

## **SA 720(Revised) - The Auditor's Responsibilities Relating to Other Information**

1.	<b>The auditor is required to consider whether there is</b>
	<ul style="list-style-type: none"> <li>a) Material inconsistency between other information and financial statements</li> <li>b) Material inconsistency between other information and auditor's knowledge obtained in the audit</li> <li>c) Only (a)</li> <li>d) Both (a) and (b)</li> </ul>
2.	<b>In case of audits of listed entities, other information section is required in auditor's report when at the date of auditor's report</b>
	<ul style="list-style-type: none"> <li>a) Auditor has obtained some or all of the other information</li> <li>b) Auditor has obtained all of the other information</li> <li>c) Auditor has obtained or expects to obtain the other information</li> <li>d) Auditor has obtained some of the other information</li> </ul>
3.	<b>In case of audits of unlisted corporate entities, other information section is required in auditor's report when at the date of auditor's report:</b>
	<ul style="list-style-type: none"> <li>a) Auditor has obtained some or all of the other information</li> <li>b) Auditor has obtained all of the other information</li> <li>c) Auditor has obtained or expects to obtain the other information</li> <li>d) Auditor has obtained some of the other information</li> </ul>
4.	<b>Other information section is not permitted in auditor's report in case of</b>
	<ul style="list-style-type: none"> <li>a) Qualified or adverse opinion</li> <li>b) Qualified or disclaimer of opinion</li> <li>c) Disclaimer of opinion</li> <li>d) Adverse or disclaimer of opinion</li> </ul>

<b>Solutions</b>		
<b>Sr.no.</b>	<b>Answer</b>	<b>Hint</b>
1.	[d]	As per para 11 of SA 720
2.	[c]	As per para 5 of SA 720
3.	[a]	As per para 21 of SA 720
4.	[c]	As per As per para A58 of SA 720

**Student Notes: -**

## Risk Assessment & Internal Control, SA 315, SA 330 and Special Aspects in an Automated Environment

1.	<p>The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2019-20. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same.</p> <p><b>Which of the following questions need not be framed under internal control questionnaire relating to purchases?</b></p>
	<ul style="list-style-type: none"> <li>a) Are authorized signatories for purchases limited to elected officials?</li> <li>b) Are payments approved only on original invoices?</li> <li>c) Does authorized officials thoroughly review the documents before signing cheques?</li> <li>d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?</li> </ul>
2.	<p><b>Adequate design and effective implementation of Internal Controls may not lead to the identification of:</b></p>
	<ul style="list-style-type: none"> <li>a) Frauds and errors.</li> <li>b) Design and Implementation gaps in Processes.</li> <li>c) Abuse by Process Owners.</li> <li>d) Segregation of Duties.</li> </ul>
3.	<p><b>ABC Private Limited uses in-house developed application system for Accounting. The auditor observed that user ID and password is mandatory to access the application system and felt that this is a good control.</b></p> <p><b>What type of control is this?</b></p>
	<ul style="list-style-type: none"> <li>a) IT General Control.</li> <li>b) Application Control.</li> <li>c) Detective Control.</li> <li>d) Preventive Control.</li> </ul>
4.	<p><b>Raj Private Limited is engaged in the business of retail and has its retail outlets concentrated towards Northern India. Currently, the company has 59 outlets and the plan of the management is to take this to at least 100 over the next 2 years. The company is audited by Raj &amp; Associates, a firm of Chartered Accountants, who have been operating for over 20 years, however, they don't have much experience in the retail sector. Because of this fact the audit team decided to plan efficiently for the audit of the financial statements of the company for the year ended 31 March 2020, being their first year of audit. During the course of risk assessment by the auditors, it was discussed that the company is operating in an industry where the operations are not very complicated and mostly the processes are known to all. Considering the same they decided that assessment of inherent risk should not be done for this company as that would be inefficient. However, the auditors will take due care of the control risks. The same assessment was deliberated upon and after lot of discussions it was finalized like this.</b></p> <p><b>In the given situation, please advise which one of the following would be correct..</b></p>
	<ul style="list-style-type: none"> <li>a) The assessment of audit team is correct.</li> <li>b) The assessment of audit team is wrong considering the fact that this is a private company wherein such assessment is not possible</li> <li>c) The assessment of audit team is wrong for this company.</li> </ul>

	d) The assessment of audit team is correct considering the fact that this has been thoroughly discussed.
5.	<p><b>Kshitij Private Ltd is a company based out of Noida having operations in India and Dubai. The company's operations in Dubai have increase over the last 2 years and the management is earning very good profits. Because of the profits, the management also planned that they should now focus on strengthening of internal controls of the company and for that purpose they have discussed with the statutory auditors to carry out the audit for the financial year ended 31 March 2020 very rigorously. The report on internal financial controls is also applicable to the company and hence the auditors during the course of their work asked for Risk-control matrices from the company. During the year ended 31 March 2019, Risk-control matrix was not available with the company and was prepared in a draft manner and the same was shared with the audit team during that year and the auditors completed their work on the basis of that. However, for the year ended 31 March 2020, the auditors would like to have robust documentation and are not ready to accept the same Risk control matrices.</b></p> <p><b>In the given situation, please suggest what should be the course of action.</b></p>
	<p>a) The request of audit team is correct and the management should provide that.</p> <p>b) The requirement of audit team is not justified considering the fact that last year same documentation was used by them.</p> <p>c) The requirement of audit team is not justified considering the fact that it's a private company and auditor anyways is required to perform rigorous audit procedures.</p> <p>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.</p>
6.	<p><b>SK Private Limited is a medium-sized company having operations in Jharkhand. The company manufactures some parts and sell that to various dealers on ex-works basis. The financial statements of the company are prepared as per Ind AS and internal financial controls report is also applicable on the same. During the course of audit of the financial statements for the year ended 31 March 2020, the management of the company had a detailed discussion with the auditors for audit planning. Further it was also decided that any observations of the auditors should also be discussed with the management before conclusion by the audit team which was not done in the past years. Considering this, the auditors started the risk assessment and requested the management to share their documentation for the same on which the management said that they don't have any risks and if the auditors come across any such thing they can discuss that with the management. But the auditors were not convinced with the view of the management and the same thing has happened in the past years as well.</b></p> <p><b>You are required to provide your inputs to resolve this matter.</b></p>
	<p>a) The requirement of the audit team is not correct.</p> <p>b) The view of the management is correct because of the applicability of Ind AS.</p> <p>c) The view of the management is correct because of the applicability of internal financial controls reporting.</p> <p>d) The view of the management is not correct.</p>
7.	<p><b>KJ Private Ltd is engaged in the business of e-commerce wherein most of the operations are automated. The company has SAP at its ERP package and is planning to upgrade the SAP version.</b></p> <p><b>Currently, the version of SAP being used is fine but the higher version would lead to increased efficiencies and hence the company is considering this plan which will also involve a huge outlay.</b></p> <p><b>KPP &amp; Associates, were appointed as the statutory auditors of this company for the year ended 31 March 2020 and the statutory audit firm has been working in this industry</b></p>

	<p>for long but most of the work which the firm did was more of risk advisory or internal audit.</p> <p>For the first time, this audit will be conducted and that's why the audit team started obtaining understanding of the operations of the company which included understanding of the SAP system of the company.</p> <p>However, the management of the company was not comfortable with this approach of the audit team particularly because audit team was spending good time on understanding of the IT systems of the company.</p> <p>The management suggested that the auditors should limit their understanding and should perform audit procedures rather than getting into business/ operations.</p> <p>But the auditors have a different view on this matter and because of which work has got stuck. In the given situation, please suggest what should be the course of action.</p>
	<ul style="list-style-type: none"> <li>a) The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate.</li> <li>b) The management's concern regarding the approach of the auditors seems reasonable. The auditors are spending time on understanding of the systems/ business and not performing their audit procedures.</li> <li>c) This being a private company and that too into the business of e-commerce, the auditors should have knowledge about the operations of the company through their understanding of the industry and hence should not get into this process of obtaining detailed understanding at the client place.</li> <li>d) The audit team could have planned their work differently. They should involve IT experts who would have knowledge of the systems of the company and hence lot of time can be saved. Further in case of such type of industry, involvement of IT experts is anyways required mandatorily as per the legal requirements.</li> </ul>
8.	<p><b>AR Private Limited is a medium-sized company engaged in the business of trading of electronic equipment. The company has various warehouses where all of these equipment are kept and has an inventory levels of generally 2-3 months.</b></p> <p><b>The internal environment of the company is driven by various processes some of them are manual and some automated. Accordingly, the management has also set up various controls both manual and automated and is comfortable with their design and operating effectiveness.</b></p> <p><b>During the course of audit of the financial statements for the year ended 31 March 2020, the auditors raised various queries regarding various processes where the controls were operating effectively. This was because of the fact that auditor was considering either only manual controls or only automated controls in a process.</b></p> <p><b>As per the auditor, the management should have adopted the same approach and hence they would like to increase the substantive audit procedures because they had a view that as per the current approach of the management, controls should be considered as ineffective irrespective of the fact that the testing which the audit team had performed resulted in the controls being effective.</b></p> <p><b>Currently, the concern was regarding the approach on which management was also stuck on their point. You are required to provide your inputs to resolve this matter.</b></p>
	<ul style="list-style-type: none"> <li>a) The approach of the management doesn't seem to be correct because of the nature of the operations of the company. The current approach which the management has followed can be accepted only in case of manufacturing industry.</li> <li>b) The management should have discussed their approach with the auditors before appointing them. The Companies Act 2013 provide specific guidance on these matters wherein the management of the company can follow such approach by taking pre- approval from their auditors and in such a case, the report of the auditors is always clean.</li> </ul>

	<p>c) The approach of the management is completely fine. The auditors need to correct their understanding of the internal controls and the application of internal controls. A process cannot be limited to have either only manual control or automated control.</p> <p>d) Considering the size of the company, such matters should be ignored by the auditors. Even if the approach of the management is not correct, it would not have any impact on the work of the auditors because all such matters get resolved at the time when auditors perform final analytical procedures.</p>
9.	<p><b>AJ Private Ltd is in the business of construction and infrastructure having an annual turnover of INR 1,100 crore. The operations of the company are run efficiently driven by the well laid out policies and procedures. The processes of the company are very strong and are well documented and properly communicated to its employees, as required.</b></p> <p><b>The management had also done a detailed risk assessment in the earlier years and currently the risk management system of the company is considered to be very effective. The internal controls include both automated and manual. During the course of the audit of the financial statements of the company for the financial year ended 31 March 2020, the statutory auditors did their risk assessment and also reviewed the general IT controls which were found to be effective. Considering the same, one of the senior audit team members asked the team to start performing the substantive audit procedures taking the approach that controls are effective. However, the audit team did not find this approach correct and discussed that they should also check the effectiveness of other manual and automated controls by testing them and then move on to substantive testing. The audit team recently had a training on the internal controls and hence their understanding was different from the audit senior. This led to a conflicting situation between the audit senior and remaining audit team. In the given situation, please advise which of the following would be correct.</b></p>
	<p>a) The audit senior is correct because general IT controls were found to be effective and hence no further work may be required on controls.</p> <p>b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls can not be said to be operating effectively.</p> <p>c) The audit senior seems reasonable in his approach because general IT controls were found to be effective. However, it would be more appropriate to also test application controls before concluding on the effectiveness of the controls.</p> <p>d) The argument of the audit team looks better because every audit requires significant time to be spent on testing of internal controls and by only covering general IT controls, it would be difficult to justify this requirement later on in the audit file.</p>
10.	<p><b>QRP was using a customized ERP package upto 31 March 2019. However, with effect from 1 April 2019, QRP moved to SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP were of the view that for the financial year ended 31 March 2020, being the first year of SAP implementation, no work on IT controls would be required and they were also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past they had found that the IT controls in the first year of ERP implementation were very weak.</b></p> <p><b>Do you agree with the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report. What would be your suggestion here?</b></p>
	<p>a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files.</p>

	<p>b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.</p> <p>c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation.</p> <p>d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation.</p>
11.	<p><b>BKP &amp; Associates have been auditing TMRT for the last 3 years and had considered management override of controls as fraud risk and revenue recognition as significant risk for TMRT. BKP &amp; Associates are evaluating whether they should drop both management override and revenue recognition as significant risks for the financial year ending 31 March 2021 considering they did not find any problems/ observations in respect of these two items in the past years and their reports have been clean for the last 2 years. Please advise BKP &amp; Associates whether it would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.</b></p>
	<p>a) It would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.</p> <p>b) Management override of controls and revenue recognition should continue to be the significant risks for the financial year ending 31 March 2021 if that continues to be significant risk at inherent level.</p> <p>c) Management override of controls should continue to be the significant risk for the financial year ending 31 March 2021. Revenue recognition may not be considered as significant risk.</p> <p>d) Revenue recognition should continue to be the significant risk for the financial year ending 31 March 2021. Management override of controls may not be considered as significant risk.</p>
12.	<p><b>The acceptable detection risk needs to be __ in order to reduce the audit risk to __ in the area of inventories management and handling.</b></p>
	<p>a) Low in order to reduce audit risk to an acceptably high level.</p> <p>b) High in order to reduce audit risk to an acceptably high level.</p> <p>c) Low in order to reduce audit risk to an acceptably low level.</p> <p>d) High in order to reduce audit risk to an acceptably low level.</p>
13.	<p><b>KPC Limited is a garment manufacturing company having Head Office in Mumbai, 4 factories, 10 marketing offices across the country. The company uses SAP ERP for almost all its business processes except Payroll which is being outsourced to an Agency in Bangalore. Once payroll is processed, data is sent to the HR department at HO. HR department shares such details with Finance Department at HO for making the payment. Journal entries are recorded in SAP. Employees complained about incorrect Income Tax calculation and KPC Limited appointed a CA firm to review the payroll system in detail. It was observed that logic of Income Tax calculation is not as per the requirements of the Act and when the outsourced Agency confirmed that they carried out program changes recently and error may be due to such changes. The Auditor attributed the error of such incorrect software changes to:</b></p>
	<p>a) Loss of Application Controls.</p> <p>b) Loss of Overall Controls.</p> <p>c) Loss of IT General Controls.</p> <p>d) Human oversight.</p>

Solutions		
Sr.no.	Answer	Hint
1.	[d]	
2.	[c]	
3.	[d]	
4.		
5.	[a]	
6.	[d]	
7.	[a]	
8.	[c]	
9.	[b]	
10.	[b]	
11.	[b]	
12.	[d]	
13.	[c]	

**Student Notes: -**

## CARO, 2020

1.	<b>While reporting under clause (i), auditor has to report on which of the following aspects:</b>
	<ul style="list-style-type: none"> <li>a) Benami properties</li> <li>b) Physical verification</li> <li>c) Title deeds</li> <li>d) All of above</li> </ul>
2.	<b>The auditor may accept PPE register in electronic form if:</b>
	<ul style="list-style-type: none"> <li>a) The controls and security measures in the company are such that once finalised, the PPE register cannot be altered without proper authorisation and audit trail</li> <li>b) The PPE register is in such a form that it can be retrieved in a legible form</li> <li>c) Both (a) &amp; (b)</li> <li>d) Neither (a) nor (b)</li> </ul>
3.	<b>The records relating to property, plant and equipment should contain the following details:</b>
	<ul style="list-style-type: none"> <li>a) Situation</li> <li>b) Original cost</li> <li>c) Component-wise breakup</li> <li>d) All of the above</li> </ul>
4.	<b>The auditor may have to consider the applicable documentation requirements of intangible assets as laid down in:</b>
	<ul style="list-style-type: none"> <li>a) Designs Act, 2000</li> <li>b) Patents Act, 1970</li> <li>c) Information Technology Act, 2000</li> <li>d) All of the above</li> </ul>
5.	<b>Physical verification of the assets is the responsibility of the ____</b>
	<ul style="list-style-type: none"> <li>a) auditor</li> <li>b) those charged with governance</li> <li>c) management</li> <li>d) shareholders</li> </ul>
6.	<b>While reporting under clause (ii), which of the following is correct:</b>
	<ul style="list-style-type: none"> <li>a) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory</li> <li>b) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory</li> <li>c) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory</li> <li>d) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory</li> </ul>
7.	<b>For the purpose of reporting under clause (ii), which of the following is correct:</b>
	<ul style="list-style-type: none"> <li>a) The auditor is required to check the working capital sanctioned limit and not its utilization</li> <li>b) The auditor is required to check the working capital sanctioned limit and also its utilization</li> <li>c) The sanctioned limit may be less than five crore rupees but due to excess withdrawals/ levy of interest/ temporary overdrawings, the balance may exceed five crore rupees. Such cases are also in scope of reporting under this clause</li> <li>d) The auditor is not required to check in case utilization is less than the working capital sanctioned limit</li> </ul>



8.	<b>Company A has an opening loan of Rs. 100 and granted 3 more loans of Rs. 200, 300 and 400 during the year. Company extended tenure in respect of two loans (Rs. 100 and Rs. 200) when fell due for payment. Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year for purpose of reporting under clause (iii)(e) in the instant case would be:</b>
	<ul style="list-style-type: none"> <li>a) 33%</li> <li>b) 20%</li> <li>c) 100%</li> <li>d) 0%</li> </ul>
9.	<b>While reporting under clause (iv), which of the following is correct:</b>
	<ul style="list-style-type: none"> <li>a) The auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of the directors only</li> <li>b) The auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of the directors and any person in whom any of the director of the company is interested</li> <li>c) The auditor should report the nature of non-compliance and the amount outstanding as at the balance sheet date in respect of the directors only</li> <li>d) The auditor should report the nature of non-compliance and the amount outstanding as at the balance sheet date in respect of the directors and any person in whom any of the director of the company is interested</li> </ul>
10.	<b>While reporting under clause (iv), which of the following is correct:</b>
	<ul style="list-style-type: none"> <li>a) Under this clause, the auditor is required to report on the compliance of section 186 of the Act to the extent it relates to loans made during the year</li> <li>b) Under this clause, the auditor is required to report on the compliance of section 186 of the Act in respect of giving of loans, guarantee or providing any security in connection with a loan, by a company to any person or other body corporate</li> <li>c) Under this clause, the auditor is also required to report on the compliance of section 186 of the Act which governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person or other body corporate and acquiring securities of any other body corporate by a company</li> <li>d) Under this clause, the auditor is also required to report on the compliance of section 186 of the Act which governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person only</li> </ul>
11.	<b>The Companies (Acceptance of Deposits) Rules, 2014 cover the following main items</b>
	<ul style="list-style-type: none"> <li>a) nature of deposits and persons from whom it can be accepted</li> <li>b) nature of deposits and terms and conditions of acceptance by companies from its members and persons other than its members</li> <li>c) manner and extent of deposit insurance</li> <li>d) None of the above</li> </ul>
12.	<b>The auditor should obtain the following management representation letters:</b>
	<ul style="list-style-type: none"> <li>a) Whether cost records are required to be made and maintained?</li> <li>b) Whether prescribed cost accounts and records are being made and maintained regularly?</li> <li>c) Where there were qualifications/ observations in the cost audit report of the immediately preceding financial year, whether such matters have been addressed in the current year?</li> <li>d) All of the above</li> </ul>
13.	<b>The meaning of “undisclosed income” is referred from:</b>
	<ul style="list-style-type: none"> <li>a) Benami Transactions (Prohibition) Act, 1988</li> <li>b) The Companies Act, 2013</li> <li>c) The Income Tax Act, 1961</li> <li>d) The Reserve Bank of India Act, 1934</li> </ul>

14.	<b>For the purpose of reporting under clause (ix)(b), the auditor should perform the following procedures:</b>
	<ul style="list-style-type: none"> <li>a) Obtain signed declaration from the company</li> <li>b) Seek response while obtaining balance confirmation from lender</li> <li>c) Verify CIBIL report of the company and information available in public domain including websites of RBI, banks, credit information companies</li> <li>d) All of the above</li> </ul>
15.	<b>For the purpose of reporting under clause (ix)(c), the auditor considers the following borrowings:</b>
	<ul style="list-style-type: none"> <li>a) Term loans</li> <li>b) Cash credit</li> <li>c) Overdraft accounts and call money accounts</li> <li>d) All of the above</li> </ul>
16.	<b>As per RBI Master Circular, the diversion of funds includes:</b>
	<ul style="list-style-type: none"> <li>a) Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction</li> <li>b) Transferring borrowed funds to the subsidiaries/Group companies or other corporates by whatever modalities</li> <li>c) Investment in other companies by way of acquiring equities/debt instruments without approval of lenders</li> <li>d) All of the above</li> </ul>
17.	<b>Under clause (ix)(c), the auditor is required to report the following:</b>
	<ul style="list-style-type: none"> <li>a) Amount diverted</li> <li>b) Purpose for which amount was sanctioned</li> <li>c) Purpose for which the amount was utilized</li> <li>d) All of the above</li> </ul>
18.	<b>Which of the following is an example of obligation that is covered under clause (ix)(e):</b>
	<ul style="list-style-type: none"> <li>a) Subsidiary's loan repayment to banks</li> <li>b) Joint venture's GST liability</li> <li>c) Salary payable by the subsidiary company</li> <li>d) All of the above</li> </ul>
19.	<b>Which of the following is indicative that borrowed funds have not been used to grant loans or advances or to meet the obligations of subsidiary, joint venture and associate:</b>
	<ul style="list-style-type: none"> <li>a) Sufficient cash flows from operations of the reporting company</li> <li>b) Funds raised by way of fresh issue of equity by the reporting company</li> <li>c) Net inflows from investing activities, example sale of building</li> <li>d) All of the above</li> </ul>
20.	<b>In case of private placement, maximum number of persons to whom offer/invitation can be made is:</b>
	<ul style="list-style-type: none"> <li>a) 50</li> <li>b) 100</li> <li>c) 200</li> <li>d) 500</li> </ul>
21.	<b>A company making an offer/invitation on private placement is required to allot its securities within how many days from the date of receipt of application money for such securities:</b>
	<ul style="list-style-type: none"> <li>a) 15</li> <li>b) 30</li> <li>c) 45</li> <li>d) 60</li> </ul>
22.	<b>While reporting under clause (xx)(a), the auditor should also have regard to the provisions of following:</b>
	<ul style="list-style-type: none"> <li>a) SEBI LODR Regulations 2015</li> <li>b) SEBI ICDR Regulations 2018</li> </ul>

	c) SEBI ICDR Regulations 2018 and SEBI LODR Regulations 2015
23.	<b>As per rule 5(1) of Nidhi Rules 2014, every Nidhi Company shall ensure that it has:</b>
	<ul style="list-style-type: none"> <li>a) Not less than 200 members</li> <li>b) Not less than 100 members</li> <li>c) Not more than 200 members</li> <li>d) No lower and upper limit on number of members</li> </ul>
24.	<b>The transactions which are covered by section 188 of the Act are:</b>
	<ul style="list-style-type: none"> <li>a) Sale, purchase or supply of any goods or materials;</li> <li>b) Selling or otherwise disposing of, or buying, property of any kind;</li> <li>c) Leasing of property of any kind;</li> <li>d) Availing or rendering of any services;</li> <li>e) Appointment of any agent for purchase or sale of goods, materials, services or property;</li> <li>f) Such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company;</li> <li>g) Underwriting the subscription of any securities or derivatives thereof, of the company.</li> <li>h) All of the Above</li> </ul>
25.	<b>During the audit/verification under clause 3(xv), which are most critical records to ascertain whether the company has complied with the provisions of section 192 of Companies Act 2013:</b>
	<ul style="list-style-type: none"> <li>a) Annual financial statements of the company</li> <li>b) Secretarial records and documents filed with ROC</li> <li>c) Personal records of the management of the company</li> <li>d) Information and explanation given by the management</li> </ul>
26.	<b>Clause 3(xv) will not be applicable for the transactions between the company and following persons as relatives of the director or person connected with such director:</b>
	<ul style="list-style-type: none"> <li>a) Son's wife</li> <li>b) Daughter's husband</li> <li>c) Brother's wife</li> <li>d) Step sister</li> </ul>
27.	<b>During the audit/verification under clause 3(xv), to ascertain whether the company has complied with the provisions of section 192 of Companies Act 2013, auditor should verify/obtain the following as audit evidence:</b>
	<ul style="list-style-type: none"> <li>a) Financial information and records (including assets register) of the company</li> <li>b) Secretarial records and documents filed with ROC</li> <li>c) Obtain representation letter from the management about entering of non-cash transactions</li> <li>d) All of above</li> </ul>
28.	<b>Which of the following persons is a person connected with the director as per provisions of section 192 with reference to compliance of clause 3(xv):</b>
	<ul style="list-style-type: none"> <li>a) Sister's husband</li> <li>b) Brother's wife</li> <li>c) Daughter's husband</li> <li>d) Wife's sister</li> </ul>
29.	<b>In a case wherein a company has entered into an arrangement wherein it shall be acquiring a non-cash asset from the director of the holding company. You being statutory auditor, you are not required to give unfavourable comment under clause 3(xv) if:</b>
	<ul style="list-style-type: none"> <li>a) A resolution for the arrangement has been approved in general meeting of the company</li> <li>b) A resolution for the arrangement has been approved in general meeting of the company and also in the general meeting of the holding company</li> <li>c) A resolution for the arrangement has been approved only in the general meeting of the holding company</li> </ul>

	d) A resolution for the arrangement has been approved in general meeting of the company but was not approved in the general meeting of the holding company
30.	<b>Under clause 3(xv), the auditor would have to verify the transactions with the director or the persons connected with the director and give unfavourable comment except in case wherein:</b>
	<ul style="list-style-type: none"> <li>a) The notice for approval of the resolution includes the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer</li> <li>b) The notice of the resolution does not include the particulars of the arrangement</li> <li>c) The notice for approval of the resolution includes the particulars of the arrangement along with the value of the assets estimated by the management</li> <li>d) The notice for approval of the resolution includes the quantum and particulars of assets involved</li> </ul>
31.	<b>Clause 3(xv) deals with the transactions between the company and:</b>
	<ul style="list-style-type: none"> <li>a) Director of the company or the persons connected with the director</li> <li>b) Director of the holding company</li> <li>c) Director of the subsidiary or associate company</li> <li>d) All of the above</li> </ul>
32.	<b>You being statutory auditor, in respect of transactions with the director or a person connected with the director, you are not required to give unfavourable comment under clause 3(xv) if:</b>
	<ul style="list-style-type: none"> <li>a) The consideration is shown as payable as at the end of the year</li> <li>b) The consideration is settled in the same financial year through cheque</li> <li>c) Both (a) and (b)</li> <li>d) None of the above</li> </ul>
33.	<b>While reporting under this clause, principal auditor is required to include following details:</b>
	<ul style="list-style-type: none"> <li>a) details of companies, paragraph numbers and text of CARO report containing qualifications/adverse remarks</li> <li>b) details of companies and paragraph numbers of CARO report containing qualifications/adverse remarks</li> <li>c) details of companies and text of CARO report containing qualifications/adverse remarks</li> <li>d) details of companies, paragraph numbers of CARO report containing qualifications/adverse remarks and response of component auditors</li> </ul>

Solutions	
Sr.no.	Answer
1.	[d]
2.	[c]
3.	[d]
4.	[d]
5.	[c]
6.	[c]
7.	[a]
8.	[a]
9.	[b]
10.	[c]
11.	[b]
12.	[d]
13.	[c]
14.	[d]

15.	[a]
16.	[d]
17.	[d]
18.	[d]
19.	[d]
20.	[c]
21.	[d]
22.	[a]
23.	[a]
24.	[h]
25.	[b]
26.	[c]
27.	[d]
28.	[c]
29.	[b]
30.	[a]
31.	[d]
32.	[c]
33.	[b]

## Audit Committee and Corporate Governance

1.	<b>ABC Ltd is one of the top 1000 listed entities on the basis of market capitalisation. The Board of Directors of ABC Ltd does not comprise of any women director. The Statutory Auditor who is certifying Corporate Governance as per SEBI regulations, has to ascertain that –</b>
	<ul style="list-style-type: none"> <li>a) the Board of directors will have at least 2 independent woman director.</li> <li>b) the Board of directors will have at least 1 independent woman director.</li> <li>c) the Board of directors will have at least 5 independent woman director.</li> <li>d) the Board of directors need not have any independent woman director.</li> </ul>
2.	<b>The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of</b>
	<ul style="list-style-type: none"> <li>a) not less than 7 directors.</li> <li>b) not less than 4 directors.</li> <li>c) not less than 6 directors.</li> <li>d) not less than 2 directors.</li> </ul>
3.	<b>The Board of Directors of XYZ Ltd, one of the top 2000 listed entities meets 4 times a year. What should be the quorum of the Board of Directors from 1st April 2020-</b>
	<ul style="list-style-type: none"> <li>a) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director.</li> <li>b) 1/3rd of its total strength or 4 directors, whichever is higher, including at least 1 independent director.</li> <li>c) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 2 independent director.</li> <li>d) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 non-executive director.</li> </ul>
4.	<b>XYZ Ltd. is a Public Limited Company engaged in the manufacturing of TMT Bars. M/s. UV &amp; Associates are the statutory auditors of XYZ Ltd. for the FY 2019-20. The company is listed on National Stock Exchange. CA Udhav, the engagement partner is considering the requirements with respect to Regulation 27 and Schedule II (LODR) for corporate governance compliance of XYZ Ltd. Which of the following is correct in this regard?</b>
	<ul style="list-style-type: none"> <li>a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.</li> <li>b) XYZ Ltd. shall submit a monthly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the end of the month. The report shall be signed either by the General Manager of the accounts department of XYZ Ltd.</li> <li>c) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.</li> <li>d) XYZ Ltd. shall submit the annual compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the year end. The report shall be signed either by the General Manager of the Accounts Department of the Company.</li> </ul>
5.	<b>While conducting audit, auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.</b>

	<b>What is the responsibility of Auditor so far as the Management Discussion and analysis report of PNGC Ltd. is concerned?</b>
	<p>a) M/s Bajaj &amp; Associates should verify and comment on the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.</p> <p>b) M/s Bajaj &amp; Associates should verify the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analysing and commenting on the same.</p> <p>c) M/s Bajaj &amp; Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report.</p> <p>d) M/s Bajaj &amp; Associates can verify and comment on the non financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.</p>
6.	<b>ABC Limited Company had not conducted any meeting of Stakeholders Relationship Committee during FY 2019-20 and there was no disclosure provided in the annual report. Company wants to know frequency of conducting meeting of Stakeholders Relationship Committee. Whether it is in compliance with as per LODR Regulations?</b>
	<p>a) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least once in a year. Therefore, there was non-compliance as per LODR Regulations.</p> <p>b) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least four times in a year. Therefore, there was non-compliance as per LODR Regulations.</p> <p>c) As Stakeholders Relationship Committee has authorized Mr. P who is Company Secretary to deal with any queries and concerns of the Stakeholders. Further, there were no Stakeholders concerns during FY 2019-20. Therefore, there was no non-compliance of LODR regulation.</p> <p>d) It is voluntary for companies to conduct meeting of Stakeholders Relationship Committee. Therefore, there was no non-compliance as per LODR Regulations.</p>
7.	<p><b>Mr. I was appointed as statutory auditor of M/s New Limited and M/s Old Limited. Both the companies were having their base in Chennai they had recently listed their shares on the stock exchange. For the financial year 2020-21, Mr. I had signed limited review reports for each quarter, till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased work load, he tendered his resignation to M/s New Limited on 30th January 2021 and asked the company to appoint another auditor to issue audit report for the remaining quarter and the FY 2020-21 as a whole. But the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.</b></p> <p><b>However, Mr. I continued to act as auditor for M/s Old limited. During the 1st week of March 2021, Mrs. W (wife of Mr. I) had borrowed a sum of ₹ 6 lakh from the company for her personal use. Having come to know about this, Mr. I immediately informed the management that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter. But once again, the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.</b></p> <p><b>Based on the above facts, answer the following:-</b></p>
i.	<b>Is the management (of M/s New Limited) right in asking Mr. I to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? What could be the reason for the same?</b>

	<p>a) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole.</p> <p>b) Yes. If the auditor resigns within 45 days from the end a quarter, he is obligated to issue audit report for such quarter.</p> <p>c) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue audit report for the financial year as a whole if he resigns during last quarter.</p> <p>d) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.</p>
ii.	<b>From the aspect of SEBI LODR regulations and the recent circular on 'Resignation of Statutory Auditors from listed entities', is the management (of M/s Old Limited) right in asking Mr. I to issue audit report for the last quarter? What could be the reason for the same?</b>
	<p>a) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters.</p> <p>b) No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable.</p> <p>c) Yes. The disqualification affects Mr. I from issuing audit report from next quarter only.</p> <p>d) Yes. If the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter.</p>
8.	<b>RST Ltd. has a Net Worth of ` 80 crore and a market capitalisation of ` 350 crore. However, its ranking is 800 among all the Listed Companies based on the said capital for the previous year. It has a subsidiary Company PQR Pvt Ltd. whose net worth is ` 25 crore. Whether RST Ltd. and PQR Ltd. are required to undertake Secretarial Audit?</b>
	<p>a) Both RST Ltd. and PQR Ltd. shall undertake Secretarial Audit.</p> <p>b) Only RST Ltd., being a listed entity, is required to undertake Secretarial Audit.</p> <p>c) None of them are required to undertake Secretarial Audit since they are not among the top 500 Companies on the basis of Market Capitalisation.</p> <p>d) Only RST Ltd. shall undertake Secretarial Audit since it is among the top 1,000 Companies on the basis of Market Capitalisation.</p>

Solutions		
Sr.no.	Answer	Hint
1.	[b]	Top 1000 listed entities shall have at least 1 independent woman director.
2.	[c]	The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of not less than 6 directors.
3.	[a]	Quorum of BOD → 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director.
4.	[a]	Quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the Co. [Prior to amendment it was 15 days]
5.	[c]	Auditor is required to review the compliance with the disclosure requirement and need not verify the facts related to the non-financial information reflected in the Management Discussion and analysis report.
6.	[a]	As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least once in a year.



7.	i. – [d]	Auditor is responsible to issue audit report for last quarter since he was the one who had issued the same for first 3quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.
	ii. – [b]	If an auditor is disqualified u/s 141, he can't be asked to issue audit report.
8.	[a]	Summary: Both listed entity & material subsidiary shall be subject to Secretarial Audit.

**Student Notes: -**

## Audit of Consolidated Financial Statements

1.	<p>Rimmi Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31 March, 2020, the company acquired two companies in India and France in September, 2019 and January, 2020 respectively.</p> <p>The company controls both of these companies as per the criteria laid down in the Companies Act 2013 as well as the applicable accounting standards. The management started discussions with the auditors regarding the audit wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements (CFS), if they want.</p> <p><b>Management needs your advise on the same.</b></p>
	<ul style="list-style-type: none"> <li>a) Management must prepare the CFS as per the requirements of the Companies Act, 2013.</li> <li>b) Management has a choice not to prepare CFS but should go for that considering that its true performance and financial position can then be demonstrated.</li> <li>c) Management could have prepared CFS if the acquired companies would have completed at least one year post acquisition.</li> <li>d) Management must prepare CFS but it should include only the company acquired in India</li> </ul>
2.	<p>BCO Private Limited is operating in India for the last 15 years. It has three group companies – one subsidiary in India and the other two in Ireland and France. All these subsidiaries were acquired one by one and investments were made in these companies gradually i.e. initially control was not obtained and after investment for some period, control was obtained. The statutory auditors have evaluated that all the group companies are significant for the purpose of audit of consolidated financial statements. During the year ended 31 March 2019, the audited financial statements of all the components are available except for French company whose audit got delayed and would not get completed before the release date of CFS of parent company. For the purpose of consolidation, the parent company has provided the audited financial statements of other components.</p> <p><b>Please suggest what can be the possible situation in respect of financial statements of French company for the purpose of consolidation for the purpose of audit of CFS.</b></p>
	<ul style="list-style-type: none"> <li>a) Since the audit of French company is in progress, its financial statements subject to audit can be considered by auditor of parent company and audited signed financials can be given to auditors even after release of audited CFS as this is matter of documentation only.</li> <li>b) The management should give management accounts to the auditors of CFS and auditor can mention the same point in other matters paragraph in his audit report which is an acceptable approach.</li> <li>c) Auditor should get the financial statements of French company excluded from CFS.</li> <li>d) If the auditor does not receive audited financial statements of French company, he should modify his audit report.</li> </ul>
3.	<p>KB Ltd is engaged in the business of construction. It has multiple subsidiaries and associates in India. The company acquired PPP GmbH in Germany on 1 February 2019. The company also obtained control in PPP GmbH on the same date. Its investment in PPP GmbH was of a huge amount. The company has been preparing its CFS over the last few years and this has also become a matter of concern for the company for the year ended 31 March 2019. The management is of the view that consolidation of PPP GmbH</p>

	<p>would not be required in CFS for the year ended 31 March 2019 because this is the first year of acquisition. However, the auditors have not been agreeing for the same. The timeline of submission of audited financial statements is due in few months time.</p> <p>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.</p> <p>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.</p> <p>Please help to resolve these matters.</p>
	<ul style="list-style-type: none"> <li>a) Consolidation of PPP Gmbh should be done but GAAP conversion adjustments are not required to be audited.</li> <li>b) Consolidation of PPP Gmbh should not be done and accordingly, GAAP conversion adjustments would not arise.</li> <li>c) Consolidation of PPP Gmbh should be done and GAAP conversion adjustments are also required to be audited.</li> <li>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.</li> </ul>
4.	<p><b>VDN Ltd is a medium-sized company engaged in the business of retail. It has two subsidiaries and one joint venture. Both the subsidiaries are larger in size as compared to the parent company. The accounting policies of the parent company, its subsidiaries and joint venture were same. However, during the year ended 31 March 2019, one of its subsidiary, SMA Pvt Ltd changed the method of depreciation of Property, plant and equipment (PPE) to written down value method which is different from the method followed by the parent company i.e. Straight line method. Further this subsidiary also changed the method of valuation from FIFO to Weighted average method which has become different from parent as the parent follows FIFO method.</b></p> <p><b>These changes were made by the subsidiary because it reflected the better picture of its standalone financial statements. Now for the purpose of CFS, the auditors have asked the management of parent company to ensure that accounting policies of the group companies should align with that of parent in line with the requirements of accounting standard. But the management of parent and subsidiary company believe that out of three group companies other than parent, only one group company requires this change for the purpose of consolidation and the same should be ignored by the auditors. Please suggest.</b></p>
	<ul style="list-style-type: none"> <li>a) The view of management is correct.</li> <li>b) For CFS, method of depreciation of SMA Pvt Ltd may continue to be different, however, method of valuation of inventory should be aligned with that of the parent.</li> <li>c) For CFS, method of valuation of inventory of SMA Pvt Ltd may continue to be different, however, method of depreciation should be aligned with that of the parent.</li> <li>d) The auditor should get these changes made in the standalone financial statements of SMA Pvt Ltd.</li> </ul>
5.	<p><b>AJ Private Ltd is engaged in the business of retail having annual turnover of ` 1,800 crore. The company has a plan to get listed on Bombay Stock Exchange next year. The company</b></p>

	<p>has 3 associates, 4 subsidiaries, and 1 joint venture. The company prepares its consolidated financial statements on a quarterly basis for the purpose for internal purposes. The quarterly financials are reviewed by the statutory auditors of the company.</p> <p>The group companies of the parent company have increased in terms of their size looking at the total assets and revenue of the group.</p> <p>For the purpose of audit of consolidated financial statements for the year ended 31 March 2020, management has request the statutory auditors that it would be able to provide management certified accounts of the joint venture as its audit would not get completed on time and even without joint venture, the auditors would be able to cover 75% of the total assets of the group at consolidated level.</p> <p>However, the statutory auditors are insisting that they need to cover at least 80% of the total assets of the group at consolidated level as per the requirements of the Auditing Standards and for that financials of the joint venture should also be audited. Please advise.</p>
	<ul style="list-style-type: none"> <li>a) Auditors should accept the management certified accounts of joint venture; evaluate implications on audit report as qualification will be required for unaudited components as per SA 705.</li> <li>b) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Registrar of Companies.</li> <li>c) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Securities and Exchange Board of India, considering the plan to get listed next year.</li> <li>d) Auditors should accept management certified accounts of joint venture provided the revenue of the joint venture is less than 10% of the total revenue of the group</li> </ul>
6.	<p><b>Advik Ltd is an unlisted public company. The company acquired few companies in the last 3-4 years which have been assessed as its subsidiaries/ associates/ joint ventures (hereinafter jointly called as 'components'). The company prepares its condensed consolidated financial statements every quarter to review the performance of the group. In the past years, the company used to get the financials of its components reviewed/ audited on a quarterly basis. AJ &amp; Co LLP is the statutory auditor of parent company and KSH &amp; Associates is the statutory auditor of all the components. Quarterly condensed consolidated financial statements of the group are reviewed by the statutory auditors as per the terms of the engagement letter.</b></p> <p><b>AJ &amp; Co LLP has communicated to Advik Ltd that in line with the requirements of the Companies Act 2013, it would also be required to undertake audit/ limited review of all the components which would be consolidated with those of Advik Ltd and for which KSH &amp; Associates are the statutory auditors currently.</b></p> <p><b>Management is not agreeing with the same as they don't want to change KSH &amp; Associates as auditors of the components and the requirement mentioned by AJ &amp; Co LLP would lead to duplication of work of auditors as well as the management. Please advise.</b></p>
	<ul style="list-style-type: none"> <li>a) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with SA 600, Using the work of another auditor and hence the requirement of auditor is valid.</li> <li>b) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with the requirements of the Companies Accounts and Audit Rules 2014 and hence the requirement of auditor is valid.</li> </ul>

	<p>c) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is not required to re-perform audit/ limited review of the components and hence the requirement of auditor is not correct.</p> <p>d) Management and the auditor need to decide this mutually as this is based on the contractual arrangement between them.</p>
7.	<p><b>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:</b></p>
	<p>a) SA 600, "Using the work of Another Auditor".</p> <p>b) SA 299, "Joint Audit of Financial statements".</p> <p>c) SA 720, "The Auditor's Responsibilities Relating to Other Information".</p> <p>d) SRS 4410, "Compilation Engagements".</p>
8.	<p><b>M/s ANS &amp; Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2019-20. Delco Ltd. deals in the manufacture of shoes.</b></p> <p>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 &amp; Associates.</p> <p>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.</p> <p>At the time of finalization of the Audit Report of the company for the year ended March 31, 2020, the auditors are considering their reporting responsibility for non-consolidation of the financial statements of Soccer Limited.</p> <p>The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts.</p> <p>Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2018-19.</p> <p>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.</p> <p><b>Based on the above facts, answer the following:-</b></p>
i.	<p><b>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?</b></p>
	<p>a) The auditor should give a disclaimer of opinion.</p> <p>b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.</p>

	<p>c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.</p> <p>d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.</p>
ii.	<b>With respect to the corresponding figures of the financial year 2018-19 in the current year financial statements, what are the auditors reporting responsibility for the same?</b>
	<p>a) The auditor's opinion should refer to each period for which the financial statements are presented.</p> <p>b) The auditors need to report on the current year financials only be it comparative or corresponding figures.</p> <p>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.</p> <p>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.</p>
iii.	<b>What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?</b>
	<p>a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.</p> <p>b) The auditors need to report such matter in the other matter paragraph in his report.</p> <p>c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.</p> <p>d) Both b &amp; c.</p>
iv.	<b>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:-</b>
	<p>a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.</p> <p>b) The management may undertake to accept such responsibility through an engagement letter itself.</p> <p>c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".</p> <p>d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.</p>
v.	<b>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:-</b>
	<p>a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.</p> <p>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.</p> <p>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.</p> <p>d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.</p>
vi.	<b>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:-</b>
	<p>a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.</p>

	<p>b) The auditor can ignore the issue of non-consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts.</p> <p>c) The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph.</p> <p>d) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such nonconsolidation the notes to accounts.</p>
9.	<p><b>Papa Limited is a listed nationalised bank whose face value per share is ` 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ` 2 crore, determination of amount of minority interest of ` 50 lakh and some intra-group transaction adjustment of ` 15 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of 30 lakh.</b></p> <p><b>Which of the following statement is true as per given situation?</b></p>
	<p>a) For giving the effect of merger, permanent consolidation adjustment of 250 lakh and current period consolidation adjustment of 45 lakh was made.</p> <p>b) For giving the effect of merger, permanent consolidation adjustment of 280 lakh and current period consolidation adjustment of 15 lakh was made.</p> <p>c) For giving the effect of merger permanent consolidation adjustment of 295 lakh.</p> <p>d) For giving the effect of merger, permanent consolidation adjustment of 265 lakh and current period consolidation adjustment of 30 lakh was made.</p>
10.	<p><b>Andy &amp; 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.</b></p>
i.	<p><b>Your Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:</b></p>
	<p>(a) The company need to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.</p> <p>(b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.</p> <p>(c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.</p> <p>(d) Both (a) &amp; (b).</p>
ii.	<p><b>The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:</b></p>
	<p>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.</p>

	<p>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%.</p> <p>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.</p> <p>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.</p>
11.	<b>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:</b>
	<p>a) Memorandum adjustments.</p> <p>b) Current period consolidation adjustments.</p> <p>c) Permanent consolidation adjustments.</p> <p>d) Temporary period consolidation adjustments.</p>

Solutions		
Sr.no.	Answer	Hint
1.	[a]	
2.	[d]	
3.	[c]	
4.	[b]	
5.	[a]	Whenever auditor unable to obtain audited accounts of components to be consolidated, auditor shall accept mgt certified accounts & evaluate a qualification as per SA 705
6.	[c]	Auditor of Parent Co. isn't required to audit/review the F.S. of components if they are audited by another auditor. But in case of Listed Entities, Limited Review required for all entities whose accounts are to be consolidated with listed entity as per SEBI LODR
7.	[a]	
8.	i. – [b]	
	ii. – [c]	
	iii. – [d]	
	iv. – [c]	
	v. – [b]	
	vi. – [a]	
9.		
10.	i. – [d]	
	ii. – [a]	
11.	[c]	

**Student Notes: -**



## Bank Audit

1.	<p><b>PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?</b></p>
	<p>a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly.</p> <p>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.</p> <p>c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.</p> <p>d) Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills rediscounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.</p>
2.	<p><b>Your firm has been appointed statutory auditor by a Nationalised Bank for the year 2019-20. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2020. While verifying you observed that one of the accounts was regularised on 28th March 2020, for which the interest and instalment amount was overdue from the quarter ending 30th September 2019. The account was regularised after the repayment of overdue interest and instalment amounts was done on 26th March 2020. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank.</b></p> <p><b>As a statutory auditor will you agree with the Bank's policy?</b></p>
	<p>a) As the interest charged in the account was overdue for more than 90 days from the end of quarter, it should be classified as NPA and should be considered as sub-standard asset for the balance sheet as on 31st March 2020.</p> <p>b) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA.</p> <p>c) The auditor should not agree with the Bank's policy to regularise the account before balance sheet date as overdue interest indicates more than normal risk attached to the business.</p> <p>d) Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.</p>
3.	<p><b>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:</b></p>
	<p>a) Credit the excess of 1 lakh to profit on sale of assets.</p> <p>b) Let the amount remain in Glenpark account.</p> <p>c) Credit the excess of 1 lakh to Provision for loss on sale of NPAs.</p> <p>d) Return 1 lakh to the party purchasing the NPA.</p>
4.	<p><b>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:</b></p>

	<ul style="list-style-type: none"><li>• 59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ` 29 lakh were overdue for more than two years.</li><li>• 73 (guaranteed by Government of India) agricultural loan accounts amounting to ` 25 lakh were overdue for more than two years.</li><li>• 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to 25 lakh for each company were overdue for more than three and a half months.</li></ul> <p><b>What is the total amount of loans that should be classified as NPA by KD Bank?</b></p>																								
	<p>a) 79 lakh. b) 100 lakh. c) 204 lakh. d) 104 lakh.</p>																								
5.	<p><b>Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?</b></p> <p>a) Guarantee given by KD Bank on behalf of constituent located in Myanmar. b) A percentage of the total bills purchased by KD Bank. c) Claims against the bank acknowledged as debt. d) Unpaid salary of ` 5 lakh to five staffs of KD Bank Ltd., who are currently undergoing a court trail.</p>																								
6.	<p><b>Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2020.Total Deposits of the bank on 31.03.2019 was ` 50,000 crore.</b></p> <p><b>The Motto of the Bank is “Royalty lies in Loyalty”. The Statutory Auditors for FY 2019-20 are PK &amp; Associates, CharteredAccountants. The audit manager of the firm while reviewing advances has noticed the following:</b></p> <p>a) The Advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue sinceNovember 2019. b) As on 20.04.2020, the ad hoc limit of account of Mr. Y has not been reviewed even though 120 days of date of ad hocsanction were over.</p> <p><b>As an audit manager of the firm, advice which advance(s) shall be classified as Non Performing Asset?</b></p>																								
	<p>a) Mr. X. b) Mr. Y. c) Both Mr. X and Mr. Y. d) Neither Mr. X nor Mr. Y.</p>																								
7.	<p><b>While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrustedwith Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgement used the below mentioned days:</b></p> <table><tr><td>Month</td><td>Day of month</td><td>Day</td></tr><tr><td>April</td><td>2<sup>nd</sup></td><td>Thursday</td></tr><tr><td>May</td><td>5<sup>th</sup></td><td>Saturday</td></tr><tr><td>June</td><td>5<sup>th</sup></td><td>Friday</td></tr><tr><td>July</td><td>31<sup>st</sup></td><td>Friday</td></tr><tr><td>August</td><td>31<sup>st</sup></td><td>Monday</td></tr><tr><td>September</td><td>1<sup>st</sup></td><td>Tuesday</td></tr><tr><td>October</td><td>30<sup>th</sup></td><td>Friday</td></tr></table>	Month	Day of month	Day	April	2 <sup>nd</sup>	Thursday	May	5 <sup>th</sup>	Saturday	June	5 <sup>th</sup>	Friday	July	31 <sup>st</sup>	Friday	August	31 <sup>st</sup>	Monday	September	1 <sup>st</sup>	Tuesday	October	30 <sup>th</sup>	Friday
Month	Day of month	Day																							
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	<table><tr><td>November</td><td>1<sup>st</sup></td><td>Sunday</td></tr><tr><td>December</td><td>1<sup>st</sup></td><td>Tuesday</td></tr><tr><td>January</td><td>10<sup>th</sup></td><td>Sunday</td></tr><tr><td>February</td><td>8<sup>th</sup></td><td>Monday</td></tr><tr><td>March</td><td>7<sup>th</sup></td><td>Tuesday</td></tr></table> <p>List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?</p>	November	1 <sup>st</sup>	Sunday	December	1 <sup>st</sup>	Tuesday	January	10 <sup>th</sup>	Sunday	February	8 <sup>th</sup>	Monday	March	7 <sup>th</sup>	Tuesday
November	1 <sup>st</sup>	Sunday														
December	1 <sup>st</sup>	Tuesday														
January	10 <sup>th</sup>	Sunday														
February	8 <sup>th</sup>	Monday														
March	7 <sup>th</sup>	Tuesday														
	<p>a) January, February and March. b) July, August and October. c) June, July and October. d) May and November.</p>															
8.	<p>Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ` 200crore. It includes Margin held for funded facilities of ` 3 crore, credit balance for one branch of ` 4 crore, adverse balance of nostro Mirror account of ` 2 crore and unadjusted deposit for agency business of ` 6 crore. Papa Limited has total 12 directors including 3 women directors. Out of them, Mr. Right was non executive chairman as well as promoter of bank. Papa Limited has a total of 5 independent directors in their board.</p> <p>While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March?</p>															
	<p>a) 191 crore. b) 200 crore. c) 197 crore. d) 185 crore.</p>															
9.	<p>M/s Venus &amp; Associates (referred to as ‘auditor’) have been appointed as one of the statutory central auditors of FDHC Bank.,(referred to as ‘Bank’) for the Financial Year 2019-20. During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank.</p> <p>The auditor understands that such balance is a matter of important consideration in the audit of the bank. The engagement partner, Mr. A, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.</p> <ul style="list-style-type: none"><li>• Amount of interest accrued and not due on deposits amounting to ` 95,50,000/-.</li><li>• The balance of Interest rate swaps amounting to ` 84,95,000/-. Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements. The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard wasdiscussed in detail within the engagement team.</li></ul> <p>The details with respect to unaudited branches are as under: Interest Income: ` 25,97,000/-. Interest Expense: ` 15,45,220/-. Total advances: ` 5,00,20,000/-. Total deposits: 4,22,00,000/-</p> <p>The auditors also discussed the following with the audit staff and the bank management during the course of the audit:</p> <ul style="list-style-type: none"><li>• Computation of Demand and Time Liabilities.</li><li>• Computation of Tier I &amp; Tier II capital of the Bank.</li></ul> <p>Based on the above facts, answer the following</p>															

i	<b>The balance of FDHC Bank with the Zurich based Bank should be converted into Indian Currency at the following rate:</b>
	<ul style="list-style-type: none"> <li>a) The exchange rate prevailing on the Balance sheet date.</li> <li>b) The average of opening and closing exchange rates during the year.</li> <li>c) The exchange rate as prescribed by Reserve Bank of India.</li> <li>d) The exchange rates applicable on the respective dates of transaction in the account.</li> </ul>
ii	<b>What should be the treatment of Interest on deposits accrued but not due amounting to ` 95,50,000/- appearing in the financial statements of FDHC Bank.</b>
	<ul style="list-style-type: none"> <li>a) The amount should be included in deposits amount.</li> <li>b) The amount should not be included in amount of deposits.</li> <li>c) The amount should be shown under the head other liabilities and provisions.</li> <li>d) Both b &amp; c.</li> </ul>
iii.	<b>The amount of Interest Rate Swaps amounting to ` 84,95,000/- should appear as .... in the financial statements of the bank</b>
	<ul style="list-style-type: none"> <li>a) Contingent Liabilities.</li> <li>b) Other Liabilities and provisions.</li> <li>c) Current Liabilities.</li> <li>d) Deposits.</li> </ul>
iv.	<b>Which of the following is correct statement related to the requirement laid down by the RBI for Venus &amp; Associates while verifying the compliance with the SLR requirements of the bank?</b>
	<ul style="list-style-type: none"> <li>a) M/s Venus &amp; Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.</li> <li>b) M/s Venus &amp; Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.</li> <li>c) M/s Venus &amp; Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays.</li> <li>d) M/s Venus &amp; Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.</li> </ul>
v.	<b>With respect to the unaudited branches what information is the auditor required to disclose in his audit report?</b>
	<ul style="list-style-type: none"> <li>(i) Number of unaudited branches.</li> <li>(ii) Quantification of advances, deposits, interest income and interest expense for such unaudited branches.</li> <li>(iii) Quantification of advances and deposits as such amounts exceed ` 5 crore and ` 2 crore respectively. However, quantification of interest income and expense is not required as such amounts do not exceed the limit of ` 30 lakh and 20 lakh respectively.</li> <li>(iv) Quantification of advances and deposits is not required as the respective amounts are less than ` 10 crore. However, quantification of interest income and expense is required.</li> </ul>
	<ul style="list-style-type: none"> <li>a) (i) &amp; (ii).</li> <li>b) (i) &amp; (iii).</li> <li>c) (i) &amp; (iv).</li> <li>d) (d) Only (i).</li> </ul>
vi.	<b>While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:</b>
	<ul style="list-style-type: none"> <li>a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.</li> <li>b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.</li> </ul>

	<p>c) Net credit balance in branch adjustment accounts including these relating to foreign branches.</p> <p>d) Margins held and kept in sundry deposits for funded facilities.</p>
10.	<p><b>The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2020. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2020-21.</b></p> <p>(i) Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill rediscounting.</p> <p>(ii) Allahabad branch which started foreign exchange business from February 2020.</p> <p>(iii) Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.</p> <p>Sista and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Associates, Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit.</p> <p>At the Kanpur branch of the bank there were high value cash deposits in one of the current account during April 2020. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2020-21. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2020 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance. Answer the below questions based on the above paragraph:</p>
i.	<p><b>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?</b></p> <p><b>Select correct option from the following:</b></p>
	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
ii.	<p><b>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:</b></p>
	<p>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.</p> <p>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.</p> <p>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.</p>

	d) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.
iii.	<b>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:</b>
	a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only. b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc. c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly. d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.
iv.	<b>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:</b>
	a) The auditor should report the matter as a major irregularity in his audit report to the management. b) The auditor should verify the details from e-mail sent to currency chest and close the matter. c) As it is a minor irregularity the auditor can ignore the same. d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
11.	<b>A bank has some non-interest-bearing staff advances. In the Balance Sheet these should be presented under:</b>
	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'.

Solutions		
Sr.no.	Answer	Hint
1.	[b]	PMS Investments are to be audited separately by External auditor & PMS investments records to be maintained separately.
2.	[d]	
3.	[c]	Excess of realisation over the book value of NPA is not treated as profit rather provision is created to meet loss on sale of other NPAs.
4.	[d]	$(29 + 3 \times 25 = 104)$
5.	[a]	
6.	[a]	
7.	[c]	
8.	[a]	
9.	i. – [a]	
	ii. – [c]	
	iii. – [a]	
	iv. – [ ]	
	v. - [a]	

	vi. – [c]	
10.	i. – [d]	
	ii. – [a]	
	iii. – [c]	
	iv. – [d]	
11.	[d]	

**Student Notes: -**

## Audit of Insurance Companies

1.	<p>KIC Ltd is a company engaged in the business of general insurance and has been in existence for over 15 years. The company has a subsidiary company, PIC Ltd, which is also engaged in the business of insurance other than general insurance.</p> <p>The previous statutory auditors of PIC Ltd have completed their tenure as an auditor and accordingly have resigned and the management of PIC Ltd is looking for new statutory auditors.</p> <p>KB &amp; Associates, a firm of Chartered Accountants, have vast experience of audit of insurance companies and would like to get appointed as auditor of PIC Ltd. KB &amp; Associates is a large firm and have also employed experts – engineers, valuers, lawyers for various client services. The firm is evaluating as to what should be the criteria for get appointed as auditors of PIC Ltd because in the past they have audited only the holding companies and considering a subsidiary company for the first time.</p> <p>In this context, please help the firm by answering which of the following options would be correct?</p>
	<p>a) The firm should be appointed by the Board of Directors of PIC Ltd and should ensure that they don't take up audit of more than 2 insurance companies.</p> <p>b) The firm should be appointed by the Comptroller and Auditor General of India and should ensure that they don't take up audit of more than 3 insurance companies.</p> <p>c) The firm cannot take audit of PIC Ltd because they have employed experts which is not permitted by the IRDAI Guidelines.</p> <p>d) The firm can take up audit of PIC Ltd by ensuring that they are eligible to be appointed as per the criteria laid down in the Companies Act 2013 for audit of subsidiary companies and they would need to submit a certificate in this respect to the ICAI.</p>
2.	<p>NIC Ltd. is a large company engaged in the business of insurance for the last 9 years. The company has expanded its business considerably over the years and have set up various divisions across India.</p> <p>The accounting and the operational systems of the company are centralized wherein the accounts of all the divisions, trial balances and their balance sheets are prepared by the Head Office. AJ &amp; Co, a firm of Chartered Accountants, are the statutory auditors of this company and audit all the divisions and the head office. The auditors have completed the audit of the financial statements of the company for the year ended 31 March 2020 and the company's financial statements are approved.</p> <p>Before the annual general meeting of the company, the company received a notice from the Insurance Regulatory and Development Authority of India (IRDAI) which has asked the company to respond within 7 days as to why this company breached the requirement of IRDAI guidelines by having a single auditor for all the divisions and head office.</p> <p>The management of the company has been doing this over the years and were never aware of this requirement. To respond to this, the management has consulted many legal experts and also the auditors. They would also like to understand your views as to how to respond to IRDAI in this critical situation. Please advise carefully.</p>
	<p>a) There has been breach of IRDAI guidelines and accordingly the management should respond.</p>



	<p>b) The management can request IRDAI to consider relaxation in respect of this provision for the company for the current year as relaxation for the same is permissible as per IRDA Guidelines.</p> <p>c) The management should respond to IRDAI that this provision is applicable to a company only after 15 years of its existence and hence there is no breach of IRDAI guidelines.</p> <p>d) The management should respond to IRDAI that this provision should have been ensured by the auditors only hence they should not be held liable for this breach of provision of the IRDAI guidelines.</p>
3.	<p><b>BIC Ltd is an insurance company looking to expand their operations in the Northern India. The company's operations have been considerable in the Southern India and its head office is also based at Chennai. The company had strong processes and controls from its starting days and have appointed consultants over the years to ensure their operative effectiveness at various points of time.</b></p> <p><b>Shivam Ltd exercises significant influence over BIC Ltd and the financial statements of Shivam Ltd are prepared as per Ind AS (Indian Accounting Standards) and audited by Shubham &amp; Associates.</b></p> <p><b>Advik &amp; Associates are the statutory auditors of BIC Ltd. For the financial year ended 31 March 2020, BIC Ltd also requested Advik &amp; Associates to certify the Investment Risk Management Systems and Processes of BIC Ltd as per discussions with Shivam Ltd. Advik &amp; Associates completed this task and also submitted the required certificate which the management has submitted to the required authorities.</b></p> <p><b>After submission, BIC Ltd received notice from the Insurance Regulatory and Development Authority of India (IRDA) that the company has not complied the provisions in respect of submission of certificate. The company discussed this matter with Shivam Ltd and would also like to have your views on this.</b></p>
	<p>a) BIC Ltd, being an associate of a company and because of the fact that Ind AS is applicable on Shivam Ltd, should have appointed another firm of Chartered Accountants along with Advik &amp; Associates for this certification work.</p> <p>b) BIC Ltd should have got this certification work done from their internal auditors as per the required provisions of IRDA.</p> <p>c) BIC Ltd should not have got this certification work done from their statutory auditors.</p> <p>d) The certification work should have been done by Shubham &amp; Associates.</p>
4.	<p><b>The Statutory auditors of Royal General Insurance are AK &amp; Co, Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31st March 2020:</b></p> <ul style="list-style-type: none"> <li>• Value of Assets: ` 700 crore.</li> <li>• Amount of Liabilities: ` 415 crore.</li> <li>• Capital: ` 200 crore.</li> </ul> <p><b>Based on above data, state whether Royal General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If No, then state what further action will be done?</b></p>
	<p>a) Yes, solvency margin has been maintained therefore no action is required.</p> <p>b) No, It shall be deemed to be insolvent.</p> <p>c) No, It shall submit a financial plan to the authority.</p> <p>d) The requirement of Solvency Margin is not applicable in case of general insurance companies.</p>
5.	<p><b>The Royal General Insurance has entered into reinsurance contract with ABC Reinsurance Co Ltd against the risk of fire only. ABC Reinsurance Co Ltd is one of the largest reinsurers in India.</b></p>

	<b>Identify the type of reinsurance contract between Royal General Insurance and ABC Reinsurance Co Ltd:</b>
	<ul style="list-style-type: none"> <li>a) Treaty Reinsurance.</li> <li>b) Proportional Treaty Reinsurance.</li> <li>c) Non Proportional Treaty Reinsurance.</li> <li>d) Facultative Reinsurance.</li> </ul>
6.	<p><b>CA &amp; Co. a CA Firm was Offered to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of ` 113 crore, of which preliminary expenses of ` 17 crore were included.</b></p> <p><b>Whether CA &amp; Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason?</b></p>
	<ul style="list-style-type: none"> <li>a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India.</li> <li>b) Yes. The insurance company should have a minimum paid up share capital of ` 100 crore which shall exclude the preliminary expenses.</li> <li>c) No. The insurance company should have a minimum paid up share capital of ` 100 crore which also includes the preliminary expenses.</li> <li>d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority.</li> </ul>
7.	<p><b>M/s QS &amp; Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the year 20XX:</b></p> <ul style="list-style-type: none"> <li>• To conduct the management audit of M/s BR Ltd.</li> <li>• To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd.</li> <li>• Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of ` 15,000 lakh, which includes preliminary expenses of ` 3400 lakh. During audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled.</li> </ul> <p><b>What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd as per section 64VA of the Insurance Act?</b></p>
	<ul style="list-style-type: none"> <li>a) ` 50 crore.</li> <li>b) ` 7500 lakh.</li> <li>c) ` 5.8 crore.</li> <li>d) ` 750 lakh.</li> </ul>
8.	<p><b>CA. Dev was statutory auditor of Safety Limited. It was an insurance company having fire, and marine insurance products. In case of marine insurance, it had a risk of nearly ` 100-120 crore and in case of fire insurance, 70% of its fire insurance premium was received from Star Hotels. Safety Ltd has a policy that in case of marine insurance, it will not hold risk of more than ` 50 crore, hence Safety Ltd signed a contract for 5 years with Help Ltd, which was involved in the business of reinsurance, to cede risk above ` 50 crore for 40% of marine insurance premium. Because of change in business environment, Safety Limited entered a separate contract with Help Ltd to reinsure fire insurance of Star Hotels where Help Ltd will bear 40% risk in returns of 40% of premium from Star Hotels. Net premium used for calculation of unexpired risk reserve of marine hull insurance is ` 70 crore and marine cargo insurance is ` 40 crore. Total net premium of fire insurance was ` 80 crore at the end of the year. CA Dev was confused as to how to calculate unexpired risk reserve.</b></p>
i.	<p><b>What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Marine business?</b></p>
	<ul style="list-style-type: none"> <li>a) Surplus proportional treaty reinsurance.</li> <li>b) Quota share proportional treaty reinsurance.</li> </ul>

	<div>c) Facultative reinsurance.</div> <div>d) Non- proportional treaty reinsurance.</div>																		
ii.	<b>What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Star hotel’s assets?</b>																		
	<div>a) Facultative reinsurance.</div> <div>b) Proportional treaty reinsurance.</div> <div>c) Quota share proportional treaty reinsurance.</div> <div>d) Surplus proportional treaty reinsurance.</div>																		
9.	<b>On 31st March the company had taken insurance (value insured = ` 1 lakh) for its new godown and the premium was to be paid on next day. However, on the night of 31st, a huge fire accident took place and goods worth `1.5 lakh were lost. The company informed the insurance agent about the incident and included the loss value as receivables in its financials.</b>  <b>What should be the right value to be recognised by the company as receivables from the insurance company?</b>																		
	<div>a) Zero</div> <div>b) 1 Lakh</div> <div>c) 1.5 Lakh</div> <div>d) 50,000/-</div>																		
10.	<b>Pradyuman &amp; Co. was one of the joint auditors of Lok Sahay Insurance Co. Ltd. Mr. Vicky, one of the engagement team members, of the said joint auditor, was examining the expenses included in different accounts. While verifying the expenses incurred in relation to employees, Mr. Vicky made a list of the same as follows, which he was going to discuss with his senior: -</b> <table><tr><th>Particulars</th><th>Amount</th><th>Included in which Account</th></tr><tr><td>Payment of salaries to employees</td><td>100 lakh</td><td>Employees’ Remuneration and Welfare Benefits Account</td></tr><tr><td>Reimbursement of premium in respect of employees’ health cover</td><td>20 lakh</td><td>Employees’ Remuneration and Welfare Benefits Account</td></tr><tr><td>Training and nontraining expenses incurred for employees</td><td>30 lakh</td><td>Employees’ Remuneration and Welfare Benefits Account</td></tr><tr><td>Expenses incurred towards medical treatment of employees not having health cover</td><td>10 lakh</td><td>Employees’ Remuneration and Welfare Benefits Account</td></tr><tr><td>Incentives paid to employees of the company who have solicited insurance policies</td><td>40 lakh</td><td>Commission Account</td></tr></table> <b>Whether it can be said that Lok Sahay Insurance Co. Ltd. has properly accounted for the expenses incurred in relation to employees?</b>	Particulars	Amount	Included in which Account	Payment of salaries to employees	100 lakh	Employees’ Remuneration and Welfare Benefits Account	Reimbursement of premium in respect of employees’ health cover	20 lakh	Employees’ Remuneration and Welfare Benefits Account	Training and nontraining expenses incurred for employees	30 lakh	Employees’ Remuneration and Welfare Benefits Account	Expenses incurred towards medical treatment of employees not having health cover	10 lakh	Employees’ Remuneration and Welfare Benefits Account	Incentives paid to employees of the company who have solicited insurance policies	40 lakh	Commission Account
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Incentives paid to employees of the company who have solicited insurance policies	40 lakh	Commission Account																	
	<div>a) No, reimbursement of premium in respect of employees’ health cover should be included in ‘Others’ account and incentives paid to employees should be included in Employees’ Remuneration and Welfare Benefits Account.</div> <div>b) No, non-training expenses have to be shown separately and incentives paid to employees should be included in Employees’ Remuneration and Welfare Benefits Account.</div> <div>c) No, expenses incurred towards medical treatment of employees not having health cover should be included in ‘Others’</div> <div>d) account and non-training expenses have to be shown separately.</div>																		

	e) No, training and non-training expenses incurred for employees should be bifurcated and shown separately and expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account.
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Solutions		
Sr.no.	Answer	Hint
1.	[b]	Auditor of GIC is appointed by C&AG and can audit max. 3 insurance companies.
2.	[a]	Insurance Co. can't have a single auditor for all the divisions and head office.
3.	[c]	IRDA advised that the CA firm, which is not the Statutory or Internal or Concurrent Auditor of concerned Insurer shall certify that the Investment Risk Management Systems and Processes are in place.
4.	[a]	
5.	[d]	
6.	[b]	
7.	[a]	
8.	i. – [a]	
	ii. – [a]	
9.	[a]	Insurance Co. isn't liable for claim if premium is not received.
10.	[b]	Non-training expenses have to be shown separately and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.

**Student Notes: –**

## Audit of Non-Banking Financial Companies

1.	<p>RCE Ltd was set up under the Companies Act 2013 and got itself registered as non-banking financial company with the Reserve Bank of India, fulfilling the required criteria. During the financial year ended 31 March 2020, the company's operations have started. The company's total assets were rupees 298 crore out of which trade receivables, loans receivable in cash, cash and bank balances comprised of rupees 199 crore. During the financial year ended 31 March 2020, the company's operations generated total income of rupees 99.50 crore. The management also did an assessment and observed that income from its financial assets was not much during the year and amounted to only rupees 60 crore. The management is looking at various alternatives to improve its operations, if required, to generate better income in the coming years.</p> <p>Further, the company during the year also accepted and gave demand deposits which have been very efficient for the company. Management has a plan to significantly increase these deposits in the next 2 years as that would help in the overall functioning of the company.</p> <p>In the context of the above, please answer which of the following options would be correct.</p>
	<p>a) The company does not meet the criteria of financial assets and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.</p> <p>b) The company does not meet the criteria of income and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.</p> <p>c) The company meets the criteria of financial assets and income. An NBFC can only accept demand deposits but cannot give demand deposits. Hence in this case, the statutory auditors should report regarding the same.</p> <p>d) The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter</p>
2.	<b>50:50 test determination is popularly used in :</b>
	<p>a) Banking Company.</p> <p>b) Insurance Company.</p> <p>c) NBFC Company.</p> <p>d) Stock Trading Company</p>

### Solutions

Sr.no.	Answer	Hint
1.	[d]	NBFC can only give demand deposits but it cannot accept demand deposits.
2.	[c]	NBFC has to fulfil the test. Wherein its financial assets > 50% of total assets & income from such financial assets > 50% of gross income.

**Student Notes: -**

## Audit of Public Sector Undertaking

1.	<p>Setir Ltd is a company in which 59% of the paid up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects.</p> <p>The Punjab Government is also planning to induct funds in the company in future, if required. Nocri Ltd is a company controlled by Setir Ltd. The business of Nocri Ltd is construction and has an annual turnover of INR 2500 crore approx. The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2020 got completed but Nocri Ltd observed that during the course of audit, there was lot of intervention of Comptroller &amp; Auditor General of India, wherein C&amp;AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&amp;AG on the audit report of the auditors.</p> <p>Nocri Ltd is seeking legal opinion to go against C&amp;AG so that they can avoid unnecessary interference of C&amp;AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&amp;AG which the existing auditors have not been able to avoid. In this context, please advise which of the following should be correct?</p>
	<ul style="list-style-type: none"> <li>a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&amp;AG.</li> <li>b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditors.</li> <li>c) C&amp;AG involvement could have been accepted if this was the audit of Setir Ltd but not in case of Nocri Ltd and hence Nocri Ltd should also reach out to its parent company to get this resolved.</li> <li>d) Stand of Nocri Ltd is wrong as the C&amp;AG may get involved in the audit of Nocri Ltd.</li> </ul>
2.	<p>CGN Ltd is a large company engaged in the business of oil exploration in India. The Tamil Nadu Government and the Central Government hold 37% and 20% respectively of the paid-up share capital of this company.</p> <p>The C&amp;AG appointed the statutory auditors of this company as per requirements of the Companies Act 2013. The company had a concern regarding this appointment because company wanted to appoint another auditors as per their assessment, however, considering the legal hassles which would have got involved, the company decided to go ahead with this.</p> <p>The audit of the financial statement for the year ended 31 March 2020 got completed by the auditors appointed by the C&amp;AG. Subsequent to this, the C&amp;AG also issued an order to conduct test audit of the accounts of the company which was objected by the management of the company.</p> <p>The management objected saying that the complete set of financial statements have been audited by auditors appointed by the C&amp;AG and hence this order is not acceptable because this would lead to duplication of work.</p> <p>Moreover, the management has also written to the C&amp;AG that for the next financial year, the existing auditors should either resign so that the management may bring in their own auditors or the C&amp;AG should have faith in the work of the auditors appointed by them. Please suggest how to resolve this matter.</p>

	<ul style="list-style-type: none"> <li>a) The management's stand is not correct. The C&amp;AG may order test audit as per the requirements of the Companies Act 2013.</li> <li>b) The management's stand is not correct. The C&amp;AG may order test audit as per the requirements of the Indian Penal Code.</li> <li>c) The management is correct and in this situation they get the right to appoint another auditor considering the fact that the C&amp;AG has lost faith in the work of auditors appointed by them.</li> <li>d) Such type of matters should be taken to arbitration as per the requirements of the Arbitration Act.</li> </ul>
3.	<p><b>NOP Ltd is a joint venture of Central Government and a private company and is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company.</b></p> <p>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.</p> <p>The operations of the company have improved significantly as claimed by the management of the company.</p> <p>The C&amp;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.</p> <p>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.</p> <p>The management of the company would like to have your inputs in respect of this matter. Please guide.</p>
	<ul style="list-style-type: none"> <li>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.</li> <li>b) The C&amp;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.</li> <li>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.</li> <li>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.</li> </ul>
4.	<p><b>AJ Petroleum &amp; Refining Ltd is a Maharatna Central Public Sector Undertaking (PSU) in India having its registered office in Uttaranchal. It is engaged in the business of oil refining, pipeline transportation &amp; marketing, exploration &amp; production of crude oil &amp; gas, petrochemicals, gas marketing and other downstream operations. The PSU has global aspirations for which its management is working on various plans/ programmes so that the same can be achieved in future. It is also planning to pursue diverse business interests by setting up of various joint ventures with reputed business partners from India and abroad to explore global opportunities. Considering these objectives and other factors,</b></p>

	<p>the C&amp;AG directed the performance audit in respect of its certain activities/ functions which has been in progress. Before starting the audit, the detailed scope and composition of audit team was shared with the management of the company and tentative timelines were also given with which the management was fine.</p> <p>However, during the course of the audit the audit team changed its audit programme to achieve the desired objectives which was approved by the competent authority, however, the management was not happy with those changes. The management wants the audit team to conclude the audit with the same scope as this is a special type of audit wherein such flexibility cannot be accepted as that would defeat the purpose of the law. However, the audit team has a different view.</p> <p><b>Please guide.</b></p>
	<p>a) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014.</p> <p>b) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014 and the Ministry of Law.</p> <p>c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.</p> <p>d) The C&amp;AG should get involved in this matter after taking permission from the Central Government and would require to change the audit team if the scope requires any changes as the same should have been properly assessed by the audit team before commencing the audit.</p>
5.	<b>In Case of PSU, Direct Reporting Engagement does not include</b>
	<p>a) Performance audits.</p> <p>b) Compliance audits.</p> <p>c) Financial audits.</p> <p>d) Comprehensive Audit.</p>
6.	<b>A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by</b>
	<p>a) Public Accounts Committee (PAC).</p> <p>b) Committee on Public Undertakings (COPU).</p> <p>c) Estimates Committee.</p> <p>d) Public sector Committee.</p>
7.	<p><b>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,</b></p> <ul style="list-style-type: none"> <li>• Are separate user names and passwords assigned to individual users?</li> <li>• Are periodical changes of passwords ensured?</li> <li>• Are external (offsite) data backups maintained at a place outside the premises?</li> </ul> <p><b>The type of audit being conducted is likely to be:</b></p>
	<p>a) Comprehensive audit.</p> <p>b) Propriety audit.</p> <p>c) Compliance audit.</p> <p>d) Financial audit.</p>

Solutions		
Sr.no.	Answer	Hint
1.	[d]	C&AG has powers under Sec 143(5),(6) & (7) which it can exercise not only over Audit of Govt Co but also subsidiary of Govt Co.
2.	[a]	As per Sec 143(7), C&AG can order test audit of a Govt Co.
3.	[b]	Performance audit can be done for Govt Co.



4.	[c]	Audit program can be changed provided those are discussed with the management and approved by the Competent Authority.
5.	[c]	Financial Audits aren't Direct Reporting Engagements.
6.	[b]	A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by Committee on Public Undertakings (COPU).
7.	[c]	

**Student Notes: -**

## Liabilities of Auditor

1.	<p>Kshitij and a group of persons subscribed to the shares of JNN Ltd. JNN Ltd had issued a prospectus for issuance of shares against which these persons had subscribed the shares.</p> <p>It was later on found that some information as included in the prospectus was misleading. These persons filed a case against the company covering all the parties who were responsible for the prospectus on the ground that the information contained in the prospectus was misleading and they suffered losses by relying on that information.</p> <p>The company consulted this matter with its legal consultants in respect of the course of action to be taken and also consulted that if the outcome of the case goes against the company then which all parties may be held liable and what could be the other consequences. The prospectus included auditor's report who had also given his clearance. Some of the experts were also involved in respect of the information on which the litigation was filed.</p> <p>Subsequently, it was proved that the contention of Kshitij and those persons was correct. It was held that the directors, promoters of the company and the experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage.</p> <p>The auditors of the company were also asked to make good the losses but they refused with an argument that it is limited to directors, promoters and experts. In this context, please suggest which of the following statement is correct.</p>
	<ul style="list-style-type: none"> <li>a) The argument of the auditors is valid. As per the final outcome of the litigation the auditors were not held liable. However, on moral grounds the auditors should contribute towards the losses suffered by any person.</li> <li>b) The argument of the auditors is valid. Since the final outcome of the litigation did not held them liable, they cannot be asked to contribute towards the losses suffered by any person.</li> <li>c) The argument of the auditors is not valid. The final outcome of the litigation covers the experts and hence the auditors also get covered to contribute towards the losses suffered by the persons.</li> <li>d) The outcome of the litigation seems to be completely wrong. The directors and experts were held liable but along with that the statutory auditors, internal auditors, tax auditors, Company Secretary, tax consultants and the legal advisors should also have been held liable. Further the promoters cannot be held liable in such matters.</li> </ul>
2.	<p>JK Ltd is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of INR 25,000 crore. The operations of the company are increasing constantly, however, the focus of the management is more on cost cutting in the coming years to improve its profitability.</p> <p>In respect of the financial statements of the company which are used by various stakeholders, some deficiencies were observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders went for a civil action against the company including all the parties who had the responsibility in respect of those financial statements. The statutory auditors of the company were also roped in.</p> <p>The statutory auditors went against this civil action and were able to prove that there was no professional negligence on their part. It was decided that the loss was</p>

	<p>occasioned through the negligence of directors and the fault of the auditor in failing to verify the asset was considered to be only technical.</p> <p>On the basis of above mentioned facts, what should be the correct option out of the following?</p>
	<ul style="list-style-type: none"> <li>a) A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.</li> <li>b) Both the auditors and the directors should be held liable in respect of the deficiencies identified. Both of them should compensate these stakeholders in respect of the damages and a further penalty of INR 10 lakh would be imposed on them.</li> <li>c) Auditors and directors should be held liable in this case. Further because the fault of directors is bigger, they would be subject to a penalty of INR 10 crore or losses suffered by the stakeholders, whichever is higher.</li> <li>d) Since the fault of the auditor is limited to technical in nature, he cannot be held liable for any penalty or damages. However, he would not be allowed to work for this company and any other company in similar industry for a period of next 5 years as per the requirements of the Companies Act 2013.</li> </ul>
3.	<p><b>KKR Ltd is a medium-sized company engaged in the business of ecommerce. The company's operations have remained stable over the years and its profitability has been going down. The company also ventured into different markets over the last few years but that has not helped much in terms of growth of business or increasing the profitability. The company's immediate plan is to expand its operations with focus on increasing the profitability. The company was looking for funds to achieve this objective and issued a prospectus to the public to subscribe to its shares. The financial statements of the company for the year ended 31 March 2020 included in the prospectus showed a very different picture of the company particularly in respect of its profits. It was later on found that some of the information contained in the prospectus was misstated i.e. it was untrue and misleading to attract the public to subscribe the shares of the company.</b></p> <p><b>Legal action was taken by the stakeholders against the company including its auditors and the company's management/ directors were confident that they would not be required to face any action considering the fact that the financial statements were duly audited by a reputed firm of Chartered Accountants. If at all any problem arises, it would be the responsibility of the auditors.</b></p> <p><b>Please advise whether anyone can be held liable in this matter or not. If yes, what action can be taken against him/them? If no, what should be the corrective action?</b></p>
	<ul style="list-style-type: none"> <li>a) The understanding of the directors is correct and the auditors should be held liable under section 447 of the Companies Act.</li> <li>b) The understanding of the directors is wrong. They would be held liable under section 447 of the Companies Act and not the auditors because responsibility for the prospectus lies with the management.</li> <li>c) This may lead to criminal liability wherein every person who authorises the issue of such prospectus shall be liable under section 447 of the Companies Act.</li> <li>d) This may lead to civil liability wherein every person who authorises the issue of such prospectus shall be liable under section 447 of the Companies Act.</li> </ul>
4.	<p><b>Vimal Kumar, a Chartered Accountant by profession, has been into practice for the over 6 years. He developed a specialization in respect of matters related to Income Tax and hence got various clients to whom he was advising. Other than the taxation work, Vimal was also good in accounting matters but he could not develop his business/ clientele the accounting services over the period. He used to represent his clients in respect of income tax returns.</b></p>

	<p>For one of his clients, he, as an authorised representative, prepared the return of income and furnished the same and other required documents (the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return) to the Assessing Officer. He had also conducted an examination of those records and submitted a report on the scope and results of his examination.</p> <p>The assessee in this case was a very old client of Vimal and also used to pay him very good remuneration. In order to provide some benefits to the assessee, Vimal provided certain information to the assessing officer which was found to be false later on. In the given case, which of the following options should apply?</p>
	<p>a) Since Vimal only acted as a representative of the assessee, he cannot be held liable. The assessee is the primary person responsible and accordingly the assessee would be liable to rigorous imprisonment which may extend to seven years and to a fine.</p> <p>b) The given matter does not only relate to submission of the return of income but also covers an examination of those records and a report on the scope and results of examination by a Chartered Accountant. Because of the professional responsibilities placed on a CA, it becomes his duty to carry out all the tasks in an objective manner free from any bias. Hence Vimal would be liable to a penalty of Rupees seven crore and imprisonment of seven years.</p> <p>c) Vimal would be liable to rigorous imprisonment which may extend to seven years and to a fine.</p> <p>d) Vimal and his assessee would be liable to a penalty which may extend to ` 1 crore. Further because of the fact that the particulars submitted with the assessing officer belong to the assessee, hence the assessee would also be liable to imprisonment for three years under the Indian Penal Code.</p>

Solutions		
Sr.no.	Answer	Hint
1.	[c]	
2.	[a]	
3.	[c]	
4.	[c]	

**Student Notes: -**

# Internal, Management & Operational Audit

1.	<p>The firm from which you are pursuing your articleship training is the internal auditor of ABC Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material.</p> <p><b>You will:</b></p>
	<ul style="list-style-type: none"> <li>a) Accept the explanation and the bills.</li> <li>b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.</li> <li>c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit.</li> <li>d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.</li> </ul>
2.	<p>Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with Simony Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking/cancellation of tickets and verify the accuracy of bills raised by the travel agency.</p> <p><b>Which audit do you feel the management should opt for?</b></p>
	<ul style="list-style-type: none"> <li>a) Internal audit, as it relates to examining the operational efficiency of the organisation.</li> <li>b) Management audit, as it is an audit desired by the management.</li> <li>c) Performance audit so as to assess the performance of the Simony travels appointed by the organisation.</li> <li>d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organisation.</li> </ul>
3.	<p>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.</p> <p><b>State whether those officers are correct or not in their viewpoint by referring to the provisions of the Companies Act, 2013?</b></p>
	<ul style="list-style-type: none"> <li>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.</li> <li>b) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a cost accountant in practice only.</li> </ul>

	<p>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.</p> <p>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.</p>
4.	<p><b>RMI Ltd is a listed company in the business of manufacturing and trading of furniture and has annual turnover of INR 1,800 crore. The company's business has declined in the last 2 years. The internal auditors of the company have been very helpful in terms of coming up with observations/ suggestions which have helped the management improve its operations over the years.</b></p> <p><b>The Company set up a plant around 4-5 years ago and the internal auditors have observed that the management needs to strengthen controls around compliance with Minimum Wages Act, 1948 and rules framed thereunder. Following were the observations of the internal auditors:</b></p> <p><b>Weekly offs not provided : As per Minimum Wages (Central) Rules, 1950, Rule 23 (2), "Employee shall not be required or allowed to work in a scheduled employment on the rest day unless he has or will have a substituted rest day for a whole day on one of the five days immediately before or after the rest day, provided that no substitution shall be made which will result in the employee working for more than ten days consecutively without a rest day for a whole day". However, on review of the attendance records of contractual workers, it was noted that contractual staff worked continuously for more than 10 days, ranging from 13 to 31 consecutive days.</b></p> <p><b>Working hours exceed the maximum limit of 12 hours a day: As per rule 24(2), "The working day of an adult worker shall be so arranged that inclusive of the intervals of rest, if any, shall not spread over more than twelve hours on any day". However, on a sample review of attendance records of workers for the month of April for contractual workers, it was noted that there were 24 exceptions wherein workers have worked more than 16 hours up to 23 hours a day.</b></p> <p><b>Management explained to the auditors that this has been the practice in the area in which the company is operating. Further the management also told that they will review the working schedule of workers and ensure the compliance with the requirement, ensure that weekly offs and extended hours of labour will be as per legal requirements.</b></p> <p><b>Please suggest the internal auditors in respect of this matter.</b></p>
	<p>a) This is a good recommendation by the internal auditors which the management plans to implement. However, it should not be reported as an observation.</p> <p>b) If the management agrees to implement the corrective action by the current financial year end, internal auditor should not report this matter in his report.</p> <p>c) Internal auditor observation should be reported in his report along with management comments.</p> <p>d) Internal auditor should look at the significance of this matter and looking at that can ignore this point.</p>
5.	<p><b>Strong Steel Ltd. has reported a higher turnover of `650 crore in the year 2020-21 as compared to earlier years but its sales return has also increased to 10% from only 4% upto the last year. The management is concerned about the high sales returns and feels a need to get the operational audit done for sales and production department of the company. The company is also having an internal audit department in the company. Elaborate the possible reason/s, why management is getting operational audit done when internal audit has already been done for both the departments?</b></p>

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

Solutions		
Sr.no.	Answer	Hint
1.	[b]	
2.	[d]	
3.	[d]	As per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.
4.	[c]	
5.	[c]	

**Student Notes: -**

## Due Diligence, Investigation and Forensic Audit

1.	<p>IMIR Inc is a major technology, engineering, manufacturing and financial services conglomerate, with global operations having its registered office in US. The Company's manufacturing footprint extends across eight countries in addition to US. It has several international offices and a supply chain that extends around the globe. HIN Private Limited is a medium-sized Fast- Moving Electrical Goods (FMEG) company and is also involved in power distribution equipment manufacturing. This company is based in India and enjoys a good market share in a wide spectrum of products like Industrial &amp; Domestic Circuit Protection Devices, Cables &amp; Wires, Fans, Commercial and Industrial Applications. IMIR Inc (Acquirer) is currently in talks to acquire HIN PvtLtd (Target).</p> <p>The initial price has been agreed for the acquisition of business based on net worth and profitability of the target company with an assumption that all contingent liabilities of the target company impacting its future business have been considered. The acquirer appointed a firm to carry out the financial due diligence review of the target company and advised that the firm should strictly work as per the scope. The firm during the course of its review found some show-cause notices (which have not matured into demands) being issued against the target company. The firm also found that there could be a potential high value labour claim which may arise out of the negotiation which was ongoing between the target company and the labour union and the labour wage agreement has already expired. The firm discussed all these matters with the management of the target company.</p> <p>The target company confirmed that these matters are under discussion and was confident that these matters would not result into any liability and hence it did not consider the same in the initial price. The firm after its discussion with the target company reported these matters to the acquirer. In the given situation, please suggest which one of the following should be correct?</p>
	<p>(a) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. Hence the above-mentioned matters relating to showcause notice and labour claim should be ignored by the firm.</p> <p>(b) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. However, since these matters have not been considered by the target company in the initial price, it would be appropriate to consider the impact of matter related to labour claim as that may result in liability in future but the matter related to show-cause notice should be ignored by the firm.</p> <p>(c) In the given case, the firm has gone beyond its scope of financial due diligence review. Financial due diligence review covers review of trading results, assets and liabilities and accounting policies and practices of the target company. The management of the target company should talk to acquirer so that the acquirer can ask the firm to limit its work as per the scope agreed.</p> <p>(d) In the given case, even though the initial price between the target company and the acquirer is already set but still the firm needs to look at any hidden liabilities which may arise in the two cases – show cause notices and labour claim. Accordingly, the firm has done the right thing by reporting these matters to the acquirer.</p>
2.	<p><b>ARA &amp; Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period.</b></p> <p><b>Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad.</b></p>



	<p>But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.</p> <p>A team of new partners is in discussion with some of the senior partners, regarding their joining the firm.</p> <p>The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the form of return on capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.</p> <p>For this purpose, an investigation of the business of the firm was set up on behalf of these new partners. At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed that the profits for 2 years were highly erratic and fluctuating. The investigating accountant, therefore, investigated the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm, for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope.</p> <p>Please advise which of the above-mentioned procedures of investigating accountant is/are not appropriate and what improvements/ changes are required in his approach.</p>
	<p>(a) The investigating accountant should not have asked for the records of the profits of last 7-8 years, as that would be too much of the information for his review. Also, the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.</p> <p>(b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.</p> <p>(c) The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.</p> <p>(d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.</p>
3.	<p><b>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 &amp; 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</b></p>

	<b>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.</b>
	<p>(a) The objection raised by FC Leathers is correct, as due diligence doesn't include review of financial projections.</p> <p>(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.</p> <p>(c) The objection raised by FC Leathers is correct, as reviewer cannot comment on financial projections in his report.</p> <p>(d) The objection raised by FC Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.</p>
4.	<b>Bhuvan &amp; 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:</b>
	<p>(a) One of the clients of Bhuvan &amp; 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.</p> <p>(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.</p> <p>(c) Further, Bhuvan &amp; Co. has also received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under Sec 210 of the Companies Act 2013. With respect to this investigation, Bhuvan &amp; Co. is contemplating on the getting the assistance of an expert with respect to certain matters.</p> <p>(d) During the course of carrying out investigation as above, Bhuvan &amp; Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. From the above facts, answer the following questions by choosing the correct option.</p>
i.	<b>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?</b>
	<p>(a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.</p> <p>(b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.</p> <p>(c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.</p> <p>(d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.</p>
ii.	<b>Which among the following is NOT a matter included in the scope of a full-fledged financial due diligence?</b>
	<p>(a) Cash flow.</p> <p>(b) Accounting Policies.</p> <p>(c) Brief history of the target and background of its promoters.</p> <p>(d) Accounting Information System.</p>

iii.	<b>Which among the following is NOT an instance of where the Central Government may order an investigation into the affairs of the company under Sec 210?</b>
	<p>(a) On a request from creditors to investigate the affairs of the company.</p> <p>(b) On the receipt of a report of the Registrar or inspector.</p> <p>(c) On intimation by a special resolution passed by a company that the affairs of the company ought to be investigated.</p> <p>(d) In public interest.</p>
iv.	<b>Can Bhuvan &amp; Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?</b>
	<p>(a) Yes, Bhuvan &amp; 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.</p> <p>(b) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.</p> <p>(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.</p> <p>(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.</p>
v.	<b>What should be the procedure of Bhuvan &amp; Co. to seek evidence from outside India for the investigation?</b>
	<p>(a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation.</p> <p>(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.</p> <p>(c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India.</p> <p>(d) Powers of seeking evidence outside India is available only to an investigator under section 212- Serious Fraud Investigation.</p>
5.	<p><b>Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments – printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange. The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment.</b></p> <p><b>The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2015.</b></p> <p><b>The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2016.</b></p> <p><b>Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out a forensic audit in the financial year 2016-17. During the audit, certain transactions were identified highly risky, on which the management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner.</b></p>

	<p>For the financial year ended 31 March 2020, a due diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself.</p> <p>At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.</p> <p>The company had various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from professionals and renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.</p> <p>At the time of investigation, the reviewer asked about the background of the promoters of the company. The management explained that there was no need for this investigation. Further, the management explained that the company has already gone through the processes of due diligence and forensic audit in the previous years and there was no doubt raised on promoters of the company. So, the background of promoters cannot be shared with the reviewer.</p> <p>In the light of the above-mentioned facts, you are required to answer the following questions:</p>
i.	<p>The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years. Which of the following statement should be correct?</p>
	<p>(a) The contention of the management was correct.</p> <p>(b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.</p> <p>(c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer.</p> <p>(d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.</p>
ii.	<p>The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2020. However, the reviewer asked for financial statements for the year ended 31 March 2019, which was already audited by the statutory auditors of the company and the management of the company declined this request.</p>
	<p>(a) The management is correct.</p> <p>(b) Reviewer can ask for documents even for the period for which audit is completed.</p> <p>(c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards.</p> <p>(d) Reviewer has no right to review the financial statements of the period other than the period under review.</p>
iii.	<p>The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.</p>

	<p>(a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management.</p> <p>(b) The company should not have provided the documents as those are confidential.</p> <p>(c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant.</p> <p>(d) Tax and legal matters are not a part of review of due diligence exercise.</p>
iv.	<b>The management may refuse to share the details of promoters? Comment on this?</b>
	<p>(a) Since the company has already went through due diligence and forensic audit in the previous years, the management may refuse to provide promoters details to the reviewer.</p> <p>(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.</p> <p>(c) Since the company went through processes of forensic audit in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters.</p> <p>(d) The contention of the management is not correct.</p>
6.	<p><b>In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector?</b></p> <p>I. Minaj &amp; Associates, a firm.</p> <p>II. CA Mehul.</p> <p>III. Rahim Pvt. Ltd, a body corporate.</p> <p>IV. XYZ &amp; Partners LLP, a body corporate.</p>
	<p>(a) I, III &amp; IV.</p> <p>(b) I only.</p> <p>(c) III &amp; IV.</p> <p>(d) II only.</p>
7.	<p><b>A special resolution was passed by Dunk Ltd., an unlisted public company, for the purpose of conducting investigation into the affairs of the company by getting order of the Central Government for the same.</b></p> <p><b>The Central Government on receipt of such application from Dunk Ltd. supported by a copy of special resolution did not deem fit to pass an order for investigation and thereby, rejected such request. Thereafter, certain specified number of members of Dunk Ltd. made an application to the Tribunal for seeking investigation and the Tribunal upon being satisfied that such investigation was required, passed an order which was forwarded to the Central Government.</b></p> <p><b>On receipt of such order from the Tribunal, the Central Government passed an order for investigation into the affairs of Dunk Ltd., by appointing Mr. Rajesh as an inspector for the same, who is practicing as a chartered accountant in partnership firm named RS &amp; Co. Mr. Rajesh started with the investigation into the affairs of Dunk Ltd. from 03.04.2021. All books and papers of Dunk Ltd. were handed over to Mr. Rajesh from 04.04.2021. During the investigation, Mr. Rajesh considered it necessary to examine the books and papers of Blue Bell (P) Ltd., a supplier company of Dunk Ltd. while investigating on a particular matter relating to purchases of Dunk Ltd. Accordingly, Mr. Rajesh obtained the same through an officer of Dunk Ltd. On 20.04.2021. Such books and papers of Blue Bell (P) Ltd. were returned by Mr. Rajesh on 05.06.2021 but he again obtained the same on 20.06.2021 by an order in writing, due to certain reasons which were returned on 25.08.2021.</b></p> <p><b>Mr. Rajesh, at the later stage of investigation, also initiated investigation into the affairs of Sinq Ltd., an unlisted public company, which was being managed 2 years ago by an</b></p>

	<p>ex-manager of Dunk Ltd., Mr. Jayesh, as he considered it necessary to do so, after obtaining required approvals.</p> <p>Mr. Rajesh examined on oath by summoning and enforcing attendance of following persons:-  Mr. Jayesh  Mr. Urvil, a director of Dunk Ltd.  Mr. Sunny, an employee of Sinq Ltd.  Mr. Raj, an employee of Blue Bell (P) Ltd.</p> <p>The investigation, in case of the aforesaid companies i.e. Dunk Ltd. and Sinq Ltd. was concluded by Mr. Rajesh but he only forwarded the report of the results of investigation of Dunk Ltd., after authentication, to the Central Government.</p> <p>On perusal of such investigation report of Dunk Ltd., the Central Government observed that revenue of Dunk Ltd. was misrepresented during FY 2019-20 as they were booking fictitious sales in anticipation of actual sales and thus, it concluded that the affairs of the company were mismanaged during the FY 2019-20 which casted a doubt on the reliability of financial statements for the said financial year and because of which it made an application to the Tribunal for the purpose of re-opening books of account of Dunk Ltd. and recasting its financial statements.</p> <p>The tribunal passed an order on 12.01.2022 for re-opening books of account of Dunk Ltd. and recasting its financial statements for FY 2019-20 on the basis of aforesaid reason, after giving notice to the Central Government for the same and taking into consideration the representations made by it in this regard.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>
i.	<p><b>Whether it was justifiable on the part of the Central Government to reject the application of Dunk Ltd. even though it was supported by a copy of special resolution and whether RS &amp; Co. could have been appointed as inspector instead of Mr. Rajesh, in order to have more manpower for the investigation?</b></p>
	<p>(a) Yes, as the Central Government possesses discretion to reject the application received from any person if it does not deem fit for investigation and RS &amp; Co. was eligible to be appointed as inspector.</p> <p>(b) No, the Central Government should have accepted the application as necessary formalities were complied with by Dunk Ltd. and RS &amp; Co. was ineligible to be appointed as inspector.</p> <p>(c) Yes, as the Central Government possesses discretion to reject such an application and RS &amp; Co. was eligible to be appointed as an inspector provided it had minimum 3 partners.</p> <p>(d) Yes, as the Central Government possesses discretion to reject such an application and RS &amp; Co. was ineligible to be appointed as inspector.</p>
ii.	<p><b>Till what time period, Mr. Rajesh was having the authority to keep in his custody, the books and papers of Dunk Ltd. And BlueBell (P) Ltd which were obtained again?</b></p>
	<p>(a) 01.10.2021 &amp; 03.12.2021, respectively</p> <p>(b) 03.07.2021 &amp; 03.12.2021, respectively</p> <p>(c) 01.10.2021 &amp; 17.12.2021, respectively</p> <p>(d) 03.06.2021 &amp; 02.12.2021, respectively</p>
iii.	<p><b>For which of the following person(s), Mr. Rajesh was required to obtain prior approval of Central Government for examining them on oath by summoning and enforcing their attendance?</b></p>
	<p>(a) Mr. Jayesh, Mr. Sunny and Mr. Raj, respectively</p>

	(b) Mr. Sunny and Mr. Raj, respectively (c) Mr. Sunny (d) Mr. Raj
iv.	<b>Whether it was justifiable on the part of Mr. Rajesh for not forwarding the investigation report of Sinq Ltd. to the Central Government and what type of fraud had been identified by the Central Government on perusal of investigation report of Dunk Ltd.?</b>
	(a) Yes, provided reasons for not forwarding the same are recorded in writing by Mr. Rajesh and the type of fraud identified is in the nature of 'Teeming and Lading', respectively.  (b) No, as it is the responsibility of the inspector to forward to the Central Government, the results of investigation of all the companies done by him and the type of fraud identified is in the nature of 'Tampering of receipts', respectively.  (c) No, because at the first place, Mr. Rajesh was not only having the authority to investigate into the affairs of Sinq Ltd. and the type of fraud identified is in the nature of 'Teeming and Lading', respectively.  (d) Yes, if according to Mr. Rajesh such report was not relevant to the investigation of affairs of Dunk Ltd. And the type of fraud identified is in the nature of 'Advance billing', respectively.
v.	<b>Whether it was mandatory for the Tribunal to take into consideration the representations made by the Central Government before passing the order for re-opening of accounts and till what financial year, Tribunal can make such order of re-opening of accounts?</b>
	(a) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2016-17.  (b) No, provided reasons for the same are recorded in writing by the Tribunal for not taking into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2014- 15.  (c) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14.  (d) Yes, it was mandatory for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14.

Solutions		
Sr.no.	Answer	Hint
1.	[d]	Show cause notice & labour claims are examples of hidden liability that need to be reported in Due diligence
2.	[c]	
3.	[b]	
4.	i. – [a]	
	ii. – [d]	
	iii. – [a]	
	iv. – [a]	
	v. – [b]	
5.	i. – [b]	

	ii. – [b]	
	iii. – [a]	
	iv. – [d]	
6.	[b]	
7.	i. – [d]	
	ii. – [c]	
	iii. – [d]	
	iv. – [d]	
	iv. – [d]	
	v. – [d]	

**Student Notes: -**



## Peer Review and Quality Review

1.	<p>Shivam &amp; Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. The firm has 6 offices in India – Delhi, Noida, Bangalore, Kolkata, Chennai and Chandigarh. The firm has 35 partners across various offices. The staff size of firm is 250 approximately. The firm is offering various services to its clients and has accordingly set up separate departments for those services which are headed by the Partners.</p> <p>The firm has clients as both listed and unlisted companies to whom services include statutory audit, internal audit, risk advisory, due diligence, tax support etc. The firm also has a Managing Partner who sits in Chandigarh office. All in all one can say it's an all solutions firm as far as services of a CA are concerned. The firm focuses significantly on its quality and accordingly has set up various controls in place. The firm ensures that the engagements of each partners are reviewed in terms of quality of work by other partner of the firm independently every year.</p> <p>For this purpose, firm has set up a process and one or two engagement files of a partner is selected. Quality assessment also carries weight in terms of assessment of profit sharing of the partners. The firm has been subject to peer review which was last conducted 3 years back. During the financial year ended 31 March 2021, the firm got an intimation for the peer review on 1 July 2021, with which it was before time considering that the Review was done only 3 years back and was not due.</p> <p>The firm discussed this matter with the relevant authorities, but the authorities did not change their stand. The process of peer review got started on 1 August 2020 and completed on 15 September 2021 which included the on-site review from 1 August 2021 to 20 August 2021.</p> <p>Since the firm was not happy with the selection of engagements for review by the Peer Reviewer and also faced some problems during the peer review process, it also consulted another firm of his friend, Shubham, Shubham &amp; Associates. One of the engagements of Shubham &amp; Associates was picked up for quality review by the Quality Review Board and this firm also faced various challenges during that process in terms of the selection criteria and also the observations of the reviewer. Considering the abovementioned facts, you are required to advise on the following matters:</p>
i.	<p><b>Shivam &amp; Co LLP submitted a list of its assurance and due diligence services in respect of selection of the engagement for the peer review.</b></p> <ul style="list-style-type: none"> <li>a) Peer reviewer may select any sample out of assurance and due diligence engagement.</li> <li>b) Peer reviewer may select any sample out of assurance engagement.</li> <li>c) Peer reviewer may select any sample out of due diligence engagement.</li> <li>d) Peer reviewer may select an engagement on a piecemeal basis covering any service - assurance or due diligence.</li> </ul>
ii.	<p><b>The concern of Shivam &amp; Co LLP regarding its selection of peer review arose because it assessed itself as Level II entity which was different from assessment by the Peer Review Board.</b></p> <ul style="list-style-type: none"> <li>a) The firm should be Level I based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards.</li> <li>b) The firm should be Level II based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards.</li> <li>c) The firm should be Level I based on its engagements/services.</li> <li>d) The firm should be Level II based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards and its engagements/services.</li> </ul>

iii.	<b>Shivam &amp; Co LLP also objected to the time taken by the Peer reviewer on site, however, as per Peer Reviewer, the entire review process got completed within 60 days from the date of notifying the firm about its selection for review.</b>
	<ul style="list-style-type: none"> <li>a) The time for onsite review should not have extended beyond 7 working days.</li> <li>b) The time for onsite review should not have extended beyond 15 working days.</li> <li>c) The time for complete review should be completed within 90 days.</li> <li>d) The time for complete review should be completed within 45 days.</li> </ul>
iv.	<b>The peer reviewer did not share any of his observations with Shivam &amp; Co LLP as draft and only the final report was submitted to the firm.</b>
	<ul style="list-style-type: none"> <li>a) Peer reviewer need not share any draft report with the firm if there are no observations.</li> <li>b) Even the final report is not required to be submitted to the firm.</li> <li>c) Peer reviewer needs to share draft report with the firm before finalisation.</li> <li>d) There are no reports in case of peer review. On completion, a certificate to that effect is issued.</li> </ul>
v.	<b>In case of Shubham &amp; Associates, the reviewer raised on observation that one of the audit team member (when the team on the audit engagement was large) signed the independence confirmation dated 1 August 2021 when the audit report was signed i.e. 1 August 2021. This was objected by Shubham &amp; Associates because the audit team completed the documentation as required by the auditing standard.</b>
	<ul style="list-style-type: none"> <li>a) Observation of reviewer was correct.</li> <li>b) Observation of reviewer was not correct.</li> <li>c) Observation of reviewer was correct but when only one audit member has not complied then it should have been dropped.</li> <li>d) Observation of reviewer was not correct and also the fact that out of a large team, it involved only one audit member.</li> </ul>
2.	<p><b>Mr Q, a peer reviewer appointed for the firm ABC &amp; Co. for the period under review starting from 2017- 18 to 2019-2020 decided to select 5 samples of audit engagement. All samples were appropriate, and no deviations or issues were identified in the review with respect to those samples. Post that, Mr Q reviewed the training &amp; development program for the staff, article assistant and other assistant and he found that the training and development program were not appropriate and rather outdated. The staff, article assistant and other assistant placed on the audits were not trained related to the specific matters of the industries to which the audit client belonged. As a result, the peer reviewer included a comment in the preliminary report regarding training programmes for staff (including articulated assistant and other audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. Upon receiving such preliminary report, the Practice Unit raised concerns that the said comment of peer reviewer is related to the matter which is out of scope of the peer review.</b></p> <p><b>Kindly decide whether the comment of peer reviewer on the training programmes for staff (including articulated assistants and other audit assistants) concerned with assurance functions is within the scope of peer review or not?</b></p>
	<ul style="list-style-type: none"> <li>a) The Review shall only cover Compliance with Technical, Professional and Ethical Standards, Quality of reporting, Systems and procedures for carrying out assurance services, Compliance with directions and / or guidelines issued by the Council to the Members and Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants. Hence the comment of peer reviewer on the training programmes for staff (including articulated and other assistants) concerned with assurance functions is not within the scope of peer review.</li> <li>b) The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office</li> </ul>

	<p>systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements. Hence the comment of peer reviewer on the training programmes for staff (including articled and other assistants) concerned with assurance functions is within the scope of peer review.</p> <p>c) The Statement of Peer Review makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical, Professional and Ethical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards but only seeks to ensure that they are implemented, both in letter and spirit. Therefore it is evident that the scope of peer review is restricted to the compliance Technical, Professional and Ethical Standards</p> <p>d) The scope of Peer Review is decided by the Practice Unit and Peer Reviewer Mutually and hence if the Practice Unit is contending that it is out of scope then it should be considered as out of scope.</p>
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Solutions		
Sr.no.	Answer	Hint
1.	i. - [b]	Peer reviewer may select any sample out of assurance engagement.
	ii. - [c]	Entity is decided as Level I/II based on its type of engagement and services.
	iii. - [a]	Onsite review shouldn't exceed 7 days. Peer review process should be completed in 60 days from the date PU is notified.
	iv. - [c]	Peer reviewer needs to share draft report with the firm before finalisation.
	v. - [a]	Independence confirmation should be obtained from engagement team members before beginning the engagement.
2.	[b]	The Statement on Peer Review defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements.

**Student Notes: -**

# Professional Ethics

1.	<p><b>CA. D, a chartered accountant in practice, availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct?</b></p>
	<p>a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.  b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.  c) Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949.  d) Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.</p>
2.	<p><b>CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2020, he was awarded 'Best Faculty of the year' as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct?</b></p>
	<p>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.</p>
3.	<p><b>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.</b></p>
	<p>a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.  b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.  c) Mr. Witty is paying interest thus he is not liable for misconduct.  d) Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.</p>
4.	<p><b>CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA Ram. He approached CA Ram to take guidance on some topics of financial management subject related to his course. CA Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 3 days in a week and for 2 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should not exceed 25 hours a week. In order to be able to undertake attest functions.</b></p>
	<p>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.</p>
5.	<p><b>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?</b></p>

	<p>a) Yes, as specific permission from the council shall be required.</p> <p>b) No, as general permission from the council has been granted.</p> <p>c) No, as specific permission from the council can be obtained at any point of time.</p> <p>d) Yes, as general permission is not granted for above occupation.</p>
6.	<p><b>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 &amp; 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 &amp; associates, Chartered Accountants?</b></p>
	<p>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.</p> <p>b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.</p> <p>c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to noncommunication to previous auditor.</p> <p>d) They are not guilty of any professional misconduct.</p>
7.	<p><b>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?</b></p>
	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
8.	<p><b>YS &amp; Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS &amp; 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.</b></p> <p><b>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:</b></p>
	<p>a) Yes, website can have names of partners and major clients along with its fess.</p> <p>b) Yes, as the websites can be designed on a “push” technology.</p> <p>c) Yes, as there is no restriction on the colours used in the website.</p>

	d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator.
9.	<p><b>M/s IM &amp; 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.</b></p> <p><b>Is M/s IM &amp; Co. guilty of professional misconduct for violating any of the provisions of Chartered Accountants Act? If so, as per which clause?</b></p>
	<p>a) Clause 1 of Part I of Second Schedule.</p> <p>b) Clause 8 of Part I of First Schedule.</p> <p>c) Clause 2 of Part II of Second Schedule.</p> <p>d) No. The firm has not violated any of the provisions and hence not guilty of professional misconduct.</p>
10.	<p><b>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 &amp; 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.</b></p> <p><b>Is Mr. I guilty of professional misconduct, if so, under what clause?</b></p>
	<p>a) Clause 1 of Part I of First Schedule.</p> <p>b) Clause 2 of Part II of Second Schedule.</p> <p>c) No. Mr. I is not guilty of professional misconduct.</p> <p>d) Clause 1 of Part II of First Schedule.</p>
11.	<p><b>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?</b></p>
	<p>a) No. Mr. M is not guilty of professional misconduct.</p> <p>b) Clause 11 of Part I of First Schedule.</p> <p>c) Part III of Second Schedule.</p> <p>d) Clause 1 of Part II of Second Schedule.</p>
12.	<p><b>Mintcoin Ltd was involved in the business of assisting startups to raise funds from venture capitalists. It had a huge network of venture capitalists which was very helpful in serving the clients. But Mintcoin Ltd lacked a finance expert who can present the financial statements of startups to venture capitalist. Mintcoin Ltd contacted CA Dev who was a practicing chartered accountant.</b></p> <p><b>But as he holds COP (Certificate of Practise), he cannot work as full time employee of Mintcoin Ltd. So, it was agreed that rather than fixed salary, CA Dev will charge 2% of the amount raised as consultancy fee and will continue with his practice. It was also agreed that he will not be an employee of Mintcoin Ltd and will provide direct fund raising services to startups in collaboration with Mintcoin Ltd. Is the act of CA Dev of charging 2% consultancy fees for amount raised by startups a professional misconduct? Please answer specifying the relevant clause.</b></p>
	<p>a) No, it is not a misconduct if a specific permission is granted by the ICAI in this regard under regulation 190A.</p> <p>b) No, it is not a misconduct. Regulation 192 allows CA to charge percentage based fees in case of fund raising services.</p> <p>c) Yes, it is a misconduct under clause 10 Part (1) of First Schedule.</p> <p>d) Yes, it is a misconduct under clause 3 Part (1) of First Schedule.</p>

13.	<p><b>Mr. Z an articled assistant was offered 0.5% of Total Profits of AB &amp; Co.(CA Firm) for performing very well in the audit of PQR Ltd by Mr. D(Partner of AB&amp; Co.) as a token of appreciation. Is Mr. D liable for professional misconduct by sharing profits with Mr. Z? If yes, under which clause?</b></p>
	<p>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.</p>
14.	<p><b>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 thereason?</b></p>
	<p>a) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as equity research advisor it would attractprofessional misconduct.  b) Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a mutual fundcompany 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, itwould attract professional misconduct</p>
15.	<p><b>A CA firm received the following assignments:</b>  (i) Offer to be appointed as internal auditor of HH Ltd.  (ii) Offer to be appointed as statutory auditor of HH Employees Provident Fund.  (iii) Offer to be appointed as internal auditor for YY Ltd. And simultaneously, they were also appointed to perform GST Audit forthe company.</p> <p><b>Among the assignments (i), (ii) and (iii) given in the scenario which PAZH &amp; Co. received, undertaking which would have led toprofessional misconduct?</b></p>
	<p>a) (ii) only.  b) Both (i) &amp; (ii).  c) only.  d) (i) only.</p>
16.	<p><b>AJ &amp; 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 &amp; 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 thefirm 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.</b></p>
	<p>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 maximum60 tax audit reports.</p>
17.	<p><b>Which among the below are permitted as per Chartered Accounts Act, 1949?  Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company.  Select and recruit personnel, conduct training programmes for and on behalf of client.  Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession.</b></p>
	<p>a) (i) &amp; (ii).</p>

	b) (iii) only. c) (ii) & (iii). d) (i), (ii) & (iii).
18.	<p><b>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 &amp; 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.</b></p> <p><b>What kind of ethical threat is associated with appointment of KB Associates as an auditor of ABC LTD.?</b></p>
	a) Self Interest Threat. b) Advocacy Threat. c) Familiarity Threat. d) Self-Review Threat.
19.	<p><b>CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2020 and on 4th October 2020, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him?</b></p>
	a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine upto Rs. 5,00,000. b) Yes, it is a misconduct under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000. c) Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000. d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine upto Rs. 5,00,000.

Solutions		
Sr.no.	Answer	Hint
1.	[d]	Non-payment of loan instalment due to insufficiency of funds is an 'Other misconduct'.
2.	[a]	Posting of only passport size photo of partners permitted not framed photograph on the website.
3.	[a]	Non-payment of stipend on timely basis is contravention of ICAI Regulation, hence CAiP shall be guilty.
4.	[a]	Council of ICAI allows only 25 hrs/week for teaching activities to undertake attest functions
5.	[b]	General permission to become Surveyor & Loss assessor as a CAiP
6.	[b]	Communication with previous auditor required as per Clause 8 of Part I of First Schedule
7.	[c]	Communication with previous auditor required as per Clause 8 of Part I of First Schedule is applicable for all types of Audits where previous auditor was a CA.
8.	[d]	Website should run on Pull technology & names of major clients can't be shown without disclosure requirement of any regulator
9.	[b]	Communication with previous auditor required as per Clause 8 of Part I of First Schedule
10.	[d]	Member (other than in Practice) can't share any share of emoluments with any person for securing employment.



11.	[a]	Ethical std board has allowed Member to engage as registration authority for obtaining digital signature for his clients.
12.	[b]	Fees for fund raising services can be charged as % of funds raised.
13.	[b]	Sharing of profits with articles asst as token of appreciation or otherwise will make CAiP guilty under clause 2-1-1
14.	[b]	CA Firm can't act as financial advisor for Mutual fund Co.
15.	[c]	Internal auditor can't perform GST audit of same entity
16.	[c]	Single partner can sign 60 Tax audits → 10 partners can sign 600 tax audits
17.	[c]	Selection & recruitment of personnel on behalf of client and taking teaching profession along with signing financials is allowed.
18.	[c]	
19.	[c]	Giving article in newspaper regarding inauguration of branch office by CAiP shall be professional misconduct under clause 7-1-1 with fine upto 1L & removal of name from register upto 3 months

## Case Scenarios (Mix)

1.	<p>CA D was a practicing Chartered Accountant in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd, a listed entity, which was involved in the business of manufacturing of motor cars for FY 2019-20. CA D was appointed as joint auditor along with CA T and CA P. They have divided the responsibility for conducting audit in accordance with SA 299.</p> <p>As the company has huge amount of property, plant and equipment, it was decided that all 3 auditors will verify the records relevant to property, plant and equipment. While forming an opinion, CA D was having a different opinion on property, plant and equipment but CA T and CA P were having same opinion. CA D wants to qualify capitalisation of post-acquisition costs incurred on machinery whereas CA T and CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common audit report which is in accordance with the opinion of CA T and CA P. While assessing the applicability of CARO, 2016, CA D found that issued share capital of Giant Motors Ltd is Rs. 500 crore along with Rs. 30 crore of calls which are being unpaid as they are receivable from retail investors. In the month of July 2019, Giant Motors Ltd. forfeited shares of worth Rs. 10 crore. There were no reserve and surplus as it was transferred to parent entity. Also, along with equity shares of Rs. 300 crore, there was preference share capital of Rs. 200 crore. CA T while reporting under clause (vi) of CARO, 2016 did not report anything under clause (vi) of CARO 2016 as the government has not ordered Giant Motors Ltd. to conduct cost audit for its books of account. Hence CA T did not report anything under clause (vi). Giant Motors Ltd has a total number of 11 directors. Mr. Talent is the Executive Chairman of the company. Out of 11 directors, 5 were independent directors.</p> <p>Mrs. D was not aware that CA D was the statutory auditor of Giant Motors Ltd. She purchased shares of Giant Motors Ltd worth Rs. 1,50,000 (book value) on 3rd October 2020 but when she came to know about the statutory auditor of Giant Motors Ltd, she sold her shares on 10th November 2020. One of the shareholders of Giant Motors Ltd contended that CA D is disqualified and shall vacate his office of statutory auditor. On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>
i.	Can you please guide whether CA D really needs to go with the opinion formed by CA T and CA P or not?
	<ul style="list-style-type: none"> <li>a) CA D will have to go with the opinion formed by majority auditors.</li> <li>b) CA D can add a separate audit opinion paragraph in the common audit report and the same should be highlighted in emphasis of matter paragraph.</li> <li>c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in emphasis of matter paragraph.</li> <li>d) CA D can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.</li> </ul>
ii.	<b>What should have been CA D's opinion on applicability of CARO, 2020 for FY 2019 -20 assuming forfeited shares are not included in equity share capital?</b>
	<ul style="list-style-type: none"> <li>a) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 1 crore.</li> <li>b) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 10 crore.</li> <li>c) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 1 crore.</li> <li>d) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 10 crore.</li> </ul>
iii.	<b>Was the approach followed by CA T for not reporting under clause (vi) of CARO correct?</b>

	<p>a) Yes, as reporting under said clause is required only if the Giant Motors Ltd were ordered by government to conduct cost audit under section 148(1).</p> <p>b) Yes, reporting under this clause is only applicable to entities involved in production of electricity.</p> <p>c) No, Clause (vi) should be reported irrespective of whether Giant Motors Limited has been ordered to conduct cost audit by the Central Government or not.</p> <p>d) No, should be reported only if there is any discrepancy found while examining the cost records.</p>								
iv.	<b>Was there any non-compliance on the part of Giant Motors Ltd in case of appointment of independent directors?</b>								
	<p>a) No, there was no non-compliance as independent directors were more than 2 directors specified in the Companies Act, 2013.</p> <p>b) Yes, there was a non-compliance as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.</p> <p>c) No, there was no non-compliance as independent directors were 5, which is more than 2/3 of the total directors in accordance with Regulations 17 and Regulation 17A.</p> <p>d) Yes, there was a non-compliance as all the directors should have been independent directors except the Chairman of the company.</p>								
v.	<b>Was the contention of shareholder that CA D should vacate the office of statutory auditor correct?</b>								
	<p>a) No, as Mrs. D has sold the shares within a grace period of 60 days.</p> <p>b) No, as Mrs. D is holding shares of less than book value of Rs. 2,00,000.</p> <p>c) Yes, as Mrs. D has purchased shares which are more than book value of Rs. 1,00,000.</p> <p>d) Yes, as Mrs. D holds share during the financial year and his husband is statutory auditor of Giant Motors Ltd.</p>								
2.	<p><b>Well &amp; Associates, an audit firm, was selected for the purpose of Quality Review by the Quality Review Board (QRB) as it was having many of statutory audit assignments of clients engaged into sectors identified as prone to fraud.</b></p> <p><b>There were adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh an engagement partner of Well &amp; Associates because of which the QRB selected 5 audit engagements of the firm for Quality review.</b></p> <p><b>Mr. Jay, a practicing CA for more than 25 years was appointed as the Technical Reviewer to conduct the Quality Review of the said firm and accordingly, Mr. Jay, after conducting the Quality review with a team of 3 assistants, submitted his preliminary report to Well &amp; Associates with qualifications as under:</b></p> <table border="1"> <thead> <tr> <th>S No</th><th>Description of Qualifications</th></tr> </thead> <tbody> <tr> <td>1</td><td>The AFUR (Audit Firm Under Review) had not obtained a written confirmation of compliance with its policies and procedures on independence from all firm personnel for the past 2 financial years.</td></tr> <tr> <td>2</td><td>The AFUR had established the policies and procedures for assembling of the final audit file in accordance with the time limit prescribed in SA 230 but there were delays observed in the same. (Please Refer Note, as below, for the same)</td></tr> <tr> <td>3</td><td>For two of the audit engagements of the AFUR, no engagement documentations were available for the same and as per the statement of the partner of the AFUR, after retaining them for 4 years and 6 years, respectively, were sent to the Principal Auditors of the said audit engagements.</td></tr> </tbody> </table>	S No	Description of Qualifications	1	The AFUR (Audit Firm Under Review) had not obtained a written confirmation of compliance with its policies and procedures on independence from all firm personnel for the past 2 financial years.	2	The AFUR had established the policies and procedures for assembling of the final audit file in accordance with the time limit prescribed in SA 230 but there were delays observed in the same. (Please Refer Note, as below, for the same)	3	For two of the audit engagements of the AFUR, no engagement documentations were available for the same and as per the statement of the partner of the AFUR, after retaining them for 4 years and 6 years, respectively, were sent to the Principal Auditors of the said audit engagements.
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	4	There were also instances of delays observed in communicating the significant deficiencies to those charged with governance. (Please Refer Note, as below, for the same)				
	5	The AFUR had revised its performance materiality level in case of one of its statutory audit assignments with respect to auditing of Financial Leasing transactions and the AFUR had only documented such revision in the performance materiality level.				
	Name of the	Type of	Date of Approval	Date of Audit	Date of	Date of written
	entity under audit of AFUR	Entity	Financial Statements	Report	assembly of Final Audit File	communication of significant deficiencies in internal control by AFUR
	Req Ltd	Listed	31.05.2021	25.06.2021	03.09.2021	05.06.2021
	TIMCO (P) Ltd	Unlisted	15.06.2021	18.08.2021	05.11.2021	25.08.2021
	Gles Pvt Ltd	Unlisted	16.07.2021	28.07.2021	15.09.2021	18.09.2021
	Findley Ltd	Listed	12.05.2021	01.06.2021	01.08.2021	05.05.2021
	DM Ltd	Unlisted	25.04.2021	18.05.2021	25.06.2021	04.07.2021
On the basis of the abovementioned facts, you are required to answer the following MCQs: Multiple Choice Questions (5 questions of 2 Marks each):						
i.	Well & Associates should have obtained a written confirmation of compliance with its policies and procedures on independence from all of its firm personnel as per requirements of which Statue / Standard and in what frequency?					
	<div>a) As per the requirements of Council Central Guidelines, 2008, at least annually, Well &amp; Associates should have obtained a written confirmation from all of its firm personnel.</div> <div>b) As per the requirements of Standard on Quality Control 1 at least annually, Well &amp; Associates should have obtained a written confirmation from all of its firm personnel.</div> <div>c) As per the requirements of SA 220 at least annually, Well &amp; Associates should have obtained a written confirmation from allof its firm personnel.</div> <div>d) As per the requirements of Code of Ethics at least half yearly, Well &amp; Associates should have obtained a written confirmationfrom all of its firm personnel.</div>					
ii.	In case of which entities under audit of Well & Associates, there was delay in assembly of Final Audit File?					
	<div>a) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and Findey Ltd., respectively.</div> <div>b) Req Ltd., TIMCO (P) Ltd. and Findey Ltd., respectively.</div> <div>c) Req Ltd. and TIMCO (P) Ltd., respectively.</div> <div>d) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd., Findey Ltd. and DM Ltd., respectively.</div>					
iii.	In case of which entities under audit of Well & Associates, there was delay in written communication of significant deficiencies in internal control?					
	<div>a) TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.</div> <div>b) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.</div> <div>c) DM Ltd.</div> <div>d) Req Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.</div>					
iv.	For at least how many more years, Well & Associates should have retained the engagement documentation in respect of thetwo audit engagements as referred above?					
	<div>a) 3 years and 1 year, respectively.</div> <div>b) 4 years and 2 years, respectively.</div> <div>c) 1 year and for other audit engagement documentation was retained for requisite period.</div> <div>d) 6 years and 4 years, respectively.</div>					

v.	<p>How many audit engagements of Well &amp; Associates the QRB might have selected if there were no adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh, partner of Well &amp; Associates?</p>																				
	<p>a) QRB might have selected up to 3 audit engagements of Well &amp; Associates for review and not more than 2 audit engagements of Mr. Ramesh.</p> <p>b) QRB might have selected up to 5 audit engagements of Well &amp; Associates for review and not more than 1 audit engagement of Mr. Ramesh</p> <p>c) QRB might have selected up to 5 audit engagements of Well &amp; Associates for review and not more than 2 audit engagements of Mr. Ramesh</p> <p>d) QRB might have selected up to 3 audit engagements of Well &amp; Associates for review and not more than 1 audit engagement of Mr. Ramesh.</p>																				
3.	<p>M/s. Suresh &amp; Co., a partnership firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Alkis Ltd., an unlisted public company, for financial year 2020-21.</p> <p>Mr. Suresh is the engagement partner for the audit assignment of Alkis Ltd. The engagement team, before starting the assignment, was made to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken.</p> <p>Mr. Suresh, referred the engagement letter, signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of following circumstances in the Company during F.Y. 2020-21:</p> <ul style="list-style-type: none"><li>Two senior whole time directors of the Company have retired out of total five directors.</li><li>40% stake in the Company was held by promoters, which was reduced to 5%, by selling shares to general public.</li><li>One more factory unit was set up in Gorakhpur, this year.</li><li>Management has requested to cover 90% of the transactions with respect to each revenue line item, this time, instead of 80% of the transactions, as was set out in the audit plan, considering the materiality and other factors.</li></ul> <p>The following data is presented from the audited financial statements of Alkis Ltd., for the financial year 2019-2020:</p> <p>I. Paid up share capital - ` 8 crore;</p> <p>II. Turnover - ` 55 crore;</p> <p>III. Outstanding Borrowings - ` 14 crore;</p> <p>IV. Outstanding Public Deposits - ` 28 crore.</p> <p>Mr. Suresh while preparing a report under section 143 of the Companies Act, 2013, made a statement with respect to the remuneration paid by the Alkis Ltd. to one of its directors, Mr. Mahesh, was in excess of the limit laid down under section 197 and also gave such other details as prescribed.</p> <p>Mr. Suresh, for additional reporting purpose, while auditing with respect to compliance with CARO, 2020, observed the following, relevant to Para 3(vii) of CARO, 2020:</p> <table><tr><td>Statutory Dues</td><td>Undisputed Amount ( ` in lakh)</td><td>Date Payable</td><td>Date Paid</td></tr><tr><td>Income Tax Demand for A.Y. 2018-19</td><td>2</td><td>25.09.20</td><td>28.03.21</td></tr><tr><td>GST</td><td>1.5</td><td>03.10.20</td><td>04.04.21</td></tr><tr><td>Custom Duty</td><td>.80</td><td>20.09.20</td><td>10.04.21</td></tr><tr><td>Provident Fund</td><td>0.45</td><td>12.10.20</td><td>Not paid till date</td></tr></table>	Statutory Dues	Undisputed Amount ( ` in lakh)	Date Payable	Date Paid	Income Tax Demand for A.Y. 2018-19	2	25.09.20	28.03.21	GST	1.5	03.10.20	04.04.21	Custom Duty	.80	20.09.20	10.04.21	Provident Fund	0.45	12.10.20	Not paid till date
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	<p>Also, a representation was made to GST Department for waiving a penalty of ` 1 lakh for late payment of GST demand.</p> <p>The board of Alkis Ltd. declared interim dividend of ` 20 lakh on 20th May, 2021, to its 180 shareholders, out of surplus in the profit and loss account and such dividend amount was deposited in a separate bank with a branch of SBI.</p> <p>Dividend amounting to ` 1 lakh was not claimed by a shareholder, Mr. Rohit, till 19th June, 2021, and so the said amount of ` 1 lakh was transferred to Unpaid Dividend Account on 31st July, 2020.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>
i.	<b>Which of the following option is correct with respect to Alkis Ltd.?</b>
	<p>a) Alkis Ltd. needs to form an Audit Committee. Further, provisions relating to internal audit as well as rotation of auditors are applicable to Alkis Ltd.</p> <p>b) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to internal audit is not applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are applicable to it.</p> <p>c) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to rotation of auditors is not applicable to Alkis Ltd. However, the provisions with respect to internal audit are applicable to it.</p> <p>d) Alkis Ltd. needs to form an Audit Committee. Provisions relating to internal audit is applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are not applicable to it.</p>
ii.	<b>Under which section of the auditor's report, Mr. Suresh needs to report with respect to the excess remuneration being paid to Mr. Mahesh?</b>
	<p>a) Other Matters Paragraph.</p> <p>b) Report on Other Legal and Regulatory Requirements.</p> <p>c) Basis for Qualified Opinion.</p> <p>d) Auditor's Responsibilities for the Audit of the Financial Statements.</p>
iii.	<b>What total amount of statutory dues needs to be reported by Mr. Suresh as per Para 3 of CARO?</b>
	<p>a) ` 2.75 lakh.</p> <p>b) ` 0.80 lakh.</p> <p>c) ` 2.80 lakh.</p> <p>d) ` 2.30 lakh.</p>
iv.	<b>How much amount of interest Alkis Ltd. would be liable to pay with respect to unpaid dividend amount?</b>
	<p>a) 575</p> <p>b) 1,216</p> <p>c) 1,726</p> <p>d) 1,151</p>
v.	<b>By what date, the amount of interim dividend should have been deposited in the scheduled bank after being declared and also by what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account?</b>
	<p>a) 25th May, 2021 and 24th June, 2021, respectively.</p> <p>b) 25th May, 2021 and 26th June, 2021, respectively.</p> <p>c) 30th May, 2021 and 19th July, 2021, respectively.</p> <p>d) 27th May, 2021 and 26th June, 2021, respectively.</p>
4.	<b>Victor &amp; Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million</b>

	<p>Copper suits. The Company has started the production of version 10 under its flagship and tags it as “Why to worry about a vehicle, when you have steel man”. The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of ‘Copper Man’ and thus, the managerial decision making is left to each version manager. You have assigned the ‘Fixed Assets area’ to Mr. Mamma Mia and he came out to you with the following points. You need to answer the questions raised by him and go through the notes prepared to reach a reasonable conclusion over Property, Plant and Equipment FSLI (Financial Statement caption):</p> <p>The Company is holding the property in its name in Andaman &amp; Nicobar while the land is registered in another person’s name. The property is in dispute for the past 20 years. This is the major plant for the Company and it is the critical success factor for the client. The Company’s 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn’t be halted as the restart of operations will cost huge amounts and a month’s time to get the Company back to current position.</p> <p>The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed.</p> <p>The Company follows the depreciation policy as per the Schedule II across all the factories even when the factory at Andaman &amp; Nicobar is the only factory that runs 24*7. The useful life has been taken as it is mentioned in the Schedule II without modifications and the Company’s future prospects are good, there are no impairment indications.</p> <p><b>On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:</b></p>
i.	<p><b>The audit team has asked you about the Benami Transaction:</b></p> <ol style="list-style-type: none"> <li>There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988.</li> <li>As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit.</li> <li>The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO.</li> <li>The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.</li> </ol>
ii.	<p><b>The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:</b></p>

	<p>a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO.</p> <p>b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO.</p> <p>c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO.</p> <p>d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.</p>
iii.	<b>The audit team has asked you about the impairment of assets of the Company.</b>
	<p>a) The Company has no impairment condition as the Company expects positive future cash flows from the assets and thus no need to assess the impairment.</p> <p>b) The Company need to assess the impairment condition for the assets and need to assess the fair value of the assets used to generate income from the older versions. The auditee needs to take a decision based on the cash inflows of a Company as a whole for assessing the existence of the impairment condition.</p> <p>c) There exists an impairment condition as the Company does not expect much business from the older versions due to anticipation of the huge demand of the new product. The Company need to assess the cash inflows at each version level.</p> <p>d) The Company need not assess impairment of assets as this is very common in dynamic industries where the older versions become obsolete when the new one is introduced by the Company.</p>
iv.	<b>The audit team is sceptical about the Depreciation policy followed by the Company for the Andaman and Nicobar plant:</b>
	<p>a) As the Company is following the Schedule II, the depreciation policy and the useful life is in line with the Companies Act, 2013. Hence the Company's depreciation policy is good to go.</p> <p>b) As the Company is operating the plant 24*7, it will be eligible for extra shift depreciation as per Schedule II. For the assets where the condition of extra shift depreciation does not exist, the Company will be eligible to claim 50% extra depreciation as per schedule II.</p> <p>c) As the Schedule III is applicable for the whole Company, the policy including useful life for the assets need to be same. There cannot be different useful lives for different assets across different locations. Thus, the depreciation policy of the Company is good to go.</p> <p>d) As the Company is operating the plant 24*7, it will be referred to as continuous process plant. For the assets where the condition of extra shift depreciation does not exist, the Company will not be eligible to claim 100% extra depreciation as per Schedule II.</p>
v.	<b>The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same:</b>
	<p>a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc.</p> <p>b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the</p>



	<p>integrity of the management about the appointment of the foreign brand ambassador.</p> <p>c) As per the SA 250, "Consideration of laws and regulations in an audit of Financials Statements" the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications.</p> <p>d) The auditor needs to qualify its audit report as the Company is against the "Vocal for Local" policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.</p>
5.	<p><b>Ulip Ltd. is a public company listed on the National Stock Exchange since the year, 2015, with share capital of ` 150 crore.</b></p> <p><b>SRS &amp; Co. is being appointed as its statutory auditor for F.Y. 2020-21 and Mr. Raj is appointed as the engagement partner, on behalf of the firm, to conduct the said audit assignment including conducting of limited reviews and other statutory assignments.</b></p> <p><b>Mr. Raj was conducting limited review for second quarter and during the same while adhering to the responsibilities as conferred upon by SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", he evaluated the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations and concluded that withdrawal from engagement was necessary in the given circumstances, after seeking legal advice, even though the non-compliance was not material to the financial statements but as the management or those charged with governance refrained from taking the remedial action that he considered appropriate in the circumstances. Such a withdrawal was not prohibited by any law or regulation.</b></p> <p><b>Mr. Raj, on behalf of SRS &amp; Co., brought to the notice of the Audit Committee of Ulip Ltd., all his concerns with respect to the proposed resignation, along with relevant documents.</b></p> <p><b>After issuing the necessary reports, as required in the circumstances, SRS &amp; Co gave its resignation letter to Ulip Ltd. at 1:00 p.m. on 20th November, 2021 vide its official email-id, which contained the detailed reasons for such resignation.</b></p> <p><b>Such a letter was forwarded to the stipulated authority by Ulip Ltd. at 4:00 p.m. on 21<sup>st</sup> November, 2021 vide its official email-id.</b></p> <p><b>SRS &amp; Co. filed the statement with respect to its resignation as a statutory auditor in prescribed form with Ulip Ltd. and the Registrar on 15th January, 2021, respectively, after receiving a notice from MCA.</b></p> <p><b>For the purpose of filling the casual vacancy in the office of auditor, the Audit Committee of Ulip Ltd. gave recommendation of an audit firm for being appointed as the statutory auditor to which the Board disagreed and it referred back the recommendation to the committee for reconsideration citing reasons for such disagreement.</b></p> <p><b>However, the Audit Committee, after considering the reasons given by the Board, decided not to reconsider its original recommendation, so, the Board of Ulip Ltd. after recording the reasons for its disagreement with the committee appointed Chavda &amp; Co. as its new statutory auditor on 15th December, 2021.</b></p> <p><b>Such an appointment of Chavda &amp; Co. was also approved by the members of Ulip Ltd. at a duly convened general meeting on 3rd February, 2022.</b></p>

	<b>On the basis of the abovementioned facts, you are required to answer the following MCQs:</b>
i.	<b>Whether the reasons for withdrawal from the engagement by SRS &amp; Co. can be considered to be justifiable in the light of the fact that the non-compliance was not material to the financial statements?</b>
	<ul style="list-style-type: none"> <li>a) Yes, as such a withdrawal was not prohibited by any law or regulation.</li> <li>b) Yes, as the auditor had obtained legal advice for the same and also such a withdrawal was not prohibited by any law or regulation.</li> <li>c) Yes, in exceptional cases, the auditor may consider for such withdrawal provided that such a withdrawal is not prohibited by any law or regulation.</li> <li>d) Yes, as it does not matter whether non-compliance is material or not, management or those charged with governance should not refrain from taking the remedial action which the auditor has considered necessary, provided that such a withdrawal is not prohibited by any law or regulation.</li> </ul>
ii.	<b>In continuation of Question no. 6, above, if it is assumed that the auditor was prohibited by any law or regulation from such withdrawal from engagement, then how he would have reported the non-compliance in the audit report?</b>
	<ul style="list-style-type: none"> <li>a) In the "Basis for Qualified Opinion" paragraph.</li> <li>b) In the Other Matter(s) paragraph.</li> <li>c) In the Emphasis of Matter(s) paragraph.</li> <li>d) In the "Basis for Disclaimer of Opinion" paragraph.</li> </ul>
iii.	<b>Ulip Ltd. Was required to disclose to which authority, the detailed reasons for resignation of the auditor and by what time limit as per LODR 2015?</b>
	<ul style="list-style-type: none"> <li>a) Such reasons were required to be disclosed to MCA till 1:00 p.m. – 21st November, 2021.</li> <li>b) Such reasons were required to be disclosed to NSE &amp; SEBI till 1:00 p.m. – 23<sup>rd</sup> November, 2021.</li> <li>c) Such reasons were required to be disclosed to NSE till 1:00 p.m. – 21st November, 2021.</li> <li>d) Such reasons were required to be disclosed to the Registrar till 1:00 p.m. – 22<sup>nd</sup> November, 2021.</li> </ul>
iv.	<b>What could be the penalty specified under the Company Act, 2013 that could be levied upon SRS &amp; Co. for failure in filing the statement with respect to its resignation, within the prescribed time limit, with Ulip Ltd. and the Registrar, respectively, if its remuneration was ` 40,000?</b>
	<ul style="list-style-type: none"> <li>a) ` 62,500.</li> <li>b) ` 50,000.</li> <li>c) ` 40,000.</li> <li>d) ` 52,500.</li> </ul>
v.	<b>What was the last date available with board of Ulip Ltd. For filing the casual vacancy in the office of the auditor and by what last date, the general meeting for approving the auditor as appointed by the board should have been made in accordance with the provisions of the Companies Act, 2013?</b>
	<ul style="list-style-type: none"> <li>a) 27th November, 2021 and 27th February, 2022.</li> <li>b) 20th December, 2021 and 15th February, 2022.</li> <li>c) 20th January, 2021 and 20th April, 2022.</li> <li>d) 20th December, 2021 and 15th March, 2022.</li> </ul>
6.	<b>Mr. Tushar Jalani is a CA as well as CMA, who is working as an internal auditor in Gomez Realty Ltd. On full-time employment basis. In his visiting card, he has mentioned that he is a Chartered Accountant as well as Cost Accountant. During the month of May, 2020, he was approached by the director of the company, Mr. Kunal Surpan, to write his personal books of accounts from F.Y. 2020-21 onwards and also to file his Income Tax Return which was accepted by Mr. Tushar.</b>

	<p>Mr. Danish Bhadra, the partner of Badhra &amp; Co., a CA firm, was appointed as an expert, during F.Y. 2020- 21, by giving a written consent to Gomez Realty Ltd. with respect to issue of prospectus by the company whereby he provided a report on the valuation of the company and one person who had subscribed to the securities of the company alleged that he had suffered a loss because of omission of a matter in the valuation report provided in the prospectus. Mr. Danish had not withdrawn his consent at any time as an expert and he firmly believed that it was a correct and fair representation of the statement in the valuation report. The fees charged by Mr. Danish for the said assignment was on the basis % of valuation. Vedy &amp; Co. was appointed as the statutory auditor of Gomez Realty Ltd. from F.Y. 2018-19 onwards for five consecutive years. However, during F.Y. 2020-21, it did not offer itself for reappointment as an auditor of such company owing to certain professional reasons and communication with respect to the same was made to the relevant authorities.</p> <p>Kesar &amp; Associates was then appointed as the statutory auditor of Gomez Realty Ltd. for F.Y. 2020-21 and Mr. Raj Kesar was appointed as the engagement partner for the said assignment. Brother of one of the partners of the said firm holds 18% share in Badhra &amp; Co., since 2017, and who is also a chartered accountant by profession.</p> <p>Mr. Raj decided to take direct assistance from Mr. Tushar in accordance with the procedure as prescribed in SA 610 and in that connection he inquired about the fraud risks in the organization from him. Prior to taking such direct assistance, Mr. Raj communicated the same to the relevant authority in the company and also that he directed, supervised and reviewed the work performed by Mr. Tushar.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs: Multiple Choice Questions (5 questions of 2 Marks each):</p>
i.	<p><b>Whether Mr. Tushar can be held guilty under Part-I of First Schedule to the CA Act, 1949?</b></p> <p>a) No, as he is not a member in practice.  b) Yes, as per Clause (7) he can be held guilty.  c) No, as it is permitted for member to mention such designations in his visiting card.  d) No, provided he has been permitted to do so.</p>
ii.	<p><b>Whether any civil liability can be imposed upon Mr. Danish?</b></p> <p>a) No, if he is able to prove what he is contending.  b) Yes, as he had not withdrawn his consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.  c) Yes, provided such omission of a matter in the valuation report was misleading in nature.  d) Yes, as the omission of a matter was in the valuation report prepared by the expert himself irrespective of whether the consent was withdrawn or not.</p>
iii.	<p><b>Whether it was appropriate for Mr. Raj to take direct assistance from Mr. Tushar for the matter as aforesaid?</b></p> <p>a) No, as it tantamount to taking direct assistance of internal auditor for making significant judgments in the audit.  b) Yes, as inquiry is allowed to be done and having a discussion with respect to the said matter is not appropriate.  c) No, as it tantamount to taking direct assistance of internal auditor relating to higher assessed risks of material misstatement.  d) No, as it tantamount to taking direct assistance of internal auditor relating to decisions the external auditor makes in accordance with SA 610 regarding the internal audit function and the use of its work or direct assistance.</p>

iv.	<b>In accordance with SA 610, with what Standards on Auditing, respectively, Mr. Raj would have made communication for taking direct assistance of Mr. Tushar and also directed, supervised and reviewed the work performed by him?</b>										
	<ul style="list-style-type: none"> <li>a) As per SA 580 and SA 500 respectively.</li> <li>b) As per SA 260 and SA 240 respectively.</li> <li>c) As per SA 265 and SA 220 respectively.</li> <li>d) As per SA 260 and SA 220 respectively.</li> </ul>										
v.	<b>To which authorities, Vedya &amp; Co. would have made the communication and whether there was any obligation on part of Kesar &amp; Associates with respect to such communication made?</b>										
	<ul style="list-style-type: none"> <li>a) Vedya &amp; Co. would have made the communication to the ICAI and to the management for circulation among the shareholders of Gomez Realty Ltd. However, it was not obligatory for Kesar &amp; Associates to obtain a copy of such communication before accepting the appointment.</li> <li>b) Vedya &amp; Co. would have made the communication to the ICAI only and it was obligatory for Kesar &amp; Associates to obtain a copy of such communication before accepting the appointment.</li> <li>c) Vedya &amp; Co. would have made the communication to BOD of Gomez Realty Ltd. and the ICAI and it was obligatory for Kesar &amp; Associates to obtain a copy of such communication before accepting the appointment.</li> <li>d) Vedya &amp; Co. would have made the communication to the ICAI only and it was obligatory for Kesar &amp; Associates to obtain a copy of such communication before making communication with the outgoing auditor relating to its appointment.</li> </ul>										
7.	<p><b>Chartered Accountant Firms - Tink &amp; Co., Llyods &amp; Co. and Manohar &amp; Co., respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2020-21 of Anitya Ltd. They were having difference of opinion with regards to following points:-</b></p> <table border="1"> <thead> <tr> <th>S No</th><th>Reasons for Differences in Opinion</th></tr> </thead> <tbody> <tr> <td>1</td><td>Manohar &amp; Co. wanted to refer to the work of the auditor's expert, Mr. Tanmay in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.</td></tr> <tr> <td>2</td><td>Certain misstatements affected information to be included in 'Management Discussion and Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the Llyods &amp; Co., there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements</td></tr> <tr> <td>3</td><td>For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and Llyods &amp; Co. wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.</td></tr> <tr> <td>4</td><td>Manohar &amp; Co. had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, Manohar &amp; Co. wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.</td></tr> </tbody> </table>	S No	Reasons for Differences in Opinion	1	Manohar & Co. wanted to refer to the work of the auditor's expert, Mr. Tanmay in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.	2	Certain misstatements affected information to be included in 'Management Discussion and Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the Llyods & Co., there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements	3	For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and Llyods & Co. wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.	4	Manohar & Co. had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, Manohar & Co. wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.
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	<p>The differences of opinion in case of Tink &amp; Co. and Llyods &amp; Co. were resolved but there remained disagreement with the one of the opinions of Manohar &amp; Co. due to which Manohar &amp; Co. expressed its opinion in a separate audit report.</p> <p>Manohar &amp; Co. was initially appointed as a joint auditor in Anitya Ltd. for 5 years term with other two auditors but it gave its resignation as an auditor to the company on 20th October, 2021, due to the reason of having differences of opinion with other joint auditors.</p> <p>Manohar &amp; Co. filed the required statement with respect to its resignation on 27th November, 2021, with Anitya Ltd. as well as the Registrar, respectively.</p> <p>The Board of Directors of Anitya Ltd. appointed Namo &amp; Co. as a joint auditor in place of Manohar &amp; Co. which was later approved by members in the general meeting of the company.</p> <p>Namo &amp; Co. before getting appointed, as aforesaid, had :- Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar &amp; Co. but the said post was received back with the remarks "Office Found Locked". Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>
i.	<p><b>Whether the opinion of Manohar &amp; Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?</b></p>
	<p>a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.</p> <p>b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement.</p> <p>c) No, as such reference was not required by any law or regulation.</p> <p>d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.</p>
ii.	<p><b>Whether the opinion of Llyods &amp; Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?</b></p>
	<p>a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.</p> <p>b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.</p> <p>c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.</p> <p>d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.</p>
iii.	<p><b>Whether the insistence by Manohar &amp; Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?</b></p>

	<p>a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701</p> <p>b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.</p> <p>c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.</p> <p>d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.</p>
iv.	<b>By what date, Manohar &amp; Co. should have filed the statement with respect to its resignation with Anitya Ltd. as well as the Registrar and in what form?</b>
	<p>a) Manohar &amp; Co. should have filed the statement in Form ADT-3 by 19th November, 2021.</p> <p>b) Manohar &amp; Co. should have filed the statement in Form ADT-4 by 19th November, 2021.</p> <p>c) Manohar &amp; Co. should have filed the statement in Form ADT-2 by 19th December, 2021.</p> <p>d) Manohar &amp; Co. should have filed the statement in Form ADT-3 by 20th November, 2021.</p>
v.	<b>Whether Namo &amp; Co. would be considered to have satisfied the requirements of communicating with the previous auditor?</b>
	<p>a) No, as the communication through registered post acknowledgment due could not be done, Namo &amp; Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.</p> <p>b) Yes, as it would be deemed that such post was delivered.</p> <p>c) No, because in such a case Namo &amp; Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.</p> <p>d) No, however, Namo &amp; Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.</p>

Solutions		
Sr.no.	Answer	Hint
1.	i. – [d]	As per SA 299, joint auditor if he doesn't agree with views of other joint auditors, then he shall issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.
	ii. – [a]	CARO will be applicable on entity if paid up share capital and reserves are more than Rs. 1 crore.
	iii. – [c]	Reporting under clause (vi) of Para 3 is required irrespective Co. is ordered by government to conduct cost audit under section 148(1) or not.
	iv. – [b]	If Co. has executive chairman then at least 50% of Board shall comprise of Independent Directors.
	v. – [a]	If relative (not auditor or partner) acquires interest > 1 lakh then corrective action to maintain limit within 60 Days of acquisition. If such corrective action is taken auditor shall not be disqualified.
2.	i. – [b]	As per the requirements of SQC 1 at least annually, firm should obtain a written confirmation regarding independence from all of its firm personnel.

	ii. – [d]	Audit file has to be assembled within 60 days of Audit Report.
	iii. – [d]	Communication of significant deficiencies to TCWG : Listed Entities: Before date of approval of F.S. Other Entities: Before assembly of audit file (60 days from date of audit report)
	iv. – [a]	Audit documentation has to be retained for 7 years from date of Audit Report.
	v. – [d]	Technical reviewe can select max 3 assignments, however if last time no deficiency was found he'll not select more than 1.
3.	i. – [c]	Just need to consider the applicability criteria of Audit Committee, Internal Audit & Rotation of Auditors
	ii. – [b]	Under the Report on Other Legal and Regulatory Requirements section of Audit report, Auditor is required to report whether remuneration paid to directors within limits of Sec 197.
	iii. – [b]	Undisputed statutory dues overdue for more than 6 months as on Balance sheet date need to be reported by the Auditor.
	iv. – [d]	Interest @12% p.a. applicable on delay in transfer of funds to unpaid dividend account beyond 7 days from end of 30 days from date of declaration of dividend $[1L * 12\% * 36/365]$
	v. – [b]	After being declared dividend should be deposited within 5 days in separate account with scheduled bank. Also dividend remaining unclaimed for 30 days from date of declaration shall be transferred to Unpaid dividend account within 7 days.
4.	i. – [a]	
	ii. – [d]	
	iii. – [c]	
	iv. – [d]	
	v. – [a]	
5.	i. – [c]	
	ii. – [b]	
	iii. – [c]	
	iv. – [d]	$[40000 \text{ or } 50000(\text{lower}) \Rightarrow 40000 + 500*25 = 52,500]$
	v. – [d]	
6.	i. – [b]	As per Sec2(2) of Chartered Accountants Act 1949 a member shall be deemed to be in practice if he offers to perform or performs service involving auditing or preparation, verification or certification of F.S. or holds himself out as accountant; Since in given case accepted an assignment to write books & file income tax returns he'll be deemed to be in practice. Also as per Clause (7) of Part I of First Schedule to CA Act 1949, a CAiP shall be deemed to be guilty if he uses designation other than Chartered Accountant.
	ii. – [a]	A per Sec 35(2), expert can't be held guilty when as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that person making statement was competent to make it and that said person had given the consent required by subsection (5) of section 26 to issue of the prospectus and had not withdrawn that consent before delivery of a copy of prospectus for registration or, to the defendant's knowledge, before allotment thereunder.
	iii. – [b]	Making inquiries from Internal auditor on any matter related to audit is allowed as per SA 610. Use of words direct assistance given just to confuse the students.

	iv. – [d]	SA 260 deals with Communication with TCWG & SA 220 deals with direction, supervision & review when using the work performed by others.
	v. – [c]	when Auditor resigns he's required to file reasons with BOD & ICAI + the new auditor is required to consider the same before accepting the audit.
7.	i. – [a]	
	ii. – [d]	
	iii. – [b]	
	iv. – [a]	
	v. – [b]	

**Student Notes: -**



## Miscellaneous [ICAI Integrated Case Scenarios Booklet]

1.	<p>RIM Private Ltd is engaged in the business of manufacturing of steel having annual turnover of INR 10,000 crore. The company is very capital intensive and has its plants at two locations – Mohali and Hosur. During the year ended 31 March, 2019, the company carried out a detailed physical verification of its property, plant and equipment and also reassessed their useful lives by engaging a consultant. The consultant submitted its report to the management on 21 April, 2019. The statutory auditors of the company started their audit work from May 2019 and when this information was given to them regarding the physical verification and the reassessment of the useful lives of property, plant and equipment, the auditors told the management that the consultant should have submitted its report to the auditors also independently. Further, in the absence of this direct communication of the report of the consultant to the auditors, the audit team would have to review the work of the consultant which is not efficient but it cannot be avoided now. Management did not agree with both the points of the auditors that the consultant should have shared report with the auditors directly and that the auditors need to review the work of the consultant. The management would like to have your views on this matter.</p>
	<ul style="list-style-type: none"> <li>a) The view of the management seems to be correct because there is no such requirement that any consultant of the company should share his report directly with the auditor. Also when the consultant has already submitted a detailed report, no further review is required on that.</li> <li>b) Both the management and auditors are not correct. The auditor is not supposed to receive the report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not.</li> <li>c) The auditor's requirements are reasonable because he carries duty in respect of audit of financial statements and by not getting report directly from the consultant, he would not know whether it belongs to that consultant or not. And now only because of this lack of proper communication the auditor would have to review the work of the consultant.</li> <li>d) Both management and auditors should find a solution to this problem. The management may request the consultant to send the report to the auditor directly now. On the basis of the same, the auditor can avoid unnecessary procedure related to review of report of the consultant.</li> </ul>
2.	<p><b>RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. It is a subsidiary of RIM GmbH, based out of Germany.</b></p> <p><b>During the financial year ended 31 March 2019, the company carried out a detailed physical verification of its inventory and property, plant and equipment.</b></p> <p><b>During the year, various other activities were carried out to increase efficiency in operations and reductions of costs.</b></p> <p><b>The statutory auditors of the company started their audit work from April 2019 and requested for a documentation on changes in processes and activities during the year as well as any resultant impact of the same on management controls.</b></p> <p><b>The management of the company told the auditors that all such documentation is maintained by the parent company as this is a closely held private company and even though internal financial controls reporting is applicable on this company, the parent company is taking due care of each and every process.</b></p>

	<b>The auditors did not agree with the views of the management. Please advise both the management and the auditors.</b>
	<ul style="list-style-type: none"> <li>a) The auditors should look for documentation as per Sarbanes Oxley in this case.</li> <li>b) The auditors are correct in this case and the management should provide the required documentation.</li> <li>c) The auditors are correct in this case and the management should provide the required documentation. However, in case the parent company is covered by Sarbanes Oxley then it can be ignored by the auditors.</li> <li>d) The management is correct.</li> </ul>
3.	<p><b>XYZ Private Limited is engaged in trading of parts of machineries used in boiler plants. Company has seen growth of 60% in the sales and management expecting similar growth in next 3 financial years and is planning to onboard new dealers in order to achieve management goal. Purchase department also expect to develop new suppliers in order to meet customer demands. Internal auditor of the company has identified frequent changes in the bank account and other master details of suppliers. At this expansion planning phase, company has no defined control to provide assurance on said supplier master changes.</b></p> <p><b>Management agreed to develop the process of monthly detailed review of supplier master changes done in supplier master by Finance assistant in order to ensure authorized changes in supplier master.</b></p> <p><b>One of the members from the Management would like to know that above controls falls under which category:</b></p>
	<ul style="list-style-type: none"> <li>a) Automated control.</li> <li>b) Preventive control.</li> <li>c) Detective control.</li> <li>d) Compensating control.</li> </ul>
4.	<p><b>RIM Private Ltd is engaged in the business of manufacturing of cranes and other construction equipment. The nature of the operations are such that purchases are quite significant even though the sales may or may not be very significant, in terms of number of transactions during the year.</b></p> <p><b>The company's statutory auditors have also obtained certain audit tools to help the audit team on various audit procedures to bring efficiency in various audits.</b></p> <p><b>During the course of the audit of the financial statements for the financial year ended 31 March 2020, the auditors used those audit tools (also known as computer assisted audit techniques) for sampling procedures and data analytics.</b></p> <p><b>The outcome of the tools resulted in some analysis and requirements which the audit team requested from the client. However, the client refused to provide any such information because as per the client all these tools were those of the auditor and any outcome of the same needs to be handled by themselves instead of asking the management.</b></p> <p><b>The auditors have suggested that such an attitude of non-cooperation would not help the either party and would defeat the objective of the audit. The management of the company is, however, ready to provide any other information to the auditors.</b></p> <p><b>In this situation, please advise both the management and the auditors.</b></p>
	<ul style="list-style-type: none"> <li>a) Since the management is ready to provide any other information, the auditor should obtain this information as well by not disclosing the management that it is outcome of any audit tool.</li> </ul>

	<ul style="list-style-type: none"> <li>b) The view of the management is correct because audit tools are there to support the auditors and not to lead to increased work for the management.</li> <li>c) The auditors are correct because by using audit tools they are performing their audit procedures.</li> <li>d) The auditors should ignore all these tools and plan their audit procedures accordingly.</li> </ul>
5.	<p><b>You are the internal auditor of FCD Bank Limited for the year 2019-20 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:</b></p>
	<ul style="list-style-type: none"> <li>a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.</li> <li>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.</li> <li>c) Discuss the process followed for lien marking with the branch manager.</li> <li>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.</li> </ul>
6.	<p><b>OPE Ltd issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31 March 2020. The issue was fully subscribed. During this year, there was an abnormal rise in the profits of the company for which it was found later on that it was because of manipulated sales in which there was participation of Whole-time director and other top officials of the company. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts. The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. The auditors were able to prove that they found internal controls to be satisfactory and did not find any circumstance to arouse suspicion. The company was not able to prove that auditors were negligent in performance of their duties. Please suggest your views on this.</b></p>
	<ul style="list-style-type: none"> <li>a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.</li> <li>b) The approach of the auditors look reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.</li> <li>c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc., the manipulation could have been detected. Hence the auditors should be held liable.</li> <li>d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.</li> </ul>

Solutions		
Sr.no.	Answer	Hint
1.	[b]	
2.	[b]	
3.	[c]	
4.	[c]	
5.	[b]	
6.	[b]	

**Student Notes: -**