

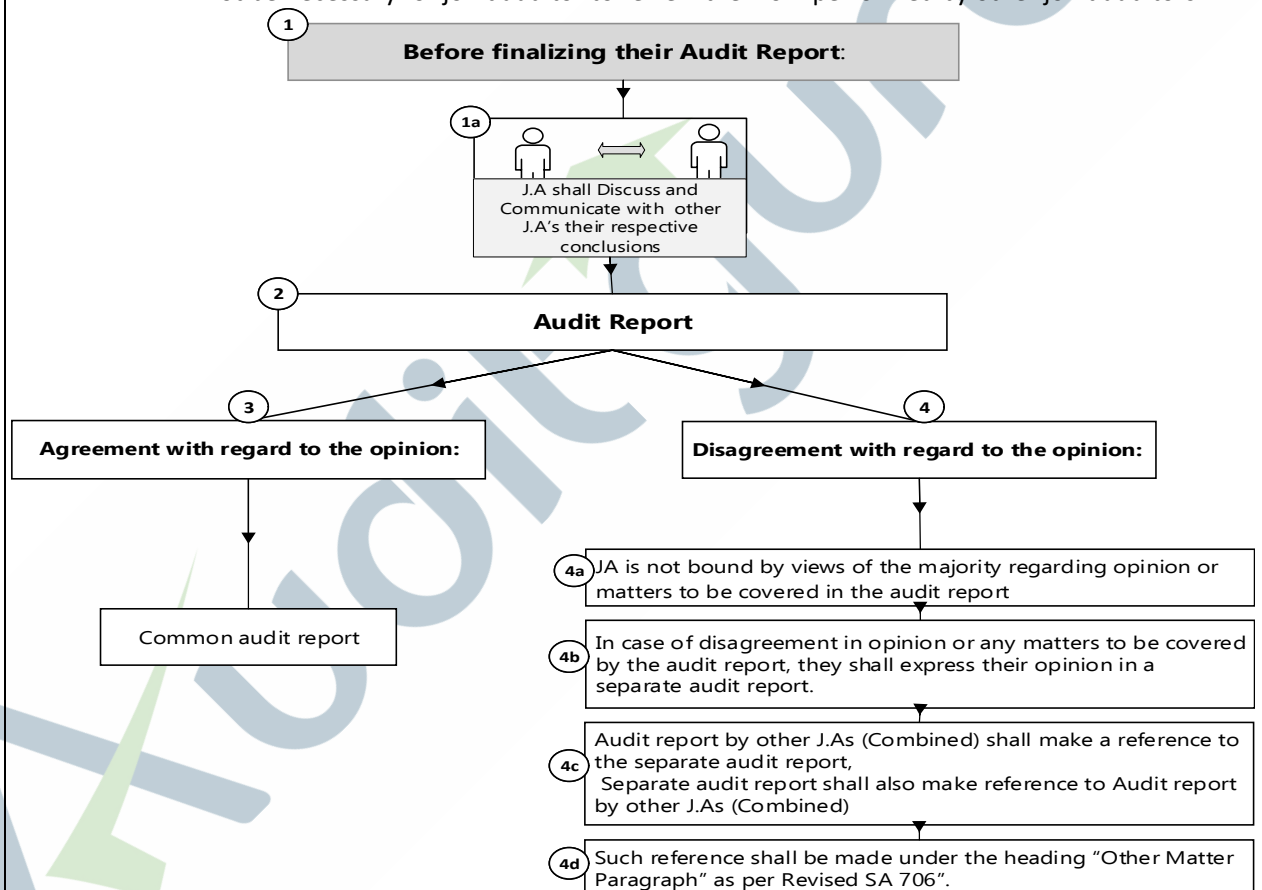
Hello Everyone , below are sample questions picked from SAs & chapters. They are not in any sequence they are picked on random basis. In original book, questions of each chapter and SAs are logically arranged for understanding & retention.

CNO 658.0	Sec 27 --(Separate branch In charge) / ITO	(P17M, S17M) / (N12E, N15E, M17M,M19E)
	<p>Mr. G, a Chartered Accountant in practice as a sole proprietor has an office in Mumbai near Church Gate. Due to increase in professional work, he opens another office in a suburb of Mumbai which is approximately 80 kilometres away from his existing office. For running the new office, he employs three retired Income-tax Officers</p> <p style="text-align: center;"><b>OR</b></p> <p>K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in the suburbs of Chennai. Due to increase in the income tax assessment work, he opens another office near the income tax office. For running the new office, he has employed a retired income Tax Commissioner.</p>	
Answer	<p><b>Part I -- Relevant Standards &amp; Laws</b></p> <ul style="list-style-type: none"> <li>▪ Section 27 of Chapter VII of the Chartered Accountants Act, 1949</li> </ul> <p><b>Part II -- Requirements of Relevant Standards &amp; Laws</b></p> <ul style="list-style-type: none"> <li>➤ In terms of section 27 of the Chartered Accountants Act, 1949, if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute.</li> </ul> <p>There is however an exemption for the above if</p> <ul style="list-style-type: none"> <li>✓ the second office is located in the same premises, in which the first office is located; or</li> <li>✓ the second office is located in the same city, in which the first office is located; or</li> <li>✓ the second office is located within a distance of 50 kms from the municipal limits of a city, in which the first office is located.</li> </ul> <p><b>Part III – Case Discussion</b></p> <ul style="list-style-type: none"> <li>➤ Since the second office is situated beyond 50 kms of municipal limits of Mumbai city which is approximately 80 kilometres away from his existing office. For running the new office, he employed three retired Income-tax Officers whereas he should have created a separate charge of a member of the Institute.</li> </ul> <p><b>Part IV – Conclusion</b></p> <ul style="list-style-type: none"> <li>➤ Thus, he would be liable for committing a professional mis-conduct.</li> </ul>	
	<p style="text-align: center;"><b>Author's Note</b></p> <p><b>! # Mistake point</b></p> <p>Here it is written that another office is opened in a suburb of Mumbai which is approximately 80 kilometres away from his “existing office”.</p> <p><b>As per section 27 of the CA Act ,1949 - Distance from existing office is of no importance. What is important is distance from “Municipal Limits” in which existing office is situated.</b></p> <p>Here institute has assumed the distance from existing office is same as distance from Municipal limits. (Also refer chart in previous question)</p>	
CNO 670.0	First Schedule, Part I,CI,6 Clarification (Greeting Cards & Invitations) Sonu/Monu	(M16R)
	<p>CA. Sonu and CA. Monu are two partners of the CA firm ‘Sonu Monu and Associates’. Being very pious, CA. Sonu organised a religious ceremony at his home for which he instructed his printing agent to add his designation “Chartered Accountant” with his name in the invitation cards. Later on, the invitations were distributed to all the relatives, close friends and clients of both the partners.</p>	
Answer	<p><b>Part I -- Relevant Laws</b></p> <ul style="list-style-type: none"> <li>➤ Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949</li> </ul> <p><b>Part II -- Requirements of Relevant Laws</b></p> <ul style="list-style-type: none"> <li>➤ A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.</li> </ul> <p>However, the Council of the ICAI is of the view that the designation “Chartered Accountant” as well as the name of the firm may be used in greeting cards, invitations for marriages, religious</p>	

	ceremonies and any other specified matters, provided that such greeting cards or invitations etc. are sent only to clients, relatives and close friends of the members concerned.	
	<b>Part III – Case Discussion</b>	
	➤ In the given case, CA. Sonu has instructed to write designation “Chartered Accountant” on invitation cards for a religious ceremony and distributed the same to all the relatives, close friends and clients of both the partners.	
	<b>Part IV – Conclusion</b>	
	➤ In this context, it may be noted that the Council has allowed using designation “Chartered Accountant” in invitations for religious ceremony, provided these are sent to clients, relatives and close friends of the members concerned only.	
	Therefore, CA. Sonu would be held guilty of professional misconduct under the said clause for sending such invitations to the relatives, close friends and clients of CA. Monu as well.	
	<b>Author’s Note</b> Here invitations are sent to relatives, close friends and clients of CA. Monu as well. If the invitations were only sent to relatives, close friends and clients of CA Sonu then he would not have been guilty.	
<b>CNO 28.10</b>	<b>Responsibility of Joint Auditors (Difference)</b>	<b>(N04E, M15R, N15E, P17M, S17M, N17M, M18M)</b>
	<p>KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for the financial year 2015-16. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known Actuaries.</p> <p>Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr. Y’s actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y’s actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma.</p> <p>You are required to briefly explain the responsibilities of auditors when they are jointly and severally responsible in respect of audit conducted by them and also guide Mr. Z in such situation.</p>	
<b>Answer</b>	<b>Part I -- Relevant Standards &amp; Laws</b> <ul style="list-style-type: none"> <li>SA 299 on, “Responsibility of Joint Auditors”</li> </ul> <b>Part II -- Requirements of Relevant Standards &amp; Laws</b>	
	<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; display: inline-block;">Responsibility</div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; display: inline-block;">A</div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;">Specific/Separate Responsibility For:</div> </div> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; display: inline-block;">B</div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;">Joint Responsibility For:</div> </div> </div> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="width: 45%;"> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">1 Work divided.</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">2a Assessment of risk relating to the areas of work allocated .</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">2b Evaluation of internal control relating to the areas of work allocated .</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">2c N.T.E of the audit procedures for work allocated to said joint auditor.</div> </div> <div style="width: 45%;"> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">1 Work not divided.</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">2 Decisions taken by all the J.A together w.r.t ,NTE of the audit procedures for common audit areas .</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">3 Matters brought to the notice of the J.A by other J.A and on which there is an agreement among the J.A.</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">4 Examining whether the F.S of the entity comply with relevant statute.</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">5 Presentation and disclosure Req of the F.S .</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">6 Ensuring that audit report complies with statutes, the app. SA’s and the relevant pronouncements issued by ICAI.</div> </div> </div> <p>➤ <b>Difference of Opinion Among Joint Auditors:</b> SA 299 on, “Responsibility of Joint Auditors” deals with the professional responsibilities, which the auditors undertake in accepting such appointments as joint auditors. In respect of the work divided amongst the joint auditors, each joint auditor is responsible only for the work allocated to him,</p>	

whether or not he has made a separate report on the work performed by him. On the other hand, the joint auditors are jointly and severally responsible in respect of the audit conducted by them as under:

- ✓ in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- ✓ in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors;
- ✓ in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- ✓ for examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute;
- ✓ for ensuring that the audit report complies with the requirements of the relevant statute;
- ✓ it is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of internal control relating to the work allocated to him, the extent of enquiries to be made in the course of his audit;
- ✓ the responsibility of obtaining and evaluating information and explanation from the management is generally a joint responsibility of all the auditors;
- ✓ each joint auditor is entitled to assure that the other joint auditors have carried out their part of work in accordance with the generally accepted audit procedures and therefore it would not be necessary for joint auditor to review the work performed by other joint auditors.



SA Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express their own opinion through a separate report. A joint auditor is not bound by the views of majority of joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

### Part III -- Facts


- In the instant case, there are three auditors, namely, Mr. X, Mr. Y and Mr. Z, jointly appointed as an auditor of KRP Ltd. For the valuation of gratuity scheme of the Company they referred their own known Actuaries. Mr. Z (one of the joint auditors) is not satisfied with the report submitted by Mr. Y's referred actuary. He is not agreed with the matters to be covered by the report whereas Mr. X agreed with the same.

	<b>Part IV -- Conclusion</b>
	➤ Hence, as per SA 299, Mr. Z is suggested to express his own opinion through a separate report whereas Mr. X and Mr. Y may provide their joint report for the same.

<b>CNO 282.0</b>	<b>Sec 139--Appointment First Auditor (Slik)</b>	<b>(M17R)</b>
	<b>KM Pvt. Ltd., engaged in the manufacturing business of Silkhirts, is a newly incorporated company dated 01.09.2016. On 28.09.2016, the members of KM Pvt. Ltd. themselves appointed CA Raj, a renowned practitioner, as the first auditor of the company opposing that Board is not authorised to appoint the auditor. You are required to comment on the action of the Members.</b>	
<b>Answer</b>	<b>Part I -- Relevant Section &amp; Laws</b>	
	<ul style="list-style-type: none"> <li>▪ Section 139(6) of the Companies Act, 2013</li> </ul>	
	<b>Part II -- Requirements of Relevant Section &amp; Laws</b>	
	<ul style="list-style-type: none"> <li>➤ Section 139(6) of the Companies Act, 2013 deals with appointment of First Auditor in the case of a company, other than a Government Company. <ul style="list-style-type: none"> <li>• The first auditor of a company shall be appointed by the Board of Directors within 30 days from the date of registration of the company.</li> <li>• In the case of failure of the Board to appoint the auditor, it shall inform the members of the company.</li> <li>• The members of the company shall within 90 days at an extraordinary general meeting appoint the auditor.</li> <li>• Appointed auditor shall hold office till the conclusion of the first annual general meeting.</li> </ul> </li> </ul>	
	<b>Part III – Case Discussion</b>	
	<p>As per the facts given in the case, the members of KM Pvt. Ltd. themselves appointed CA Raj, a renowned practitioner, as the first auditor of the company opposing that Board is not authorised to appoint the auditor</p>	
	<b>Part IV – Conclusion</b>	
	<p>The appointment of CA Raj as first auditor by the Members of KM Pvt. Ltd. by themselves is in violation of section 139(6) of the Companies Act, 2013, which authorizes the Board of Directors to appoint the first auditor of the company within one month of registration of the company.</p>	
	<p>It may be noted that, only in the case of failure by the Board to appoint the auditor, the members of the company may appoint the auditor at an extraordinary general meeting.</p>	
	<p>Thus, the appointment of CA Raj by the Members of the company is not in order.</p>	
	<b>Author's Note</b> <b>90 days should be counted after completion of 30 days from the date of registration of the company</b>	


<b>CNO 291.0</b>	<b>Sec 139--Rotation Applicability (Apple)</b>	<b>(M15R, P17M, N17R, M18R)</b>
	<p><b>Ram Ltd. is a private company. Its balance sheet shows paid up share capital of ` 5 crore and public borrowings of ` 100 crore. The company appointed M/s Shyam &amp; Co., a chartered accountant firm, as the statutory auditor in its annual general meeting held at the end of September, 2017 for 11 years.</b></p> <p><b>You are required to state the provisions related to - rotation of auditors and cooling off period as per the section 139(2) of the Companies Act, 2013 in case of an individual auditor or an audit firm, both, and comment upon the facts of the case provided above with respect to aforesaid provisions.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Apple Ltd is an unlisted public company Its balance sheet shows paid up share capital of Rs 5 crore and public deposits of Rs 100 crore The company appointed M/s Pear &amp; Co, a chartered accountant firm, as the statutory auditor in its annual general meeting held at the end of September, 2016 for 11 years .</b></p> <p><b>You are required to state the provisions related to rotation of auditor and cooling off period as per the section 139(2) of the Companies Act, 2013 in case of an individual auditor or an audit firm, both, and comment upon the facts of the case provided above with respect to aforesaid provisions</b></p>	
<b>Answer</b>	<b>Part I -- Relevant Section &amp; Laws</b>	
	<ul style="list-style-type: none"> <li>▪ Section 139(2) of the Companies Act, 2013</li> </ul>	

	<ul style="list-style-type: none"> <li>Proviso to Section 139(2)</li> </ul>	
	<b>Part II -- Requirements of Relevant Section &amp; Laws</b>	
	<p>➤ <b>Provisions related to Rotations</b></p> <p>The provisions related to rotation of auditor are applicable to those companies which are prescribed in Companies (Audit and Auditors) Rules, 2014, which prescribes the following classes of companies excluding one person companies and small companies, namely:-</p> <ul style="list-style-type: none"> <li>(a) all unlisted public companies having paid up share capital of ` 10 crore or more;</li> <li>(b) all private limited companies having paid up share capital of ` 50 crore or more;</li> <li>(c) all companies having paid up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of ` 50 crores or more.</li> </ul>	
	<p>➤ <b>Section 139(2) of the Companies Act, 2013</b></p> <p>No listed company or a company belonging to such class or classes of companies as mentioned above, shall appoint or re-appoint-</p> <ul style="list-style-type: none"> <li>(a) an individual as auditor for more than one term of 5 consecutive years; and</li> <li>(b) an audit firm as auditor for more than two terms of 5 consecutive years.</li> </ul>	
	<p>➤ <b>Proviso to Section 139(2)</b></p> <ul style="list-style-type: none"> <li>(i) an individual auditor who has completed his term under clause (a) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;</li> <li>(ii) an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term:</li> </ul>	
	<b>Part III – Case Discussion</b>	
	<p>➤ In the given case, Ram Ltd. is a private company having paid up share capital of ` 5 crore and public borrowings of ` 100 crore. The company has appointed M/s Shyam &amp; Co., a chartered accountant firm, as the statutory auditor in its AGM held at the end of September, 2017 for 11 years.</p>	
	<b>Part IV – Conclusion</b>	
	<p>➤ The provisions relating to rotation of auditor will be applicable as the public borrowings exceeds ` 50 crore.</p> <p>Therefore, Ram (P) Ltd. can appoint M/s Shyam &amp; Co. as an auditor of the company for not more than two terms of 5 consecutive years. i.e. M/s Shyam &amp; Co. shall hold office from the conclusion of this meeting upto conclusion of sixth AGM to be held in the year 2022 and thereafter can be reappointed as auditor for one more term of five years i.e. upto year 2027. <del>The appointment shall be subject to ratification by members at every annual general meeting of the company.</del></p> <p>As a result, the appointment of M/s Shyam &amp; Co. made by Ram Ltd. for 11 years is void.</p>	
	<b>Author's Note</b> Both the questions will have common conclusion as the question is same ,except instead of borrowing second question has public deposits and first question is of private company and second is of unlisted public company	
CNO 309.0	Sec 141--Disqualification Prohibited Services (Actuarial & Investment Advisory)	(N14R, M15R, N16R,S17M,P17M,N17M,M18R)
	C Ltd. appointed CA Innocent as a statutory auditor for the company for the current financial year. Further the company offered him the services of actuarial, investment advisory and investment banking	
Answer	<b>Part I -- Relevant Section &amp; Laws</b>	
	<ul style="list-style-type: none"> <li>Section 141(3)(i) of the Companies Act, 2013 and</li> <li>Section 144 of the Companies Act, 2013</li> </ul>	
	<b>Part II -- Requirements of Relevant Section &amp; Laws</b>	
	<p>➤ <b>Section 144 of the Companies Act, 2013</b></p> <p>It prescribes certain services not to be rendered by the auditor. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services</p>	


	<p>(whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely: <b>(BAD-MAFIA)</b></p> <ul style="list-style-type: none"> <li>✓ Investment Banking services;</li> <li>✓ Investment Advisory services;</li> <li>✓ Design and implementation of any financial information system;</li> <li>✓ Management services;</li> <li>✓ Actuarial services;</li> <li>✓ Rendering of outsourced Financial services;</li> <li>✓ Internal audit</li> <li>✓ Accounting and book keeping services; and</li> <li>✓ Any other kind of services as may be prescribed.</li> </ul> <p>➤ <b>Section 141(3)(i) of the Companies Act, 2013</b> A person is disqualified for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144.</p>	
	<p><b>Part III – Case Discussion</b></p> <p>➤ In the given case, CA Innocent was appointed as an auditor of C Ltd. He was offered additional services of actuarial, investment advisory and investment banking which was also approved by the Board of Directors.</p>	
	<p><b>Part IV – Conclusion</b></p> <p>➤ The auditor is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per section 144 of the Act.</p>	
	<p><b>Author's Note</b></p> <p> B- Investment Banking services; / A- Investment Advisory services/ D- Design and implementation of any financial information system/ M- Management services / A- Actuarial services/ F- Rendering of outsourced Financial services/ I- Internal audit / A- Accounting and book keeping services; and</p>	
<b>CNO 313.0</b>	<b>Sec 141--Disqualification Securities Face Value</b>	<b>(M17M) / (M15R, P17M, M17R)/ (S17M)/ (M15E,P17M,M19E)</b>
	<p>Dabloo Ltd. offered appointment as its auditor to Mr. Bee, a practicing Chartered Accountant. Later on, Mr. Dee, the step-brother of Mr. Bee, purchased securities of the company having face value of Rs. 4,99,000. Comment, whether Mr. Bee may accept the offer of appointment as an auditor?</p> <p style="text-align: center;">OR</p> <p>Mr. XXX, a practicing Chartered Accountant, has been offered for appointment as an auditor of Z Ltd., a leading company. Later on, Mr. YYY, the step-brother of Mr. XXX, purchased securities of the company having face value of ` 89,000. Comment, whether Mr. XXX may accept the offer of appointment as an auditor?</p> <p style="text-align: center;">OR</p> <p>Mr Pratiq, a practicing Chartered Accountant, has been appointed as an auditor of Opus Ltd He is holding securities of the company having face value of Rs 89,000 only</p> <p>(i) You are required to state, whether Mr Pratiq is qualified to be appointed as an auditor of Opus Ltd</p> <p>(ii) Would your answer be different, if instead of Mr Pratiq; Mr Quresh, the stepfather of Mr Pratiq, is holding the securities?</p> <p style="text-align: center;">OR</p> <p>"M/s BC &amp; Co." is an Audit Firm having partners "Mr. B" and "Mr. C", and "Mr. A" the relative of "Mr. C", is holding securities of "MWF Ltd." having face value of ` 1,01,000/-. Whether "M/s BC &amp; Co." is qualified from being appointed as an auditor of "MWF Ltd."?</p> <p style="text-align: center;">OR</p> <p>"Mr. P" is a practicing Chartered Accountant and "Mr. Q", the relative of "Mr. P", is holding securities of "ABC Ltd." having face value of ` 90,000/-. Whether "Mr. P" is Qualified from being appointed as an auditor of "ABC Ltd."?(S17M)</p> <p style="text-align: center;">OR</p> <p>R and M is an audit firm having partners CA. R, CA. M and CA. G. Mr. S is the relative of CA. R holding shares of STP Ltd. having a face value of ` 1,51,000. Whether CA. R and CA. M are qualified to be appointed as auditors of STP Ltd.?</p>	
<b>Answer</b>	<b>Part I -- Relevant Section &amp; Laws</b>	



	<ul style="list-style-type: none"> <li>Section 141(3)(d)(i) of the Companies Act, 2013</li> <li>Proviso to section 141(3)(d)(i) of the Companies Act, 2013</li> </ul> <p><b>Part II -- Requirements of Relevant Section &amp; Laws</b></p> <p>➤ <b>Section 141(3)(d)(i) of the Companies Act, 2013.</b> A person is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.</p> <p>➤ <b>Proviso to section 141(3)(d)(i) of the Companies Act, 2013</b> However, as per the proviso to this section, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of Rs. 1,00,000. Further, the term "relative" as defined under the Companies Act, 2013 includes step- brother.</p> <p><b>Part III – Case Discussion</b></p> <p>➤ In the present situation, Mr. Dee, the step-brother(included in the definition of the term "relative" as per the Companies Act, 2013) of Mr. Bee, is holding the securities having face value of Rs. 4,99,000 in Dabloo Ltd.</p> <p><b>Part IV – Conclusion</b></p> <p>➤ Thus, holding of securities in Dabloo Ltd. by Mr. Dee having face value exceeding Rs. 1,00,000, will disqualify Mr. Bee from being appointed as an auditor of Dabloo Ltd. Therefore, Mr. Bee may not accept the offer of appointment as an auditor of Dabloo Ltd.</p>	
	<p><b>Author's Note</b></p> <p><b>Case two</b> Mr. XXX can accept the offer of appointment as an auditor of Z Ltd. as shares held by stepbrother (relative) are below the limit of 1,00,000 (face value)</p> <p><b>Case three</b> (i) Pratiq is holding securities in Opus Ltd., which is not allowed as per the provisions of section 141(3)(d)(i) of the Act. Therefore, Mr. Pratiq will be disqualified to be appointed as an auditor of Opus Ltd. (ii) Pratiq can accept the appointment as an auditor of <i>Opus Ltd.</i> as shares held by step father (relative) are below the limit of 1,00,000 (face value)</p> <p><b>Case four</b> M/s BC &amp; Co, will be disqualified for appointment as an auditor of MWF Ltd as the relative of Mr. C (i.e. partner of M/s BC &amp; Co.), is holding the security in MWF Ltd which is exceeding the limit mentioned in proviso to section 141(3)(d)(i).</p> <p><b>Case five</b> Mr. P can accept the offer of appointment as an auditor of ABC Ltd as shares held by Mr Q (relative) are below the limit of 1,00,000 (face value)</p> <p><b>Case Six</b> R and M, audit firm along with its partners CA. R, CA. M and CA. G will be disqualified for appointment as an auditor as the relative of CA. R is holding the securities in STP Ltd. which is exceeding the limit mentioned in proviso to section 141(3)(d)(i).</p>	
Concept 436.0	Temporary Holding	(M06E, M15E, M17E, N18R, M18M, M18E) / (N18M, M08E, M15R, P17M, S17M) / (N18E,M19E)
	<p>H its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25 % in SI Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need X to consolidate accounts of any such investee companies with those of H Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your views.</p> <p style="text-align: center;">OR</p>	

	<p>Parent Ltd. acquired 51% shares of Child Ltd. during the year ending 31-3-2017. During the financial year 2017-18 the 20% shares of Child Ltd. were sold by Parent Ltd. Parent Ltd. while preparing the financial statements for the year ending 31-3-2017 and 31-3-2018 did not consider the financial statements of Child Ltd. for consolidation. Comment.</p> <p style="text-align: center;">OR</p> <p>R Ltd owns 51% voting power in S Ltd It however, holds and discloses all the shares as Stock-in-trade in its accounts The shares are held exclusively with a view to their subsequent disposal in the near future R Ltd represents that while preparing Consolidated Financial Statements, S Ltd can be excluded from the consolidation As a Statutory Auditor, how would you deal?</p>
Answer	<p><b>Part I -- Relevant Standards &amp; Laws</b></p> <ul style="list-style-type: none"> <li>▪ Ind AS 110 'Consolidated Financial Statements'</li> <li>▪ Section 129(3) of the Companies Act, 2013</li> <li>▪ Companies (Accounts) Rules, 2014</li> </ul> <p><b>Part II -- Requirements of Relevant Standards &amp; Laws</b></p> <p>➤ <b>Section 129(3) of the Companies Act, 2013</b> Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.</p> <p>➤ <b>Companies (Accounts) Rules, 2014,</b> The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.</p> <p>➤ <b>Ind AS 110 'Consolidated Financial Statements'</b> However, an investment entity need not present consolidated financial statements if it is required, in accordance with Ind AS 110 'Consolidated Financial Statements', to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity. An investment entity is an entity that</p> <ul style="list-style-type: none"> <li>✓ obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;</li> <li>✓ commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and</li> <li>✓ measures and evaluates the performance of substantially all of its investments on a fair value basis.</li> </ul> <p><b>Part III – Case Discussion</b></p> <p>➤ In the given case, H Limited is an investment company preparing its financial statements in accordance with Ind AS and the company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the investee companies.</p> <p><b>Part IV – Conclusion</b></p> <p>➤ In view of provisions discussed in Ind AS 110, the Company is not required to prepare consolidated financial statements however, for the compliance of Companies (Accounts) Rules, 2014, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act. Thus, it can be concluded that ultimate authority on consolidation is AS / Ind AS as prescribed by law and if they give some exemption it should be followed. If out of exemption some subsidiaries are not consolidated then list should be disclosed in notes to accounts with reason.</p>
	<p><b>Author's Note</b></p> <p>1.</p> <p> <b>#controversy</b> This answer originally when provided by ICAI in suggested of NOV 18 (New) was not correct but later on Board of Studies changed the answer after discussion with the author.</p>
	<p>2. AS-21, gives two exemption from consolidation.</p> <ul style="list-style-type: none"> <li>(a) Temporary Holding</li> <li>(b) Restriction on repatriation of funds</li> </ul>



	<p>But IND-AS 110, does not gives above two exemptions. So consolidation will be required as per IND-AS 110, even in above two points (a) &amp; (b) are applicable.</p> <p>IND-AS 110 gives exemptions in following cases</p> <ul style="list-style-type: none"> <li>(i) Investment entities</li> <li>(ii) Intermediary Subsidiaries (provided all conditions are satisfied)</li> <li>(iii) Employee benefit plans covered under IND-AS 19</li> </ul>	
<b>Concept 442.0</b>	<b>Relevance of SA 600</b>	<b>(N15E, N17R)</b>
	<p><b>Describe the relevance of SA 600 while auditing consolidation of Financial Statements</b> OR <b>What is meant by “Group financial statements”? Give reference of relevant Auditing Standard and issues addressed concerning the audit of Group financial statements.</b></p>	
<b>Answer</b>	<p><b>Part I -- Relevant Standards &amp; Laws</b></p> <ul style="list-style-type: none"> <li>▪ SA 600 “Using the work of Another Auditor”</li> </ul> <p><b>Part II -- Requirements of Relevant Standards &amp; Laws</b></p> <p>➤ <b>SA 600 and its relevance –</b> Standard on Auditing (SA) 600, ‘Using the Work of Another Auditor’ establishes standards when an auditor, reporting on the financial statements of an entity (the group—in the case of consolidated financial statements), uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity.</p> <p>The principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600.</p> <p>➤ <b>Determination of materiality during the audit of consolidated financial statements</b> In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:</p> <ul style="list-style-type: none"> <li>✔ The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS</li> <li>✔ The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components and consider using the work of other auditors as applicable.</li> </ul> <p>However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the concept of materiality would be considered.</p> <p>Thus the component auditor's observation, if any, on the components financial statement ,irrespective of whether the auditor of the component are also the auditor of CFS or not ,are required to be included in the parent <b>audit report of Consolidated financial statement only if material for the group.</b></p>	
	<p><b>Author's Note</b></p> <p> <b># Mistake point</b></p> <p style="text-align: center;"><b>IMPORTANT – Recent Change in answer.</b></p> <p>Last para of the answer has changed recently .Earlier in the answer provided by the institute, it was mentioned that while considering the observations of the component auditor in his report on the standalone financial statements, the concept of materiality would “not “ be considered. However this was inconsistent with SA 600 which requires to consider the concept of materiality while giving observations in audit report of Consolidated financial statement.</p>	

	<p>The impact of including the word “not” was that , the component auditor’s observation was mandatory to be included in audit report of Consolidated financial statement irrespective of whether the component was material or not.</p> <p>Such inconsistency has been removed after removal of the word “ not”.</p>
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CNO 14.0	Error in Valuation of Inventory	(N11R, N13R, P17M)
	<p>As an auditor of public limited company for year ended 31.03.2013, you discovered an error in valuation of inventory, which has material effect on financial statements. Comment with reference to standards on auditing.</p>	
Answer	<p><b>Part I -- Relevant Standards &amp; Laws</b></p> <ul style="list-style-type: none"> <li>▪ SA 240, The Auditor’s Responsibilities Relating to Fraud in audit of Financial Statements</li> <li>▪ SA 450, Evaluation of Misstatement Identified during the Audit</li> <li>▪ Sec 143 (12) of Companies Act</li> <li>▪ Clause (X) of CARO 2016</li> </ul> <p><b>Part II -- Requirements of Relevant Standards &amp; Laws</b></p> <p><b>COMMON POINTS -- SA 240 &amp; 450</b></p> <p>➤ <b>As per SA 240</b></p> <p>▼ <b>Circumstances Indicates Possible Misstatement – Consider Potential Effect – If Effect could be Material – Perform Modified &amp; Additional Procedures</b></p> <p>SA 240, “The Auditor’s Responsibilities Relating Fraud in an Audit of Financial Statements”, requires that if circumstances indicate the possible existence of fraud or error, the auditor should consider the potential effect of the suspected fraud or error on the financial information. If the auditor believes the suspected fraud or error could have a material effect on the financial information, he should perform such modified or additional procedures as he determines to be appropriate.</p> <p>▼ <b>If actual Misstatement – Evaluate whether Indicative of Fraud – if such Indication – Implication on other aspects of audit, Eg Cannot be isolated occurrence , Reliability of WR</b></p> <p>SA 240 also requires that when the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit.</p> <p>➤ <b>As per SA 450</b></p> <p><b>After Misstatement Identified – Extend Audit Procedures to know materiality and Ask for Adjustment for Misstatements and Must for Material Items –Even after extension unable to conclude about materiality given or If rectification not done – give qualified or adverse opinion as the case may be</b></p> <p>Further, SA 450, also requires that in such circumstances, the auditor should consider requesting the management to adjust the financial information or consider extending his audit procedures. If the management refuses to adjust the financial information and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material, the auditor should express a qualified or adverse opinion, as appropriate.</p> <p><b>COMMON POINTS -- ABILITY / SEC 143 / CARO</b></p> <p>➤ <b>Ability to Continue as Auditor- Resulting from fraud or expected fraud – encounters exceptional circumstances – not able to continue.</b></p> <p>If, as a result of a misstatement <b>resulting from fraud or suspected fraud</b>, the auditor encounters exceptional circumstances that bring into question the auditor’s ability to continue performing the audit, the auditor shall:</p>	

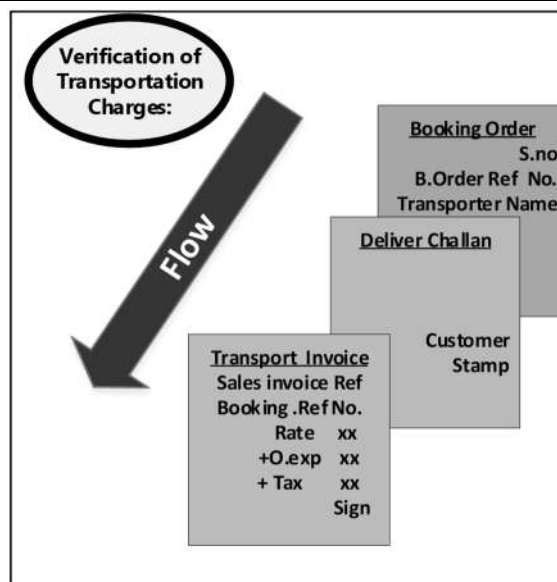
	<p>➤ <b>Consider is it appropriate to withdraw</b></p> <p>    ▽ <b>If it is appropriate to with draw – inform, discuss with management &amp; TCWG with reasons / Report decision to persons, authorities as per legal &amp; regulatory requirement</b></p> <p>        If the auditor withdraws:</p> <ul style="list-style-type: none"> <li>• Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and</li> <li>• Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.</li> </ul> <p>➤ <b>As per Sec 143 (12) -Reason to Believe – Fraud by of Officer or Employee on the company— report to CG (if fraud <math>\geq</math>1 crore) or to Audit Committee , BOD (if fraud is less than 1 crore)</b></p> <p>        Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, <b>has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees</b> of the company, he shall <b>immediately report the matter to the Central Government (in case amount of fraud is Rs 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than Rs 1 crore)</b> within such time and in such manner as may be prescribed.</p> <p>➤ <b>Clause (x) of CARO – Report on the company by officer or employee of the company or fraud by company noticed or reported</b></p> <p>        The auditor is also required to report as per Clause (x) of Paragraph 3 of CARO, 2016, if there is any fraud on the company by officers or employees or by the company has been noticed or reported during the year. The nature and the amount involved are to be indicated.</p>
	<b>Part III – Case Discussion</b>
	<p>➤ Error is valuation of Inventory can be intentional or Intentional, so it suspected fraud or can be genuine error. Further it has material impact also.</p>
	<b>Part IV – Conclusion</b>
	<p>➤ So, auditor to should perform additional procedures, find out whether it is fraud or error. If it's a fraud consider impact on other aspects of audit and further ask management to rectify it.</p>

<b>40.10</b>	<b>Identify &amp; Assess RMM &amp; Response to Risk</b>	<b>(N14E, M17R, P17M, M18R)</b>
	<b>While commencing the statutory audit of Alex Co Ltd, what would you consider as an auditor to assess risk of material misstatement and responses to such risks?</b>	
<b>Answer</b>	<b>Part I -- Relevant Standards &amp; Laws</b>	
	<ul style="list-style-type: none"> <li>▪ <b>SA 315, Identifying And Assessing The Risk Of Material Misstatement Through Understanding The Entity And Its Environment</b></li> </ul>	
	<b>Part II -- Requirements of Relevant Standards &amp; Laws</b>	
	<p>➤ <b>RMM at 2 Levels: – Financial Statement Level &amp; Assertion Level</b></p> <p>        The auditor shall <b>identify and assess</b> the risks of material misstatement at:</p> <ul style="list-style-type: none"> <li>• The <b>financial statement level</b>; an</li> <li>• The <b>assertion level</b> for classes of transactions, account balances, and disclosures; to provide a basis for designing and performing further audit procedures.</li> </ul> <p>➤ <b>4 Steps in Identifying &amp; Assessing Risk</b></p> <p>    ▽ <b>Identify risks while obtaining understanding /Identify which assertions will get affected / Identify whether risks are affecting financial statement as a whole and affecting many assertions / Consider likelihood and Magnitude of Misstatement and whether there could be Material Misstatement</b></p> <p>        For this purpose, the auditor shall:</p> <ul style="list-style-type: none"> <li>• <b>Identify risks throughout the process</b> of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by</li> </ul>	

	<p>considering the classes of transactions, account balances, and disclosures in the financial statements; <i>(Har information collect karne ke baad risk ke baarein mein sochtein raho)</i></p> <ul style="list-style-type: none"> <li>• Relate the <b>identified risks to what can go wrong at the assertion level, taking account of relevant controls</b> that the auditor intends to test; and <i>(Kahi assertion level pet oh nahi)</i></li> <li>• Assess the identified risks, and evaluate whether they relate more <b>pervasively to the financial statements as a whole and potentially affect many assertions</b>; <i>(Ya financial statement level pet oh nahi)</i></li> <li>• Consider the <b>likelihood of misstatement</b>, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement. <i>(Badi risk toh nahi hai , with big amount and more probability)</i></li> </ul> <p><b>SA 330 The Auditor's Responses to Assessed Risks</b></p> <ul style="list-style-type: none"> <li>➤ <b>Response for Risk at Financial Statement Level: - Overall Responses (Eg More Seniors, Experts / Professional Scepticism / Surprise Element / Supervision etc)</b> The auditor shall design and implement <b>overall responses</b> to address the assessed risks of material misstatement at the financial statement level.</li> <li>➤ <b>Response for Risk at Assertion Level: - Further Audit Procedures / NTE should be Responsive to RMM</b> The auditor shall design and perform <b>further audit procedures</b> whose nature, timing and extent are based on and are <b>responsive to the assessed risks of material misstatement</b> at the assertion level.</li> <li>➤ <b>More Explanation: - Consider Reasons for RMM :-</b> 1i. It is due to high likelihood because of nature of item (i.e inherent risk) 1ii. Which are relevant controls compensating this risk, what's control risk, if we are relying on this control then we need to check operating effectiveness In designing the further audit procedures to be performed, the auditor shall <ul style="list-style-type: none"> <li>• Consider the <b>reasons for the assessment given to the risk of material misstatement at the assertion level</b> for each class of transactions, account balance, and disclosure, including: <ul style="list-style-type: none"> <li>○ The <b>likelihood</b> of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and</li> <li>○ Whether the <b>risk assessment takes into account the relevant controls</b> (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and</li> </ul> </li> </ul> </li> <li>➤ <b>Higher RMM: - Higher RMM More Persuasive Evidence</b> <ul style="list-style-type: none"> <li>• Obtain <b>more persuasive audit evidence</b> the higher the auditor's assessment of risk.</li> </ul> </li> </ul>	
CNO 158.0	Audit Programme for Transportation Charges	(M06E, P17M, M18M)
	<p>Audit programme for verification of transportation charges. OR As an internal auditor of a Cement Manufacturing Company, draft an audit programme for verification of transportation charges for despatches from the factor</p>	
Answer	<p>➤ <b>Audit Programme for Verification of Transportation Charges:</b></p>	

### ✓ **Booking Order**

- Check whether all the goods to be **dispatched** have a **transport booking order reference**.
- Check whether the transport **booking orders** are **pre-numbered**.
- Check whether all the transport **booking orders** have **corresponding transporters names**.



### ✓ **Delivery Challan**

- Check that the transporter's invoice includes a **delivery challan which has customers stamp** indicating the receipt of goods.
- In case there is **no stamp** on the delivery challan, **check whether the goods are received back and there is a corresponding inward note**.

### ✓ **Transport Invoice**

- Verify that there is a mechanism for **linking all the Transport Bills to the sale invoices**
- Check whether all the **invoices** are correctly **booked** in the **books of accounts**
- Check whether each **transporter's invoice** mentions the transport **booking order reference**.
- **Check rates contracted** with transporters for carriage of goods.
- Check whether the **rates mentioned as per the contract** are **correctly taken in the transporter's Invoice**.
- In case there is an **additional charge** by the transporter due to extra carriage, check for the relevant supporting (like material Inward Note/Customer Rejection Note) and necessary authorization by the sanctioning authority.
- Check whether **GST** on the transporters is correctly calculated and accounted
- In case of **discrepancy**, check whether the same is **authorized by the appropriate sanctioning authority**.

### **Author's Note**

Students must think about the events that take place. What documents are prepared with respect to that event ,in order to understand and remember how to verify transportation charges ?

<u>Event</u>	<u>Document Prepared</u>
Order Booking	Booking orders
Delivery of Goods	<i>Delivery Challan</i>
Settlement with transporter	<i>Transport Invoice</i>

The above diagram covers all the points written in the answer. Students can use it for the reference