

## Section A Multiple Choice Questions

MCQs 1-6 carry 1 mark each and MCQs 7-8 carry 2 marks each. (Total 10 marks)

1. For determining the applicability of CARO to the private limited company while computing the limit of 1 crores for paid up capital and reserves and surpluses, \_\_\_\_\_ should be taken into consideration.

- (a) Capital Reserves
- (b) Revenue Reserves
- (c) **Both Option (a) and Option (b)**
- (d) None of these as it is only w.r.t. paid up capital

2. Statement 1. Auditor will have to quantify the financial effects of matter giving rise to qualification, in the opinion section.

Statement 2. If modification results from inability to obtain evidences, the auditor shall include the reason for that inability in the basis for opinion section.

- (a) Only statement 1 is true
- (b) **Only statement 2 is true**
- (c) Both the statements are true
- (d) None of the statement is true

3. \_\_\_\_\_ is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.

- (a) **Emphasis** of Matter Paragraph
- (b) Other Matter Paragraph
- (c) Key Audit Matter
- (d) Management Responsibility Paragraph.

4. Abha Rama & Company a firm of chartered accountants has been appointed as auditor of Sunglow Limited which is dealing in manufacturing of rubber and exporting the same to neighbouring countries. The company is having inventory at many of its godowns which are spread across the country. The auditor CA Abha, during audit, came to know that some of the inventory has not been written down to net realizable value in accordance with Indian Accounting Standard 2. Had the company reduced it to its written down value, it would have resulted in lowering the current assets by 0.05%. State which kind of opinion is most appropriate in this case.

- (a) Adverse Opinion
- (b) **Qualified** Opinion
- (c) Disclaimer of Opinion
- (d) Unmodified Opinion with an EOM

### CASE SCENARIO:

Mr Laxman is appointed as statutory auditor of Best Limited for the Financial Year ended 31st March, 2024. During audit, it was found that few doubtful transactions had been committed by finance manager who retired in March, 2024. The fraud was going on since last 4-5 years and the total amount misappropriated is approximately ₹ 75 lacs. Balance sheet of Best Ltd. reflected a cash balance of ` 7 crores. The company has taken a loan of ` 2 crores from the bank despite of the huge cash balance with the company.

Also, Companies Act bestows some duties on auditors to report matters to Central Government in case of fraud.

On the basis of above facts answer below questions in relation to Mr Laxman's role and duties while conducting statutory audit of Best Limited.

4. When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give
- Modified Opinion
  - Qualified Opinion
  - Disclaimer of Opinion
  - Unmodified** Opinion
5. Mr Laxman suspects that cash payments were inflated. Out of the below which could be probable reason for such inflated cash payments.
- Not accounting for cash sales completely
  - Making payments against purchase vouchers
  - Making** payments against inflated vouchers
  - Teeming and Lading
6. As per Section 143 (12) of Companies Act, 2013 & Rule 13 of CAAR, 2014; Mr Laxman shall
- report** the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
  - report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.
  - report the matter to the audit committee constituted under section 177 and to the Central Government within such time and in such manner as prescribed.
  - report the matter to the Managing Director within such time and in such manner as prescribed.
7. Owing to the \_\_\_\_\_ limitations of an audit, there is \_\_\_\_\_ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.
- Inherent, unavoidable**
  - Inherent, complete
  - Management, unavoidable
  - Regulatory, control
8. As an auditor, what action can Mr Laxman shall take looking at the huge cash reserve of the company and corresponding bank loan?
- Report this matter directly to the Central Government u/s 143(12) as there is a possibility of fraud
  - Obtain** sufficient and appropriate audit evidence of existence of fraud
  - Directly report the matter under CARO, 2020
  - There is nothing to report as it's a normal financial decision

## Section B: Descriptive Questions

**Question 1: State the reporting requirements wrt Fraud under clause xi of CARO 2020 (3 marks)**

**Answer 1: REPORTING OF FRAUD IN CARO,2020:**

- whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;
- whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;
- whether the auditor has considered whistle-blower complaints, if any, received during the year by the company.

**Question 2: Define Emphasis of Matter Paragraph and how it should be disclosed in the Independent Auditor's Report. (4 marks)**

**Answer 2: Emphasis of Matter paragraph:**

A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed

in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- (i) Include the paragraph within a **separate section** of the auditor's report with an appropriate **heading** that includes the term "**Emphasis of Matter**;"
- (ii) Include in the paragraph a **clear reference** to the matter being emphasized and to **where** relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- (iii) Indicate that the auditor's **opinion is not modified** in respect of the matter emphasized.

**Question 3: "Applicable financial reporting framework is the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation." Applicable FRF can be of two types. State them. (4 marks)**

**Answer 3:** Applicable FRF can be of two types as stated below:

1. The term "**fair presentation framework**" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

2. The term "**compliance framework**" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

**Question 4: Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse. (4 marks)**

**Answer 4:** Communicating key audit matters in the auditor's report is not:

- (i) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
- (ii) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
- (iii) A substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern;
- (iv) A separate opinion on individual matters.

**Question 5: M/s ABC & Co. are the statutory auditors of Apex Limited, for the FY 2023-24. At the time of finalising the audit report, one of the engagement team members, Mr. Adheer, asked the engagement partner, CA. Babita as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA. Babita, explained the team in detail and asked Mr. Adheer to draft such section for the auditor's report. Help him to draft the Basis for opinion section. (5 marks )**

**Answer 5: Basis for Opinion:**

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Question 6: "The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework" explain.**

**(5 marks)**

**Answer 6:** In particular, the auditor shall evaluate whether:

- (a) The financial statements adequately disclose the significant accounting policies selected and applied;
- (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- (c) The accounting estimates made by management are reasonable;
- (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
- (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

**Question 7.**

**A Pvt. Ltd. is incorporated on 1<sup>st</sup> July, 2015. During the year ended 31<sup>st</sup> March, 2016, it had issued shares (fully paid up) of Rs. 40 lakhs, had borrowed Rs. 7.5 lakhs each from 2 financial institutions and its revenue is Rs.475 lakhs. Will Companies Auditors Report Order, 2020 be applicable to A Pvt. Ltd.? (5 marks)**

**Answer 7:**

- The Companies (Auditor's Report) Order, 2020 (CARO) provides that it shall not apply to:
  - (i) A banking company;
  - (ii) An insurance company;
  - (iii) A company licensed to operate under Section 8 of the Companies Act;
  - (iv) OPC & Small Company; and
  - (v) A private limited company with a paid-up capital and reserves not more than rupees one crore and which does not have outstanding loan exceeding rupees one crore from any bank or financial institution and does not have a revenue exceeding rupees ten crores during the financial year.
- Thus, CARO is not applicable to a private limited company if all the aforesaid conditions as in (v) are fulfilled.
- In the present case, the paid-up capital of A Pvt. Ltd. is within the limit revenue is less than Rs. 10 crores
- However, the amount of outstanding loans taken from bank/financial institution must be considered on an aggregated basis. M/s A Pvt. Ltd. has total borrowings of Rs. 15 lakhs from both the institutions, yet it is within the said limit of one crore.
- As the company fulfills all the conditions, CARO, 2020 is not applicable.