

CA Inter
Audit May 24
Solutions
By CA Sandhak Jain

(2)
NRF2
PART - II

Solutions of
Qs shared in
next page
(Extract of CA Inter
Audit Brahmastra
Book given)

1. (a) APR & Associates, a Chartered Accountant firm, are appointed as the auditors of Time Ltd. and Bakes Ltd. The volume and nature of business of both the companies are entirely different. CA R is the engagement partner for Bakes Ltd. CA P is the engagement partner for Time Ltd. CA R formulates an Audit Programme for conducting the audit of Bakes Ltd. He suggests CA P to use the same audit programme for Time Ltd. But CA P is of the opinion that this audit programme will not be useful for the audit of Time Ltd.

In light of the above, mention the matters that should generally be considered while preparing an Audit Programme. Is CA P correct in emphasizing for a different Audit Programme for Time Ltd. ?

- (b) ABC & Co. are in the business of manufacturing toys. The stock taking process has been done by the company as on 31.3.2024. The company has used FIFO method for valuation of its inventories. The cost of inventory as on 31.3.24 is ₹ 25,25,000/- and the net realizable value of the inventory on the same date is ₹ 25,24,000/-.

The cost of inventory includes the following :

- (1) Material purchase cost – ₹ 25,05,000/-
(2) Allocated transport cost- ₹ 18,000/-
(3) Abnormal wastage – ₹ 2,000/-

25,23,000/-

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For the purpose of programme construction, the following points should be kept in mind:

- (1) Stay within the scope and limitation of the assignment.
- (2) Prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.

2.12



CA INTER AUDIT - BY CA SJ

Audit Strategy, Audit Planning & Audit Programme

- (3) Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.
- (4) Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
- (5) Include the audit objectives for each area and sufficient details which serve as a set of instructions for the assistants involved in audit and help in controlling the proper execution of the work.
- (6) Consider all possibilities of error.
- (7) Co-ordinate the procedures to be applied to related items.

A

Why not one audit programme for all businesses?

Why not one audit programme for all businesses? Following vary form organization to organization:

2.10



CA INTER AUDIT - BY CA SJ

Audit Strategy, Audit Planning & Audit Programme

- ⇒ Businesses vary in nature, size and composition;
 - ⇒ Work which is suitable to one business may not be suitable to others;
 - ⇒ Efficiency and operation of internal controls and
 - ⇒ Exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment.
- Hence, evolving one audit programme applicable to all business under all circumstances is not practicable.

The management seeks your advice in arriving at the value of inventory to be shown in the financial statements of the company. What should be the value of inventory in accordance with AS-2 ?

- (c) Mr. Z, at the time of appointment as an independent director in EF Ltd. a listed company, came to know that the Companies Act, 2013 has placed a greater emphasis on the effective implementation and reporting on internal controls for a listed Company. He wants to know the responsibilities as casted under Companies Act, 2013 with regards to Internal Financial Control for (1) Directors (2) Independent directors and (3) Audit committee as per section 134(5)(e), 149(8) & 177(4) (vii) respectively of the Companies Act, 2013. 3

- (d) CA B, an auditor, after the completion of busy audit season, was occupied in assembling of final audit files of one of his client. First of all, he started preparing various documents of that client and then kept those documents in various folders. He was preparing documents as well as audit file in paper form because he believed that it is mandatory. He could complete documentation as well as assembling of final audit file of that client after ^{90 days} three months from the date of audit report. Generally, he retains audit file of the clients for 4 years from the date of audit report. Check the validity of the action of CA B. 3

IFC in Companies Act, 2013 - Casting responsibilities as under: -

Relevant provision of Companies Act, 2013	Nature of Responsibility
Section 134 (5)(e).	In case of listed Companies, the Directors' responsibility statement shall state that the Directors had laid down Internal financial controls to be followed by the company and that such Internal financial controls are adequate and were operating effectively.
Section 143(3)(i) of the Act	The auditor's report shall state whether the company has adequate Internal financial controls system in place and also on the operating effectiveness of such controls. This requirement shall not apply to a private company which - (i) is One Person Company or a small company; or (ii) has turnover less than ₹ 50 crore as per latest audited FS; and which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial Year for less than ₹ 25 crore.
Section 177(4)(vii) of the Act	Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include - evaluation of internal financial controls and risk management systems.
As per Section 149(8) of the Act	The company and independent directors shall abide by the provisions specified in Schedule IV which lays down the Code for independent Directors. As per this code, the role and functions of independent directors include that they shall satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

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E Audit File
Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

F Assembly of the Final Audit File
It is an administrative process of assembling final audit file on a timely basis after the date of the auditor's report.

50C 1 → Requires firms to establish policies and procedures for the timely completion of the assembly of audit files.

60 Days → Time limit - To complete assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

No new AP → It does not involve performance of new AP or the drawing of new conclusions.

Changes → Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature. Examples of changes include:
• Deleting or discarding superseded documentation.
• Sorting, collating and cross-referencing working papers.

6.4 **FAST** CA INTER AUDIT - BY CA 52

Audit Documentation

- Signing off on completion checklists relating to the file assembly process.
- Documenting AE obtained, discussed and agreed with engagement team members before the date of the auditor's report.

No Change → Once assembly of the final audit file completed, auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

7 Years → 50C 1 requires firms to establish policies and procedures for the retention of engagement documentation. Ordinarily is no shorter than 7 years from the date of the auditor's report, or, if later, the date of the group auditor's report.

2. (a) CA Q is the engagement partner for the audit of a Departmental store. As a part of the risk assessment procedure, he wants to make inquiries of the management and others within the entity. What kind of information can the auditor get by inquiring from the following ?

- (i) Internal audit personnel
- (ii) In-house legal counsel
- (iii) Marketing or sales personnel
- (iv) Information systems personnel

(b) CA Z, the auditor of MNO Ltd., during the course of audit, assesses a risk of material misstatements regarding the litigations and claims involving the company. CA Z is not convinced with the management's explanations regarding the status of the litigations or claims. It is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general enquiry. The auditor sent a letter of specific enquiry requesting the entity's external legal counsel to communicate directly with the auditor. List out the inclusions in the letter of specific enquiry ?

In certain circumstances the auditor may judge it necessary to meet with entity's external legal counsel to discuss the likely outcome of the litigations or claims. What will be auditor's reporting responsibility if the management refuses to give permission to the auditor to communicate or meet with the external legal counsel ?

a	Inquiries of Management and Others Within the Entity:
Management	Much information is obtained by inquiries from management and those responsible for financial reporting.
Others	Inquiries of others within the entity and other employees with different levels of authority, for assisting assessment of RoMM, includes inquiries from:
o	Internal audit personnel
	Information about internal audit procedures performed during the year relating to the design and effectiveness of the entity's IC and whether management has satisfactorily responded to findings from those procedures.
o	Employees involved in initiating, processing or recording complex or unusual transactions
	Assists auditor to evaluate the appropriateness of the selection and application of certain accounting policies.
o	In-house legal counsel
	Information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners and the meaning of contract
o	Marketing or sales personnel
	Information about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.
o	Risk management function (or those performing such roles)
	May provide information about operational and regulatory risks that may affect financial reporting.
o	Information systems personnel
	May provide information about system changes, system or control failures, or other information system-related risks.

▶	Letter of specific inquiry includes:
o	A list of litigation and claims;
o	Where available, management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, and costs involved; and
o	A request to entity's external legal counsel to confirm the reasonableness of management's assessments and provide further information if the list is incomplete or incorrect.

▶	LIMITATION ON AUDIT
	Further if:
o	Management refuses to give the auditor permission to communicate or meet entity's external legal counsel, or entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and
o	the auditor is unable to obtain SAAE by performing alternative audit procedures, auditor shall modify the opinion in the auditor's report (SA 705).

(5)

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- (c) JK Ltd. was having a 'Pager' manufacturing plant and looking at the demand it was of the view that the company will grow continuously in future. But, with the introduction of mobile phones in the market, the plant was shut down completely. The shareholders of the company were of the view that auditor failed to perform their duty and have not informed to them about the company's inability to continue its business, otherwise they might not have suffered the loss. List down the factors giving rise to the inherent limitations due to which auditor cannot provide a guarantee that the financial statements are free from material misstatement due to fraud or error.

3

1494.
Auditor
Time Frame
Future Event
Investigation

- (d) B Ltd. is a company manufacturing bed-sheets and pillow covers. They have appointed M/s C & Co., Chartered Accountants, as their auditors. The auditor is establishing audit strategy with his team members. As the work progressed, they came to know that the company has diversified its business and now they are also planning to manufacture wooden furniture. The auditor, in his professional judgement, considers this to be a significant factor in directing the engagement team's efforts. Give examples of factors that, in auditor's professional judgement, are significant in directing the engagement team's efforts.

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P.T.O.

6 INHERENT LIMITATIONS OF AUDIT

Certain inbuilt limitations due to which an auditor cannot obtain an absolute assurance that FS are free from misstatement due to fraud or error. These fundamental limitations arise due to the following factors:

1.6

FAST

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Nature, Objective & Scope of Audit

A Nature of financial reporting

- Preparation of FS involves making many **judgments** by management.
- Management prepared FS free from material misstatements and devises internal controls. Such **controls** also suffer from **own limitations** like lapse of control due to collusion of employees.

B Nature of Audit procedures

- The auditor carries out his work by obtaining audit evidence through performance of audit procedures.
- However, there are practical and legal limitations to obtain audit evidence like use of sample testing or sometimes management may not provide complete information as requested by auditor and auditor cannot force them, an example of legal limitation.
- The management may indulge in frauds and conceal it to make it hard to detect by the auditor. It may produce fabricated documents to auditor. An auditor may not be an expert to detect unauthenticated documents.
- Entity may have entered into some transactions with related parties only paper and auditor may not be able to detect probable wrong doings in such transactions.

C Not in nature of investigation

- Audit is not an official investigation. Hence, auditor cannot obtain absolute assurance that FS are free from material misstatements due to frauds or errors.

D Timeliness of financial reporting and decrease in relevance of information over time

- The relevance of information decreases over time and auditors cannot verify each and every matter.

E Future events

The business may cease to exist in future due to changes in market conditions, emergence of new business models or products or due to onset of some adverse events. In view of the above factors, an auditor cannot provide a guarantee that FS are free from material misstatements due to frauds or errors.

c. Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts

The auditor needs to direct efforts of engagement team towards matters that in his professional judgment are significant.

Preliminary identification of material classes of transactions, account balances and disclosures help auditor in establishing overall audit strategy.

More energies need to be devoted to significant matters to obtain desired outcomes. Few examples are listed as under:

- **Volume of transactions** – Helps determine whether to rely on internal control
- **Significant industry developments** – Such as changes in industry regulations and new reporting requirements.
- **Significant changes in the financial reporting framework** – Such as changes in accounting standards.
- **Other significant relevant developments** – Such as changes in the legal environment affecting the entity.

3. (a) CA E is auditor of LM Ltd. Before commencing with current year's audit, he initiated planning for the audit. Planning includes the need to consider certain matters, prior to the identification and assessment of the risk of material misstatements. Enumerate such matters. 4
- (b) The management of PQ Ltd. changed during the period under audit. Mr. G an auditor, at the time of receiving written representation on the management responsibilities from the management, was in a dilemma related to the date of and period(s) covered by the written representation. Further, new management was of the view that they can give written representation from the date they took over and not for the prior period when old management were managing affairs of the company. Guide the auditor & the management in this respect. 4
- (c) You are appointed as the auditor of a company manufacturing paints. The company has a robust system of internal control. Most of the controls in the company are automated and they are working effectively. However, in certain situations, manual elements in internal controls are more suitable. What are the circumstances where manual elements in internal controls may be more suitable ? 3

C Nature of Audit Planning- A Continuous and iterative process

- ✗ Planning is not a discrete but continual and iterative process
- ⇒ Often begins shortly after completion of the previous audit and continues until the completion of the current audit engagement.
- ⇒ Planning, however, includes consideration of the timing of certain audit procedures that are to be completed prior to other audit procedures
- ⇒ Example - Prior to auditor's identification and assessment of the risks of material misstatement (RoMM) following procedures are required (RAP - AnPr, RAP - Other, Materiality, Expert and L&R):
 - i) Analytical procedures are to be applied as risk assessment procedures (RAP)
 - ii) Performance of other RAP.
 - iii) Obtaining understanding of legal and regulatory framework applicable and how entity is complying
 - iv) Determination of materiality.
 - v) Involvement of experts.

⇒ WR shall be for all FS and period(s) referred to in the auditor's report.

Why?

As management needs to reaffirm that the WR it previously made with respect to prior periods remain appropriate.

⇒ When current management were not present during all periods referred to in the auditor's report

Such fact does not diminish such persons' responsibilities for the FS as a whole. Accordingly, the requirement for the auditor to request from them WR that cover the whole of the relevant period(s) still applies.

I. Manual vs Automated Elements in entity's IC

Manual - More Suitable	Manual - Less Suitable
Manual elements in IC may be more suitable where judgment and discretion are required such as for the following circumstances:	Manual elements in IC may be less reliable than automated elements because they can be more easily bypassed, more prone to errors, hence consistency cannot therefore be assumed. Hence Manual control elements may be less suitable for the following circumstances:
<ul style="list-style-type: none"> ▶ Large, unusual or non-recurring transactions. ▶ Circumstances where errors are difficult to define, anticipate or predict. ▶ In changing circumstances that require a control response outside the scope of an existing automated control. ▶ In monitoring the effectiveness of automated controls. 	<ul style="list-style-type: none"> ▶ High volume, or Recurring transactions ▶ Situations where errors that can be anticipated, prevented, or detected and corrected, by control parameters that are automated. ▶ Control activities where ways to perform control can be adequately designed and automated.

FAST

(7)

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- (d) M/s PSR & Associates are the auditors of The Saturn Hotel, a chain of five-star hotels. Since the nature of their business is prone to frauds, the company has appointed internal auditors at various locations. The company has also devised a system of effective and efficient internal controls. The auditors, M/s PSR & Associates, want to use the work of the internal auditors. In order to ensure effectiveness, what kind of coordination should be there between the external auditor and the internal audit function ? 3
4. (a) M/s KLM & Co. Chartered Accountants, a partnership firm, while designing tests of controls and tests of details in MN Ltd. has to determine the items for testing that can be effective in meeting the purpose of the audit procedure. For this, they decided to select specific items from a population. State the factors that can be considered by the audit firm for selecting specific items from a population and also state the specific items that can be included for such testing. 4
- (b) Mr. L is a principal auditor of OP Ltd. There are several divisions of OP Ltd. that are audited by other auditors. State the procedures Mr. L should ordinarily perform to obtain sufficient and appropriate audit evidence that the work of other auditors is adequate for the principal auditor's purpose in the context of this assignment. 4
- Size Risk*

NRF2

P.T.O.

a. Discussion and Coordination with the IAF

Address the following:

- Timing of such work.
- Nature of the work performed.
- Extent of audit coverage.
- Materiality for the FS as a whole (and T-AB-D level, if relevant) and performance materiality.
- Proposed methods of item selection and sample sizes.
- Documentation of the work performed.
- Review and reporting procedures.

Coordination between the EA and the IAF is effective when, for example;

- Discussions take place at appropriate intervals throughout the period.
- EA informs the IAF of significant matters that may affect the function.
- EA is informed for relevant significant matters by IAF so as to consider the implications of such matters on audit and has access to IAF reports on timely basis.

DISCUSS + INFORM IAF + BE INFORMED BY IAF

2. Selecting Specific Items

- The auditor may decide to select specific items from a population.
- The specific selection is subject to non-sampling risk. Specific items selected may include:
 - **High value or key items** – Example items that are suspicious, unusual, particularly risk-prone or that have a history of error.
 - **All items over a certain amount** – So to verify a large value of a class of transactions or account balance.
 - **Items to obtain information** – About matters such as the nature of the entity or the nature of transactions.

C. Principal Auditor Procedures

Ordinarily includes:

- advise the other auditor of the use that is to be made of the other auditor's work and report and
- make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit.
- The principal auditor would inform the other auditor of matters such as following requiring Special considerations;

Procedures for the identification of inter-component transactions that may require disclosure and

Time-table for completion of audit; and

- advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

D. Written Summary / Questionnaire

- (a) Principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list.

Audit Report

- (b) The principal auditor may also wish to visit the other auditor.
- (c) The nature, timing and extent of procedures will depend on the:
- Circumstances of the engagement and
 - Principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

(8)

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- (c) LD Ltd. has given below loans to the following borrowers during the financial year 2023-24. Mr. B an auditor wants your guidance regarding additional regulatory information required to be provided under the Companies Act, 2013 :

3

Borrowers	Maximum Loan granted during the year 2023-2024 (₹ in Lakh)	Outstanding Loan as at 31/03/24 (₹ In Lakh)
X (Promoter)	20	15
Y (Director)	30	25
Z (KMP)	10	05
A (Related Party)	20	10
Others	80	65
Total	160	120

NRF2

(iii)

Loans or Advances:

L&A

Disclosures required where Loans or Advances (in nature of loans) are granted to promoters, directors, KMPs and the related parties (as per CA2013) that are:

(a)

Repayable on demand; or

(b)

Without specifying any terms or period of repayment,

Type of Borrower	Amount of loan or advance in the nature of loan outstanding	Percentage to the total Loans and Advances in the nature of loans
Promoter		
Directors		
KMPs		
Related Parties		

(9)

NRF2

(d) XY and Associates are auditors of PQR Ltd., which provides electrical components on project basis. The purchases are huge and the auditor wants to make sure that all the purchases made during the period are recorded and there is no understatement or overstatement. For this purpose the audit team have performed procedures like cut-off tests, correct treatment of goods in transit, obtaining written representations and performing analytical procedures. What are the analytical procedures required to be performed to obtain audit evidence as to overall reasonableness of purchase quantity and price ?

3

5. (a) PQ & Co. want to diversify its business and for that purpose they want to raise money by issuing shares to the general public. The face value of the shares is ₹ 100 but the directors of the company propose to issue the shares at a discounted rate of ₹ 95/- so as to receive more response. The statutory auditor, however, objects to the same as it is not allowed as per the Companies Act, 2013. State the provisions of Section 53 of the Companies Act, 2013 with reference to shares issued at a discount and the consequences where the company fails to comply with the provisions of this section.

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P.T.O.

Audit procedures

- ▶ Perform **cut-off test** to ensure that the auditor should examine material inward records & check that all corresponding invoices have been duly entered, check last 5 transactions.
- ▶ Ensure **correct accounting treatment** of goods – in – transit w.r.t. risk transfer.
- ▶ Obtain WR of completeness
- ▶ Perform **analytical procedures** obtain audit evidence as to overall **reasonableness** of purchase quantity and price which may include:

Consumption Analysis:

Scrutinize and compare with PY and seek reasons of variations on RM consumed.

Review quantitative reconciliation:

Of closing stocks with opening stock, purchases and consumption.

Stock Composition Analysis:

Collect reports for composition of stock i.e. raw materials as a percentage of total stock, compare the PY and seek reasons for variations.

Ratios:

Compare creditors turnover ratios and stock turnover ratio of CY with PY.

Shares issued at Discount

(i) Meaning and Legal Provisions

Section 53

- Company shall not issue shares at a discount
- Except in the case of an issue of **sweat equity shares** given under **section 54**
- May be issued to creditors at discount to convert is debt under a statutory resolution or restructuring plan.
- Any share issued at discounted price shall be **void**
- Where company fails to comply the provisions penalty equal to amount raised or ₹ 5 lakh, whichever is **less** & refund all **monies with interest** at the rate of **12% p.a.**

(ii) Audit procedure

- (a) Whether any movement in SC during the year
- (b) Verify that Company has **not issued** any of its shares at a discount by seeing minutes, share issued price.
- (c) Debt resolution plan, if any

(10)

NRF1

(b) HRT & Associates are the auditors of a large manufacturing company. The company has recently invested huge amount in Property, Plant and Equipment (PPE) for its new unit. They have added many incidental expenses to the cost of PPE. The junior audit team members are not sure about which costs should be excluded from the cost of PPE. Give examples of costs that should not form part of costs of PPE.

(c) A professional accountant is expected to comply with the fundamental principles of professional ethics at all times. Explain which fundamental principle governing professional ethics is violated in the following situations?

(1) A chartered accountant in practice accepted the appointment as an auditor of a firm in which his sister was a partner.

(2) A chartered accountant in practice was approached by his friend to seek some insider information about a company, which was a client of the chartered accountant. He could not refuse his friend's request.

(3) A chartered accountant in practice failed to inform his client about the change in laws applicable to his client.

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**For ADDITIONS during the period,
obtain list of additions and:**

- Verify if such expenditure meets the criteria of PPE as per AS 10 (Revised).
- Spare parts, stand-by equipment and servicing equipment are recognised in accordance with AS 10 when they meet the definition of PPE else classified as inventory.
- Day-to-day servicing costs not added to carrying amount of PPE.
- Test purchase invoice, installation certificate to verify the date of addition.
- Verify approvals by authorized personnel.
- Verify internal processes and procedures like inviting competitive quotations/ floating tenders etc. were followed by checking the supporting documents of the samples selected.

(11)

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(d) You have been appointed as the statutory auditor of a limited company. The company is registered as a Nidhi company. What are the reporting requirements of a Nidhi company under the Companies Auditor's Report Order, 2020 ?

3

6. (a) CA M is the engagement partner of the firm M/s Y2Z LLP. and he is auditing the financial statements of a listed entity ABC Ltd. The audit firm has determined that an engagement quality control review is required for this assignment. Discuss the responsibilities of CA M as an engagement partner for engagement quality control review as per SA-220.

4

OR

(a) Sanskar Foundation is a Non- Governmental Organisation (NGO) for orphan children. They have received voluntary contribution of ₹ 50 lacs from the promoters, specifying that ₹ 20 lacs are towards the Corpus contribution and ₹ 30 lacs are towards Revolving fund. Explain the terms "Corpus contribution" and "Revolving fund".

4

(b) MNB bank advanced certain loans guaranteed by government. State the prudential norms for asset classification and income recognition of such loans.

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XII. Compliances by Nidhi Company

(a)	whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;	Every Nidhi shall, within a period of 1 year from date of incorporation, ensure it has—
(b)	whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;	(i) not less than 200 members;
(c)	whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;	(ii) net owned funds of 20 lakh rupees or more;
		(iii) unencumbered term deposits of not less than 10% of the outstanding deposits; and
		(iv) ratio of net owned funds (as per last audited BS) to deposits of not more than 1:20.

For **audits of FS of listed entities, and those other audit engagements**, if any, for which the firm has determined that an **engagement QC review is required**, the EP shall:

- Determine that an engagement **QC reviewer has been appointed**.
- Discuss significant matters** arising during the audit engagement, including those identified during the engagement QC review, with the engagement QC reviewer.
- Not date the auditor's report** until the completion of the engagement QC review.

2. Corpus Contribution

A contribution made towards the capital or the corpus of an NGO is known as **corpus contribution**. Donors generally required to specify. Generally given with reference to the total funds required by an NGO. **Voluntary contributions** with direction to form part of corpus shall not be included in the computation of total income as per IT Act.

3. Revolving Fund

The objective is to rotate the amount by giving temporary loans from the fund to other NGO or beneficiaries for their projects and then recover. Interest earned could be either added back to the fund or credited to the Income and Expenditure Account depending on restrictions laid down by the authority

J. Government Guaranteed Advances

- ⇒ **CG** - Where the guarantee is **not invoked/ repudiated** would be classified as **standard assets**, but **regarded as NPA for Income Recognition purpose**.
- ⇒ **SG** - The situation would be different if the advance is **guaranteed by state government**, where advance is to be considered NPA if it remains overdue for **more than 90 days** for both **provisioning & income recognition purposes**.

(12)

NRF2

- (c) Mr. D an auditor, while auditing ACE Ltd., identified certain misstatements in relation to particular class of transactions and account balances. He had communicated same to those charged with governance and also taken written representation for the same. State the audit documentation required by the auditor regarding misstatements identified during the audit. 3
- (d) JK Ltd. has opened a new manufacturing unit and for that they want plant & machinery. Since the capital outflow will be huge, they are considering of taking it on lease. They have approached several parties and have shortlisted one of them who is ready to give the plant on lease for 11 years, which is approximately the estimated economic life of the asset. As per the agreement, JK Ltd. will bear the insurance and maintenance expenses of the asset. Which kind of lease agreement ^{finance} have JK Ltd. entered into and what is the ownership status, the ^{lessor} accounting treatment and the tax benefits of the same? To lessee of expense (Rentals) 3
-

NRF2

**8**

Documentation regarding misstatements identified during audit

The audit documentation shall include: -

- ➡ The amount below which misstatements would be regarded as clearly trivial;
- ➡ All misstatements accumulated during the audit and whether they have been corrected; and
- ➡ The auditor's conclusion as to whether UMs are material, individually or in aggregate, and the basis for that conclusion.



Finance Lease vs Operating Lease



Finance lease

- ➡ An arrangement with the **following attributes** qualifies as finance lease.
- ➡ Transfer of **ownership** at the end of lease term.
- ➡ Lessee has **an option to purchase** asset at a price lower than the FV.
- ➡ Lease term covers **major part of economic life** of the asset.