quick mortality case. Quick mortality cases are indicative of shortcomings in credit appraisal.

- c. Cases of ABC Industries, XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.
- d. Cases of XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit disbursement.

5. One of her team members has planned certain audit procedures described in case scenario at para [5] for verification of Inland outward bills for collection. Which of the following audit procedure(s)/combination of procedures are likely to be relevant in such situation?

- a. To verify bills for collection on closing date.
- b. To verify bills for collection on closing date and verification of accrual of commission in respect of bills outstanding as on closing date.
- c. To verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.
- d. To verify accrual of commission in respect of bills outstanding as on closing date and verification of accrual of charges in the account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.

S No.	Ans	Reason
1	C	Accounts where outstanding balance more than Drawing power/sanctioned limit → classify as NPA.
2	B	Erosion in value of security is significant when realisable value of security < 50 % of value assessed by bank or accepted by RBI at time of last inspection. Straight-away classified under doubtful category and provisioning should be made.
3	D	Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year and testing debits in inoperative accounts.
4	C	Accounts turning into NPA within 12 months from date of sanction are termed as quick mortality accounts. Hence, cases of ABC Industries, XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.
5	C	For verification of Inland outward bills for collection → auditor shall verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.

5. M/s JKL & Associates, Chartered Accountants were acting as the statutory auditors of M/s IBS Bank Limited. During the statutory audit for the relevant financial year, the following observations were made:

- Interest income included the following:
 - ₹ 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season.
 - ₹ 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.
- A 25 month old NPA account worth ₹ 43 lakh (net book value) was sold to an asset reconstruction company for ₹ 45 lakh. The profit from the above transaction was taken to the P&L account. The above NPA was sold 'without recourse' and at cash basis. The auditors noticed a discrepancy in this transaction and hence decided to report the same.

After completing the bank audit, JKL & Associates agreed to take up the following management consultancy and other services for one of the start-up company based in Noida:

- (i) Setting up executive incentive plan and wage incentive plan.

- (ii) Price-fixation and other management decision making.
 (iii) Conduct a periodical audit and advisor for tax matters.

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

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

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

1. From the above facts and details, what is the correct amount of interest which the bank should account in its financial statements?

- Nil.
- Rs. 8.5 lakh.
- Rs. 5 lakh.
- Rs. 3.5 lakh.

2. What could be the possible amount classified as NPA relating to the accounts with respect to observation regarding the inclusion of interest income given below:

- Rs. 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season.
- Rs. 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.

- Rs. 12 lakh.
- 8.5 lakh.
- Rs. 7 lakh.
- Rs. 3.5 lakh.

3. In NPA, sale to asset reconstruction company, what discrepancy auditor might have noticed:

- The NPA had not completed 30 months.
- Sale was made 'without recourse'.
- Sale was made for cash basis.
- The profit of ₹ 2 lakh was taken to P&L account.

S No.	Ans	Reason
1	C	Short term crop loan overdue for 1 crop season is not treated as NPA. Also income on govt guaranteed advance recognised on realisation basis.
2	D	50% of 7 Lakhs i.e. ₹3.5 L guaranteed by state govt treated as NPA.
3	D	Profit on sale of NPA is retained to meet loss on sale of other NPAs not taken to P&L.



6. CA. Rajveer is in midst of finalizing audit reports of four clients. On reviewing each file, it is noticed as under: -

[A] In case of a company engaged in business of selling of agricultural products which are outside ambit of GST, engagement team has found that substantial part of revenues of the company (about 75%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenues generated through cash sales. Therefore, team has been unable to verify such revenues generated through cash sales.

[B] Excel Limited has been dragged to court by Rare Limited for stealing its trade secrets using cyber theft and filed a claim for Rs.50 crore. On reviewing audit file of Excel Limited, CA Rajveer finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of Excel Limited are silent on this litigation matter.

[C] It is noticed on review of audit file of a client that net profit before tax was Rs.2 crore on a turnover of Rs.100 crore. There is an export receivable from a chain of stores outstanding in financial statements of Rs.3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.

[D] On reviewing file of a client, it is noticed that team was not informed about finished goods of Rs.1 crore lying at a location taken on rent in February 2024. The said issue was flagged at time of reconciling inventories by the team. Hence, team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is Rs. 8 crores. PBT of client is Rs.10 crores.

1. As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705?

- Qualified opinion will be issued and basis for qualified opinion will also be provided.
- Adverse opinion will be issued and basis for adverse opinion will also be provided.
- A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "auditor was engaged to audit financial statements."
- A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "financial statements have not been audited."

2. Considering litigation matter of Excel Limited, which of the following statements is most appropriate in this regard?

- Unmodified opinion needs to be expressed by auditor
- It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.
- It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.
- The company has not made a material provision resulting in material misstatement.

3. Considering description of issue regarding no recoverability of export receivable of Rs.3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?

- Disclaimer of opinion
- Unmodified opinion

- c. Qualified opinion
- d. Adverse opinion

4. Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in February 2024, which type of opinion is appropriate to be issued in case of this client?

- a. Modified opinion
- b. Qualified opinion
- c. Unmodified opinion
- d. Either Modified or Qualified opinion

S No.	Ans	Reason
1	C	Impact is material & pervasive (75%) & no evidence available hence Disclaimer of opinion issued.
2	C	In case Non-disclosure of a material contingent liability by company → Qualified opinion needs be expressed by auditor.
3	D	Here ICAI answer is little unclear, as per my opinion it should be Qualified opinion as impact is restricted to debtors.
4	B	Impact is material but not pervasive hence qualified opinion.

7. CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around Rs. 50 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 2023-24, the following observations with respect to the company were made by the auditors:

The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to Rs. 1.50 crore approximately.

Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2022.

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.

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

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

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



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

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

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of Rs. 113 crore, of which preliminary expenses of Rs. 17 crore were included. The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them.

1. Is the decision of CA & Co. of not reporting the issues of ZXC in CARO, 2020 justified? If so, under what reason?
 - a) No. CARO, 2020 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO.
 - b) Yes. CARO, 2020 is not applicable to ZXC and hence the same need not to be reported.
 - c) No. As per SA 240, the auditor has to maintain professional scepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.
 - d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.
2. What is the total amount of loans that should be classified as NPA by KD Bank?
 - a) 79
 - b) 100
 - c) 204
 - d) 104
3. Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?
 - a) Guarantee given by KD Bank on behalf of constituent located in Myanmar.
 - b) A percentage of the total bills purchased by KD Bank.
 - c) Claims against the bank acknowledged as debt.
 - d) Unpaid salary of Rs. 5 lakh to five staffs of KD Bank Ltd., who are currently undergoing a court trail.
4. As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the following areas should CA & Co. take into account to determine "Key Audit Matter"?
 - (i) The effect on audit of significant transactions that took place in the financial year.
 - (ii) Areas of high risk as assessed and reported by management's expert.
 - (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.
 - a) (i) & (ii)
 - b) (ii) only
 - c) (i) & (iii)
 - d) (i), (ii) & (iii)

S No.	Ans	Reason
1	B	CARO 2020 not applicable to Sec 8 Company.
2	D	₹ 29L (delhi govt) + ₹75 L (3* ₹25L) = ₹104 L NPA [State govt guarantee]



3	A	Guarantee given by Bank on behalf of constituents is contingent liability.
4	C	Refer SA 701 [Significant JRT] includes risk assessed by auditor not management.

8. 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 articulated assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank.

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

(d) During the course of carrying out investigation as above, Bhuvan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India.

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

- 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.
- 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.
- 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.
- No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence

2. Which among the following is NOT a matter included in the scope of a full-fledged financial due diligence?

- Cash flow.
- Accounting Policies.
- Brief history of the target and background of its promoters.
- Accounting Information System.

3. Which among the following is NOT an instance of where the Central Government may order an investigation into the affairs of the company under section 210?

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



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

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

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

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

S No.	Ans	Reasons
1	A	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.
2	D	Accounting Information System is NOT a matter included in the scope of a full-fledged financial due diligence.
3	A	CG may order an investigation into the affairs of the company u/s 210: a) On the receipt of a report of the Registrar or inspector. b) On intimation by a special resolution passed by a company that the affairs of the company ought to be investigated. c) In public interest.
4	A	Assistance of experts can be taken in investigation.
5	B	To seek evidence from outside India for the investigation → 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.

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. You are the audit manager in-charge of the audit team this year and your 1 year trainee asks you the following questions listed down.

He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:



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

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

- a) As the work done by the internal auditor is marvellously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co.
- b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co. need to reduce the unnecessary work as the same has been performed by the other auditor.
- c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co. needs to 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.

2. The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:

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

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

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

- d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.

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

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

S No.	Ans	Reason
1	C	Auditor is required to assess competence and professional care of work performed by Internal Auditor.
2	D	Company needs to prepare the consolidated financial statements if has subsidiary and same need to be audited by auditor and 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.
3	A	If shareholding in subsidiary increased → auditor need not do any additional procedures compared except for audit procedures over the increase in Investment value and its disclosures in F.S.
4	B	Since Co. is in process of listing on Indian stock exchange → Ind AS is applicable.

10. M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2023-24. 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, 2024, 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 2022-23.

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.

1. With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?

- a. The auditor should give a disclaimer of opinion.
- b. The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
- c. The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.
- d. The auditor should mention this fact in other matter paragraph pervasive in his audit report.

2. With respect to the corresponding figures of the financial year 2022-23 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.

3. What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?

- a. The auditors need to report such matter in the Key Audit Matters paragraph in his report.
- b. The auditors need to report such matter in the other matter paragraph in his report.
- c. The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.
- d. Both b & c.

4. Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility:

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

5. If the auditors of Delco Ltd. decides to give a qualified/ adverse opinion in the current financial year with respect to the non-consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter:-

- a. The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.
- b. EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.
- c. EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.
- d. EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.



6. If the management discloses the fact of non-consolidation of financial statements of Soccer Ltd. In the notes to accounts of current financial year, what will be the impact on the audit report:-

- 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.
- 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.
- The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph.
- 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.	Ans	Reasons
1	B	Auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
2	C	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.
3	D	In case, prior period financial statements are not audited a. The auditors need to report such matter in the other matter paragraph in his report. b. The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.
4	C	Auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".
5	B	EOM para on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and matter is fundamental to the user's understanding of financial statements.
6	A	Disclosure of non-consolidation in notes to accounts is responsibility of management preparing the F.S. As such it will not impact the auditor's opinion in present case.

11. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31 March, 2024. 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 2023-24.

- Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill re-discounting.
- Allahabad branch which started foreign exchange business from February 2024.
- 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 2023-24. The Bank's management appointed and fixed the remuneration of Sista and Associates, Chartered Accountants as the statutory auditors also for the year 2023-24, 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 2023.

Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2023-24. 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 2023 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.



1. Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the five branches, so whether Sista and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select correct option from the following

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

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

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

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

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

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

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



S No.	Ans	Reasons
1	D	Audit firm Cannot undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
2	A	Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless same is passed by a resolution in AGM of the Bank.
3	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.
4	D	If there is discrepancy of not preserving intimations of cash remittances to currency chest by Kanpur branch of the bank → concurrent auditor should discuss importance of preserving hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

12. Mr. Ayush, the proprietor of BCD & Co Chartered Accountants, was appointed to audit the financial statements of Amrita Industries Private Limited for the Financial Year 2023-24. These financial statements were prepared in accordance with the Dutch GAAP and the terms & conditions specified in the contract between Amrita Industries Private Limited and Dutch Industries b.v. (Pvt. Ltd is known as b.v. in Dutch). One of the terms and conditions of the contract was to get the financial statements audited from an independent auditor. The contract also stipulated auditors to take into account misstatements of € 5000 or more while framing their report. Any misstatements identified below this threshold did not require correction or adjustment in terms of stipulation in contract. While planning audit, the audit team had also determined performance materiality at € 10000 and overall materiality at € 200000. The following information extracted from general purpose financial statements of Amrita Industries Pvt. Ltd. prepared in accordance with provisions of the Companies Act, 2013 is given as under: -

(Figures in ₹ in cr)

Particulars	FY 23-24	FY 22-23
Turnover	300	250
Borrowings from bank	100	75
Paid up capital	25	25

The borrowings from bank consisted of working capital credit facilities only. The company had been enjoying such credit facilities with a sanctioned amount of ₹75 crore in Financial Year 22-23. The credit facilities were enhanced to ₹ 100 crore at beginning of Financial Year 23-24. Outstanding balance in above credit facilities has never crossed sanctioned limits at any time during each of the above years.

Mr. Shubham, partner at BB & Associates, Chartered Accountants firm, was appointed as engagement partner for audit of general-purpose financial statements of Amrita Industries Private Limited for FY 2023-24. Before finalising audit plan, BB & Associates asked for internal audit reports. However, management informed him that there was no internal audit team or function in the organization.

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

While issuing the report, BCD & Co inserted an Other Matter Paragraph in the Audit Report specifying the use of a special purpose financial reporting framework for preparing and presenting the financial statements. On the other



hand, BB & Associates decided to issue an adverse opinion on all financial statement except for cash flow statement and an unmodified opinion on cash flow statement. As per BB & Associates, the cash flow statement was prepared as per the required method, and hence, it did reflect the appropriate figures.

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

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

You are required to guide the audit team by selecting the appropriate option from below:

- a. In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
- b. In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold is sufficient to comply with the requirement of determining materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
- c. In the case of special purpose financial statements, misstatements based on consideration of the financial information needs of the intended users are considered material and pervasive. However, the auditor needs to follow the threshold limit provided in terms of the contract, and such thresholds should be considered as the performance materiality for planning and performing the audit.
- d. The auditor is required to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional and the condition does not exist. In the case of an audit of special purpose financial statements, the requirements of SA 320 are not applicable in entirety.

2. Mr. Manish, the audit manager of BCD & Co., objected to the insertion of the Other Matter Paragraph in the audit report. According to him, there is no such requirement to insert Other Matter Paragraph to disclose the use of a Special Purpose Framework. Whether contention of Mr. Manish is in order?

- a. The auditor's report on special purpose financial statements shall include an Other Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.
- b. To avoid misunderstandings, the auditor shall mention that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose in Management's Responsibility section. Adding an Other Matter Paragraph for this will result in duplication of the matter, and the same should be avoided.
- c. The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users and may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph.
- d. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.



3. Mr. Chitrang, the audit manager at BB & Associates Chartered Accountant, is seeking your guidance in drafting separate opinions on the cash flow statement and Other Financial Statements. Guide the audit manager by selecting the appropriate option from below:

- a. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement.
- b. The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position is allowed. In this case, the auditor has expressed a disclaimer of opinion on the financial statements as a whole and separate opinion on cash flows.
- c. The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under the same financial reporting framework is permissible.
- d. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not limit the auditor's responsibility to issue an unmodified opinion on identified matters that would not require a modification of the auditor's opinion.

4. The company has violated provisions of the Companies Act, 2013 by not appointing an internal auditor. Which of following statement is likely to be correct reason necessitating appointment of internal auditor and for matters relating to appointment of internal auditor for the financial year 2023-24 in described situation in accordance with provisions of law?

- a. The company was required to appoint internal auditor during financial year 2023-24 as it fulfilled necessary condition relating to turnover during financial year 2022-23. Such an internal auditor may have been either an individual or a partnership firm only.
- b. The company was required to appoint internal auditor during financial year 2023-24 as it fulfilled all necessary conditions relating to turnover, borrowings from banks and paid up capital during financial year 2023-24. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.
- c. The company was required to appoint internal auditor during financial year 2023-24 as it fulfilled necessary condition relating to turnover during financial year 2022-23. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.
- d. The company was required to appoint internal auditor during financial year 2023-24 as it fulfilled necessary conditions relating to turnover and borrowings from banks during financial year 2023-24. Such an internal auditor may have been either an individual or a partnership firm.

5. Mr. Anand, an audit executive, has performed various procedures during the course of audit. Which of the following procedure/combinations of procedures is/are not likely to be considered as risk assessment procedures?

- a. Performing trend analysis, going through company's internal control manuals and visiting company's plant
- b. Inquiries from company's marketing personnel and with in-house legal counsel
- c. Communication with company's external legal counsel by sending a letter of inquiry
- d. Inquiries made with company's information system personnel to provide information about control failures and going through company's internal control manuals



S No.	Ans	Reasons
1	A	In case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
2	D	Auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the F.S. may not be suitable for another purpose.
3	A	When auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement.
4	C	Since last financial year turnover > 200 Cr. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.
5	C	External confirmation is a substantive procedure not risk assessment procedure.

13. ABC Limited is a public company listed on the National Stock Exchange, having its registered office in Delhi. The company is primarily engaged in the manufacturing of pharmaceutical products. During the preceding financial year, the company recorded a remarkable turnover of ₹ 5000 crores, accompanied by a net profit of ₹ 805 crores. Additionally, the company has secured a loan facility from the State Bank of India amounting to ₹ 1000 crores.

PQR & Co., a firm of chartered accountants based in Delhi, has been appointed as a joint auditor along with PK & Co. and XYZ & Co., an esteemed chartered accountant's firm in the same location i.e. Delhi. ABC Limited has already completed the appointment-related formalities as well as they have also signed engagement letters. The engagement letter contains the details on the objective and scope of the audit, responsibilities of the auditors, management, and identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 50 Crore as the materiality threshold, calculated at 1% of turnover.

Now, during the audit, PK & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 201 Lakhs.

Additionally, as a part of the audit procedure, the auditor has also sent confirmation requests to 100 suppliers to confirm the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, in this regard the confirmation responses were received only from 37 Suppliers.

Moreover, as a part of the audit procedure, auditors of the ABC Limited also wants external confirmation from the 37 Debtors to confirm the year end balance, however in this process, the management refuses auditors to allow to send the confirmation and after asking the reason for such refusal, auditors came to the conclusion that, such refusal is unreasonable and the auditor is also unable to obtain relevant and reliable audit evidence from alternative audit procedures.

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



CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

Apart from this, XY Private Limited, an associate enterprise of ABC Limited, the company XY Private Limited appoint ZMR & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor of XY Private Limited for the first time for the current financial year. The financial statement of XY Private Limited was audited by its predecessor auditor in the previous financial year. During the audit for the current financial year, ZMR & Co. came across a material misstatement in the opening balance, that affects the current year financial statement. In this regard, the auditor also discusses the said facts with the 4 management. However, the management does not accurately pay attention to the same and does not either adequately account during the year or disclose or present the same in the financial statement of current year.

The Other Important financial information of XY Private Limited is as below: (₹ in Crores)

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

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

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

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

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

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

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

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

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

S No.	Ans	Reason
1	C	When auditors conclude reason for management's refusal to allow to send the confirmation to the debtors is unreasonable and auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures → Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.
2	D	Joint auditor with different opinion can issue separate report with reference to other report using OM Para.
3	B	When auditor finds a material misstatement which has not been accurately accounted or presented or disclosed in the financial statement of current year, he should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).

14. MN & Associates, a firm of Chartered Accountants, having CA. M and CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. M realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. N provides management consultancy and other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N posted his framed photograph on his website wherein he was receiving the said award from the Institute.

Upon hearing about the efficient services provided by MN & Associates Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- To charge fees as percentage of Net Profits, or
- To charge fees of ₹ 501/-.

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

1. With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates.?

- To charge fees as percentage of Net Profits, or
- To charge fees of ₹ 501/-.



- a) (i) Only.
- b) (ii) Only.
- c) Either (i) or (ii).
- d) Neither (i) nor (ii).

2. MN & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.

- a) CA. IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.
- b) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610
- c) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
- d) MN & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

3. As per the Chartered Accountants Act, 1949, under which clause CA. N is liable for misconduct?

- a) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- b) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

4. Before signing the tax audit report, CA. M sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949?

- a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
- b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
- c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.



- d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

S No.	Ans	Reason
1	c	For Cooperative Society audit firm can offer fees to be charged from them: (i) To charge fees as percentage of Net Profits, or (ii) To fixed fees.
2	b	Statutory auditor can't take direct assistance of internal auditor for matters involving significant judgement or high RoMM. However can take for routine matters.
3	b	Only passport size pic allowed on website.
4	b	Requirement to communicate with previous auditor who's a CA is applicable to all audits.

15. Sun Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Sun Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, and basic chemicals. These products find application in various sectors, from pharmaceuticals and textiles to paints and coatings, construction, and agriculture.

RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2023-24 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity.

During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitation. But the management refused to remove the said limitation.

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

1. What was the responsibility of Mr. Rahul when the management refused to remove the said limitation?

- To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
- To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
- To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.

- d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.

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

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

3. Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal?

- a) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
- c) In the given circumstance withdrawal from engagement mandatory was and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.

4. Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper?

- a) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.
- b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.
- c) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management and refusal to provide reasons for the same and accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.
- d) No, the reasons should have been a little lengthier and further the exact reason must be provided to the new auditor to be appointed by the company.

5. Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM & Co. with respect to withdrawal from engagement and issue of limited review report at the time of resignation?

- a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third Quarter were required to be issued.

CA Final Audit MCQ Booklet (ICAI BOS Portal MCQs)

- b) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second Quarter was required to be issued.
- c) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.
- d) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second Quarter was required to be issued.

S No.	Ans	Reason
1	a	When the management refused to remove the said limitation → determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
2	c	Since resignation is after 45 days from end of Q2, required to issue LR Report for Q3 & consequently Audit Report for full FY.
3	b	When auditor concludes that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, he shall withdraw from engagement and in case withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
4	a	Professional Preoccupation can't be stated as reason for withdrawal from engagement.
5	a	Since withdrawal would have been within 45 days from end of Q2, only LR Report for Q2 was required. Also, as per SA 705 before withdrawal, auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.