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Summary Version

MCQ Summary &
Time/Numerical Limits

CA FINAL AUDIT: MCQ Summary, Time & Numerical Limits

- Summary of **ICAI MCQ's** (ICAI SM & Other important ICAI MCQ's)
- **One Liner solutions of MCQ's**
- **Important points** of All the chapters from which MCQ's can be asked
- All-important **Time & Numeric limits** summarized



By: CA Hemant Somani
AIR 46

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*I always needed a single digit rank in CA Final, But **Luck** factor was not in my favor, just **before 15 days of my exams**, me & my family got **infected by COVID**, and last 15 days are equivalent to 3 months, But I didn't loosed hope and gave exam at that time also, During exams also I was suffering from many post COVID symptoms*

And Finally, I Secured AIR 46 (Not single digit),

*I just want to convey that while doing your preparation, "**Always Aim for the BEST & Prepare for the Worst scenario**"*



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- 1) **Concepts + Question bank together** (i.e, Questions are given just below concepts)
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- 3) Concepts are **summarized** in best possible manner (**Approx 250 pages**)
+ 250 pages Questions = 500 pages
- 4) **All ICAI RTP/MTP/SM/PAST PAPER Questions** are covered
- 5) **Tricks & mnemonics** to remember topics are given
- 6) Its Fully in **Tabular & Chart format**
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- 8) Completely as per **ICAI language**
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ICAI SM MCQ's:

CHAPTER 1- Quality Control

Q. CA Mritunjay is statutory auditor of a listed company engaged in providing services relating to "tourism sector". He is practicing in sole-proprietorship capacity. The audit of abovesaid listed company was conducted by his proprietary firm and report was issued for year 2021-22. Subsequently, audit report was selected by NFRA to oversee quality of service and compliance with Standards. Necessary information was called from auditor towards above objective.

It was required of him to produce audit working papers to show that audit was carried out in accordance with Standards on auditing. Details of the audit plan and details of risk assessment procedures carried out to identify and assess ROMM in FS were called. It was also required to show how response to assessed risks was designed and implemented and communicated with TCWG.

Audit working papers sent by him through email included procedures on how some balances in financial statements were verified. Also included in working papers were procedures performed by him relating to verification of inventories, trade receivables and trade payables.

The working papers sent by him to the authority did not include details on audit plan and manner of identifying and assessing risks of material misstatement. On being asked to respond, it was reasoned by him that audit was properly planned and required procedures were carried out in relation to material items on test check basis.

It has been further clarified by him to the authority that audit was carried out in accordance with Standards and it was practically not feasible for a firm of small size to make a detailed audit plan. It was also put on record with authority that he had assessed risk of material misstatement to be low based upon his understanding of the company. He has further reasoned that assessing risks is a matter

of professional judgment. Representation has also been made by him stating that communications as necessary were made orally with those charged with governance

It was also pointed out to him that **engagement quality control review was not carried out**. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise.

Attention was also drawn to the fact that financial statements of company were required to be prepared on basis of Ind-AS. However, at some places in notes to accounts, reference is made to accounting standards which are not applicable to the company. These errors have been attributed to data feeding entry errors by junior staff.

Based upon above, answer the following questions: -

- 1) It has been contended by auditor that audit was properly planned. He has further stated that it was practically not feasible for firm of small size to prepare a detailed audit plan. Which of the following views is most appropriate in this regard? [N]
 - a) Audit was, in fact, planned as evidenced by auditor's submissions.
 - b) Although auditor has no record of audit plan, it does not affect compliance with SA 220.
 - c) **Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220.**
 - d) Audit was, in fact, planned as evidenced by auditor's submissions. However, there is an exemption for small CA firms doing away with cumbersome documentation in relation to audit plan.

- 2) The auditor has reasoned that ROMM has been assessed to be low based upon his understanding of the company and it is a matter of professional judgment. Identify the most appropriate statement from below in this regard. [N]
- Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was arrived at.
 - Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220.
 - Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.
 - Such a query, itself, is outside the mandate of authority.
- 3) Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below: - [N]
- Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.
 - Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.
 - No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review
 - Engagement quality control review is dependent upon benchmarks established under SQC 1. If those benchmarks are satisfied, such a review is necessary.
- 4) Considering auditor's reply regarding errors in data feeding entry by junior staff in relation to accounting standards, which of the following statements is proper?
- Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220.
 - Such are examples of clerical errors encountered during preparation of reports. There is no effect on auditor's opinion and consequently question of non-compliance with SA 220 does not arise.
 - Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.
 - Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220
- 5) On your overall reading of the case study, which of the following statements appears to be true? [N]
- The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA-220.
 - The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.
 - SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220.
 - SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.

Summary of above case study MCQ's:

- If auditor has no record of audit plan, it goes on to show non-compliance with SA 220.
- If Auditor has NOT submitted record of how ROMM was arrived at, it does not affect compliance with SA 220.
- EQCR is Mandatory for Audit : Otherwise Non-Compliance with SA 220
- FS is prepared as per IND-AS, But in FS Notes it was mentioned AS names: Non Compliance of SA 220 if not spotted & dealt by auditor correctly
- By considering point "a" to "d" above > it can be concluded that:
The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220

CHAPTER 2- General Auditing Principles & Auditor's Responsibilities

Q. CA. Biswajit is conducting audit of "Have More Limited". He is auditor of the company since last three years and has found nothing unusual in operations and financial statements of the company. The company has many locations where substantial inventories are stored and lying. During his fourth year stint, he finds that inventory quantities have risen disproportionately as compared to past few years trends. He has assessed existence of risk of material misstatement due to fraud

The company has revenue of ` 750 core during the year. He has deeply verified all aspects pertaining to revenue recognition of the company and has concluded that there is no risk of material misstatement due to fraud related to revenue recognition.

During the course of audit, it has come to his knowledge that company is also required to install online air pollution control monitoring systems in its plant as mandated in state pollution control legislation and regulations. Non-installation of such online air pollution control monitoring systems may lead to fines and even sealing of plant. While verifying pay roll data of the company, it has come to notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour in flagrant violation of rules in this regard. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers.

On the basis of above, answer the following questions: -

1. Considering description of disproportionate rise in inventory quantities, which of the following is not likely to be an appropriate response to outlined assessed risk of material misstatement due to fraud? [N]
 - (a) Observing inventory counts at all locations at same date by employing necessary resources.
 - (b) **Observing inventory counts at certain locations after prior intimation.**
 - (c) More rigorous examination of packed items during observing inventory count process.
 - (d) Observing inventory count at end of reporting period to minimize risk of manipulation
2. It has been concluded by auditor that there is no risk of material misstatement due to fraud related to revenue recognition. Which of the following statements is most appropriate in this respect? [N]
 - (a) **The auditor needs to document reasons for arriving at conclusion that there is no risk of material misstatement due to fraud related to revenue recognition**
 - (b) Identified and assessed risks of material misstatement due to fraud need to be documented. Since no risk of material misstatement due to fraud pertaining to revenue recognition was identified, separate documentation in this respect is not needed.
 - (c) The auditor needs only to document that no risk of material misstatement due to fraud relating to revenue recognition was identified
 - (d) The auditor needs to give reference to discussion among engagement team members to document that no risk of material misstatement due to fraud relating to revenue recognition was identified
3. Which of the following statements most appropriately describes responsibilities of auditor in relation to compliance with state pollution control legislation and regulations ? [N]
 - (a) Sufficient appropriate evidence needs to be obtained by auditor to verify compliance.
 - (b) Physical verification of workability of such systems is required from an auditor.
 - (c) **Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance.**
 - (d) Only physical verification of workability of such systems and review of correspondence with regulatory authorities are suffice to verify compliance.

4. The auditor has observed non-compliance of law prohibiting employment of child labour. Which is the most appropriate course of action for him to proceed in this matter? [N]
- He should obtain further information to evaluate the possible effect on financial statements.
 - He must report the matter to concerned government department.
 - He should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.**
 - He should express a modified opinion in audit report
5. Which of the following statements is most appropriate about documentation of non-compliance with laws and regulations by an auditor in context of SA 250? [N]
- Instances of identified non-compliance with laws and regulations need to be documented.
 - Instances of suspected non-compliance with laws and regulations need to be documented.
 - Instances of non-compliance with L&R finally determined by Courts of law need to be documented
 - Instances of identified as well as suspected non-compliance with L&R need to be documented.**

Summary of above case study MCQ's:

- If there is **Rise in Inventory fraud** > there for physical count > It's **Not advisable to give prior intimation.**
- Since revenue Recognition have pre-assumed risk > **The auditor needs to document reasons for arriving at conclusion that there is no ROMM due to fraud related to revenue recognition**
- For Pollution Related Laws: Only inquiry of company management personnel and review of correspondence with regulatory authorities** are suffice to verify compliance
- For Child labor laws: obtain further information to evaluate the possible effect on financial statements.** Besides, he should evaluate implications of non-compliance for audit risk assessment
- identified as well as suspected non-compliance with L&R need to be documented**

CHAPTER 3 - AUDIT PLANNING, STRATEGY & EXECUTION

Q. CA. Anoothi has been offered appointment as auditor of an NSE listed company. She has already ticked checkboxes relating to her independence vis-à-vis company and integrity of promoters and key management personnel. Being satisfied on this count and after sending formal engagement letter to the company, she is in midst of planning activities for company's audit. Owner of country's one of topmost writing instrument brands, above said company is in business of producing ball pens, gel pens, markers, folders and such general stationery products

Business profile of the company including its brief history, detail of its key managerial persons and brief description of company's activities was obtained by her. She has also studied reports relating to growth of India's stationery market due to greater demand and impact of government driven schemes like Sarv Shiksha Abhiyaan (SSA). Besides, she has also obtained risk management policy of the company which contained company's strategy to contain various risks.

On perusal of financial statements of company, it is noticed that the company's inventories as at close of financial year stood at Rs. 200 crore which constitutes about 25% of its total assets. She is planning to identify significant audit risks pertaining to valuation of inventories.

She is also considering about materiality level for financial statements as a whole.

Keeping in view above, answer the following questions:

1. **The compliance with independence requirements and verification of integrity of promoters and key management personnel has been ensured by CA. Anoothi. In this regard, which of the following statements is likely to be a complete statement? [N]**
 - a) Such activities are required to be performed strictly in terms of requirements and procedures outlined in code of ethics issued by ICAI.
 - b) Such activities are required to be performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities are specifically identified in SA 210.
 - c) **Such activities are required to be performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities form part of planning an audit in accordance with SA 300.**
 - d) Such activities are required to be performed in terms of requirements and procedures outlined in code of ethics issued by ICAI and are specifically identified in SA 210. **[Confusion]**
2. **The auditor has obtained risk management policy of the company. Which of the following statements is most appropriate in this regard? [N]**
 - a) **The understanding of company's risk management policy is required by auditor. It may help the auditor in identifying risks of material misstatement that management failed to identify.**
 - b) The understanding of company's risk management policy is not required by auditor. It deals with business risks of company. Audit risk is not influenced by company's business risks.
 - c) The understanding of company's risk management policy is required by auditor. However, it cannot help the auditor in identifying risks of material misstatement that management failed to identify.
 - d) The understanding of company's risk management policy is sufficient for an auditor to develop an audit plan.
3. **Which of the following is not likely to be a procedure for auditor to understand the company? [N]**
 - a) Performing an online search to identify press reports relating to the company
 - b) Reviewing any new SEBI and stock exchange requirements
 - c) Reviewing whether fresh moneys were raised from public
 - d) **Seeking confirmation letters from bankers regarding outstanding balances**
4. **Considering auditor's intention to identify significant audit risks pertaining to inventory valuation, which of the following statements is likely to be true? [N]**
 - a) **Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit plan.**
 - b) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit strategy.
 - c) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of controls.
 - d) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of details.
5. **In relation to materiality levels for FS as a whole, which of following statement most appropriate? [N]**
 - a) Materiality has to be decided by auditor after identification & assessment of ROMM
 - b) **Materiality has to be decided by auditor prior to identification and assessment of ROMM**
 - c) Materiality has to be decided by auditor after performing risk assessment procedures.
 - d) Materiality has to be decided by auditor at time of designing TOC & substantive procedures.

Summary of above case study MCQ's:

- a) **verification of integrity of promoters and key management personnel: Such activities are required to be performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities form part of planning an audit in accordance with SA 300**
- b) **The understanding of company's risk management policy is required by auditor. It may help the auditor in identifying ROMM that management failed to identify**

- c) Which is not a procedure for auditor to understand the company > **Seeking confirmation letters from bankers regarding outstanding balances**
- d) **Auditor intention to identify significant audit risks pertaining to inventory valuation > Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit plan.** (Not Strategy/TOC/TOD)
- e) For materiality of FS as whole > **Materiality has to be decided by auditor prior to identification and assessment of ROMM**

CHAPTER 4 - MATERIALITY, RISK ASSESSMENT AND IC

Q. Following is extract of information taken from draft financial statements of Find me Limited engaged in manufacturing of bicycles put up before you for audit for year 2022-23: **(INR In lacs)**

Particulars	2022-23	2021-22
Revenue from operations	35000	25000
Cost of sales	26950	20000
Gross Profit	8050	5000
Operating expenses	3825	3825
Finance costs	225	275
Depreciation and amortization expenses	1200	1300
Profit before tax	2800	(400)
Tax expense - current tax	750	0
Deferred tax	(50)	(385)
Total tax expense	700	(385)
Profit after tax	2100	15
Trade receivables	6000	3000
Inventories	10000	6000

The company has not made any substantial additions in its plant capacity during year 2022-23. It has reduced its dealer network and is approaching customers directly using its online platform. Encouraging response has been received from customers and sales have gathered momentum through online platform.

You are planning to use analytical procedures as risk assessment procedures. Keeping in view above, answer the following questions: -

- The revenue from operations of company has increased by 40% in year 2022-23 as compared to last year. There are no additions in plant capacity. Which of the following statements is most appropriate in this regard?
 - There is audit risk that revenue from operations is overstated.
 - There is audit risk that revenue from operations is not overstated.
 - There is audit risk that fresh customers of company do not make payments
 - There is audit risk that company is overutilizing its plant capacity leading to rapid plant obsolescence.
- The operating expenses of financial year 2021-22 and 2022-23 are same. Which of the following statements is most appropriate in overall context of case study? [N]
 - Operating expenses figures of two years can be same. There is no audit risk involved.
 - It is an anomaly. However, there is no audit risk involved.
 - There is audit risk that previous year figures need to be revised under Companies Act.

- d) There is audit risk that previous year figures have been presented in place of current year figures in draft financial statements.
3. Trade receivables turnover ratio has increased from 1.44 months in year 2021-22 to more than 2 months in year 2022-23. Identify the most appropriate statement.
- In direct distribution through online platform, trade receivables turnover ratio is estimated to be high. Therefore, there is no audit risk involved.
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. Therefore, there is no audit risk involved [Confusion]
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be undervalued
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be overvalued.
4. The gross profit ratio of company has increased by 3% during year 2022-23 in comparison to last year. Which of the following statements is most appropriate ?
- There is audit risk that there is overstatement of cost of sales.
 - There is audit risk that margins with customers may have increased.
 - There is audit risk that closing inventories may be undervalued.
 - There is audit risk that cost of sales may not be completely recorded.
5. Inventory turnover ratio has increased from 2.88 months in year 2021-22 to about 3.42 months in year 2022-23. Which of the following statements is likely to be in accordance with overall context of case study? [All Points are confusing]
- Revenue jump in current year may have led to need for raising inventory holding levels. Therefore, there is audit risk pertaining to misstatement of inventories.
 - Raising of inventory levels may raise locked up funds in inventories. There is audit risk that it can lead to rise in costs
 - Revenue jump in current year may have led to need for raising inventory holding levels. However, there is also a risk that some of inventories with dealers could have become obsolete. It leads to audit risk that inventories may be overvalued.
 - There is audit risk on account of both the factors stated at [b] & [c].

Summary of above case study MCQ's:

The company has not made any substantial additions in its plant capacity during year 2022-23. It has reduced its dealer network and is approaching customers directly using its online platform

- No substantial increase in plant capacity > but sales has been increased > There is audit risk that revenue from operations is overstated
- Operating expenses of last Yr. is showing exactly same as current Yr > There is audit risk that previous year figures have been presented in place of current year figures in draft financial statements
- Trade receivable ratio has been increased from last yr > In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be overvalued
- GP has been increased from last yr. > There is audit risk that cost of sales may not be completely recorded

- e) Inventory turnover ratio has been increased > Revenue jump in current year may have led to need for raising inventory holding levels. However, there is also a risk that some of inventories with dealers could have become obsolete. It leads to audit risk that inventories may be overvalued

CHAPTER 5 – AUDIT EVIDENCE

Q. Black & White Ltd. is into the business of manufacturing readymade garments in Amritsar. It procures all the raw material required for its production from Punjab, Himachal Pradesh & J&K. Its sales market, however, covers almost all the northern parts of the country. CA Anu is the engagement partner of Maheshwari & Co appointed as the statutory auditor of the company. She calls for a meeting of the engagement team to delegate work and responsibilities. During the audit, the engagement team comes across the following facts:-

- **Woolen Private Limited** is one of the vendors of the company from which the company has been purchasing wool for many years on a current account basis, but no single purchase has been made in the last nine months, and the outstanding balance stands as it is in the books of accounts. CA Anu wants to confirm the balance and requests the CFO of the company for sending a balance confirmation request to Woolen Private Ltd., to which he refuses and is not willing.
- The Fashion **Jingo Ltd.** is one of the customers of the company and hasn't replied to CA Anu's positive balance confirmation request sent.
- **Mr X**, one of the fashion designers, had sold his designs to the company but owing to a dispute, the contract got cancelled, and now both the parties are under litigation in the local court of law. The engagement team is guided as to the procedures to be designed and performed to identify this matter.
- **CA Anu** simultaneously seeks direct communication with the company's external legal counsel sensing the risk of material misstatement. However, it ends up in vain as the external legal counsel, **Mr Chadha**, refuses to comment. She is unable to obtain SAAE in this regard through alternative audit procedures either.

The team documents all the relevant information w.r.t. above facts, & CA Anu issues the audit report accordingly.

1. Fashion Jingo Ltd. has not responded to CA Anu's request. What should be proper course of action for her in such a situation? [Hint: not received response of positive confirmation request]
 - a) Perform alternative audit procedures
 - b) Consider it as a negative confirmation
 - c) Give a Qualified opinion
 - d) Should visit the customer company premises herself and confirm the balance on the spot.
2. With respect to advocate Chadha's cold shoulder to CA Anu's request, what she should do? [Hint: Legal Counsel of Entity refused to communicate with Auditor]
 - a) Modify her audit opinion
 - b) Give an unqualified opinion
 - c) Give a disclaimer of opinion
 - d) Withdraw from this engagement
3. What should be CA Anu's first and foremost response in the case of request made relating to balance confirmation from Woolen Pvt. Ltd.? [Hint: Mngt/CFO refused to send confirmation request]
 - a) Perform alternate audit procedures.
 - b) Withdraw from the engagement.
 - c) Communicate with Those charged with Governance telling the effects on his audit opinion.

- d) **Inquire as to the reasons behind the management's response and seek audit evidence as to its validity and reasonableness.**
4. Which of the following procedures will **NOT** be performed by the engagement team as audit procedures while dealing with the case of Mr. X? [**Hint**: which audit procedure not to perform for legal case SA 501]
- Inquiry of Management.
 - Inquiry of Mr. X**
 - Reviewing Minutes of Meetings
 - Reviewing Legal expenses account

CHAPTER 6- COMPLETION & REVIEW

C.S: CA Sneha, a partner in M/s J & Associates, is carrying out a statutory audit of M/s ABC Stores Ltd. for the Financial Year 2022-23, and she is **ready to sign her audit report on 01.07.2023**. There are some written representations which are pending with the management of the company pertaining to such an audit, and she sent Deepak (her articled trainee), who is also a member of the engagement team, to the company's office for collection of the same.

On returning back, Deepak tells CA Sneha that **major stocks of the company got destroyed because of a fire in their plant on 27.06.2023**, and it has affected the company's operations badly. However, the business operations are likely to be resumed by management at an alternate place.

CA Sneha **postponed the issuance of the audit report** to consider the impact of such an event on the financial state of affairs of the company. **She wants the management to disclose the impact** of this unfortunate event in financial statements for the year 2022-23, **to which management is disinclined**. After the management's refusal, **she issued her audit report on 15.07.2023**.

The management of the company seeks an appointment from CA Sneha to discuss an important matter on 20.07.2023. They informed her that the company had lost a lawsuit filed against it by one of the creditors on 18.07.2023 in a fast-track court, and now the company has to pay the plaintiff a huge amount of ` 2 crores. The events causing this lawsuit arose after 31.03.2023.

CA Sneha is a bit perplexed, and her first question to the people from management visiting her office was whether audited financial statements have been made available to any third parties or filed with the regulator. The management responded negatively.

Now, CA Sneha wants them to amend the financial statements to include the impact of this lawsuit on the financial affairs of the company. This time, they agreed and amended the financial statements accordingly to cover the impact of both the events - that of the fire in the plant and losing the lawsuit, but they requested CA Sneha to issue a new audit report against the earlier one dated 15.7.2023. **The management amends the financial statements, which are finally approved on 25.7.2023**. CA Sneha issues a new audit report.

Considering the above situation, answer the following questions:

- What should be the appropriate date of signing of the new audit report? [**Hint**: **New F.S issued due to subsequent event, approved as on 25.07.2023**]
 - 20.07.2023
 - Anytime between 15.07.2023 & 18.07.2023
 - On or after 25.07.2023**
 - Anytime between 15.07.2023 & 25.07.2023

2. CA Sneha would have taken into account a lot of procedures to get knowledge of the events occurring after the balance sheet date up to the date of the audit report relating to the company. Which of the following does not fall under such audit procedures as per SA 560? [N]
 - a) Obtaining an understanding of the management's procedures set up to identify subsequent events.
 - b) Inquiring of the management w.r.t the occurrence of any such subsequent events.
 - c) Reading the minutes of the meetings of the board held after the balance sheet date during this period.
 - d) **Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report**

3. W.r.t the first audit report dated 15.07.2023, which type of opinion was most likely provided by her? [Hint: mngt not disclosed subsequent event in FS i.e., Due to Fire stock get damaged]
 - a) **Modified opinion**
 - b) Unqualified opinion
 - c) Disclaimer of opinion
 - d) Including a statement in Emphasis of Matter/Other matters para

4. W.r.t the new audit report issued, which type of opinion is most appropriate? [Hint: new audit report on amended FS due to subsequent event]
 - a) Disclaimer of opinion
 - b) Unqualified opinion
 - c) Adverse opinion
 - d) **Unqualified opinion and a statement in Emphasis of Matter/Other matters para.**

5. The fire event occurring on 27.6.2023 in the company's plant requires the following action on part of management: [N]
 - a) **Disclosure in notes to accounts**
 - b) Adjustment in financial statements
 - c) Waiting for the insurance company to settle the claim
 - d) Preparing financial statements afresh

Summary of above case study MCQ's:

- a) **New FS issued due to subsequent event** > approved on 25/07/2023 > Date of signing new audit report should be > on or after 25/07/2023
- b) Which is NOT a procedure to check Subsequent Events > **Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report**
- c) **Mngt not disclosed subsequent event in FS i.e., Due to Fire stock get damaged** > **Modified Opinion**
- d) For **new audit report issued on amended FS due to subsequent event** > **which type of opinion is most appropriate** > **Unqualified opinion and a statement in Emphasis of Matter/Other matters para**
- e) **The fire event occurring on 27.6.2023** > **Disclosure in notes to accounts require in FS**

C.S. CA Namit, a partner in M/s J & Associates, is carrying out a statutory audit of M/s XYZ Gears Ltd. for the Financial Year 2022-23 and is in the process of issuing an audit report. His articled trainee, Manpreet, is very curious about knowing the various facts relating to the consideration of Standards on Auditing while carrying out an audit and issuing the audit report.

She asks CA Namit **about the relevance of the Going concern assumption** in their audit and further reporting to which CA Namit explains to her that both parties have got their own responsibilities w.r.t this accounting assumption. The management of the company has its own set of responsibilities while reporting upon the same is a very strict and sensitive matter for the auditor as per the requirement of the relevant standard on auditing.

He tells Manpreet to prepare a list of procedures as she thinks that an auditor should carry out when he identifies that the company is facing a **downfall in business never seen before due to newer technology** in the market and other competitors having sprung up swiftly adopting new technology. He finds that this condition may cast significant doubt on the company's ability to continue as a going concern. Manpreet thinks and researches and hands over a list of audit procedures to CA Namit for a final discussion. CA Namit clarifies accordingly. CA Namit concludes that the use of a **going concern basis of accounting is appropriate in this company's case, but a material uncertainty exists** as to the future prospects of the current business. However, the **management has made an appropriate disclosure w.r.t such material uncertainty** in the financial statements.

Manpreet's list of audit procedures includes: -

- I) Requesting management to make its assessment relating to the company's ability to continue as a going concern
- II) Evaluating management's plan of future actions.
- III) **Make a specific assessment of the company's ability to continue as a going concern.**
- IV) Analysing the cashflow forecast of the company.
- V) Considering the additional facts or information available since the date of management's assessment
- VI) **Make appropriate disclosures in the financial statements in connection with going concerns.**
- VII) Requesting Written Representation from management regarding the plans of future actions and the feasibility of these plans.
- VIII) **Writing a para addressed to the stakeholders in the audit report citing the results of procedures adhered to relating to the going concern assumption.**

Keeping in view above, answer the following questions: -

1. CA Namit tells Manpreet about the auditor's responsibilities in the above case on the matter under discussion. Which of the following doesn't fall under the auditor's responsibilities? [Hint: For G.C.]
 - a) Obtaining sufficient and appropriate audit evidence on the matter under discussion.
 - b) Conclude on the appropriateness of the management's use of going concern.
 - c) Assessing whether a material uncertainty exists about the company's ability to continue as a going concern
 - d) **Guarantee the company's ability to continue as a going concern based upon his audit procedures.**
2. Identify which set of audit procedures are relevant in the above case scenario as per the list prepared by Manpreet.
 - a) **(I), (II), (IV), (V) & (VII)**
 - b) (I), (III) & (V)
 - c) (II), (IV), (VI), (VII) & (VIII).
 - d) (I), (II), (III), (IV) & (V).
3. CA Namit's conclusion in the above case will lead him to give which type of audit opinion from the following? [Hint: Appropriate disclosure in FS for G.C. material uncertainty]
 - (I) Modified opinion
 - (II) Unmodified opinion.
 - (III) A separate section "Material uncertainty wrt Going concern" in his audit report
 - a) (I) only
 - b) (II) only
 - c) (I) & (III)
 - d) **(II) & (III)**

4. Consider the following statements: - [N]

Statement I: - The Management is under a responsibility to make specific assessment of the company's ability to continue as a going concern.

Statement II: -. The Management is under a responsibility to make appropriate disclosures in connection with going concern in the financial statements.

- Statement I is correct only.
- Statement II is correct only as Statement I falls under the auditor's responsibilities
- Both statements are correct.**
- Both statements are incorrect.

5) Which of the following is most appropriate regarding "going concern" assumption? [N]

- It signifies that company is reflecting net losses in its financial statements
- It signifies that company is not modernising its plant and machinery.
- It signifies that company has no intention of curtailing materially the scale of its operations in foreseeable future.**
- It signifies that assets are likely to be recorded at the prices they would fetch.

Summary of above case study MCQ's:

- Auditor **can-not provide Guarantee** for G.C of entity
- Audit procedure when some event identified which can affect G.C., Does not Include:
 - Make a specific assessment of the company's ability to continue as a going concern**
 - Make appropriate disclosures in the financial statements in connection with going concerns**
 - Writing a para addressed to the stakeholders in the audit report citing the results of procedures adhered to relating to the going concern assumption**
- If appropriate disclosure is given in FS regarding material uncertainty of G.C. > "Unmodified Opinion" + " separate section "Material uncertainty wrt Going concern"
- Mngt is responsible for both > For assessing G.C as well as Appropriate disclosure in FS w.r.t GC
- GC assumption > **It signifies that company has no intention of curtailing materially the scale of its operations in foreseeable future.**

CHAPTER 7- REPORTING

C.S: CA. Raghav is in midst of finalizing audit reports of **five clients**. On reviewing each file, it is noticed as under:

- In case of a company engaged in business of selling of agricultural products which are outside ambit of GST, engagement team has found that **substantial part of revenues of the company (about 80%) is generated through cash sales**. However, there is **no proper system and internal control to verify accuracy of revenues** generated through cash sales. Therefore, **team has been unable to verify** such revenues generated through cash sales.
- TS Limited** has been **dragged to court by BS Limited for stealing its trade secrets using cyber theft** and filed a **claim for Rs. 50 crore**. On reviewing audit file of TS Limited, CA Raghav finds that **legal opinion of**

company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of TS Limited are silent on this litigation matter.

- c) It is noticed on review of audit file of a client that net **profit before tax was Rs. 2 crore**, on a **turnover of Rs. 100 crore**. There is an export receivable from a chain of stores outstanding in F.S. of Rs. 3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.
- d) On reviewing file of a small finance bank, it was noticed that team has drafted following para proposed to be included under Emphasis of Matter paragraph: -
- "Concerns are raised regarding **"Going Concern"** status of the Bank. However, the Bank feels that it continues to remain a **"Going Concern"** in view of reasons stated in note 10.*
- Our opinion is not modified in respect of this matter."
- e) On reviewing file of a client, it is noticed that **team was not informed about finished goods of Rs. 1 crore lying at a location taken on rent** in February 2023. The said issue was flagged at time of reconciling inventories by the team. Hence, team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is **Rs. 8 crores**. **PBT of client is Rs. 10 crores.**

Based upon above, answer the following questions: -

- As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705?
 - Qualified opinion will be issued and basis for qualified opinion will also be provided.
 - Adverse opinion will be issued and basis for adverse opinion will also be provided. **[NO]**
 - A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "FS have been audited" to "auditor was engaged to audit FS."**
 - A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "financial statements have not been audited."
- Considering litigation matter of TS Limited, which of the following statements is most appropriate in this regard?
 - Unmodified opinion needs to be expressed by auditor
 - It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor. **[N]**
 - It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.**
 - The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor. **[N]**
- Considering description of issue regarding non-recoverability of export receivable of Rs. 3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?
 - Disclaimer of opinion
 - Unmodified opinion
 - Qualified opinion
 - Adverse opinion**
- As regards matter of going concern in respect of a small finance Bank, which of the following statements is most appropriate?

- a) The para drafted by team is proper and in accordance with SA 570 since auditor has decided to give unmodified opinion.
- b) The para drafted by team is proper and in accordance with SA 570 since matter has been disclosed in notes to accounts by bank management.
- c) **Instead of giving emphasis of matter paragraph, separate paragraph on 'Material Uncertainty Related to Going Concern' in report should be given in accordance with SA 570.**
- d) Separate paragraph on 'Material Uncertainty Related to Going Concern' under the heading "Emphasis of matter" paragraph in report should be given in accordance with SA 570.
5. Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in February 2023, which type of opinion is appropriate to be issued in case of this client?
- a) Modified opinion
- b) **Qualified opinion**
- c) Unmodified opinion
- d) Either Modified or Qualified opinion

CHAPTER 8- SPECIALIZED AREA

Q. Given below is an extract of **abridged FS** of schemes of "Smart Investment Mutual Fund". The abridged financial statements have been **derived from audited financial statements** of the schemes of "Smart Investment Mutual Fund" as at 31st March 20XX and for year ended 31st March, 20XX.

Abridged Balance sheet as at 31st March 20XX

(in Rs. Lacs)

Liabilities	Smart investment equity and debt fund	Smart investment equity savings fund
Unit Capital	20000.00	15000.00
Reserve and Surplus	160000.00	80000.00
Other current liabilities & provisions	100.00	100.00
Total	180100.00	95100.00
Assets		
Investments	170000.00	90000.00
Deposits	100.00	100.00
Other Current assets	10000.00	5000.00
Total	180100.00	95100.00

Abridged revenue account for year ended 31st March 20XX (In ` Lacs)

Income	Smart investment equity and debt fund	Smart investment equity savings fund
Income	34000.00	1000.00
Expenses and losses	3400.00	1500.00
Net realized gains	30600.00	(500.00)
Add: Change in unrealized appreciation in value of investments	2000.00	700.00
Net Surplus	32600.00	200.00
Dividend appropriation	3000.00	50.00
Retained Surplus	29600.00	150.00

The abridged financial statements of the Schemes of the Fund have been prepared by Board of Trustees of Fund pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Previous year figures have been ignored for purpose of case.

Unmodified opinion has been expressed by auditor in audited financial statements of the schemes of "Smart Investment Mutual Fund" as at 31st March 20XX and for year ended 31st March, 20XX.

Keeping in view above, answer the following questions: -

1. Given the above extract of abridged financial statements and description, which of the following statements is most appropriate? [N - as Criteria is prescribed by SEBI]
 - a) The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable.
 - b) The auditor cannot presume that criteria applied by the Board of Trustees in preparation of abridged financial statements are acceptable
 - c) The abridged financial statements have been prepared by the Board of Trustees. The auditor cannot ordinarily accept criteria applied by them for the preparation of such abridged financial statements before detailed evaluation.
 - d) The auditor is duty bound to accept the criteria applied by the Board of Trustees in the preparation of abridged financial statements

2. Which of the following statements in reference to abridged financial statements is NOT in accordance with the requirements of SA 810? [N] - read all options
 - a) The notes to accounts should specifically disclose that these abridged financial statements have been derived from audited financial statements.
 - b) The Board of Trustees has disclosed that audited financial statements are available on the website of the company.
 - c) It should be stated in the auditor's report that abridged FS have been compared with the related information in the audited FS to determine whether the abridged FS agree with or can be recalculated from the related information in the audited financial statements
 - d) It should be stated in auditor's report that reading the abridged financial statements is not a substitute for reading the audited financial statements of the Schemes of the Fund.

3. Which of the following paras is most appropriate to be included under heading "Auditor's responsibility" in the auditor's report? [N]
 - a) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with SA's issued by the ICAI
 - b) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary FS" issued by the Institute of Chartered Accountants of India.
 - c) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standards on Auditing adapted in circumstances including (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India. [N]
 - d) Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with SEBI regulations and Standards on Auditing adapted in circumstances including (SA) 810, "Engagements to Report on Summary Financial Statements" issued by the Institute of Chartered Accountants of India.

4. Which of the following paras is most appropriate to be included under heading "Opinion" in auditor's report? [N]
 - a) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements, and are in accordance with the accounting policies and

standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable.

- b) In our opinion, the abridged financial statements, as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements
- c) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX **are consistent with audited financial statements** and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable. [N]
- d) In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are consistent with audited financial statements.
5. Which of the following is usually not an element of audit report on abridged financial statements in accordance with SA 810? [N]
- a) Emphasis of matter paragraph.
- b) Other matter paragraph
- c) Management's responsibility for abridged financial statements
- d) Key audit matters.

Summary of above case study MCQ's:

- a) If criteria is prescribed by SEBI (SA 800) > Pre-assumed it as acceptable > The auditor may presume that criteria applied by the Board of Trustees in the preparation of the abridged financial statements are acceptable
- b) Not a requirement of SA 810 regarding abridge FS > It should be stated in auditor's report that abridged FS have been compared with the related information in the audited FS to determine whether the abridged FS agree with or can be recalculated from the related information in the audited FS
- c) Auditor's responsibility as per SA 810 > Our responsibility is to express an opinion on the Abridged financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary FS" issued by the Institute of Chartered Accountants of India
- d) In Opinion Section > In our opinion, the abridged financial statements, derived from the audited financial statements of the Schemes of the Fund as at March 31, 20XX and for the year ended March 31, 20XX are a fair summary of those financial statements, and are in accordance with the accounting policies and standards specified in SEBI regulations and generally accepted accounting principles in India to the extent applicable.
- e) "Key Audit report" is NOT an element of abridge FS as per SA 810

CHAPTER 9- AUDIT RELATED SERVICES

Q (SRS 4410). KM Limited has engaged your firm for compilation of financial statements in accordance with requirements of **SRS 4410**. You also come to know that company is setting up a new unit in Rourkela, Odisha. The company management has provided you with draft trial balance and requires assistance in preparation and presentation of its financial statements for year ended 31st March, 2023. The management requires such a preparation and presentation for its internal use.

During the course of engagement, it is noticed that:

- 1) There are apparent **errors in few opening balances** brought forward from previous year relating to some outstanding incentives receivable from government authorities. These have been swapped with some other balances in trial balance. However, there are no credit transactions in such incentive accounts or accounts whose balances have been swapped during the year.
- 2) One of the team members suggests that it is one of the **duties to ensure that revenue figures stated in trial balance**, at least, are verified to **ensure that all revenues** required to be booked by the company have, in fact, been **booked**.
- 3) It is also suggested by this team member that even though it is a compilation engagement, quality control aspects like adhering to appropriate Standards needed to be followed.
- 4) **Before signing and issuing report** under SRS 4410, you **once again read the financial information**. It comes to your notice that figures relating to setting up of a new unit of the company coming up in Rourkela in Odisha have not been properly disclosed in compiled financial statements. The **expenditure was incurred** from a bank account maintained in Rourkela and **was omitted** to be shown under appropriate heads. You are vacillating regarding above considering scope of compilation engagement.
- 5) The team has prepared detailed documentation during the course of engagement.

Keeping in view above, answer the following questions: -

1. In respect of errors in some of opening balances noticed as described in case, which of the following statements is most appropriate? [N]
 - a) Such errors should straight away lead to the qualification of a report to be issued.
 - b) **Such errors should be brought to the knowledge of management.**
 - c) Knowledge of such type of errors has no effect on compliance of ethical requirements by the firm.
 - d) The above said matter relates to SA 510 Initial Audit Engagements-Opening Balances and has no effect on reporting obligations in a compilation engagement. [N]
2. As regards the suggestion of one of the team members **regarding the verification of ALL revenues of the company**, which of the following statements is most appropriate?
 - a) Suggestion of team member is proper as such verification is part and parcel of such an engagement.
 - b) Suggestion of team member is proper as the absence of such verification may make financial statements misleading. [N]
 - c) **Suggestion of team member is not proper as verifying the accuracy or completeness of the information provided by management is not required in such engagement**
 - d) Suggestion of team member is not proper as compliance with qualitative requirements is not required in such engagement
3. In view of the team member's suggestion relating to adherence to appropriate Standards for quality control, which of the following statements is relevant in the context of above said engagement? [N]
 - a) SA 220 is applicable in this engagement and has to be followed by the engagement partner meticulously.
 - b) **SQC 1 is applicable in this engagement.**
 - c) Both SA 220 and SQC 1 are applicable in this engagement. [N]
 - d) SA 220 and SQC 1 are not applicable in this engagement. However, SRS 4410 lays down detailed quality control requirements for such type of engagement.
4. Which of the following statements is most appropriate as regards **omission of expenditure** under appropriate heads pertaining to the Rourkela unit in compiled financial statements? [N]
 - a) **The above-noted omission can be misleading. By disregarding such an omission, the fundamental principle of integrity is violated and engagement cannot be performed in accordance with ethical requirements.**
 - b) The above-noted omission can be misleading. By disregarding such an omission, the fundamental principle of **objectivity** is violated and engagement cannot be performed in accordance with ethical requirements. [N]
 - c) The above noted omission has no effect on performing such compilation engagement.

d) The above-noted omission has no effect on performing and issuing reports under such compilation engagement.

5. The detailed documentation is maintained during the course of compilation engagement. Which of the following statements is most appropriate regarding the assembly of the final engagement file? [N]
- Final engagement file should be assembled in not more than 60 days after the date of the report
 - Final engagement file should be assembled in not more than 120 days after the date of the report
 - Final engagement file should be assembled on a timely basis after the engagement report has been finalized in accordance with the time limits set by the firm.**
 - There is no requirement of assembling of final engagement file in a compilation engagement

Summary of above case study MCQ's:

- Error in Opening Balance > **should be brought to the knowledge of management**
- It is necessary to verify accuracy & completeness of revenue (ensure revenue matched with TB)
- Omission of expenditure by Mngt > it's integrity issue of mngt**
- SRS 4410 > File assembly time > (Not 60 days) > it's > Final engagement file should be assembled on a timely basis after the engagement report has been finalized in accordance with the time limits set by the firm**

CHAPTER 10- Review of Interim Financial Information

C.S of SRE 2410: Below is given an incomplete draft text of the review report on the **review of financial results** of Fast Operations Limited, a **listed company in accordance with SEBI regulations**. The review is a compulsory requirement under SEBI (Listing Obligations and Disclosure Requirements) Regulations. **The incomplete areas of the report have been marked as XXXX.**

INDEPENDENT AUDITOR'S REVIEW REPORT ON REVIEW OF INTERIM STANDALONE FINANCIAL RESULTS

TO XXXX

- We have reviewed the accompanying Statement of Standalone unaudited financial results of Fast Operations Limited ("the Company"), for the quarter and six months ended September 30, 2022 ("the Statement"), being submitted by the Company pursuant to the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.
- This Statement, which is the responsibility of the Company's Management and approved by the Company's Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in the Indian Accounting Standard 34 "Interim Financial Reporting" ("Ind AS 34"), prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other accounting principles generally accepted in India. Our responsibility XXXXXXXXXXXXX.
- We conducted our review of the Statement in accordance with the Standard XXXX, issued by the Institute of Chartered Accountants of India (ICAI). A review of interim financial information consists of making inquiries, primarily of the company's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.
- Based on our review conducted as stated in paragraph 3 above, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

Using your knowledge, answer the following questions to complete the draft text of review report of Fast Operations Limited: -

- 1) The name of addressee is missing from text of draft review report. Identify the most appropriate option:
 - a) Audit Committee
 - b) Board of Directors
 - c) CFO
 - d) Stock exchange on which shares of company are listed [N]

- 2) Under para 2 of the case study, choose the appropriate sentence beginning with "Our responsibility XXXX": [N]
 - a) Our responsibility is to express an opinion on the Statement based on our review [N]
 - b) Our responsibility is to express a conclusion on the Statement based on our review.
 - c) Our responsibility is to provide a reasonable assurance on the Statement based on our review.
 - d) Our responsibility is to express a compliance statement on the Statement based on our review.

- 3) Given the description of case study, which of the following engagement standards is most appropriate to be stated in para 3?
 - a) SRE 2410 'Review of Interim FI Performed by the Independent Auditor of the Entity'.
 - b) SRE 2400 Engagements to Review Historical Financial Statements.
 - c) SA 700 Forming an Opinion and Reporting on Financial Statements.
 - d) SA 810 Engagements to Report on Summary Financial Statements.

- 4) Which of the following statements is most appropriate to be inserted in sentence beginning with "A review is substantially XXXX" in para 3? [N]
 - a) A review is substantially broader in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express an audit opinion.
 - b) A review is substantially broader in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
 - c) A review is substantially narrower in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express an audit opinion. [N]
 - d) A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion

- 5) Complete the paragraph 4 of case study from following options:
 - a) Nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has NOT disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it contains any material

misstatement. [Author's note: Read language carefully : It means It has Disclosed all Info required ... including a/cing Policy]

- b) Nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement. [N]
- c) The accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement.
- d) The accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement and gives a true and fair view of the state of affairs of the company as on date of interim financial statements.

CHAPTER 11 - Prospective Financial Information & Other Assurance services

CS (SAE 3400):

Below is given draft text of the "Report on Examination of Prospective Financial Information" of Top Edge Limited in relation to the company's upcoming project prepared by a staff member in a **CA firm unfamiliar with drafting such reports**. The report has been drafted in a casual manner and **may consist of omissions and errors**.

Report on Examination of Prospective Financial Information

To
The Board of Directors
Top Edge Limited

We have examined the projection of the upcoming project to come up at Ratnagiri of Top Edge Limited for the period from April 2023 to March 2030 as given in the Prospective Financial Information from page 1 to 250 in accordance with Standard on Assurance Engagement 3400, "The Examination of Prospective Financial Information", issued by the Institute of Chartered Accountants of India.

The preparation and presentation of the projection is the responsibility of the Management and has been approved by the Board of Directors of the company.

Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information.

The projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur.

We have carried out our examination of the prospective financial information thoroughly.

Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note 1 to 50 to the Prospective Financial Information and on a consistent basis with the historical financial statements, using appropriate accounting principles. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

For PCK & Co.
Chartered Accountants
Signature
Designation
Membership number

Based on your knowledge and description of the case, answer the following questions:

- 1) **Whose responsibility is to list out assumptions underlying prospective financial information? [N]**
 - a) Professional Accountant issuing report on prospective financial information
 - b) Auditor of Company issuing report on prospective financial information.
 - c) **Management of company.**
 - d) Banker of company.
- 2) **Which of the following statements is most appropriate regarding "use of prospective financial information" to be included in such a report? [N]**
 - a) **Intended use of projection is required to be disclosed. It is further necessary to caution the users regarding inappropriateness of projections for other purposes.**
 - b) It is discretionary to state intended use of projection in such a report.
 - c) Intended use of projection is required to be disclosed. It is not necessary to caution the users regarding inappropriateness of projections for other purposes.
 - d) It is prerogative of management to use report in the manner it deems fit.
- 3) **What should be language of such unmodified assurance report regarding underlying assumptions?[N]**
 - a) Positively worded to suggest assumptions are a reasonable basis.
 - b) **Negatively worded to suggest assumptions are not on a reasonable basis.**
 - c) Neither positively worded nor negatively worded about assumptions.
 - d) Depends upon the professional judgment of the Chartered Accountant.
- 4) **Which of the following statements is most appropriate regarding the examination of prospective financial information by a Chartered accountant in accordance with SAE 3400? [N]**
 - a) Accuracy of projections is vouched for based upon performing procedures thoroughly.
 - b) Projections can go haywire; It depends upon the professional judgment of the Chartered Accountant to vouch for the accuracy of projections
 - c) **Accuracy of projections is not at all vouched for in an assurance report on prospective financial information.**
 - d) The matter of accuracy of projections or otherwise is not domain of such an examination. Therefore, there is no reporting requirement under SAE 3400. [N]
- 5) **Which of the following statements is most appropriate regarding UDIN in context of examination of prospective financial information by a Chartered Accountant? [N]**
 - a) **It is mandatory to state UDIN in such type of reports.**
 - b) It is desirable to state UDIN in such type of reports.
 - c) It is not required to state UDIN in such type of reports as it is not an audit engagement.

- d) It is not required to state UDIN in such type of reports as it is not an engagement related to historical financial information.

Summary of above case study MCQ's:

- a) It is responsibility of **Management** > to list out assumptions underlying prospective financial information
- b) SAE 3400 > **Intended use of projection is required to be disclosed. It is further necessary to caution the users regarding inappropriateness of projections for other purposes**
- c) SAE 3400 > Unmodified report on assumption > **Negatively worded to suggest assumptions are not on a reasonable basis**
- d) SAE 3400 > **Accuracy of projections is not at all vouched for in an assurance report on prospective financial information**
- e) SAE 3400 > **mandatory to state UDIN in such type of reports**

CHAPTER 12: DIGITAL AUDITING

C.S: Consider the following five situations: -

- a) **Safe Health Insurance Limited** is a company working in field of health insurance sector. It is **now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it.** The details are verified by the system against data present in it. Such a system has allowed faster processing of claims, error-free data validation and increased customer satisfaction.
- b) During the course of audit of a company, it is noticed that a **cyber attack** took place on the data in which **files were encrypted and computers got locked. The hacker then demanded a booty for decryption of files which was to be paid in bitcoins.**
- c) CA X, auditor of a company, is looking into cyber security risks of the company. He is making inquiries regarding processes and controls relating to privileged account access, patch management program, vendor risk management program. He has also performed external network penetration testing.
- d) **"Verificatory" is an entity which can stamp e-mails or any files. It simplifies certifying of emails by just e-mailing** to them to an e-mail specifically created for each customer. **Many law firms can use this service to certify documents.** The **information is secured by networks of thousands of computers distributed across the globe. It uses cryptographic algorithms.** The information can be verified from anywhere in the world. Its hashing and time stamping is of significant evidentiary value.
- e) CA X is planning for audit of an entity. The timelines are agreed in a meeting with key management person on an electronic meeting platform. The entity also agrees to provide data electronically. Video-conference meetings are to be held from time to time with the client.

Keeping in view above situations, answer the following questions:

- 1) In respect of situation regarding working of insurance company in health insurance sector, which of following technologies has likely been used?
 - a) Internet of things
 - b) Data analytics
 - c) **Robotic process automation**
 - d) Power BI

- 2) Which type of cyber attack is referred to situation described in para [B]?
- Ransomware
 - Trojan
 - Denial of service attacks
 - Fileless Malware
- 3) In situation described at [C] above, which is NOT part of risk assessment procedures to assess cyber security risks? [N]
- Making inquiries regarding processes and controls relating to privileged account access
 - Making inquiries regarding processes and controls relating to patch management program
 - Making inquiries regarding processes and controls relating to vendor risk management program
 - Performing external network penetration testing
- 4) The kind of services being provided by an entity described at [D] above, are example of use of: -
- Blockchain technology
 - Internet of things
 - Ethical hacking
 - Cyber attestation
- 5) Which of following is false in an audit described at para [E]? [Author Hint: Remote Auditing]
- The opportunity to present doctored documents and to omit relevant information is decreased
 - Remote access to sensitive IT systems may not be allowed.
 - It provides comfort and flexibility to the audit team as they would be working from their office/home environment.
 - Time zone issues could also affect the efficiency of audits.

CHAPTER 13: Group Audit

CS: While auditing consolidated financial statements of YK Industries Limited for the year 2022-23, a manufacturing company whose financial statements are required to be prepared in accordance with Division II of Schedule III of Companies Act, 2013, CA. Palash Shah notices as under: -

- The notes to accounts in respect of consolidated financial statements **disclose additional information** pertaining to the holding company and its subsidiaries. It provides disclosure regarding **percentages of consolidated net assets**, of consolidated **profit and loss** and of **total comprehensive** income along with their respective amounts pertaining to holding company and its subsidiaries.
- It is noticed by him that **financial statements of one foreign subsidiary** included in consolidated financial statements are **drawn up to 31st December, 2022** in accordance with legal requirements in US. He feels it to be weird and is of the view that consolidated financial statements of group could present a distorted picture. The **management, in turn, informs him that it is not practicable to draw the financial statements of foreign subsidiary to 31st March, 2023.**
- During the year 2022-23, goodwill of Rs.50 crore had arisen on account of the acquisition of a subsidiary during the year and there is no impairment loss as on the balance sheet date. Besides, adjustments have been made in consolidated financial statements with respect to intra-group indebtedness and those related to harmonizing different accounting policies being adopted by parent and its subsidiaries.
- It is noticed by him that one subsidiary was acquired on 15.6.22. He is in a dilemma as regards to the correctness of consolidation of its financial statements in group financial statements.

Besides, he is also in the process of finalising audit report including matters to be reported under CARO, 2020 in respect of consolidated financial statements. However, he is in a fix in respect of manner of reporting under CARO, 2020 relating to consolidated financial statements.

Based upon above information and description, answer the following questions:-

1. Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct?
 - a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.
 - b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.
 - c) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.
 - d) The said disclosure is proper.

2. What should be auditor's proper course of action pursuant to situation highlighted in para [B] relating to financial statements of a foreign subsidiary? [i.e., Author's Note: Difference is of 3 month only]
 - a) The auditor should insist for drawing up of financial statements of foreign subsidiary to 31st March, 2023. The reason for impracticality is a mere excuse. In case of failure to redraw, he can modify his opinion in accordance with SA 705.
 - b) The auditor can accept management's version
 - c) The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2023 and 31st March, 2023.
 - d) The auditor should modify his opinion by quantifying the financial effects of such an inconsistency.

3. Which of the following statements is correct in respect of goodwill and other matters described in the case scenario? [N]
 - a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.
 - b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.
 - c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.
 - d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments.

4. Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 15.6.22? [N]
 - a) The auditor should verify that income and expenses of subsidiary are included in consolidated FS from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

- b) The auditor should verify that income and expenses of subsidiary are included in consolidated FS for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.
 - c) The auditor should verify that income and expenses of subsidiary are included in consolidated FS from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated FS at the preceding reporting date.
 - d) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated FS at the acquisition date.
5. As regards reporting under reporting CARO, 2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law? [N]
- a) A separate report providing Clause by Clause reporting under CARO, 2020 is required in respect of specified matters pertaining to parent and all subsidiaries incorporated in India.
 - b) It would be sufficient if report under CARO, 2020 in respect of standalone financial statements is supplemented with additional information in respect of all subsidiaries incorporated in India.
 - c) A separate report under CARO, 2020 in respect of all subsidiaries incorporated in India together is required. It should be annexed with report under CARO, 2020 in respect of standalone financial statements.
 - d) Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

CHAPTER 14.1: Audit of Banks

Q. CA. Madhusudan is conducting concurrent audit of a branch of a nationalized bank. It is a large branch having deposits of Rs. 350 crore and advances of Rs. 600 crore respectively. The deposits of branch consist of term deposits apart from CASA deposits. It is an old branch in operation since late 70s. Therefore, there are many dormant deposit savings, current and term deposit accounts at the branch

Of late, the top management of the bank has been pushing for aggressive targets in opening of CASA deposits. He wants to ensure that CASA deposit accounts opened by the branch during his term comply with KYC norms. During the course of concurrent audit of a particular month, he finds that temporary over limits are granted to few borrowers availing cash credit facilities up to 10% of their respective sanctioned limits. Granting of such over limits falls within the powers of Chief Manager of the said branch. It is also noticed by him that temporary overdrafts are allowed to few customers in their current accounts. However, granting of these temporary overdrafts also falls in Chief Manager's delegated powers. Temporary over limits and overdrafts as discussed above have been adjusted and paid before the end of the month.

It is further noticed by him during the same month that branch has sanctioned 5 fresh advances falling within Chief Manager's powers and conforming to bank norms aggregating to Rs.10 crore. All these sanctioned advances pertain to same industry i.e., jute mills manufacturing jute sacks. He feels that branch's approach is not proper and sanction of 5 advances to the same industry lacks diversity and lending decision of branch is not proper

He further notices that during the month, one borrower of branch falling under definition of "small enterprise" in MSME sector has shifted its credit facilities from the branch to a bank in private sector. The branch has levied foreclosure charges on outstanding credit facilities pertaining to borrower by disregarding "Code of Bank's Commitment to Micro and Small Enterprises". The borrower is still having current account with

branch. **Reversal of such charges would lead to revenue loss for branch.** He is in a fix as far as reporting is concerned.

Keeping in view above, answer the following questions: -

- 1) **As regards dormant deposit accounts in the branch, which of the following is NOT part of duty of concurrent auditor? [N]**
 - a) Verifying that dormant accounts are revived with appropriate authority
 - b) Examining authorisation for withdrawals
 - c) Following up with account holders to ensure status of accounts remains active**
 - d) Verifying that dormant accounts at the branches ageing more than 10 years have been transferred to Deposit Education and Awareness Fund (DEAF)

- 2) **The concurrent auditor wants to ensure that fresh CASA accounts opened in the branch are KYC compliant. Which of the following best sums up scope of KYC guidelines prescribed by RBI? [N]**
 - a) The basic purpose of such guidelines is to weed out duplicate customers at the same branch
 - b) Such guidelines contain detailed requirements for banks to enable them to draw a 360degree credit profile of the customers by monitoring of transactions. Its primary purpose is assisting banks in making prudent credit decisions. [N]
 - c) Such guidelines have a basic objective of ensuring credit of Direct benefit transfers (DBT) in accounts of deserving account holders.
 - d) Such guidelines contain detailed requirements in respect of customer acceptance policy, customer identification procedures, monitoring of management.**

- 3) **Which of the following statements is most appropriate as regards reporting of matters relating to temporary over limits in cash credit accounts and temporary overdrafts in current accounts? [N]**
 - a) The said instances cannot be reported as these fall in powers of Chief Manager.
 - b) The said instances can be reported in monthly concurrent audit report. No discussion is necessary with Chief Manager in this respect to ensure sanctity of report.
 - c) The said instances can be reported in monthly concurrent audit report. However, a discussion is necessary with Chief Manager in this respect**
 - d) The said instances cannot be reported as these fall in powers of Chief Manager and have been adjusted and paid before the end of the month.

- 4) **Which of the following statements is most appropriate regarding sanction of fresh advances to borrowers in the same industry in a month from concurrent auditor's perspective? [N]**
 - a) Such a lending lacks diversity and needs to be reported without fail
 - b) Such a lending increases credit risk for branch and needs immediate attention of higher authorities of bank.
 - c) Lending has been made within Chief Manager's powers. It does not fall in concurrent auditor's domain to question wisdom of lending decision conforming to bank norms.**
 - d) Although lending has been made within Chief Manager's powers, branch should have reported to higher authorities flagging sanction of fresh advances to same industry. Only this aspect should be reported in concurrent auditor's report.

- 5) **As regards matter of levying of foreclosure charges described in case scenario, what is appropriate course of action for concurrent auditor?**
 - a) The matter should be reported even though it would lead to revenue loss for branch.**

- b) The matter should not be reported as it is part of duties of concurrent auditor to safeguard branch's revenue interests.
- c) The matter should be reported only for its disregard of Code without highlighting revenue impact [N].
- d) The matter concerns branch management's decision. It does not fall in purview of concurrent audit.

Summary of above case study MCQ's:

- a) Concurrent auditor is not required to > Following up with account holders to ensure status of accounts remains active
- b) KYC guidelines contain detailed requirements in respect of customer acceptance policy, customer identification procedures, monitoring of management
- c) Temporary overlimit in cash credit > The said instances can be reported in monthly concurrent audit report. However, a discussion is necessary with Chief Manager in this respect
- d) Advance has been lending again to same type of Industry > Lending has been made within Chief Manager's powers. It does not fall in concurrent auditor's domain to question wisdom of lending decision conforming to bank norms
- e) Foreclosure charge need to be reversed due to some MSME guidelines .. So revenue will be loss > The matter should be reported even though it would lead to revenue loss for branch

CHAPTER 14.2: Audit of NBFC's

Q.CS: CA. Parampara is statutory auditor of "Lohit Finance Limited", a micro finance institution, working predominantly in states popularly described as "seven sisters of North East", West Bengal, Odisha and Andhra Pradesh. It is a non-deposit taking NBFC catering to credit requirements of rural and semi-urban households and provides small ticket loans. She has performed audit procedures for year 2022-23 and following further information is given as under:-

- A) The Board of Directors of the company has passed a resolution in its meeting held on 1.5.22 for non-acceptance of public deposits during year ended 31st March, 2023
- b) The company has obtained certificate of registration dated 15th March, 2012 from RBI in pursuance of section 45-IA of RBI Act, 1934 and it is entitled to hold such certificate of registration in terms of its financial assets/income pattern for year ended 31st March, 2023.
- c) The company has identified instances of cash embezzlement by the employees during the year. Such instances relate to employees fleeing after collection of instalments from customers at some centres. The total amount involved is ` 15 lacs and ` 5 lacs have been recovered subsequently. The matter has also been reported in note 35 of financial statements.
- d) It falls in middle layer of scale-based regulations and regulations for a systemically important non-deposit taking NBFC are applicable to it. Its capital adequacy ratio is stated in note 36 of financial statements.
- e) Audit procedures performed by her included testing design and operating effectiveness of controls relating to allowances for loan losses using Expected credit loss model (ECL) in accordance with Ind AS 109. Tests of details performed by her included verifying assumptions affecting ECL calculations.

Keeping in view above information, answer the following questions: -

1. The Board of Directors has passed a resolution for non- acceptance of public deposits during year 2022-23. Which of the following statements is most appropriate in this regard as regards reporting obligations of auditor are concerned? [N]
 - a) Passing of board resolution for non-acceptance of public deposits, being an internal governance matter, is not required to be reported by auditor.
 - b) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement for auditor under CARO, 2020
 - c) **Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company.**
 - d) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020.

2. Which of the following statements is most appropriate in respect of reporting requirements relating to certificate of registration of the company obtained from RBI as described in para [B] of the case? [N]
 - a) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company
 - b) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020.
 - c) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 under CARO,2020.
 - d) **It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020. Further, it is also required to be reported in auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its assets/income pattern**

3. Regarding instances of cash embezzlement identified by the company during the year, which of the following statements best fits into reporting requirements of an auditor? [N]
 - a) **Such instances are required to be reported under CARO, 2020 under relevant clause**
 - b) Cash embezzled amount is less than Rs.1 crore. No reporting under CARO, 2020 is required of such instances.
 - c) Such instances are required to be reported under CARO, 2020 as well as in auditor's additional report to Board of Directors of company. [N]
 - d) Such instances are to be specifically reported in auditor's report under Section 143(3) of Companies Act,2013.

4. As regards description of capital adequacy ratio as described in para [D] of case, which of the following statements meets regulatory reporting requirements? [N]
 - a) Auditor has to ascertain & verify whether such ratio has been disclosed in FS in notes to accounts.
 - b) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at.
 - c) **Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI.**
 - d) Auditor has to ascertain and verify whether such ratio has been disclosed in FS in notes to accounts and has been correctly arrived at and is in compliance with minimum CRAR prescribed by RBI.

5. The auditor has performed audit procedures relating to allowances for loan losses using ECL in accordance with Ind AS 109. As these allowances involve significant judgment an estimates, she wants to state how it was addressed by her. How she can do that? [N]

- a) By stating it in Auditor's additional report to Board of Directors.
- b) By stating it in matters as required under Section 143(3) of Companies Act.
- c) By incorporating Emphasis of Matter Paragraph in Independent auditor's report
- d) By identifying it as Key audit matter in Independent auditor's report.

Summary of above case study MCQ's:

- a) For NBFC: Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company.
- b) W.r.t Certificate of Registration of NBFC > It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020. Further, it is also required to be reported in auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its assets/income pattern
- c) Cash Embezzlement > required to be reported under CARO, 2020 under relevant clause
- d) Capital Adequacy Ratio > Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI
- e) Allowance for Debt Loss (ECL) as per Ind As 109 > if it's involve significant judgement > It can be KAM

CHAPTER 15: Overview of Public sector undertaking

CS Q:

SRM & Associates are refreshing up their knowledge on functions of various Parliamentary financial committees and on the varied functions and duties of Comptroller & Auditor General of India in relation to audit of government institutions and government companies. They feel that unless they have understood scope of duties of C&AG, they would not be in a position to do justice to audits and professional work in this area. In the process, they have gone through various materials both offline and online. The summarized information derived from some of such materials including website of C&AG are stated below:

- a) The C&AG report for a particular year contained results of the compliance audit of Department of Revenue-Direct Taxes of the Union Government dealing with "Assessments relating to Agricultural Income". It included certain observations relating to **allowing of claim for exemption of agricultural income without supporting documents**, use of this area by non-agriculturists as a conduit to avoid taxes etc., in scrutiny assessments performed by the Department.
- b) The C&AG in one of its reports in respect of a state government owned industrial development corporation pointed out **non-adherence of One-time settlement (OTS) guidelines** of state government by the corporation resulting in acceptance of a below par OTS proposal thus foregoing recovery of loan amounting to Rs. 6.87 crores. The said corporation was providing loans to industrial units.
- c) Annual report of a listed public sector company which is a "mini-ratna" PSU was also gone through. The said company is engaged in providing diversified services to Indian Railways.
- d) A state government owned PSU was involved in setting up of a **thermal power plant** in the state. The C&AG, in its audit report, pointed out **delay in completion of work due to failure** to decide on the **type of water treatment in the cooling plant on a timely basis**. Besides, other reasons leading to **delay** like frequent changes in lay-out and re-testing of soil by the company were pointed out.

Answer the following questions based upon above information:

1. Based on description provided at para [A] of case, which Parliamentary financial committee is likely to examine above report of C&AG and make its recommendations?

- a) Estimates Committee.
 - b) Public Accounts Committee.**
 - c) Committee on Public Undertakings.
 - d) Committee on Commerce.
2. Considering the description stated in para [B] of case, the above audit finding is likely to fall in which areas?
- a) Compliance audit.**
 - b) Performance audit.
 - c) Propriety audit.
 - d) Comprehensive audit.
3. As regards listed PSU described in para [C] of case, which of the following statements is most appropriate? [N]
- a) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. C&AG cannot give directions to such firm of auditors. However, its office is empowered to conduct a supplementary audit.
 - b) The statutory audit of above PSU is to be conducted by C&AG. [N]
 - c) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by C&AG. Further, C&AG can give directions to the firm of auditors.**
 - d) The statutory audit of above PSU is to be conducted by a firm of auditors appointed by shareholders in AGM. However, C&AG can give directions to the firm of auditors.
4. Considering nature of audit finding described at para [D] of case concerning delay in completion of work of thermal power plant, the said audit finding is likely to fall in domain of:
- a) Propriety audit.
 - b) Performance audit.**
 - c) Financial audit.
 - d) Compliance audit.
5. PSU engagements are generally attestation engagements or direct reporting engagements. Which of the following statements is correct in this regard? [N]
- a) Performance audits and compliance audits are generally attestation engagements.
 - b) Performance audits and compliance audits are generally direct reporting engagements.**
 - c) Performance audit is a direct reporting engagement whereas compliance audit is an attestation engagement.
 - d) Performance audit is an attestation engagement whereas compliance audit is a direct reporting engagement

CHAPTER 18: Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance:

CS Qn: "Quick Push Finance Limited" is one of the top listed 1000 companies by market capitalization. As per a SEBI circular, Business Responsibility and Sustainability Report (BRSR) based on ESG parameters is mandatory from financial year 2022-23 for top listed 1000 companies. The company is an NBFC and is engaged mainly in providing finance for commercial vehicles

The report is to be prepared in three sections- Section A, B and C. Whereas Section A and B relate to general disclosures and management & process disclosures respectively, Section C of the report relates to principle wise performance disclosures. Under this section C, information is sought on each of the 9 principles of "National Guidelines on Responsible Business Conduct" (NGBRCs). This information is categorized on two indicators i.e., "Essential indicators" and "Leadership indicators"

The said company has an anti-corruption/anti-bribery policy which is available on its website. Besides, the company has regularly conducted awareness programmes for its dealers highlighting relevant governance practices of the company.

The company is sensitive to environmental concerns. It has established mechanisms to recycle hazardous e-waste in accordance with applicable laws. Further, disposal of paper waste is also made responsibly. It is also a member of 5 prominent industry chambers/trade associations including FICCI, CII and ASSOCHAM. Besides, regular inputs to government are provided by the company through various forums for improvement in administrative processes relating to automobile and financial sectors.

One of the NGBRC principles states that businesses should promote inclusive growth and equitable development. The scope of this principle is wide and quite encompassing. Many activities of company could fall under promotion of inclusive growth and equitable development.

The CFO of company is clueless as to preparation of BRSR. Help him out by answering the following questions.

Based upon above, answer the following questions: -

- 1) As regards anti-corruption/anti-bribery policy and organization of awareness programmes for dealers conducted during the year, which of the following is most likely to be true? [N]
 - a) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of essential indicators.
 - b) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of leadership indicators.
 - c) Having an anti-corruption/anti-bribery policy is in nature of essential indicators. Organization of awareness programmes for dealers is in nature of leadership indicators.
 - d) Having an anti-corruption/anti-bribery policy is in nature of leadership indicators. Organization of awareness programmes for dealers is in nature of essential indicators.
- 2) As regards established mechanisms for recycle of hazardous e-waste and disposal of paper waste by company, which of the NGBRC principle(s) are involved? [N]
 - a) Principle 5 only
 - b) Principle 9 only
 - c) Principles 6 and 9
 - d) Principles 2 and 6
- 3) Considering description of membership of various industry chambers/ trade associations and providing of inputs to government for improvement in administrative processes, which of the NGBRC principle is referred to? [N]
 - a) Principle 8
 - b) Principle 4

- c) Principle 3
d) Principle 7
- 4) Which of the following activities relates to the principle that businesses should promote inclusive growth and equitable development? [N - it's principal 8]
- a) CSR projects undertaken by the company in designated aspirational districts of country
b) Carrying out real time digital Net Promoter score (NPS) with all public customers to gauge customer reactions and satisfaction
c) Getting conducted "energy audits" in the company
d) Conducting programmes to assist employees in finding employment after retirement
- 5) Which of the following statements is true in respect of essential indicators and leadership indicators as far as their reporting in BRSR is concerned? [N]
- a) Both types of indicators are mandatorily required to be disclosed.
b) Essential indicators require mandatory disclosure whereas leadership indicators require voluntary disclosure.
c) Essential indicators require voluntary mandatory disclosure.
d) All indicators based information whether relating to essential indicators or leadership indicators is voluntary.

Other MCQ's of ICAI:

MCQ	Crux
1	EQCR Should be C.A only , otherwise changes made in team is inappropriate
2	Following points should be check for acceptance and continuance of client relationships and audit engagements are appropriate): (i) The integrity of the principal owners, (ii) Whether the engagement team is competent (iii) Whether the firm and the engagement team can comply with relevant ethical requirements; and (iv) Significant matters that have arisen during the current or previous audit engagement (Do Not check Fees of consultant & Qualification of all employees of entity)
3	Performing analytical procedure (SAP) is mandatory , as conclusion drawn from analytical procedures are corroborate conclusion formed during audit of individual component in F.S
4	Sample selection is assessment of audit team, they can Increase no. of samples from past years samples, client cannot object.
5	Yes, new auditor is requiring to check opening balances (SA 510) as well as he may require subsequent data also (SA 560). Client can-not object
6	For RPT - Auditor can-not rely on Mngt representation only , Auditor has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.
7	<ul style="list-style-type: none"> • Receivables for which balance confirmation is not received ... Auditor have to perform Alternate procedure • For remaining Balance confirmations also... auditor should take Direct confirmation from Receivable (It's not allowed that management is receiving confirmation from debtor, than they are submitting to auditor)
8	Unusual cash payment, Fines > Its Non-compliance of laws

9	SA 540: BLOCK SAMPLING : Means Selecting continuous Items <u>Example</u> : Select 50 consecutive cheque, rather than selecting 50 random cheque through out the year.
10	Most persuasive evidence regarding ownership of property is "Registration documents of property"
11	Professional scepticism is defined as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence
12	SA 200: Professional Judgement : Application of relevant training, knowledge & experience > To make informed decision.
13	Judgements about materiality are affected by both > the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement .
14	" Poor corporate governance " is NOT an Inherent limitation of Audit
15	Engagement team should consult previous yr E.T. (Other firm), During course of planning
16	Audit team can revise materiality & plans even without consulting partner, it is not waste of time
17	Audit team must document ORIGINAL audit program, Further if any change > Document it with
18	The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors
19	If management appointed expert for machine valuation, so it is not mandatory that that expert should send the report to auditor independently, he can send it to management and then mngt can send it to auditor, In both the cases, Auditor is required to examine report of consultant
20	Prior to using internal auditors to provide direct assistance for purposes of audit, external auditor shall: (a) Obtain written agreement that IA will be allowed to follow external auditor instructions (b) Obtain written agreement from internal auditors that they will keep confidential
21	SA-620 : A Prospective CA, soon to join auditors firm as a partner can-not be auditors internal expert
22	SA 300 - If you need to revise materiality, then first make strategy, then make plan
23	Entity passed 10% discount to auditor for purchase of goods, However its normal practice of that entity ... as it had also passed 10% discount to other 50 customers also... so he is NOT DISQUALIFY to be an auditor, as transaction is at arm's length price
24	The assessment of audit team is wrong for this company Because audit team decided to Not to assess inherent risk only will take due care of the control risks
25	Even if it is private company, Risk-control matrices need to to properly documented (Should not be in draft format)
26	MANAGEMENT is WRONG : 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 & denied to give any doc.
27	SA 210 - Engagement letter should be sign before commencing audit work
28	Subsidiary company is also require to maintain documentation on changes in processes and activities as any resultant impact of the same on management controls if IFC is applicable on them (Mngt can't say that it is maintained by parent company)
	<u>IF INTERNAL AUDITOR IDENTIFIED FREQUENT CHANGES IN BANK ACCOUNT & OTHER MASTER DETAILS OF SUPPLIER</u> , After that Management Agrees to develop the process of monthly review the change in master details :
29	IT IS DETECTIVE CONTROL (Not preventive)
30	To evaluate I.C on Purchase > Auditor is not required to check whether company make monthly Bank reco.
31	If Internal auditor found that employee suddenly increase the claim amount of medical expense (reimbursement),

	Then Internal auditor should recommend that claim should be reduced & clear guidelines to all employees with disciplinary action
32	Effective IC fails when: Abuse by process owner
33	Documentation can be in a mix of both soft and hard copy
34	approach of audit team to obtain detailed understanding of the company & company IT system before starting with the audit procedures is absolutely fine
35	Its allow that company can maintain MANUAL as well as AUTOMATED control simultaneously (Auditor can't say that they should either maintain automated control or either manual)
36	SA 315 An entity's system of internal control contains manual elements & often contains automated elements. As per SA 315 characteristics of manual or automated elements are relevant to auditor's risk assessment & further audit procedures based thereon. Hence, view of audit team looks fine because without testing of internal control covering all types of control that is manual & automatic those controls can't be said to be operating effectively
37	Auditor is allowed to use audit tools (CAAT) - Mngt can't refuse to give data
38	Professional Ethics: CA Can-not accept audit of company or subsidiary of company in which he was director without finishing of the cooling period (i.e. 2 years)
39	User ID & Password required to access application : Its PREVENTIVE CONTROL (Not Application control)
40	Service organization (Outsourced company) is ISO certified & Its controls are regularly audited : Auditor should take the control audit report of S.O to review.
41	During the current FY, Company found that they have missed to account for certain transactions in PY financial statements, so they want to revise PY financial stat. as per sec 130 > No its not correct to revise FS. (As Ind AS/AS provided the accounting of errors in PY F.S. ... they should correct it in Current FY)
42	Management should prepare CFS and include BOTH TYPE OF SUBSIDIARIES (Indian Subsidiary & Foreign Subsidiary)
43	When auditor is qualifying report, then management shall explain the management view in notes to accounts, However don't hold the audit report even if they are not explaining their view in Notes to a/c's
44	In PY some deficiency in IC was found > In the current year's communication may repeat the description from previous communication or simply reference the previous communication (i.e., In CY also Auditor should refer PY IC Deficiency if its not corrected by mngt)
45	Fixed deposit Books Amount V/s Bank confirmation amounts Differ , But management also showed the Fixed deposit certificate matching with books amount : Don't directly qualify report > Consider both the difference & Apply alternate procedure
46	SA 701: If adverse opinion is given > then report in KAM Para: No other KAM "except matters describe in basis of adverse opinion section, no other KAM to communicate in our report
47	50:50 test determination is popularly used in NBFC Company
48	If There is No requirements of the applicable FRF for disclosing the related party transaction : Then Also Auditor need to obtain an understanding of the entity's related party relationships and transaction, to conclude whether the financial statements affected by those relationships and transactions achieve a true and fair presentation and are not misleading.
49	CFS > 1 subsidiary report is pending > So if we didn't received its audited report > Include component in CFS & Qualify report
50	Consolidation with foreign subsidiary requires from 1 st yr of acquisition only, it should be done and GAAP conversion adjustments are also required to be audited

51	Method of Depreciation of group companies can be different but method of valuation of inventory must be same
52	Only 1 JV is not audited, management giving auditors MANAGEMENT CERTIFIED ACCOUNTS on that JV, (Other than this JV also..75% of group companies are covered) : <u>Auditor should accept mngt certified A/c's</u>
53	Principal auditor not require to re-perform limited review of components which are already audited by another C.A
54	When component auditor is different then SA 600 is applicable.
55	To check the loan sanctioned against FD & Whether lien is marked in FD Ensure FD receipt are discharge in favor of bank + lien is marked in computer (WRONG OPTION : FD should be kept separately with branch manager)
56	Bank Audit: 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, 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.
57	NPA was regularise by Bank as on 28 th march (i.e., Before End of FY) ...as amount was paid by borrower, Yes its allow, 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.
58	Bank Audit > NPA Sold in excess of expected realizable value, So Profit should be credited to Provision for loss of NPA (Not P&L)
59	Amount Payable to XYZ Ltd (As per our books): 58 lacs, However Amount payable to XYZ Ltd (As per confirmation received from XYZ Ltd) : 80 lacs, As there is dispute because defective goods which were returned on 30th March 2021 - <u>So, Auditor should perform below two task because of above difference :</u> <ul style="list-style-type: none"> ✓ Review post year-end credit notes for evidence of acceptance of return ✓ Inspect pre year-end goods returned note in respect of the items sent back to the supplier. <p>(NOT CHECK : "Inspect post year-end cash book for evidence that the amount has been settled" because management is itself accepting that amount is unpaid)</p>
60	10 partner in a firm * 60 per partner tax audit limit = All the partners of the firm can collectively sign 600 tax audit reports
61	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.
62	C&AG may get involved in the audit of Govt co.
63	C&AG may order test audit as per the requirements of the Companies Act 2013.
64	PSU: The C&AG may conduct Performance audit of electricity company (i.e., Govt co), however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
65	PSU: Auditor can change performance audit program (Its allow), But with the approval of competent authority and discussion with management
66	PSU: Direct reporting engagement > Not include > Financial audit
67	PSU: Audit report of PSU > Reviewed by > Committee on Public undertaking
68	PSU: I.T. AUDIT OF PSU i.e. <ul style="list-style-type: none"> ✓ Are separate ID-Password assigned? ✓ Change in password ensure? ✓ Data backup maintain It is Compliance audit
69	External auditor can-not provide Internal audit/ Book-keeping service to auditee.
70	Professional ethics: No objection certificate should be obtained from retiring auditor by the newly appointed auditor.

71	For fraud ≥ 1 Cr, its has to be reported to CG + mentioned in audit report
72	Auditor is not NEGLIGENT : In prospectus there was an abnormal rise in the profits, Management is blaming auditor to do only Sample checking, However, Auditor proved that they found IC 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
73	If information in prospectus found to be misleading, then directors, promoters of the company and the experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage. Auditors are covered in this as experts.
74	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.
75	Travelling cost of employees increased trendmously > Operational audit require
76	Inventory checking in which ROMM may exist > Can-not be delegated to Internal auditor
77	Due diligence: Initial decided price will be change due to new Hidden liability or contingent liabilities
78	Due Diligence: In case of merger due diligence, also need to check Financial projection
79	Professional Ethics: CA Cheque bounced (Retuned) - Clause (2) of Part IV of the First Schedule GUILTY
80	Professional Ethics: on CA Firm website, they put big poster that he got Best faculty award > Clause (6) of Part I of the First Schedule. GUILTY
81	Professional Ethics: CA is paying stipend late to article along with interest > Clause (1) of Part II of the Second Schedule
82	Professional Ethics: Council of ICAI allows only 25 hrs/week for teaching activities along with attest functions
83	Internal auditor observed non-compliance of minimum wages act, weekly off not provided, low wages to labour etc. > Internal auditor observation should be reported in his report along with management comments
84	Sale of the company has been decreased: So management want to perform Operational audit, There is already internal auditor in company, then why management want to appoint operational auditor: Below are the reasons: <ul style="list-style-type: none"> ✓ As the operational audit will be done by an independent person and will provide suggestions for improvement. ✓ Because management audit is qualitative in nature and will analyse all aspects of operations as per management policies, objectives and goals. ✓ Because internal audit is restricted to financial accounting and internal controls only
85	Only INDIVIDUAL can be appointed as inspector under companies act for investigation (Not Companies/Firm etc.)
86	SA-701: In Key Audit matter para, Following Matters need to cover: <ul style="list-style-type: none"> ✓ Reference to related disclosures, if any, in the financial statements ✓ How the matter was addressed in the audit. ✓ Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter (Not require to cover : Explanation on the matter given by management)
87	SA 260: It is auditors responsibility to communicate significant matters to TCWG (Not management's), Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility
87	CARO 2020: Is applicable if Borrowing of company exceed Rs.1 crore at any point of time during the financial year

89	"Non-interest-bearing staff advances" is OTHER ASSETS (Under "Others" heading of B/s)		
90	Professional ethics: 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		
91	<u>Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued:</u> Express qualified/ adverse opinion on current F.S. w.r.t. Corresponding figures Only		
92	CFS Audit: Our Shareholding in subsidiary reduced (i.e. Change in shareholding) : Then Adjustment that requires to be made are Permanent adjustment		
93	25% of total asset (Inventory) was missing & 10% of total sales was fake: Auditor should issue ADVERSE REPORT		
94	Acceptable detection risk should be low in order to reduce audit risk to an acceptably low level.		
95	Relative/friend of auditor is working in company is Familiarity threat		
96	Customer	Balance as per sales ledger ₹	Balance as per customer confirmation ₹
			Comment
	AM	225	225
	AN	350	275
	AO	620	480
	AP	535	535
	AR	178	No reply
	Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?		
	(a) No further audit procedures need to be carried out in relation to the outstanding balances with AM Co. and AP Co.		
	(b) The difference in relation to AN Co. represents a timing difference and should be agreed to a pre-year-end invoice.		
	(c) The difference in relation to AO Co. represents a timing difference and should be agreed to pre-year-end bank statements.		
	(d) Due to the non-reply, the balance with AR Co. cannot be verified and a different customer balance should be selected and circularized.		
97	Only Practicing CWA/CMA can be appointed as cost auditor (Not CA), Further company auditor can-not be appointed as cost auditor of company		
98	<u>Management intentionally manipulated FS of the company :</u> The auditor would issue an adverse audit opinion stating that financial statements ' do not give a true and fair view '. The auditor should also include a ' Basis for Adverse Opinion ' paragraph below the opinion paragraph.		
99	An Insurance company should show: <ul style="list-style-type: none"> • Training and non training expenses incurred for employees SEPERATELY in P&L (Not under remuneration head) • Incentive paid to employees of company who have solicited insurance policies :Should be shown under Remuneration and Welfare Benefits a/c (Not Commission a/c) 		
100	Divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata': Stratified sampling.		

101	To check correctness of account payable balance, <u>Inspect the invoices issued supplier and the payments made</u>
102	Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon: <ul style="list-style-type: none"> • Nature, size and complexity of the entity • Nature of the significant deficiencies identified
103	Company has changed its payroll system software, now the new software is calculating wrong income tax, It is Loss of IT General Controls .
104	Every Listed company & Its material unlisted subsidiary need to do secretarial audit .
105	Prior period FS not audited > Other matter paragraph
106	<u>In case of audits of listed entities, other information section is required in auditor's report when at the date of auditor's report:</u> Auditor has obtained or expects to obtain the other information
107	<u>In case of audits of unlisted corporate entities</u> , other information section is required in auditor's report when at the date of auditor's report: Auditor has obtained some or all of the other information

INTEGRATED MCQ's SUMMARY (ICAI Only – But Other than SM)

C.S 1	<ul style="list-style-type: none"> - <u>Trade payables shall be separately disclosed in the Balance Sheet as per Division 1 of Schedule III</u> Only MICRO & SMALL (Not medium) [Old Course] - <u>Code of ethics allow following acts:</u> <ul style="list-style-type: none"> • Select, Train & recruit employees of clients • One partner responsible to sign FS was in teaching • Can charge % basis fees from co-operative society
C.S 2	<ul style="list-style-type: none"> - In starting of question % of Shareholding is given, so from it we can find out that company is govt company So, if any special provision is applicable on Govt. company will apply over that
C.S 3	<u>Bank contingent liability disclosure contains:</u> <ol style="list-style-type: none"> 1. Guarantee on behalf of constituent: Yes 2. Percentage of the total bills purchased by bank: NO 3. Unpaid salary to staffs, who are currently undergoing a court trail: No
C.S 4	<ul style="list-style-type: none"> - <u>Loan taken for some other purpose but temporarily invested in F.D</u> It will also be reported in CARO for misutilization - Adhoc limit not reviewed within 180 days, then consider it as NPA - CA can act as Surveyor & Loss assessor of insurance company i.e General permission

C.S 5	<ul style="list-style-type: none"> - Auditor should check direct as well as indirect Control i.e Both - Auditor can not mention about future viability (going concern) in A.Report or compliance certificate - Voluntary revision of FS require <u>TRIBUNAL</u> permission (Old Course ... Not in New ICAI SM)
C.S.6	<ul style="list-style-type: none"> - Investigator can ask for evidence available outside India from CG, by apply to competent court - Comparative F.I on F.S > Auditor opinion shall not refer to corresponding figures, unless Previous year audit report is qualified - Audit has given Qualified/Adverse opinion in F.S, Now , <ul style="list-style-type: none"> • EOM para on a matter can be added if auditor's opinion is neither qualify/not adverse w.r.t that particular method <p>(Wrong Option : Auditor can-not add EOM para in report on any matter, as qualify/adverse option is given)</p>
CS 7	<ul style="list-style-type: none"> - <u>Statutory auditor planning to use Internal auditor work, Then :</u> The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor needs to reconsider the audit strategy and cannot use the work of the Internal Auditor - Even if the company become our subsidiary last year (i.e made investment last year only), then also auditor need to Review CFS as well as Related party transaction in current yr. - We had 45% investment in another company, bit we controlled 100% BOD decision of it, so its already our subsidiary, so even if in next year investment increased from 45% to 60%, <u>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.</u>
CS 8	<ul style="list-style-type: none"> - <u>Which statement is correct:</u> <ul style="list-style-type: none"> • The Auditor contends that last year the inventory levels was not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk (Wrong Option: all the frauds and errors must be identified with the statutory audit) - <u>Warehouse keeper himself do Invoicing, Dispatch goods, Physical Verification so it results into difference between BOOKS, INVENTORY RECORD, PHYSICAL VERIFICATION</u> So, SOD Lacks: Execution, Custodian, Record Keeping - If director's declaration of interest u/s 162(2) not found, then auditor to report that matter in main report - Holding had given advances to subsidiary, now subsidiary suffered heavy losses (Net worth eroded), So Holding's auditor should give qualification i.r.o Advance (for non recovery of advance if adjustment entry not recorded in books)
CS 9	<p><u>Company is not complying with FEMA regulations, Auditor involved regulatory expert & Agreed with mngt views:</u></p> <ul style="list-style-type: none"> - Auditor approach is correct, Mngt need to include this matter into notes to accounts of FS <p>(Wrong Option: Correct, But also modify report because penalty of non-compliance can be material)</p>

- CS 10** - Company performance is decreasing, New competitors are coming into market, new technology require...company is purchasing new machine....
So, SA 570 require to assess Going concern, Auditor to **NOT** perform procedure:
- Analyze & discuss companies cash flow & profit of previous year with projected account.
- (Wrong option:** Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production)
- What auditor will **NOT** check to check compliance of Laws & regulation
- Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly
{Because this will be done by Management}
- Company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned an amount of Rs.25 lakh was earmarked for the purchase of the machinery-Oil Extractor; but the company has acquired an improved model of machinery
- No reporting required in CARO, its not diversion of fund

- CS 11** - Bank audit > SLR requirement > DTL calculation

INCLUDE	EXCLUDE
- Credit balance of branch adj a/c	- Margin held for funded facility
- Adverse balance of nostro a/c	- Unadjusted deposit for agency business
	- Paid up capital, reserve, any credit balance in profit & loss account of bank, amount of loan taken from RBI and amount of refinance taken from EXIM bank, NHB, SIDBI and NABARD

- CS 12**
- treatment of Interest on deposits accrued but not due:
 - Amount should not be included in of deposits
 - Shown under head other liability & Provision
 - Interest rate swap : Shown as contingent liability
 - i.r.o unaudited branch, What info is required to disclose in auditor's report:
 - No. of unaudited Branch
 - Quantification of advances, deposit, int income & expense of such unaudited branch
 - Internal auditor should highlight in report (Almost ever matter: cash theft, low control etc. etc..) irrespective of facts that whether external auditor has also reported same fact or mngt started to take action against that matter.
 - Bank Audit:** 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
 - 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.
 - CA Ram has left the Job and filled complaint of Boss (CA firm partner) to ICAI, that Employer is also involved in making digital signature (DSC)
 - Its Allowed to make DSC, employer is not guilty of misconduct
 - However CA "X" is guilty of misconduct C-1, P-II, S-1 because he shared salary portion to Job agency for getting new job

CS 13	<p><u>Auditor asked Trade payable Confirmation, found share Some Discrepancy, Which items Should Auditor Select for testing So to get samples on which Vendor Balance reco, can be performed:</u></p> <ul style="list-style-type: none"> • Wrong option: major vendor ->when Confirmation Balance → match with our ledger • Right options: <ul style="list-style-type: none"> ✓ Vendor have High volume of Business with us ✓ Vendor with Balance of Rs. 15 lakh or more ✓ Vendor with Balance of Rs. 15 lakh or Less <p><u>How to Check operating effectiveness of IC around accounting of Trade payable:</u></p> <ul style="list-style-type: none"> • Input a fake purchase invoice into Client System to see if it is processed Accurately <p><u>Two invoices were not received from creditor till year end, so they were not recorded, How Auditor ensure that payable balance of Creditor -x are Correctly recorded in F-S. ?</u></p> <ul style="list-style-type: none"> • Inspect GRN to determine date of receipt of material <p><u>Materiality was Rs.25 lkh, Discrepancy in external confirmation was Rs.12 lkh, (i.e Not recorded in FS due to weak IC), What auditor should do?</u></p> <ul style="list-style-type: none"> • The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population <p>- Area of high risk assessed by mngt expert is NOT KAM</p>
CS 14	<p><u>Security premium can not be used : for adjusting unabsorbed depreciation.</u></p> <p>- CA Dev of charging 2% consultancy fees for amount raised by startups is a professional misconduct (in Clause 10 exception is given " In case of certain fund raising services, CA can charge fees on % basis", But these certain fund raising is not defined yet, so its not allowed yet)</p>
CS 15	<p>- <u>Stock worth Rs.30 crore to issue, Entry made by staff and approved by store manager > But clerical error made i.e Only Rs. 29 crore materials issued > Staff made changes in system and entry accepted without any approval by store manager</u></p> <ul style="list-style-type: none"> • It is IT process & Procedure risk in term of un-authorized access (NOT : Entity level governance risk of IT) <p>- <u>Deficiency found in IT system (Wrong amount recorded) :</u></p> <ul style="list-style-type: none"> • Auditor should Carry further procedure of inquiry, Obtain additional evidence, Discuss with management (Before deciding audit reporting requirement) >> Don't directly modify opinion
CS 16	<p><u>CFS > Temporary control :</u></p> <ul style="list-style-type: none"> • CFS require by IND As 110 <p><u>(Wrong Option) : CFS Not require as per Sec 129 (3) of Co. act)</u></p>
CS 17	<p>An auditor did not checked content of prospectus himself; he delegated the same to assistant, Cannot be said to be acting with due skill and care.</p>

CS.18	<ul style="list-style-type: none"> - Darshan (Accountant) is approving invoices on bulk basis, It was observed that Mr. Darshan's performance bonus was linked with number of invoices authorised by him : So Control is not designed appropriately. - Further many times Darshan itself do not check invoices, he rely on other 2 senior executives: So Control is not "Implemented" effectively - Sampling should be based on frequency of functioning of control for the purpose of verification of Internal Financial Control - Materiality decided by auditor is Rs.30 crore, 20 invoices of Rs.4 crore found some deficiency, So, report need to be qualify 								
CS.19	<ul style="list-style-type: none"> - If auditor found non-compliance of L&R (Even it is not material), Not able to rely on W.R, Then it can withdraw from engagement, Provided that not prohibited by L&R - If L&R prohibits to withdraw from engagement, Then Should report matter in "Other matter para" as its not material 								
CS.20	<ul style="list-style-type: none"> - Because of the inherent consistency of IT processing, Auditor did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company, It was AUTOMATED CONTROL (Old Course, May not in New course) - There is general permission for CA's in practice to hold license of life insurance agent. - Auditor can narrow (Decrease) its testing for some balance sheet item to evaluate management point of estimate, But to what extent it can narrowed his range : <u>equal to or less than performance materiality in order to cover all reasonable outcomes</u> (Not all possible outcome) - In case any subsequent audit event found, and Financial statements are amended, THEN: :: Original Date of audit report will remain unchanged and additional date will be included. :: Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph. - <u>For Leave encashment liability</u> : Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation. 								
CS 21	<ul style="list-style-type: none"> - External auditor can take direct assistance of internal auditor (he inquired about the fraud risks in the organization from him) - If auditor appointed for 5 yrs, but he is not proposing himself in 2nd yr, then auditor should communicate with BOD & ICAI (Further new auditor should not accept appointment before obtaining such communication) 								
CS 22	<ul style="list-style-type: none"> - CARO applicability Paid up Share capital should be > Rs.1crore, Calculated as follows: <table border="1" data-bbox="347 1482 1500 1640" style="margin-left: 20px;"> <tr> <td>Called up equity share capital</td> <td style="text-align: center;">+</td> </tr> <tr> <td>Called up Preference share capital</td> <td style="text-align: center;">+</td> </tr> <tr> <td>Calls in arrears</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Share forfeited account</td> <td style="text-align: center;">+</td> </tr> </table> - CARO 2020 Clause (vi) should be reported irrespective of whether CG has ordered \to conduct cost audit or not. 	Called up equity share capital	+	Called up Preference share capital	+	Calls in arrears	-	Share forfeited account	+
Called up equity share capital	+								
Called up Preference share capital	+								
Calls in arrears	-								
Share forfeited account	+								
CS 23	<ul style="list-style-type: none"> - SA 265: Communicating Deficiencies in IC to TCWG : <ul style="list-style-type: none"> • For listed entities ,communicate ideally before approval date of financial statements • For unlisted entities, Before assembly of Audit file. 								
CS 24	<ul style="list-style-type: none"> - Auditor's expert reference in audit report was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation 								

	<ul style="list-style-type: none"> - Item will not be treated as misstatement in case auditor not able to apply TOC & TOD on it, 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 - In case positive confirmation not received, It can affect audit opinion
CS 25 (Old Course)	<ul style="list-style-type: none"> - For inspection under companies act, Central Government possesses discretion to reject such an application and Only Individual can be appointed as inspector (Not Firm/body corporate) - Inspector under companies act can keep books maximum for 180 days. After than can again call books for 180 days - Inspector can call following person for oath (Without CG Permission): <ul style="list-style-type: none"> • Officer, employees, Agent (Former Officer, employees, Agent also) But require CG approval to call any person for Oath other than Abovementioned (Example : Supplier) - Investigation was going on for ABC Ltd, but inspector also did investigation of its related company (XYZ Ltd), So it's not necessary to forward report of XYZ Ltd to Central Gov., only require to fwd report of ABC Ltd only - Fictitious sale invoice : Its ADVANCE BILLING fraud - Tribunal can order to re-open books of accounts of company for last 8 yrs, Further if application is made by CG to tribunal for reopening of BOA, its mandatory for tribunal to consider application
CS 26	<ul style="list-style-type: none"> - Excess remuneration paid to KMP, need to report in Other Legal and Regulatory Requirements (CARO). - Undisputed statutory dues overdue for more than 6 months as on Balance sheet date need to be reported by the Auditor i.e., Check from <u>Due Date to balance sheet date</u>, whether 6 months are completed or not (Ignore payment made on After B/s date i.e., 10th April 2021.... It need to be reported because till B/s date, 6 month was already overdue)

SOME IMPORTANT POINTS FOR MCQ's:

1. **SQC-1:** For listed entity's audit engagement partner should be rotated after a predefined period of **not more than 7 years**
2. **SQC-1 & SA 230:** Completion of assembly of final engagement files should be as per time limit or completed **within 60 days** after date of auditor's report
3. **SQC-1 & SA 230:** Engagement documentation should be retained for **not less than 7 years**
4. **PSU Audit:** C&AG term- **6 years or up to age of 65 years** whichever is earlier. Resignation submitted to President
5. **Section 143(12)- Fraud reporting:** Auditor has reason to believe that an offence involving fraud is being or has been committed against company by officers /employees of company -Immediately report matter to Audit Committee in **2 days of knowledge** (as amount < ₹1Crore)
6. The dividend declared are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes

7. **SA 299:** if one or more **joint auditor is not in agreement** over the opinion, each disagreed joint auditor may **submit his report on the disagreed point separately. make reference** to the audit report issued by other Joint Auditors under the heading **Other Matter Paragraph** as per SA 706.
8. “**sick unit**” shall mean a unit registered for **not less than five years**, which has at the end of any financial year accumulated **losses equal to or exceeding its entire net worth**.
9. **Professional Ethics: number of audit assignments :** 30 Audit assignments whether in respect of private Companies or other Companies, with the exception of one person Companies and dormant companies
10. **Professional Ethics:** Appointment of an auditor when he is indebted Limits fixed in the statute (₹ 5,00,000 in Section 141 Companies Act,2013) and in other cases for amount exceeding ₹ 100,000
11. **Professional Ethics:** In case of PSU, Govt Co, Listed co, Public Co TO > 50 crore, other services fees paid to Statutory auditor shall not exceed statutory audit fees
12. **SA 505:** Rest of assertions may be conducted by auditor indirectly however to **confirm existence**, auditor is required to perform **direct confirmation procedure** & cannot rely on indirect confirmations.
13. **SA 265:** Communicating Deficiencies in IC to TCWG :
 - Communicate on **Timely basis**
 - In case of Significant deficiency : **As soon as possible**
 - For **listed entities** ,communicate ideally **before approval date of financial statements**
 - For **unlisted entities** , **Before assembly of Audit file**.
14. There is an **INVERSE RELATIONSHIP** between materiality and degree of audit risk
15. **SA 530:** Increase in population will have **negligible effect** on sample size
16. **SA 570:** AUDITOR SHALL REQUEST MANAGEMNT TO EXTEND ITS **GOING CONCERN ANALYSIS TO ATLEAST 12 months**
17. **SA 701:** mandatory in case of audit of **listed entities**
18. **SA 580:** Date of WR should be as near as to the date of auditor’s report
19. As per Ind AS – 8, **Method of Depreciation is an accounting estimate & not an Accounting Policy**. In consolidation we are required to consolidate by harmonizing accounting policies not accounting estimates. Hence, **no adjustment is required as there can be different methods of calculation of depreciation** for its assets for group companies
20. **Audit documentation work** > Can-not be delegated to Internal auditor
21. Internal auditor should report the fact in audit report along with management comment even if mngt agrees to resolve it before yr end.
22. **Why Operation audit require :**
 - It is done by independent person
 - Mngt audit is qualitative in nature
 - Because internal audit is restricted to financial accounting & IC
23. **Professional Ethics :** Chartered Accountant as :Advisor or Consultant” to the Issue could be indicated under the caption “Advisor/Consultant to the Issue”. However, can-not show the name and address of such Chartered Accountant firm.
24. **Professional Ethics :**It is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him
25. **SA 220,** Technical reviewer should not currently be a member of quality review board or ICAI Central Council/ regional Council /branch level Management Committee
26. **Internal Audit:** Reporting to be done on **quarterly basis** to audit committee

27. **SA 620** auditor may involve his own expert for purpose of audit of fair valuation of forward contracts & property, plant & equipment. However as per SA 500 & SA 620 auditor cannot reduce his responsibility for audit opinion by referring to work of VALUER in his report
28. **SA 210** requires auditor to sign new engagement letter for each audit.
29. **Internal auditor** can deny to give his detailed working paper to statutory auditor for review, i.e. Stat auditor is not required to go to extent of review of detailed working paper of internal auditor
30. In **CFS** > Goodwill & Capital reserve can be shown after netting-Off (If FRF permits), However separate amount of both need to be disclosed in Notes to a/c's
31. As per **SA 700** para ,If auditor concludes that possible effects on financial statements of undetected misstatements, if any, could be both material & pervasive so that a qualification of opinion would be inadequate to communicate gravity of situation, auditor shall withdraw from audit, where practicable & possible under applicable law or regulation. If withdrawal from audit before issuing auditor's report is not practicable or possible, report matter to Registrar of Companies
32. Engagement letter can be signed without including fees clause.
33. Management must share Forensic audit report to statutory auditor also if they bear on financials.
- 37 **Due diligence: Location of office** should be check for evaluating business feasibility
34. **Due diligence:** Reviewer can demand working papers from tax consultant (Expert) of company and can declare his advice as wrong, Because reviewer need to have independent assessment of legal tax cases.
35. **SA 700:** Its mandatory to insert Auditors responsibility & management responsibility in auditors report
36. **SA 701:** Revenue can be KAM
37. If firm 1 partner gone outside India, then another partner can sign A.report.
38. **SQC -1: Engagement partner** is required to deploy in all the engagement, only management is not sufficient.
39. **SQC 1:** Atleast 1 engagement of each partner (Over 3 years) must be reviewed.
40. **SQC 1 (Not SA-220):** Atleast **annually** audit firm should have obtained a written confirmation from all of its firm personnel.
41. **Professional Ethics:** CA Can-not accept audit of company or subsidiary of company in which he was director without finishing of the cooling period (i.e. 2 years)
42. **SQC 1: Time Limit for of Docs:**

Time limit Assembly	P&P	P&P for engmnt teams to complete the assembly of engmnt files on a timely basis after the engagement reports have been finalized.
	Audit engmnt:	Files should be completed in not more than 60 days after date of auditor's report
	Other:	Other engmnt files within the limits appropriate to engagements. (timely basis after engmnt report)
	2 or more different report	<ul style="list-style-type: none"> Where 2 or more different reports are issued i.r.t. same subject matter information of entity, the firm's P&P relating to time limits for assembly of final engmnt files should be considered for each report as if it were for separate engmnt.

Time limit for retention	<ul style="list-style-type: none"> • Audit Engagements: minimum 7 years from the <ul style="list-style-type: none"> ✓ date of the auditor's report, or, ✓ if later, the date of the group auditor's report
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43. **Quality review Board:** Select companies on the basis of **Risk based Approach**
44. **QRB:** Set up by **Central govt**
45. **Peer review board:** Set up by **ICAI Council**
46. **NFRA:** Sec 132(1) & Rule 3
47. **SQC 1 & SA 220:** In case of **Difference of Opinion:** Engagement team shall **follow the firm's policies and procedures** for dealing with and resolving differences of opinion.
48. **SQC 1 & SA 220:** Not to date audit report ... Unless EQCR completed its review
49. **SA 240:** Pre assumed High risk area: "Revenue recognition" & "mngt override control"
50. **SA 260: When All of TCWG Are Managing Entity:** Eg. small business where a single owner manages, matters need **not be communicated again with those same people(s)** in their governance role
51. **SA 260: Form of Communication:** in **Writing** for : Significant findings & Auditor Independence
52. There is **INVERSE Relationship** Between **ROMM & Acceptable Detection Risk**
53. For the **1st year** of engagements, issue of **questionnaire is necessary.**
54. For **subsequent years:** May request client to confirm whether any change in the nature and scope of business has taken place (however make practice to issue Questionnaires after specific time period even if no change, lets say 3 yrs)
55. **COSO:** 20 basic principles, 5 components
56. **SA 265 when to communicate:**
- **Listed Entities:** Before date of approval of FS
 - **Other entities:** Before assembly of audit file (60 days from the date of A.Report)
57. **Test of Control:** Auditor can test IC on a selective basis, but plan testing in such manner that all the important areas are covered in Period of **3 Yrs.**
58. **SA 530:** A Evaluate the sample result: Consider both **Qualitative & Quantitative** factors while evaluating samples
59. **SA 570 & 701:** Matters relating to **going concern** may be **determined to be key audit matters,**
60. **SA 570:** AUDITOR SHALL REQUEST Mngt TO EXTEND GC ANALYSIS to **ATLEAST 12 month**
61. **SA 580: Date of W.R:** Shall be **as near as practicable** to the date of A.report, **but not after,** the date of the auditor's report on the FS
62. **SA 580: Period covered by W.R:** The WR shall be for **all financial statements and period(s)** referred to in the auditor's report
63. **SA 705 & 701:** Unless required by law or regulation > **Not include a Key Audit Matters** as per SA 701 in case of Disclaimer of Opinion

64.

Withdrawal not possible: [LISTED Co.]	For Listed Companies: As per SEBI LODR, not permit withdrawing from engagement without issuing audit / review report:	
	Case:	Then Auditor Shall Before such resignation,
	If the auditor resigns within 45 days from the end of a quarter of FY:	Issue the limited review/ audit report for such quarter
	If the auditor resigns after 45 days from the end of a quarter of a FY:	Issue the limited review/audit report for such quarter <u>as well as</u> the next quarter
	if the auditor has signed the limited review/ audit report for the first 3 quarters of a FY:	Issue the limited review/ audit report for the last quarter of such FY <u>as well as</u> the audit report for such FY

65.

Inclusion of EOM para will Not Affect Auditor's Opinion,

An Emphasis of Matter paragraph is **not a substitute for**:

SA 705:	A modified opinion in accordance with SA 705, when required by the circumstances
SA 570:	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 GC
FRF Disclosure:	Disclosures in FS that the applicable FRF requires management to make, or that are otherwise necessary to achieve fair presentation

66. SRS 4410: Compilation engagement :

Document File:	(it's not 60 days) Final engagement file should be assembled on a timely basis after the engagement report has been finalized in accordance with the time limits set by the firm.
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67. SRE 2410:

In case of Listed Co.	Presumed that users of IFI will <u>have access to</u> the latest audited financial statements
Other Case:	<ul style="list-style-type: none"> Auditor discusses with Mngt > to include statement > <u>that IFI is to be read in conjunction with the latest audited FS.</u> In Absence of such Statement > auditor may consider that whether IFI may be misleading & <u>Implication for review report</u>

68. Digital Audit:**More Risks arising use of IT when:**

- Volume or complexity of **automated application controls** is higher
- Mngt placing greater reliance on those controls** for effective processing of transactions or the effective maintenance of the integrity of underlying information

69 : **CFS: Goodwill arises due to consolidation** > Need to **test for impairment** at every B/s date

70 **CFS: Loss on Goodwill arise is on Foreign Currency** > Need to be **adjusted from currency translation reserve**

71 **CFS: In case Harmonization of A/cing policy** for CFS preparation is **Not Possible**:

- Under **AS 21: Adequate Disclosure** require
- Under **Ind-AS 110: Adjustment** require in CFS

72 **CFS: Difference Between CFS Date & Component FS Date**

<u>Difference between reporting dates</u> should not be more than 6 months in case of financial statements under AS and	And 3 months in case of financial statements under Ind AS
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73 **PSU Audit: C&AG** shall hold office for a term of **6 years** or upto the **age of 65 years, whichever is earlier**

74 **Due Diligence: Review of FS** - the trading results for the **past 4 to 5 years** are compared and the trend of normal operating profit arrived at.

75 **Investigation** > On behalf of bank giving Loan: The **history of growth and development** of the company and its performance during the **past 5 years**

Chapter 4: Points to Note (For MCQ's & Case scenerios)

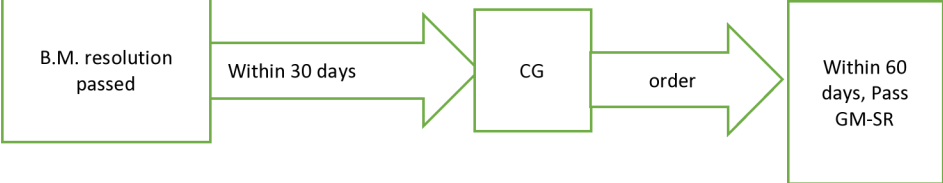
- An auditor's judgement of > **what is SAAE** > is affected by degree of risk of misstatement.
- Obtain **A. Evidence through TOC** > to support any assessment of control risk which is less than high
- The lower the assessment of control risk, > **more the evidence auditor should obtain** that accounting and **IC** systems are suitably designed and operating effectively.
- **Deviations** from prescribed controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in volume of transactions and human errors. When deviations are detected the **auditor makes specific inquiries regarding these matters**, particularly, the timing of staff changes in key internal control functions. The auditor then ensures that TOC appropriately cover such a period of change or fluctuation.
- **Based on TOC Result (If Deviation)**, evaluate whether IC's are designed & operating as contemplated in the preliminary assessment of control risk. > deviations may result in the auditor concluding that > **assessed level of control risk needs to be revised**. > In such cases, the auditor would **modify the NTE of planned substantive procedures**.
- **Different controls used at different times during the period** > whether the IC were in use throughout the period > the auditor would consider each separately > **breakdown in IC's for a specific portion of period requires separate consideration** of the NTE of the audit procedures to be applied to the transactions and other events of that period
- **When to review I.C:** Deciding the **point of time appropriate** for undertaking the review of the I.C. is a **matter for individual judgement** of the auditor (based on Size & complexity of operation), because of his continuing relationship he may just **review the changes** that have taken place in the **intervening period** > Can do comprehensive review in **3 Yrs**
- **I.C Operating Good assumption:** The auditor's preliminary evaluation of I.C should be made on the **assumption that the controls operate generally as described** and that they function effectively throughout the period of intended reliance.

COMPANY AUDIT

(Not in New Syllabus > But Once Read)

- Small Company	other than a public company: (1) Paid Up S/c ≤ Rs. 4 Crores , AND (2) Turnover ≤ Rs. 40 Crores (Imm. preceding FY) (Further it should not be, Holding or Subsidiary of any company)
- NFRA Return Due date	30th November every year
- Dividend	<ul style="list-style-type: none"> - After declaring dividend, within 5 days deposit it into schedule bank a/c - Dividend to pay within 30 days from Declaration date (Not Above schedule bank deposit date) - Dividend unpaid/unclaimed must be transferred to Unpaid Dividend account within 7 days from expiry of 30 days if not paid within 30 days from date of declaration, Interest on late transfer 12%

- LLP Audit	<ul style="list-style-type: none"> Limit- If Turnover exceeds ₹ 40 Lacs or whose contribution exceeds ₹ 25 Lacs. Annual Return in Form 11 – submitted to ROC within 60 days of closure of FY. 										
- Sec 138 : Internal Audit	<ul style="list-style-type: none"> Listed company <table border="1"> <thead> <tr> <th>Public Company</th> <th>Private company</th> </tr> </thead> <tbody> <tr> <td>- Paid up S/c Rs. 50 crore or more (During preceding FY)</td> <td></td> </tr> <tr> <td>- T.O Rs 200 crore or more (During preceding FY)</td> <td>- T.O Rs 200 crore or more (During preceding FY)</td> </tr> <tr> <td>- O/s Loan Rs.100 crore or more (any point of time during preceding FY)</td> <td>- O/s Loan Rs.100 crore or more (any point of time during preceding FY)</td> </tr> <tr> <td>- O/s deposit Rs. 25 crore or more (any point of time during preceding FY)</td> <td></td> </tr> </tbody> </table>	Public Company	Private company	- Paid up S/c Rs. 50 crore or more (During preceding FY)		- T.O Rs 200 crore or more (During preceding FY)	- T.O Rs 200 crore or more (During preceding FY)	- O/s Loan Rs.100 crore or more (any point of time during preceding FY)	- O/s Loan Rs.100 crore or more (any point of time during preceding FY)	- O/s deposit Rs. 25 crore or more (any point of time during preceding FY)	
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- O/s deposit Rs. 25 crore or more (any point of time during preceding FY)											
- Rotation to auditors	<ul style="list-style-type: none"> Listed co. Unlisted co, P.U. S/C \geq Rs.10 Crore Any Company, Public Borrowing \geq Rs. 50 crore Private co. = P.u. S/c = Rs. 50 crore 										
- 141 (3) (g)	- Max 20 audit audit Other than OPC, Small, Dormant co. & Private co. PU S/C $<$ Rs.100 crore										
- Cost record	- T.O \geq Rs. 35 Crore										
- Cost audit	<table border="1"> <thead> <tr> <th></th> <th>Regulated</th> <th>Non Regulated</th> </tr> </thead> <tbody> <tr> <td>Aggregate T.o</td> <td>\geq Rs. 50 Crore</td> <td>\geq Rs. 100 Crore</td> </tr> <tr> <td>Individual T.O</td> <td>\geq Rs. 25 crore</td> <td>\geq Rs. 35 Crore</td> </tr> </tbody> </table> <ul style="list-style-type: none"> However if 75% turnover is from export, then cost audit is EXEMPTED 		Regulated	Non Regulated	Aggregate T.o	\geq Rs. 50 Crore	\geq Rs. 100 Crore	Individual T.O	\geq Rs. 25 crore	\geq Rs. 35 Crore	
	Regulated	Non Regulated									
Aggregate T.o	\geq Rs. 50 Crore	\geq Rs. 100 Crore									
Individual T.O	\geq Rs. 25 crore	\geq Rs. 35 Crore									
- Audit committee	<ul style="list-style-type: none"> Listed Public co. <ul style="list-style-type: none"> ✓ T.O \geq Rs. 100 crore ✓ O/s Loan $>$ Rs. 50 crore ✓ Paid up S/c \geq Rs. 10 Crore 										
- IFC-FR	NOT APPLICABLE to Private company <ul style="list-style-type: none"> ✓ T.O $<$ Rs.50 Crore (Last FY) ✓ O/s loan $<$ Rs. 25 crore (During FY) 										
- NFRA applicable	<ul style="list-style-type: none"> On Unlisted co. (Last FY) <ul style="list-style-type: none"> ✓ Turnover \geq 1000 cr ✓ O/s Loan \geq 500 cr ✓ Paid up S/c \geq 500 cr 										
- CSR	<ul style="list-style-type: none"> T.O \geq Rs. 1000 cr Net worth \geq Rs. 500 crore Net profit \geq Rs. 5 Crore <p>(Last FY)</p>										

<p>- 1st Auditor appointment</p>	<p>- Other Companies</p> <table border="1" data-bbox="506 121 1341 191"> <tr> <td>BOD</td> <td>30 days</td> </tr> <tr> <td>Member</td> <td>90 days</td> </tr> </table> <p>- Govt co</p> <table border="1" data-bbox="506 247 1341 344"> <tr> <td>C&AG</td> <td>60 days</td> </tr> <tr> <td>BOD</td> <td>30 days</td> </tr> <tr> <td>Member</td> <td>60 days</td> </tr> </table> <p>- In case of subsequent auditor > Govt. company = within 180 days by C&AG</p>		BOD	30 days	Member	90 days	C&AG	60 days	BOD	30 days	Member	60 days
BOD	30 days											
Member	90 days											
C&AG	60 days											
BOD	30 days											
Member	60 days											
<p>- Casual vacancy</p>	<p>- By BOD within 30 days of resignation</p> <p>- If resign by auditor, within 3 months from date of approval by BOD (AGM approval)</p>											
<p>- Removing auditor</p>	 <pre> graph LR A[B.M. resolution passed] -- "Within 30 days" --> B[CG] B -- "order" --> C[Within 60 days, Pass GM-SR] </pre>											
<p>- Resign</p>	<p>- Give intimation to ROC & Company (C&AG also in case of govt co), within 30 days (ADT-3)</p> <p>- Othetwise, Liable to a penalty of ₹ 50,000 or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with further penalty of ₹ 500 for each day after the first during which such failure continues, subject to a maximum of ₹ 2,00,000</p>											
<p>- Fraud reporting u/s 143(12)</p>	<p>- Within 2 days report to BOD</p> <p>- BOD will reply within 45 days</p> <p>- After BOD reply, submit all info to CG within 15 days</p>											
<p>- Sec 147(2): Contravene section 139, 143, 144, 145</p> <p>PENALTY ON AUDITOR</p>	<table border="1"> <tr> <th>Not Willful</th> <th>Willful</th> </tr> <tr> <td>Rs. 25000 To Rs. 5 lacs OR 4 times of remuneration (W.E.L)</td> <td>Rs. 50000 To Rs. 25 lacs OR 8 times of remuneration (W.E.L)</td> </tr> <tr> <td></td> <td>&</td> </tr> <tr> <td></td> <td>Imprisonment <= 1 yr</td> </tr> </table>	Not Willful	Willful	Rs. 25000 To Rs. 5 lacs OR 4 times of remuneration (W.E.L)	Rs. 50000 To Rs. 25 lacs OR 8 times of remuneration (W.E.L)		&		Imprisonment <= 1 yr			
Not Willful	Willful											
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	&											
	Imprisonment <= 1 yr											
<p>- NFRA penalty on Auditors</p>	<p>- Individual = Rs. 1 lacs to 5 times of fees</p> <p>- Firm = Rs. 5 lacs to 10 times of fees</p> <p>- Can debar Practice from 6m to 10 yr</p>											
<p>- Books of accounts shall be retained for</p>	<p>- 8 years</p>											

NBFC

- Minimum net owned Funds of NBFCs- **₹ 10 crores**
[However, for **NBFC-P2P, NBFC-AA, and NBFCs with no public funds and no customer interface**, the NOF shall continue to be **₹ 2 Crore.**]
- Company will be treated as NBFC if its financial assets is more than **50% of the total assets** (netted off by the intangible assets) and income from financial assets is more than **50 % of gross income**. Both criteria must be fulfilled.
- **Core Investment** Companies with
 - ✓ Asset size of < **₹ 100 crore**, Or
 - ✓ Asset size \geq **₹ 100 crore** but **not accessing public funds**
- **NBFC Base Layer:** NBFC – ND : **asset size < ₹1000 crore**
- **NBFC Middle Layer:** NBFC – ND, **with asset size \geq ₹1000 crore**
- **Upper Layer - The top 10 eligible NBFCs** in terms of their asset size
- Minimum Capital Adequacy Ratio – **15%**
 - Tier 1 \geq 10%
 - Tier 1 if gold lending \geq 12%
- **Core Investment company: (All conditions to fulfill)**
 - Investment in (Equity + Preference + Debt + Loan) \geq 90%
 - Invt in Equity \geq 60%
- **Systematic imp Core Investment company:**
CIC + Assets \geq Rs.100 crore
- **Infrastructure finance:**
 - Net owned fund \geq 300 crore
 - 75 % investment in assets
 - Credit rating A or above
 - CRAR \geq 15%
- **Infrastructure Debt fund:**
 - Net owned fund \geq 300 crore
- **Annual return** to file before **30th June**
- **Quarterly return** of invest. In liquid assets : Within **30 days** of end of qtr.
- **Ind As Applicable**
 - On all LISTED companies or Companies in process of listing (Including all group companies)
 - From 01/04/2018 : All companies \geq 500 crore net worth

Asset Classification & Provisioning Norms:

The asset classification & Provisioning norms as given below shall apply to **every applicable NBFC (except NBFC-MFIs)**:

Note: The class of assets referred to above shall **not be upgraded merely** as a result of **rescheduling**, unless it satisfies the conditions required for the upgradation

	Meaning	Provision										
Standard Assets:	No default in repayment of principal or payment of interest	NBFC-SI-ND & D : 0.4% NBFC-NSI-ND : 0.25%										
Sub-Standard Assets:	<ul style="list-style-type: none"> NBFC - NSI- ND [BL] An asset which has been classified as NPA for a period not exceeding 18 months NBFC - SI- ND & D [ML or UL] An asset which has been classified as NPA for a period not exceeding 12 m 	10% of total outstanding										
Doubtful	<ul style="list-style-type: none"> NBFC - NSI- ND [BL] Remains a sub-standard asset for a period 'exceeding 18 months NBFC - SI- ND & D [ML or UL] Remains a sub-standard asset for a period 'exceeding 12 months 	<ul style="list-style-type: none"> 100% Provision: Unsecured or Non-Realizable securities For Secured Portion: <table border="1"> <thead> <tr> <th>Asset</th> <th>Provision</th> </tr> </thead> <tbody> <tr> <td>Doubtful for:</td> <td></td> </tr> <tr> <td>Upto 1 Yr</td> <td>20%</td> </tr> <tr> <td>1 to 3 Yr</td> <td>30%</td> </tr> <tr> <td>≥ 3 yrs</td> <td>50%</td> </tr> </tbody> </table> 	Asset	Provision	Doubtful for:		Upto 1 Yr	20%	1 to 3 Yr	30%	≥ 3 yrs	50%
Asset	Provision											
Doubtful for:												
Upto 1 Yr	20%											
1 to 3 Yr	30%											
≥ 3 yrs	50%											
Loss Assets:	<ul style="list-style-type: none"> An asset which has been identified as loss asset by the applicable NBFC or its internal or external auditor or by the Bank during the inspection an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower 	100% Should be Written Off (If For any reason it remain in Books, provide for 100% provision)										

Substandard Asset also include: an asset where the **terms of the agreement** regarding **interest and / or principal** have been **renegotiated or rescheduled** or restructured after commencement of operations, **until the expiry of 1 year of satisfactory performance** under the renegotiated or rescheduled or restructured terms;

➤ What is NPA ?

		Other NBFC's (including NBFC ND NSI)	NBFC-NDSI or NBFC-D [ML or UL]
a)	For an Asset	interest has remained overdue for ≥ 6 months	≥ 3 months,
b)	Term Loan	Interest or installment overdue for ≥ 6 months	≥ 3 months,

c)	Demand or call loan	Interest or Loan from call date overdue for ≥ 6 months	≥ 3 months,
d)	Bill	Remain overdue ≥ 6 months	≥ 3 months,
e)	Short term loan/adv	Interest Remain overdue ≥ 6 months	≥ 3 months,
f)	Any Due:	any dues on account of <u>sale of assets or services rendered or reimbursement of expenses</u> incurred, Remain overdue ≥ 6 months	≥ 3 months,
g)	lease rental	lease rental and hire purchase instalment Remain overdue ≥ 12 months,	≥ 3 months,
h)	Credit Facilities	in respect of <u>loans, advances and other credit facilities</u> (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset. But, for lease and hire purchase transactions > Classify EACH ACCOUNT on basis of recovery	

BANK AUDIT

1. **LFAR date : 30th June**
2. **Copy of the LFAR** and the relative agenda note, **together with the Board's views** or directions, is **submitted to RBI within 60 days** of submission of LFAR by statutory auditors.
3. **Adhoc Limit** given, If not reviewed withing **180 days**, then it is NPA
4. **SLR verify : 12 Odd days (Except Fridays)**
5. **Sale and purchase of NPA : After 2 year** only
6. **Can again resale** above NPA after **15 months**
7. Bank should undertake **Half yearly review** of **investment portfolio**
8. Declared NPA in case of Short term crop = 2 session defaulter
9. Declared NPA in case of Long term crop = 1 session defaulter
10. Minimum CRAR :
 - **Public Banks = 9%**
 - **Private = 10%**
11. Tier 2 capital can not exceed tier 1
12. **Overall review of IT Environment & Computerised accounting system has to be taken care at HEAD OFFICE level**, as branch auditor do not have access to IT Policy & processes implemented by bank, Hence Central statutory auditor is responsible for it (i.e, Obtain understanding of IT Environment & evaluate that Controls are operating effectively, Hence based on the guidance from SCA, Branch auditor should perform data analysis & CBS review by TOC & substantive sample checking & share the results to SCA)
13. In case of **private banks**, the **processes of accounting are centralized** and there is **no concept of mandatory branch audit** in accordance with RBI guidelines
14. **Chief audit executive is responsible for RBIA - Risk-based Internal audit**
15. The **balances with banks outside India should also be verified in the manner described above**. These **balances should be converted** into the **Indian currency** at the exchange **rates prevailing on the balance sheet date**
16. Concurrent audit should be done of those branches to cover **50% risk exposure & 50% deposit**
17. Stock auditor can-not accept statutory audit during same year.
18. Appointment of bank statutory auditor:
 - ✓ Normal Banks : AGM (Shareholders) ... NOT BOD (RBI approval also require)
 - ✓ Nationalized banks : BOD (RBI approval also require)
 - ✓ SBI : C&AG
 - ✓ Subsidiary of SBI: SBI

✓ **4 or more auditors** shall be appointed jointly

19. APPOINTMENT OF CONCURRENT AUDITOR'S:

- At discretion of individual banks
- **MAXIMUM TENURE OF EXTERNAL CONCURRENT AUDITOR'S:** bank shall decide, Generally, tenure of external concurrent auditors with a bank shall not be more than 5 years on, However, no concurrent auditor shall be allowed to continue with a branch/business unit for a period of more than 3 years.

20. As per RBI guidelines, the branch is required to either call the customer (Payer) or email him for any cheque received for the amount of ₹ 5 lakh and above in respect of inward clearings.

21. Additional temporary limit may be sanctioned, for a maximum of 20% of existing limit and 90 days maximum tenure

22. The operation (in each advance account) should be reviewed at least once every year.)

23. To classify a/c as temporary deficiency: Stock statements relied upon by the banks for determining drawing power should not be older than 3 months

24. Inoperative accounts (both current and saving) are a high-risk area of frauds in banks (treated as inoperative/dormant if there are no transactions in the account for over a period of **2 years**)

25. Term Deposit: Verify in case of **bulk deposits (Rs.2 crore and above** for scheduled commercial banks presently), **correct rate of interest** has been offered

26. Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of **SMA1** (Special mention a/c i.e. Loan overdue between **30 to 60 days**) and **SMA2** (Loan overdue between **60 to 90 days**) borrowers from the bank and same can be considered for selection of problematic accounts

27. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months

The **outstanding** in the account based on drawing power calculated from stock statements **older than 3 months** are considered as irregular

28. NPA Purchased from other bank: assign that **100% risk weights**

29. Asset Acquired: prohibits a banking company from holding any immovable property, howsoever acquired (i.e., whether acquired by way of satisfaction of claims or otherwise), for a period exceeding **7 years** from the date of acquisition, **except such as is required for its own use.**

30. Stress Testing: RBI has required that all commercial banks (excluding RRBs and LABs) shall put in place a Board approved 'Stress Testing framework.

31.

Auditor report address to:	<ul style="list-style-type: none"> • Nationalised bank > Central Government • State Bank of India > Central Government
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32. LFAR: Applicable to all banks (including branches)

33. Concurrent Audit system: System such as selection of branches/coverage of business operations, appointment of auditors, rectification processes Etc. > bank should **Once in a year** review the effectiveness of the system

34. Fraud Classification:

However, the following cases where fraudulent intention is not suspected/ proved, at the time of detection, will be treated as fraud and reported accordingly:

(a) Cases of cash shortages > **₹10,000/-** and

(b) Cases of cash shortages > **₹5000/-** if detected by management/ auditor/ inspecting officer and not reported on the occurrence by the persons handling cash

35. A quarterly review containing key features brought out during the concurrent audits should be placed before the ACB
36. In Event of Downgrading of Credit rating: report the position **within 15 working days**, to the concerned Regional Office of the RBI where the NBFC is registered
37. Difference between S-II & III:
Other Expenditure:
- ✓ An NBFC is required to **separately disclose** by way of a note any item of 'other income' or 'other expenditure' which **exceeds 1%** of the total income.
 - ✓ Division II, on the other hand, requires disclosure for any item of income or expenditure which **exceeds 1%** of the revenue from operations or **₹10 lakhs**, whichever is higher
38. ACB of the **bank shall decide the maximum tenure** of **external** concurrent auditors
- ✓ Shall **not be more than 5 years** on continuous basis **for Bank**
 - ✓ Shall **not be more than 3 years** on continuous basis **for a single branch**

PROFESSIONAL ETHICS

NOCLAR Applicability	In case of Professional Accountant in practice: Applicable to Audit of Listed Entities assignments, Below all conditions must fulfill: ✓ Shares of which are listed on recognized stock exchanges(s) in India & ✓ Net worth >= INR 250 crores	
Fees Relative Size [OLD Course]	When Auditee Is:	Limit
	Non-Public Interest Entities (PIE):	40% of the total fees of the firm
	Public interest entities	20% of the total fees of the firm
	Exemption	total fees received by the firm does not exceed Rs. 20 Lakhs (Including fees for other services rendered)

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Available on Youtube Channel of
"CA Hemant Somani | AIR 46"

AIR 10 **AIR 20** **AIR 41** **AIR 47**



Anshul S. Vandit J. Arham M. Ujjwal P.

CAZilla.in

Some Top Scorer : Exemptions are uncountable ;:-p

- Anshul singhla - 70
- Shivani Patel 66
- Priti Kore - 64
- Rajat Mishra - 63
- Prince Dhirubhai - 62
- Abhishek Bhudolia- 61
- Mili Sharma- 61
- Muskan Somani - 61
- Zainab M - 61
- Vishal J - 60
- Manikanta V - 60
- Soniya Sharma - 60

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Many Other Exemptions

Once Again History Created : Exemptions are uncountable ;:-p

AIR 4 **AIR 15** **AIR 18**



Lakshay A. Adarsh A. Ashish S

AIR 27 **AIR 29** **AIR 50**



Lakshika S Jatin G Mansi S

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AIR 6 **AIR 14** **AIR 16** **AIR 48**



Samridhi Goel Abhishek Chawla Amisha J. Akansha D.

Audit - 76 Audit - 76 Audit - 71 Audit - 70

Some Top Scorer : Exemptions are uncountable ;:-p

- Mohit agrawal - 77
- Rajat Sheshrao - 75
- Manisha Agarwal - 73
- Raj Shah - 72
- Aastha Sharma 72
- Aanchal Jangir - 71
- Vidhyadhari - 69
- Hemant Kumar - 68
- Elisha Desai - 67
- Bommerla Shruthi - 66
- Krunal Pandya - 65
- Nehal - 65
- Nihar chandaliya - 64
- Kashish Chandra - 64
- Fakrudehin Mohm - 63
- Gourav Swami - 63
- Shruti Garg - 63

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Many Other Exemptions

AIR 41



Param Kaur Jatin Porwal Mohit Arora Rajat M.

Audit - 65 Audit - 74 Audit - 71 Audit - 69

Roll: 481247



Kritika Agar Sairaj Kasat Jinesh S Ayush Bandil

Audit - 69 Audit - 64 Audit - 61 Audit - 60

Earlier Attempt 35 Earlier Attempt 25 Earlier Attempt 26

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Many Other Exemptions

Rishika Vijay • 4 hours ago

Sir I have a song for you..

Tareef karun kya me uski jisne apko banaya 🙏

Thank you thank you so so much sir itne efforts laga ke revision videos banane ke liye..💖

So grateful to have you as my teacher😊

Neha Singh • 6 hours ago (edited)

Very Very Thanks to you Boss 🧡🧡

aapki is rattafication ki wajah se aaj me audit me direct direct answer kr payi hu jo mere liye kabhi possible nhi tha

Again Lots of Thanks 🥰🥰🥰

Akshat • 4 hours ago

Dear Hemant Sir, I truly can't thank you enough for making audit so manageable, your voice was echoing in my mind while writing paper modi,jaitley wala and all.

Other faculties make this subject more & more scary. You are truly a revolutionary faculty in the industry!!!

Hi CA Hemant!

I don't have words to describe how valuable you've been to me in my learning journey and am always going to be grateful for your teachings and your notes. You're a true inspiration to many of us and really wish you to change many more lives

Humbly yours,
CA Tarak Dharmesh Doshi

2:58 pm

Hello sir , Today I scored exemption in Audit ❤️

Failed in audit last 2 attempts (Marks 26,29)



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