

CA Inter - Auditing & Ethics

Case Study based MCQs

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Chapter 1 - Nature, Objective and Scope of Audit

Case Study 1

Rohit, Gurpreet, Ali and Goreti are friends since their school days based in Mumbai. They have cleared CA foundation exams in the same attempt and now plan to appear for CA Intermediate exams. All of them are avid news listeners and regularly keep track of business news even on social media.

They are trying to understand new subjects including auditing. Rohit, Gurpreet and Ali have also started attending Live Coaching Classes (LCC) being conducted by Board of studies of ICAI. Goreti has not been able to join Live Coaching Classes yet as she was away on a holiday with her parents. However, she plans to catch it up with her friends very soon. Ali had also joined the classes but he had skipped some lectures.

During one informal get together, their discussions centred around new subject of auditing. They discussed many things regarding its nature, scope, benefits and other general practical issues. Goreti was regular in keeping track of audited results of companies being published in leading newspapers. Her view was that audited financial statements of companies give 100% guarantee to different stake holders. It is the main reason behind so much reliance upon auditing. But she could not understand why wrong doings in financial matters are being discovered after many years have gone by.

Ali also concurred with her view and added that when financial statements are audited, each and every transaction appearing in books of accounts is verified. However, he could not give clarity to Goreti.

Gurpreet was of the opinion that audit was conducted on the basis of sample checking. He was also of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of the companies.

Not to be left behind, Rohit also jumped in the fray. He supported Gurpreet and also added something of his own.

Based on above, answer following questions: **(ICAI Study Material)**

Q1.	<p>Gurpreet was of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of companies. What kind of assurance does an audit of financial statements provide?</p> <p>(a) It provides reasonable assurance meaning a moderate level of assurance. (b) It provides reasonable assurance meaning a low level of assurance. (c) It provides reasonable assurance meaning a high level of assurance. (d) It provides reasonable assurance meaning an absolute level of assurance</p>
Q2.	<p>Rohit added that auditor can force an employee of the company to provide him required information and documents. Can he do so?</p> <p>(a) Yes, he can do so. It is necessary to obtain audit evidence. (b) Yes, he can do so. There are express rights given to him in this respect. (c) No, he cannot do so. He can only request for providing him with necessary information and documents. But it cannot be forced by him. (d) No, he cannot do so. He has no right to seek information and documents. Therefore, the question of forcing does not arise.</p>
Q3.	<p>Ali had listened in one of the classes that audit covers all aspects of an entity and concluded that each and every transaction of entity is verified by auditor. Goreti also seemed to be in agreement with him but she was of the view that besides this, it also meant that audit should be so organized to cover all areas of an entity. Which of following statements is appropriate in this regard?</p> <p>(a) Only view of Ali is correct. (b) Only view of Goreti is correct. (c) Views of both Ali and Goreti are correct. (d) Views of both Ali and Goreti are incorrect.</p>
Q4.	<p>All of them also discussed about benefits of auditing. Which of the following is not a likely benefit of auditing?</p> <p>(a) Since auditing is connected to future events, audited information can be easily relied upon by users. (b) Errors or frauds may be discovered during audit. (c) Government authorities can make use of audited accounts for different purposes. (d) It can help in bringing out deficiencies in maintenance of financial records.</p>
Q5.	<p>Goreti told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of following statements seems to be appropriate in this regard?</p> <p>(a) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties. (b) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard. (c) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of</p>

	documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately. (d) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare odd cases.
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Case Study 1 Answers

Q1.	(c) It provides reasonable assurance meaning a high level of assurance.
Q2.	(c) No, he cannot do so. He can only request for providing him with necessary information and documents. But it cannot be forced by him.
Q3.	(d) Views of both Ali and Goreti are incorrect.
Q4.	(a) Since auditing is connected to future events, audited information can be easily relied upon by users.
Q5.	(c) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.

Case Study 2

Me and You Private Limited has been newly incorporated. The plant of the company has recently started production with the help of funds provided by a bank for purchase and installation of machinery. Further, the company is also utilizing working capital credit facilities from the same bank for meeting its day to day working capital requirements like for purchase of raw materials, labour payment etc. However, just within six months of its operations, the management feels that working capital funds are inadequate and situation is creating liquidity issues in the company.

The management of the company has approached its bankers and requested for enhancement in working capital credit facilities. The bank manager is insisting upon financial statements of the company for half year along with report providing assurance in this respect duly signed by Chartered Accountant as audit is far away. It also requires projected financial statements for coming years along with a report from CA providing assurance regarding these projections to consider request of management

The management approaches CA P, who has qualified recently and started practising. Reports providing assurance for half yearly results and projected financial statements are sought from CA P. The Management provides necessary information and records to him in this regard.

Assume, in above case, the company only provides trial balance, financial statements in draft/preliminary form along with accompanying records for the relevant half year to CA P and requests him to provide duly signed financial statements with a report for mutually agreed professional fees

Based on above, answer the following questions: - (ICAI Study Material)

Q1.	The management of company has engaged CA P to issue a duly signed report for half year. Which of the following standards, if any, issued by ICAI are relevant for CA P? (a) Standards on Review Engagements (b) Standards on Auditing (c) Standards on Related Services (d) There are no standards for issuing report in such situation.
Q2.	Which of the following statements is MOST APPROPRIATE in given case situation? (a) CA P can assist management in preparation of financial statements of the company. However, issue of a report in such a case is outside the scope of work. (b) CA P can assist management in preparation of financial statements of the company and he can issue an audit report. (c) CA P can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect (d) The responsibility of preparation of financial statement is of company's management. CA P cannot assist management in preparation of financial statements of the company. However, he can issue a review report.
Q3.	In the above said scenario for issuance of signed financial statements for half year by CA P, as discussed in last para of Case Study, identify the MOST APPROPRIATE statement: - (a) Standard on Quality control (SQC 1) is not applicable as CA P cannot issue audit report.

	<p>(b) Standard on Quality Control (SQC 1) is not applicable as CA P cannot issue review report.</p> <p>(c) Standard on Quality Control (SQC 1) is applicable in such type of engagement.</p> <p>(d) Standard on Quality Control (SQC 1) is not applicable as CA P is barred from issuing any report in such type of engagement.</p>
Q4.	<p>The banker of company has also requested for projected financial statements for coming years along with a report from CA regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?</p> <p>(a) Standards on Review Engagements</p> <p>(b) There are no standards for issuing such type of reports.</p> <p>(c) Standards on Related Services</p> <p>(d) Standards on Assurance Engagements</p>
Q5.	<p>Suppose CA P also accepts work of issuing projected financial statements with a report to be signed by him. The management has projected turnover of ₹ 100 crore for the next year, ₹150 crore & ₹ 200 crore for following years respectively as compared to present turnover of ₹ 25 crore in current half year. Identify the MOST APPROPRIATE statement in this situation: -</p> <p>(a) CA P has to satisfy himself regarding arithmetical accuracy of projected data.</p> <p>(b) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover and its consistency with actuals.</p> <p>(c) CA P has to satisfy himself regarding arithmetical accuracy of data along with its proper presentation to banker.</p> <p>(d) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.</p>

Case Study 2 Answers

Q1.	(c) Standards on Related Services
Q2.	(c) CA P can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect
Q3.	(c) Standard on Quality Control (SQC 1) is applicable in such type of engagement.
Q4.	(d) Standards on Assurance Engagements
Q5.	(d) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.

Case Study 3

Sookrit, a CA student, has decided to participate in "Mega Conference of CA Students" being organized by Student Skills Enrichment Board, (Board of Studies-Operations), ICAI to be held in a city in South India. He has decided to try his luck for presenting a paper in one of the technical sessions of the conference on the topic of "Nature, Objective and Scope of Audit". He has to first submit for approval a soft copy of the paper to the competent authority.

While preparing a draft for the presentation, he has included some paragraphs on the topic. Para A requires filling of certain gaps to explain nature of auditing to prospective audience at the conference. Para B and C have certain misleading and false statements which need corrections. Para D needs certain elaborations.

Para A : An audit of financial statements provides _____ assurance to the users of financial statements. It is a _____ level of assurance but it is not _____ assurance. The auditor has to see effect of misstatement(s) _____. Misstatements in financial statements can arise due to frauds or _____ or both.

Para B : Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited. The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls. He also carries out appropriate tests and procedures. Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents. However, he is not expected to perform duties which fall outside his domain of competence. Auditor is not an official investigator.

Para C : The process of audit suffers from certain inbuilt limitations. Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it. The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements. However, future events may affect an entity adversely.

Para D : The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Its basic nature lies in providing assurance i.e., confidence to users of financial statements. Apart from this obvious utility, there are other advantages of an audit. Some or all of those are of considerable value even to those enterprises and organizations where audit is not compulsory.

Try to help him by answering the following questions: - (MTP1, Nov 2023, 10 marks)

Q1.	Identify appropriate words to be used in blanks to make the sentences meaningful and relevant in context of theme of the topic. (a) absolute, high, complete, individually, uncertainties (b) reasonable, high, complete, in totality, errors (c) reasonable, moderate, low, in totality, errors (d) moderate, low, complete, individually, judgments
Q2.	After reading Para B, which of following statements is false as regards scope of an audit of financial statements is concerned? (a) Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited. (b) The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls. (c) Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents. (d) Auditor is not an official investigator.
Q3.	After reading Para C, which statement needs to be corrected in draft regarding inherent limitations of audit? (a) Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it. (b) The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements. (c) Future events may affect an entity adversely. (d) The process of audit suffers from certain inbuilt limitations.
Q4.	Para D states that an audit provides advantages of considerable value to enterprises. Which of following is not one of advantages of an audit of financial statements of a listed company? (a) It acts as a moral check on employees. (b) It acts as an appraisal function. (c) Its chief advantage lies in safeguarding financial interest of management. (d) It is useful for settling trade disputes for higher wages or bonus.
Q5.	Para D states that audit can be of considerable value even to those enterprises where it is not compulsory. In context of companies in India, which of following statements is correct in relation to Companies Act, 2013? (a) OPC and small companies are exempted from audit. (b) OPC, small companies and section 8 companies are exempted from audit. (c) For all companies in India, except Section 8 companies, audit is legally obligatory. (d) For all companies in India, audit is legally obligatory

Case Study 3 Answers

Q1.	(b) reasonable, high, complete, in totality, errors
Q2.	(c) Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents.
Q3.	(b) The information being relied upon by auditor cannot lose its reliability due to historical nature of financial information presented in financial statements.

Q4.	(c) Its chief advantage lies in safeguarding financial interest of management.
Q5.	(d) For all companies in India, audit is legally obligatory.

Chapter 2 Audit Strategy, Audit Planning and Audit Programme

Case Study 1

Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her.

She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.

A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

Based on above, answer following questions: **(ICAI Study Material) (RTP, May 2023, NA)**

Q1.	Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do? (a) She is establishing audit strategy. (b) She is conducting preliminary engagement activities. (c) She is designing audit plan. (d) She is checking her compliance of ethical requirements
Q2.	Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following - (a) Developing audit plan (b) Establishing overall audit strategy (c) Designing audit programme (d) Designing risk assessment procedures
Q3.	Taking into account description of planned inquiry and visit, which of the following statements is TRUE? (a) Planned inquiry and visit fall in area of audit strategy. (b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan. (c) The said description is not related to audit planning. (d) Planned inquiry and visit fall in scope of audit programme
Q4.	What is detailed set of instructions given to assistants in engagement team known as? (a) Audit guidelines (b) Audit plan (c) Audit Programme (d) Audit Procedures
Q5.	The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur? (a) She should ignore this information as audit has already begun. (b) She should modify earlier set of instructions. (c) She should leave the matter to wisdom of engagement team. (d) She should put the ball in court of management as she was not provided with complete information earlier

Case Study 1 Answers

Q1.	(b) She is conducting preliminary engagement activities.
Q2.	(b) Establishing overall audit strategy
Q3.	(b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.

Q4.	(c) Audit Programme
Q5.	(b) She should modify earlier set of instructions.

Chapter 3 Risk Assessment and Internal Control

Case Study 1

CA Paritosh is auditor of a company. The financial statements of the company have just been received for audit. Following issues have been flagged pertaining to the financial statements of the company for purpose of risk assessment: -

- i) The revenue of company has fallen from ₹ 50 crore in last year to ₹ 5 crore in current year (for which financial statements have been received for audit) due to lack of demand in the market for company's products.
- ii) Due to advent of new products in the market, company's products are fast becoming outdated.
- iii) A large customer having an outstanding balance of ₹ 5 crore has failed to pay to the company despite efforts made by the company.
- iv) Inventory holding period has increased from 30 days in last year to 90 days.
- v) The company also gets carried out job operations from third parties. Therefore, parts of inventories are lying with third parties.

Based on above, answer the following questions: - (ICAI Study Material)

Q1.	Regarding drastic fall in revenue of the company, which of the following is an audit risk? (a) Fall in revenue would result in fall of profits for the company. (b) Drastic fall in revenue may imply that company is not able to carry out its operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements. (c) The company can explore some new line of activity, if demand of its products is falling. (d) Fall in revenue would mean lower tax liabilities for the company.
Q2.	The company's products are getting outdated in the market. Which of the following is an audit risk? (a) The company should devise strategies to sell products in the market. (b) Inventories may be understated in such a scenario (c) Inventories may be overstated in such a scenario. (d) The company should launch a 1+1 free offer for its customers.
Q3.	A large customer has failed to pay to the company. Identify audit risk from below: (a) Receivables may be misstated if irrecoverable debt is not written off. (b) Receivables may be overstated if irrecoverable debt is not written off. (c) Writing off irrecoverable debt would impact profits of company adversely. (d) Failure to recover outstanding debt would impact cash flows of company adversely.
Q4.	Identify audit risk involved when inventory holding period has increased from 30 days to 90 days. (a) There is a risk of overstatement of inventories. (b) There is a risk relating to existence of inventories. (c) There is a risk that slow movement of stocks would increase tax liability when GST rates are increased. (d) There is a risk relating to holding and storage cost of inventories.
Q5.	Part of inventories are lying with third parties. Identify audit risk involved. (a) There is a risk that third parties do not manufacture according to specifications of the company. (b) There is a risk that by getting job work done from third parties, company is increasing its costs. (c) There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties. (d) There is a risk that sufficient and appropriate evidence would not be available for quality control in respect of inventories lying with third parties.

Case Study 1 Answers

Q1.	(b) Drastic fall in revenue may imply that company is not able to carry out its operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements.
Q2.	(c) Inventories may be overstated in such a scenario.
Q3.	(b) Receivables may be overstated if irrecoverable debt is not written off.

Q4.	(a) There is a risk of overstatement of inventories.
Q5.	(c) There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties.

Case Study 2

CA Piyush is understanding internal controls as part of audit exercise of a company. It is a new client. He has studied controls in place in various operational areas of the company. After studying and gaining an understanding of such controls, he has decided to test few controls to actually see whether these are operating as intended by the management. Till now, he has studied controls over inventories and bank. Few of such controls are listed below: -

Nature of Control	Control description
Control over inventories	Inventories of the company lying at each location should be insured
Control over inventories	There should be inventory counts on a regular basis for each location of the company.
Control over Bank operations	Bank reconciliations are to be performed at regular intervals

Based on above, answer the following questions: - (ICAI Study Material)

Q1.	<p>Which of the following most appropriately describes test of control regarding insurance of inventories?</p> <p>(a) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. The sum insured and period of validity of policy are not relevant.</p> <p>(b) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired.</p> <p>(c) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure policy period has not expired.</p> <p>(d) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. Ensure policy period has not expired</p>
Q2.	<p>Which of the following most appropriately describes test of control regarding inventory counts?</p> <p>(a) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure.</p> <p>(b) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count.</p> <p>(c) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count.</p> <p>(d) Attend inventory count and perform test count.</p>
Q3.	<p>While testing control over bank reconciliations, it has been noticed that bank reconciliations are not being performed at regular intervals. Identify the most appropriate description of "control deficiency" in this regard: -</p> <p>(a) Bank reconciliations are not being performed regularly as concerned staff is overburdened.</p> <p>(b) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors.</p> <p>(c) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements.</p> <p>(d) Bank reconciliations are not being performed regularly as concerned staff is overburdened. These should be performed monthly and reviewed by senior accountant</p>
Q4.	<p>Since the company is a new client, which of the following statements is most appropriate?</p> <p>(a) There is reduced detection risk.</p> <p>(b) There is increased detection risk.</p> <p>(c) There is no effect on detection risk.</p> <p>(d) Detection risk should be increased to lower audit risk.</p>
Q5.	<p>Which of the following statements is most appropriate regarding auditor's response to assessed risk of a new client?</p> <p>(a) More substantive procedures would require to be performed.</p> <p>(b) Less substantive procedures would require to be performed.</p> <p>(c) There is no effect on substantive procedures.</p> <p>(d) There is no effect on substantive procedures as audit risk is low.</p>

Case Study 2 Answers	
Q1.	(b) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired.
Q2.	(c) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count.
Q3.	(c) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements.
Q4.	(b) There is increased detection risk.
Q5.	(a) More substantive procedures would require to be performed.

Case Study 3	
<p>Roop & Co. are the auditors of Onda group of Hotels. This is the first time the firm is auditing an industry in food and beverage and it is day one of the audit. The engagement partner along with his team wants to make a thorough understanding of the entity and its environment in order to identify and assess the risks of material misstatements, whether due to fraud or error. The following are some of the points identified by them on Day 1.</p> <ol style="list-style-type: none"> The hotel has two banquet halls. The documentation available for verification of banquet hall revenue is only the invoice raised by the hotel and some mail conversations on customer enquiry and finalization of price. On audit trial, it is found that finance approval of the transaction is only after invoice is sent to them for accounting at final settlement. Advance paid by the clients are not vetted through finance team. The auditor suspects a weakness in this system. The auditor also finds a control deficiency in the process of procurement of stores. A goods receipt note is not prepared at the time of receipt of goods. On enquiry with management, the auditor finds that there exists a system control wherein goods receipt note is automatically prepared and approved in the system once the quantity and price of goods is entered against specific vendor. This entry is on real-time basis and system does not allow back dated entries. The auditor enquires of the management as to what is risk assessment process followed by the entity for prevention and detection of risk of material misstatement due to fraud and error. The auditor finds there is no documented risk assessment process. <p>With the help of the above facts, answer the following questions by choosing the correct option. (ICAI MCQ Booklet) (MTP1, Nov 2020, 10 marks)</p>	
Q1.	<p>What kind of a risk is portrayed in the booking of revenue with respect to Banquet halls?</p> <p>(a) Inherent risk in the class of transaction (b) Control risk in the class of transaction (c) Detection risk in the audit procedures (d) Audit risk in the opinion on the financial statements</p>
Q2.	<p>Which among the following statement is incorrect in the context of Audit Risk?</p> <p>(a) The more extensive the audit procedures performed, the lower is the detection risk (b) Greater the risk of material misstatement the auditor believes exist, less is the detection risk that can be accepted and accordingly more persuasive evidence is required by the auditor. (c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not. (d) Risk of material misstatement at the assertion level is of two kinds – control risk and inherent risk</p>
Q3.	<p>In the case of procurement of stores, the auditor has tested more than one control for the same assertion. In that given case, what should be his reliance on the control?</p> <p>(a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control. (b) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion and should perform extensive procedures. (c) Documentation in electronic medium cannot be accepted, hence, he cannot rely only on system control. (d) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion as well as associated assertions</p>
Q4.	<p>In the context of SA 315, which among the following is NOT a risk assessment procedure?</p>

	<p>(a) Inquiries of management, of appropriate individuals within internal audit function and of others within the entity</p> <p>(b) Analytical Procedures</p> <p>(c) Observation and Inspection</p> <p>(d) External Confirmation</p>
Q5.	<p>What should be the course of action of the auditor for the entity not having a documented risk assessment process?</p> <p>(a) The auditor should obtain management written representations on how risks are identified</p> <p>(b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.</p> <p>(c) The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.</p> <p>(d) The auditor shall discuss with management on how risks are identified by system and place reliance on the same as documentation in this context is immaterial.</p>

Case Study 3 Answers

Q1.	(b) Control risk in the class of transaction
Q2.	(c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not.
Q3.	(a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.
Q4.	(d) External Confirmation
Q5.	(b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.

Case Study 4

- M/s NSG & Associates have been appointed as auditors of Viaan Ltd. for the financial year 2023-24.
- The processes, operations, accounting and decisions are carried out by using computers in Viaan Ltd.
- The auditors understand that there are several aspects that they should consider to determine the level of automation and complexity in the business environment of Viaan Ltd.
- While planning the audit work, the engagement partners discussed with the audit staff about the various types of controls in the automated environment.
- The different types of audit tests that can be used in audit of an automated business environment were also discussed within the engagement team.
- The responsibility regarding the Internal Financial Controls was also discussed in detail.
- Further the tools and techniques that can be used to deal with the enormous data and information of Viaan Ltd. were briefed to the audit staff by the engagement partners.

Based on the above facts, answer the following:- (ICAI MCQ Booklet) (RTP, May 2020, NA)

Q1.	<p>_____ are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.</p> <p>(a) Application Controls</p> <p>(b) IT dependent Controls</p> <p>(c) Automated Controls</p> <p>(d) General IT Controls</p>
Q2.	<p>Statement 1: Application controls include both manual and automated controls that operate at a business process level.</p> <p>Statement 2: General IT Controls apply to mainframe, miniframe as well as end user environment.</p> <p>(a) Only Statement 1 is correct</p> <p>(b) Only Statement 2 is correct</p> <p>(c) Both Statements 1 & 2 are correct</p> <p>(d) Both Statements 1 & 2 are incorrect</p>
Q3.	<p>_____ are also known as pervasive or indirect controls:-</p>

	(a) General IT Controls (b) Application Controls (c) IT dependent Controls (d) None of the above
Q4.	_____ is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information:- (a) Computer Assisted Audit Techniques (b) Automated Controls (c) Data Analytics (d) None of the above
Q5.	Which of the following is not a correct statement:- (a) Inquiry should always be used in combination with any of the audit testing methods. (b) Re performance is the most effective but is very time consuming and least efficient most of the times. (c) Applying inquiry in combination with inspection gives the least effective and least efficient audit evidence. (d) Use of audit tests is a matter of professional judgment of auditor.

Case Study 4 Answers

Q1.	(b) IT dependent Controls
Q2.	(c) Both Statements 1 & 2 are correct
Q3.	(a) General IT Controls
Q4.	(c) Data Analytics
Q5.	(c) Applying inquiry in combination with inspection gives the least effective and least efficient audit evidence.

Case Study 5

Zenith Software Ltd has appointed Ram Laxman & Associates as its auditors for financial year 2023-2024. The audit would cover all the usual aspects of financial auditing but would be more focused on Systems Audit as Zenith Software is a company which maintains its financial records extensively on digital platform. The processes, operations, accounting and decisions are carried out by using computers in Zenith Software Ltd. Standards on Auditing SA 315 and SA 330 require auditors to understand, assess and respond to risks that arise from the use of IT systems. Ram Laxman & Associates have been seasoned auditors but have not carried out Systems audit in detail. The tools and techniques that can be used to deal with the enormous data and information of Zenith Software Ltd. were briefed to the audit staff by the engagement partners but they still have some queries and doubts and seek your assistance for conducting this special assignment. Based on below queries/cases, you are required to answer on specific areas which require special attention while conducting audit in an automated environment (ICAI MCQ Booklet)

Q1.	_____ are policies and procedures that relate to many applications and support the effective functioning of application controls (a) General IT Controls (b) IT Dependent Manual Controls (c) Both a) and b) (d) None of these
Q2.	The objective of which of the following is to ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives (a) Data Centre and Network Operations (b) Program Change (c) Access Security

	(d) Application system, acquisition, development and maintenance
Q3.	Tools and techniques that auditors use in applying the principles of data analytics are known as- (a) Computer Aided Audit Technique (b) Computer Aided Audit Tools (c) Computer Accounting and Auditing Technique (d) Computer Assisted Audit Technique
Q4.	_____ is a term that is used to describe a very large computer with high computing power, memory and storage that are required for running large business operations. (a) Application (b) Read Access Memory (c) Automated (d) Mainframe
Q5.	_____ are needed to support the functioning of _____ and both are needed to ensure complete and accurate information processing through IT systems. (a) Internal controls, Automated controls (b) IT- Dependent controls, General IT controls (c) Application controls, IT- Dependent controls (d) General IT controls, Application controls

Case Study 5 Answers

Q1.	(a) General IT Controls
Q2.	(c) Access Security
Q3.	(d) Computer Assisted Audit Technique
Q4.	(d) Mainframe
Q5.	(d) General IT controls, Application controls

Case Study 6

A Partnership Firm of Chartered Accountants by the name of WN and Associates was appointed to audit books of accounts of Healthy and Talented Private Limited for the financial year 2023-24. WN and Associates consisted of two partners, Mr. W and Mr. N. The main responsibility to audit books of accounts of Healthy and Talented Private Limited for the financial year 2023-24 was given to Mr. W by WN and Associates. A team of seven members was provided to Mr. W for the purpose of helping him in conducting the audit of Healthy and Talented Private Limited for the financial year 2023-24.

In the initial stages of conducting audit of Healthy and Talented Private Limited, Mr. W decided to evaluate internal control operating in the company. To gather information required for evaluation of internal control, Mr. W asked his team members to suggest a method which would help in gathering information so that internal control of the company can be evaluated.

First team member of team helping Mr. W suggested that they should follow a method, according to which number of instructions were required to be followed to collect information about internal control.

The second team member of team helping Mr. W suggested a method in which complete description of internal control in operation is recorded.

The third team member of team helping Mr. W suggested a method in which internal control of a company is presented in graphic form.

The fourth team member of team helping Mr. W suggested a method in which a series of questions were required to be answered which would provide information for internal control.

After analyzing all the suggestions Mr. W was satisfied with the suggestion of the third team member because according to Mr. W the suggestion of third team member was suitable from WN and Associates point of view and also from the point of view of Healthy and Talented Private Limited.

Keeping the basic concepts of Internal Control in mind, answer the following multiple choice questions: **(ICAI MCQ Booklet)**

Q1.	In initial stage of conducting audit of Healthy and Talented Private Limited, Mr. W decided to evaluate internal control of the company. Evaluation of internal control is very important part of: (a) Audit Report. (b) Audit Evidence. (c) Audit Documentation. (d) Audit Programme.
Q2.	The first team member of team helping Mr. W suggested a method according to which, number of instructions were required to be followed to collect information about internal control. This method is called as: (a) Flow Chart. (b) Check List. (c) Narrative Record. (d) Questionnaire.
Q3.	The second team member of team helping Mr. W suggested a method in which complete description of internal control in operation is recorded. This method is known as: (a) Narrative Record. (b) Flow Chart. (c) Questionnaire. (d) Check List.
Q4.	The third team member of team helping Mr. W suggested a method in which internal control of company is presented in graphic form. This method of gathering information so that internal control can be evaluated is known as: (a) Check List. (b) Questionnaire (c) Flow Chart. (d) Narrative Record.
Q5.	The fourth team member of team helping Mr. W suggested a method in which a series of questions were required to be answered to gather information for internal control. This method of gathering information so that internal control can be evaluated is called as: (a) Questionnaire. (b) Flow Chart. (c) Narrative Record. (d) Check List.

Case Study 6 Answers

Q1.	(d) Audit Programme.
Q2.	(b) Check List.
Q3.	(a) Narrative Record.
Q4.	(c) Flow Chart.
Q5.	(a) Questionnaire.

Case Study 7

M/s. ABC & Associates have been appointed as the statutory auditors of KLM Ltd. for the first time for the FY 2023-24. KLM Ltd. is in telecommunication industry. M/s. ABC & Associates are conducting the audit of other companies in telecommunication industry for the last 10 years. CA Amar, the engagement partner has a vast knowledge about the business environment of telecommunication industry and is aware as to what risks a telecommunication industry is exposed to. CA Amar decided not to waste his time and efforts towards again understanding the business environment and risk associated with KLM Ltd. being a telecommunication company. During the course of audit, the audit team found that throughout the year the entries in the accounting system of KLM Ltd. were duly passed by the authorised personnel by using his ID & password. However, in few instances it was noticed that the entry related to

travelling expenses was passed by some other personnel not authorised to do so by using the ID and password of the personnel who was absent on the day of passing such entry.

Further, CA Amar found that the management and those charged with governance are not properly involved in the day-to-day business of KLM Ltd. The employee's grievances are rarely answered by the management. The audit team also felt that the senior management is not ethically exemplary for the employees of the company.

The audit team checked the internal controls related to the inventory storage of raw material and finished goods. The audit team found that the CCTV cameras at the entry and the exit gates of the factory where inventory was stored were not working for almost two months during the FY 2023-24. The register kept at the factory gates for entering the details of inventory inward and outward was also neither filled nor signed on regular basis. The audit team is sceptical as to whether they need to consider this as the weakness in the internal control system of KLM Ltd. or can ignore this aspect as this is not a part of internal financial control system of KLM Ltd.

(ICAI MCQ Booklet)

Q1.	<p>Is perception of CA Amar towards not wasting his team's time and effort in understanding the business environment and risk of KLM Ltd., correct?</p> <p>(a) Yes, CA Amar is correct as he has a vast experience of conducting audit of telecommunication industries and such knowledge about the business environment and risk can very well be used while conducting audit of KLM Ltd.</p> <p>(b) No, CA Amar is not correct as the audit team must obtain in depth understanding of business environment and risk specific to KLM Ltd.</p> <p>(c) Yes, CA Amar is correct as instead of wasting the engagement team's time in understanding the business environment of KLM Ltd, audit team should utilise such time towards conducting detailed substantive procedures.</p> <p>(d) CA Amar cannot decide this aspect at his own and should discuss the same with the management of ABC Ltd.</p>
Q2.	<p>The entry done in the accounting system of KLM Ltd. by unauthorized personnel as noticed by the audit team in two instances is an example of what kind of risk?</p> <p>(a) Control Risk</p> <p>(b) Inherent Risk</p> <p>(c) Detection Risk</p> <p>(d) Business Risk</p>
Q3.	<p>The attitude and actions of the management and those charged with governance of KLM Ltd. as noticed by CA Amar is a part of:-</p> <p>(a) Business Environment</p> <p>(b) Business Control</p> <p>(c) Control Environment</p> <p>(d) Risk Assessment process</p>
Q4.	<p>_____is the function of the effectiveness of the design, implementation, and maintenance of internal control by the management.</p> <p>(a) Control Risk</p> <p>(b) Inherent Risk</p> <p>(c) Detection Risk</p> <p>(d) Business Risk</p>
Q5.	<p>Statement 1: The auditor needs an absolute assurance that the accounting system is adequate and that all the accounting information has been recorded.</p> <p>Statement 2: The auditor should gain an understanding of the accounting system and related internal controls and should study and evaluate the operations of these internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures.</p> <p>(a) Only statement 1 is correct.</p> <p>(b) Only statement 2 is correct.</p> <p>(c) Both the statements are true</p> <p>(d) None of the statements is true</p>

Case Study 7 Answers

Q1.	(b) No, CA Amar is not correct as the audit team must obtain in depth understanding of business environment and risk specific to KLM Ltd.
Q2.	(a) Control Risk

Q3.	(c) Control Environment
Q4.	(a) Control Risk
Q5.	(b) Only statement 2 is correct.

Case Study 8

SaveLives Limited is a listed Company which deals in the manufacture of Sanitizers, floor cleaners, dish and fabric cleaners etc. In spite of spread of covid 19 in the country, the company's sales have been very high in the last financial year due to essential products it deals in. The Company is highly automated and is driven by IT systems and applications that are used in the preparation of the financial statements of the Company. The Company uses an integrated enterprise resource planning system since last five years.

KRAN & Associates has been appointed to conduct the statutory audit of the Company. The firm consists of eight partners, and CA N has been appointed as engagement partner for the audit of SaveLives Limited.

CA N briefed the team about the audit and also how IT would be relevant to the audit of SaveLives Limited. The team obtained an understanding of the entity and its automated environment which involved an understanding of how the IT department was organised, IT activities, IT dependence and the relevant risks and controls.

One of the team members wanted to understand the importance of different types of controls in an automated environment viz., General IT Controls, Application Controls and IT-Dependent Controls. Same was discussed in detail along with the relationship between different controls.

The Companies Act, 2013 has placed a greater emphasis on the effective implementation and reporting on the internal controls for a company. So, CA N decided to himself evaluate and validate the design and operating effectiveness of Internal Financial Controls over Financial Reporting (IFC-FR) of the company as at the Balance Sheet date. Internal Financial Controls (IFC) refers to the policies and procedures put in place by SaveLives Limited for ensuring adequacy and also the operating effectiveness of such controls.

The audit team decided to use the tools and techniques that auditors use in applying the principles of data analytics which are known as CAATs. Data analytics could also be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform various functions.

(RTP, May 2022, NA)

Q1.	Under which situation is IT not relevant to an audit? (a) Increased complexity of transactions (b) Hi-tech nature of business (c) Volume of transactions is low (d) Company Policy (Compliance).
Q2.	Which of the following is a risk that arises from the use of IT systems? (a) Direct data changes (backend changes). (b) Limited/Monitored access. (c) Adequate segregation of duties. (d) Authorized access to data.
Q3.	The relationship between two controls is such that _____ are needed to support the functioning of _____, and both are needed to ensure complete and accurate information processing through IT systems. (a) IT Dependent Controls, General Controls (b) Application Controls, General Controls. (c) General Controls, IT Dependent Controls. (d) General IT Controls, Application Controls.
Q4.	The term Internal Financial Controls (IFC) refers to the policies and procedures put in place by companies for ensuring which of the following: (a) reliability of financial transactions. (b) effectiveness and efficiency of operations. (c) safeguarding of human resources. (d) prevention and detection of errors.
Q5.	Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialized audit tools viz., IDEA and ACL to perform which of the following: (a) Evaluating impact of control deficiencies.

- | | |
|--|--|
| | (b) Compliance with applicable laws and regulations.
(c) Authorized changes to system or programs.
(d) Providing latest information. |
|--|--|

Case Study 8 Answers

Q1.	(c) Volume of transactions is low
Q2.	(a) Direct data changes (backend changes)
Q3.	(d) General IT Controls, Application Controls.
Q4.	(b) effectiveness and efficiency of operations.
Q5.	(a) Evaluating impact of control deficiencies.

Case Study 9

AA & Associates, an audit firm based in New Delhi, was appointed as the Statutory Auditor of Success Ltd., a listed Company having branches all over India. Success Limited is engaged in the business of manufacturing furniture items from timber which is imported from South Africa. The audit firm has six partners and partner CA A is the engagement partner for Success Ltd.

The audit team consisting of CA A and five more members prepared an audit strategy and audit plan before commencing the audit. CA A was aware of the fact that the understanding of the internal control of the organisation would assist the team in various ways. So, it was decided that the team would first obtain an understanding of the internal control relevant to the audit before commencing the audit.

CA A explained to the team that there is a direct relationship between an entity's objectives and the controls it implements to provide reasonable assurance about their achievement. The entity's objectives, and therefore controls, relate to financial reporting, operations and compliance; however, not all of these objectives and controls are relevant to the auditor's risk assessment. CA A educated the team about the factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit. The team then applied its professional judgment to decide whether a control, individually or in combination with others, is relevant to the audit.

One of the team members, CA P scheduled a meeting with the Director of Success Ltd., Mr. D, to understand the risk assessment process of the entity. The entity's risk assessment process formed the basis for the risk to be managed. CA P, on the basis of his judgment, found the process to be appropriate, and it helped him in identifying the risks.

Once the risks were identified, CA P had to determine whether any of the risk identified is, in his judgment, a significant risk. CA P considered all the factors which he should have considered to exercise his judgment as to which risks are significant risks. He was aware that significant risks often relate to certain type of transactions and matters.

In the meanwhile, CA A met the CFO of the Company, Mr. C to obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting. Mr. C explained to CA A the various monitoring activities undertaken by the management to monitor the internal control performance of the company.

Based on the above information, answer the following questions: **(MTP2, May 2022, 10 marks)**

Q1.	CA A was aware of the fact that the understanding of the internal control of the organization would assist the team in various ways. Which of the following is not achieved by an understanding of the internal control system? (a) Identifying breakdown due to human error. (b) identifying types of potential misstatements. (c) designing the nature, timing, and extent of further audit procedures. (d) identifying factors that affect the risks of material misstatement.
Q2.	Which of the following factors is not relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit? (a) The diversity and complexity of the entity's operations. (b) Applicable legal and regulatory requirements. (c) The nature of the entity's business, including its organization and ownership characteristics. (d) Nature, timing, and extent of further audit procedures
Q3.	CA P obtained an understanding of the risk assessment process of the entity. Which of the following is a risk assessment process to be followed by an entity?

	<ul style="list-style-type: none"> i) Identifying business risks relevant to financial reporting objectives. ii) Estimating the significance of the risks. iii) Assessing the likelihood of their occurrence. iv) Deciding about actions to address those risks. <ul style="list-style-type: none"> (a) (i), (ii), (iii), (b) (i), (ii) (c) (i), (ii), (iii), (iv) (d) (ii), (iii)
Q4.	<p>CA P considered all the factors which he should have considered to exercise his judgment as to which risks are significant risks. Which of the following is a factor which he would have considered to determine the same?</p> <ul style="list-style-type: none"> (a) Whether the risk is a risk of error. (b) The complexity of transactions. (c) Whether the risk involves significant transactions with non-related parties. (d) The degree of objectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
Q5.	<p>Which among the following is incorrect with reference to last para of the case study regarding the auditor to obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting :</p> <ul style="list-style-type: none"> (a) It involves assessing the efficiency of controls on a timely basis and taking necessary remedial actions. (b) Management accomplishes it through ongoing activities, separate evaluations etc. (c) Management's monitoring activities may include using information from communications from external parties. (d) In small entities, management's monitoring of control is often accomplished by management's or the owner-manager's close involvement in operations.

Case Study 9 Answers

Q1.	(a) Identifying breakdown due to human error.
Q2.	(d) Nature, timing, and extent of further audit procedures
Q3.	(c) (i), (ii), (iii), (iv)
Q4.	(b) The complexity of transactions.
Q5.	(a) It involves assessing the efficiency of controls on a timely basis and taking necessary remedial actions.

Case Study 10

CA Sanjoy is conducting audit of PETA Education Solutions Private Limited for the first time. The company is engaged in providing solutions to students appearing for competitive exams under engineering and medical streams. Company's business is operated from physical centres spread in many states of the country. However, of late, number of aspirants availing company's services are shrinking due to emergence of new competitors and inability of company to switch to new technologies available in market to render its services.

The company had taken bank loans in past years for expansion of its physical centres. However, due to reduction in strength of aspirants opting for services provided by the company, management is always looking for means to meet its financial commitments on time. During the course of audit, CA Sanjoy wants to be sure about revenue and profit assertions reflected in financial statements of the company. Therefore, he is planning to test company's system for booking revenue in its books of accounts.

He notices that during the year under consideration, many experienced teaching faculties have left due to late payment of their contractual payments by the company. These have been replaced by inexperienced faculties having lower contractual costs but leading to poor satisfaction outcomes among aspirants. Besides, employee turnover of regular administrative staff also remains high. The company has not organized any training programmes either for its faculties or administrative staff for considerable period of time.

He has, in his wisdom, decided to increase the area of substantive checking in the company. He does not want to suffer from probable adverse publicity or loss of his professional goodwill.

Based on above case scenario, answer the following MCQs: - (MTP2, Nov 2023, 10 marks)

Q1.	After studying description of the company and its nature of operations, which of following statements is most appropriate?
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	<p>(a) Inherent risk for revenue and profit assertions is likely to be lower.</p> <p>(b) Inherent risk for revenue and profit assertions is likely to be higher.</p> <p>(c) Inherent risk for revenue and profit assertions cannot be assessed from given situation.</p> <p>(d) There does not exist inherent risk for revenue and profit assertions in described situation.</p>
Q2.	<p>The case scenario describes a situation of leaving of experienced faculties, high employee turnover and absence of training programmes for staff of the company. Such indicators are an example of _____?</p> <p>(a) Unsatisfactory risk assessment process used by the company</p> <p>(b) Unsatisfactory control environment of the company</p> <p>(c) Unsatisfactory performance reviews carried out by the company</p> <p>(d) Unsatisfactory system of segregation of duties in the company</p>
Q3.	<p>The auditor is planning to test company's system for booking revenue in its books of accounts. Identify the correct statement in this regard: -</p> <p>(a) He is likely to place greater reliance on controls relating to booking of revenue.</p> <p>(b) He is likely to place lower reliance on controls relating to booking of revenue.</p> <p>(c) Reliance placed by him on controls relating to booking of revenue would be unaffected due to reduction in contractual costs by company.</p> <p>(d) Reliance placed by him on controls relating to booking of revenue would be unaffected due to shrinking number of aspirants.</p>
Q4.	<p>The auditor has increased area of "substantive checking" in the company. It is due to the reason that _____</p> <p>(a) he wants to lower detection risk</p> <p>(b) he wants to lower control risk</p> <p>(c) he wants to raise sample risk</p> <p>(d) he wants to lower inherent risk</p>
Q5.	<p>The auditor does not want to suffer from probable adverse publicity or loss of professional goodwill. Such a situation is indicative of _____?</p> <p>(a) audit risk</p> <p>(b) auditor's business risk</p> <p>(c) auditor's detection risk</p> <p>(d) non-sampling risk</p>

Case Study 10 Answers

Q1.	(b) Inherent risk for revenue and profit assertions is likely to be higher
Q2.	(b) Unsatisfactory control environment of company
Q3.	(b) He is likely to place lower reliance on controls relating to booking of revenue
Q4.	(a) he wants to lower detection risk
Q5.	(b) auditor's business risk

Chapter 4 Audit Evidence

Case Study 1

CA Drishti Khandelwal is conducting audit of a company engaged in manufacturing of towels and bedspreads. The company is having its own manufacturing set-up. However, it also gets some manufacturing processes outsourced from third parties. The company has three locations having substantial quantities of inventories in the same city. Besides, due to outsourcing of some processes, inventories are also held in premises of third parties in the same city. As part of audit procedures, she is performing many audit procedures required by different Standards on Auditing.

In particular, she is attending physical inventory count process of the company at year end in accordance with requirements of SA 501. The inventory of the company includes raw materials consisting mainly of natural and dyed yarns, work in process in different stages of manufacturing and finished stocks of towels and bedspreads.

She is also planning sending confirmations to parties to whom the company has sold goods. On reviewing trade receivables list, she finds that the list also contains large number of parties having small balances. She further finds that these receivables have arisen due to sale of bedspreads to small time retailers and possibility of difference in balances as per company's records and as per records of these small-time retailers is low. Risk of misstatements in relation to trade receivables has been assessed as low. Besides, there is nothing to suggest that small-time retailers would disregard such requests.

While conducting audit, she is testing controls operating in the company. She is also conducting tests of various items of income and expenditure as well as balances appearing in balance sheet. She intends to rely upon sampling extensively

Based on above description, answer the following questions: **(ICAI Study Material)**

Q1.	<p>Which of the following statements is most appropriate regarding inventory count by auditor in accordance with SA 501?</p> <p>(a) She should inspect the inventory to ascertain its existence and condition at all locations, observe how company personnel are carrying out count procedures and perform test counting.</p> <p>(b) She should inspect the inventory to ascertain its existence at all locations, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert.</p> <p>(c) She should inspect the inventory to ascertain its existence at selected location, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert.</p> <p>(d) She should inspect the inventory to ascertain its existence and condition at all locations and perform counting of each and every item.</p>
Q2.	<p>As regards inventories lying with third parties, which of following statements meets requirements of SA 501?</p> <p>(a) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company as well as request third parties to allow her to inspect inventories held by them. Both requirements are necessary to be complied with.</p> <p>(b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501.</p> <p>(c) There is no obligation cast upon an auditor in respect of inventories lying with third parties.</p> <p>(d) She should request confirmation from third parties regarding quantity, condition and value of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these is sufficient for purposes of SA 501.</p>
Q3.	<p>Keeping in view description regarding trade receivables, identify the most appropriate statement in context of SA 505?</p> <p>(a) She should not plan and design confirmation requests for large number of parties having small balances.</p> <p>(b) She should plan and design positive confirmation requests for large number of parties having small balances.</p> <p>(c) She should plan and design positive confirmation requests for large number of parties having small balances and meticulously analyse exception rate</p> <p>(d) She should plan and design negative confirmation requests for large number of parties having small balances.</p>
Q4.	<p>As regards sampling, which of the following statements is most appropriate in terms of requirements of SA 530?</p> <p>(a) Sampling is used in tests of transactions as well as tests of controls.</p> <p>(b) Sampling is used in tests of balances as well as tests of controls.</p> <p>(c) Sampling is used in tests of details.</p> <p>(d) Sampling is used in tests of details as well as tests of controls.</p>
Q5.	<p>Since she intends to rely upon sampling extensively, which of the following statements is true about sampling risk?</p> <p>(a) Sampling risk can be eliminated.</p> <p>(b) Increase in sampling risk would lead to decrease in detection risk.</p> <p>(c) Decrease in sampling risk would lead to increase in detection risk.</p> <p>(d) Sampling risk will always be in existence.</p>

Case Study 1 Answers	
Q1.	(a) She should inspect the inventory to ascertain its existence and condition at all locations, observe how company personnel are carrying out count procedures and perform test counting.
Q2.	(b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501.
Q3.	(d) She should plan and design negative confirmation requests for large number of parties having small balances.
Q4.	(d) Sampling is used in tests of details as well as tests of controls.
Q5.	(d) Sampling risk will always be in existence.

Case Study 2	
<p>Financial statements of a firm have been put up for audit before CA Manushi. On going through financial statements, she wants to verify assertions contained in financial statements and has planned certain procedures for carrying out detailed checking.</p> <p>A) She plans to verify some major bills debited in "Machinery repair" account. The purpose of it is to ensure that bills are entered correctly and their classification is proper.</p> <p>B) She plans to verify that all balances appearing under trade payables are genuine and not fake.</p> <p>C) She plans to compare amount of wages paid in current year and last year. It is also planned to verify relationship between the number of employees and wages paid in both years.</p> <p>D) She is of the view that it is necessary to examine title deeds of "land" appearing in financial statements of the firm.</p> <p>E) The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms.</p> <p>Based on above description, answer the following questions: (ICAI Study Material)</p>	
Q1.	<p>As regards description given regarding verification of bills debited in "Machinery repair" account, identify what she intends to perform?</p> <p>(a) Tests of Controls</p> <p>(b) Tests of transactions</p> <p>(c) Tests of balances</p> <p>(d) Risk assessment procedures</p>
Q2.	<p>Identify which type of assertion she intends to focus when she wants to ensure genuineness of trade payables.</p> <p>(a) Occurrence</p> <p>(b) Cut-off</p> <p>(c) Existence</p> <p>(d) Accuracy</p>
Q3.	<p>As regards comparison of wages of current year and last year and comparison of relationship between the number of employees and wages paid in both years, identify what she is trying to do?</p> <p>(a) She is intending to perform tests of details.</p> <p>(b) She is intending to perform tests of transactions.</p> <p>(c) She is intending to perform tests of balances.</p> <p>(d) She is intending to perform substantive analytical procedures.</p>
Q4.	<p>In case of examination of title deeds of "land", which of the following fits into most appropriate description of such an audit procedure?</p> <p>(a) Observation</p> <p>(b) Inspection</p> <p>(c) External confirmation</p> <p>(d) Enquiry</p>
Q5.	<p>She wants to verify whether conversion of foreign currency into Indian rupees is proper or not. Identify what she is trying to do?</p>

	(a) Reperformance (b) Recalculation (c) Observation (d) Inspection
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Case Study 2 Answers

Q1.	(b) Tests of transactions
Q2.	(c) Existence
Q3.	(d) She is intending to perform substantive analytical procedures.
Q4.	(b) Inspection
Q5.	(b) Recalculation

Case Study 3

M/s JJ & associates having office in Chennai are statutory auditors under Companies Act, 2013 of a company viz. Sweet Aroma Private Limited engaged in business of obtaining and manufacturing rice from paddy catering to both domestic as well as international market mainly in Gulf nations. The company has a huge plant capacity for rice extraction in one of the states in Northern India. Needless to state that inventories are in huge quantity in such type of business consisting of raw material, work in progress and finished goods. The auditors want to obtain sufficient appropriate audit evidence regarding inventories.

In above context, answer the following questions: - (ICAI MCQ Booklet) (RTP, Nov 2020, NA)

Q1.	<p>Which of the following is most likely correct in relation to obtaining of sufficient appropriate audit evidence regarding existence and condition of inventory?</p> <p>(a) It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.</p> <p>(b) Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.</p> <p>(c) The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-à-vis company's plant location. Hence, attendance at physical inventory counting may be skipped and alternative audit procedures may be performed to obtain sufficient appropriate evidence.</p> <p>(d) The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting</p>
Q2.	<p>Below are given certain cluster of matters which are relevant in planning attendance of auditor at physical inventory counting. Which of the following clusters consists of a likely inappropriate combination?</p> <p>(a) Nature of inventory, timing of physical inventory counting and stages of completion of work in progress</p> <p>(b) Nature of inventory, timing of physical inventory counting and valuation method of inventory</p> <p>(c) Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system</p> <p>(d) Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system</p>
Q3.	<p>Which of the following is the most likely logical sequence of steps in relation to attendance at physical inventory counting by auditor?</p> <p>(a) Observance of performance of management's count procedures, inspection of inventory, performing test counts and evaluation of management's procedures for recording and controlling results of physical inventory counting</p> <p>(b) Observance of performance of management's count procedures, performing test counts, inspection of inventory and evaluation of management's procedures for recording and controlling results of physical inventory counting</p> <p>(c) Performing test counts, inspection of inventory, Observance of performance of management's count procedures and evaluation of management's procedures for recording and controlling results of physical inventory counting</p> <p>(d) Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts</p>

Q4.	<p>During attendance at physical inventory counting, the auditor inspects inventory. Following outcomes stated as I, II & III are given below of this inspection procedure: - Outcome I --- Existence of inventory Outcome II --- Ownership of inventory Outcome III ----- Condition of inventory Which of following statements is most likely true? (a) Outcomes I, II and III are all necessarily established after inspection. (b) Only Outcomes I and III are established after inspection and Outcome II is never established. (c) Outcomes I and III are established after inspection. However, outcome II may not be necessarily established. (d) Outcome II and III are established after inspection. However, outcome I may not be necessarily established.</p>
Q5.	<p>It was observed by auditors that, out of total rice physically counted on 31st March, 2022 about 67 quintals of rice belonged to M/s PQR, a proprietary concern which had sent paddy to this company's plant for extraction of rice. What would be treatment of this item in financial statements of company? (a) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company. (b) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the proprietary concern. (c) The value of 67 quintals rice would not be reflected in company's financial statements. (d) The value of 67 quintals rice would be reflected in proprietary concern's financial statements as per method of valuation adopted by the company.</p>

Case Study 3 Answers	
Q1.	(d) The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting
Q2.	(b) Nature of inventory, timing of physical inventory counting and valuation method of inventory
Q3.	(d) Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts
Q4.	(c) Outcomes I and III are established after inspection. However, outcome II may not be necessarily established
Q5.	(c) The value of 67 quintals rice would not be reflected in company's financial statements

Case Study 4	
<p>Sun Private Limited is a newly formed private limited company, engaged in the manufacturing of solar panels. Company has appointed M/s M&S Associates, a Partnership Firm of Mr Meticulous and Mr Sincere - as their First Auditors. M/s M&S Associates accepted the assignment and Mr Meticulous being the engagement Partner, started their Audit.</p> <p>During the course of Audit, Mr Meticulous asked the Management for name of the companies operating in similar business so that they can compare the Company's Figures. During this procedure, Mr Meticulous found that the Gross Margin of the Company is lower than the Industry Standard / Fellow Companies. He prepared an Interim Report dealing with this matter and asked the Management about the reasons for this deviation. Management asked him to give all the working along with the Working Papers as they believed it is the Company's Property. Mr Meticulous advised them that he can provide working but cannot give them the working papers as they are the property of the Firm.</p> <p>Management agreed to that and asked Mr Meticulous to go into detail and tell him the reasons for lower Gross Margin to which he agreed. During the detailed audit, Mr Meticulous came to know about the fact that the company dispatched its solar panels to its Distributors on Delivery Challans and once the goods were accepted, Sales bills were raised. Checking each Challan against Sales Invoices, Mr Meticulous found that there were many challans for which no Invoices were raised and thus Sales was grossly understated and there was no mechanism where unbilled Challans were recorded or tracked. Company employed a person to reconcile all the Challans and prepared a list where Bills are yet to be sent to the Customers. In addition, Company was also asked to seek Confirmation of Balances from all its Customers. The Management assured Mr Meticulous that Inventories are physically verified and hence there will be no impact on them.</p> <p>(ICAI MCQ Booklet) (MTP2, May 2021, 10 marks) (MTP1, Nov 2022, 10 marks)</p>	
Q1.	<p>Mr Meticulous asked about other Companies, he was intending to perform which audit procedure? (a) Analytical Procedures</p>

	(b) Substantive Procedures (c) Random Sampling (d) Statistical Sampling
Q2.	What was the initial procedure carried on by Mr Meticulous? (a) Trend Analysis (b) Ratio Analysis (c) Statistical Modelling (d) Random Sampling
Q3.	Who has the right to retain the audit working papers of the Company in current case? (a) Audit Committee (b) Board of Directors (c) Auditor (d) Chairman of the Audit Committee
Q4.	When Mr Meticulous decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence? (a) Test of Transactions (b) Test of Balances (c) Both (a) and (b) (d) Analytical Procedures
Q5.	The impact of the exercise carried on by the Company for unbilled challans will have an impact on (a) Gross Receipts and Debtors (b) Gross Receipts and Inventory (c) Debtors (d) Inventory

Case Study 4 Answers

Q1.	(a) Analytical Procedures
Q2.	(b) Ratio Analysis
Q3.	(c) Auditor
Q4.	(c) Both (a) and (b)
Q5.	(a) Gross Receipts and Debtors

Case Study 5

M/s KDR & associates, Chartered accountants have been appointed auditors of a company having operations spread in three states in India for the first time. The nature of business of company is such that there are about 50000 monthly entries in its books of accounts accompanied with commensurate records. The company has also robust internal control system. The auditors want reliable evidence. However, they are desirous of curtailing non-consequential routine checking. Hence, while formulating strategy and plan for conducting audit, auditors desire to rely upon good audit samples both for tests of controls and tests of details.

In above context, answer the following questions: - (ICAI MCQ Booklet)

Q1.	Consider the following statements for determining sample size for tests of control: - Statement I--- An Increase in the tolerable rate of deviation leads to decrease in sample size. Statement II--- An increase in the expected rate of deviation of the population to be tested leads to increase in sample size. Statement III---An increase in the number of sampling units in the population leads to substantial increase in sample size. Which of the following is most likely correct option? (a) All Statements I, II and III are true. (b) Statements I and II are true. However, Statement III is false.
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	<p>(c) Statements I and III are true. However, Statement II is false. (d) Statements II and III are true. However, Statement I is false.</p>
Q2.	<p>Consider the following statements for determining sample size for tests of details: - Statement I--- An increase in tolerable misstatement leads to increase in sample size. Statement II--- An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population leads to decrease in sample size. Statement III---An increase in the amount of misstatement auditor expects to find in the population leads to increase in sample size. Which of the following is most likely correct option? (a) All Statements I, II and III are true. (b) Statements I and II are false. However, Statement III is true. (c) Statements I and III are true. However, Statement II is false. (d) Statements II and III are true. However, Statement I is false.</p>
Q3.	<p>Which of the following is not likely to be correct in relation to Block Sampling and audit samples drawn upon using this technique? (a) Block selection involves selection of a block/blocks of contiguous items within the population. (b) Most populations from which audit samples are drawn are structured in such a way that items in a sequence can be expected to have similar characteristics to each other but different characteristics from items elsewhere in population. Hence, it is not used ordinarily in audit sampling. (c) Block sampling has characteristics of simplicity and economy (d) It is generally an appropriate sample selection technique when auditor intends to draw valid inferences about the entire population based upon sample.</p>
Q4.	<p>Consider the below stated steps in relation to audit sampling. What is the most likely logical order of these steps to be followed by auditors of this company? Step I---Performing audit procedures Step II --- Projecting Misstatements Step III--- Sample design and selection of items for testing Step IV-- Investigating Nature and cause of deviations Step V--- Evaluating results of audit Sampling (a) Step I, Step II, Step III, Step IV and Step V (b) Step II, Step I, Step III, Step V and Step IV (c) Step III, Step I, Step IV, Step II and Step V (d) Step I, Step II, Step III, Step V and Step IV</p>

Case Study 5 Answers

Q1.	(b) Statements I and II are true. However, Statement III is false
Q2.	(b) Statements I and II are false. However, Statement III is true
Q3.	(d) It is generally an appropriate sample selection technique when auditor intends to draw valid inferences about the entire population based upon sample
Q4.	(c) Step III, Step I, Step IV, Step II and Step V

Case Study 6

M/s CA & Co is a firm of Chartered Accountants based at Mumbai, Mr C and Mr A being the Partners of the Firm. They are engaged, inter alia, in the Statutory Audit of Great Trading Company who is dealing in FMCG Products and sells its products to Wholesalers and Retailers.

During the course of their primary discussion with the Accounting Personnel of the Company, Mr C found out that the number of Transactions are very high and the value of Transactions also vary a great length especially in the case of Sales Transactions - as their base is very large and number of sales transactions run into Hundreds of Invoices per month.

Mr C and Mr A are thinking about checking the Sales Transactions and Balances of Account Receivables on a Sampling basis and for that they are discussing about which of the main two approaches to sampling would be appropriate in this case. They mostly are satisfied with the Internal Control Procedures as far as Sales Order Processing is concerned.

After discussion, they have decided that they would divide the Sales Transactions into Value Buckets viz. Less than 1 Lakh, 1 Lakh to 5 Lakh, 5 Lakh and above. For Accounts Receivables they would go for Age-wise Receivables viz. up to 45 Days, 45 to 90 Days, 90 to 180 Days and Above 180 Days.

Checking of Sales and Receipts Transactions on the above basis was carried out and though the Auditors didn't find any major irregularity in the Sales, it was observed that most of the Receivables in Above 180 Days category were from individual Sales Bill of 1 Lakh or less and most of the parties were local ones. So it was decided to follow-up this matter by asking for Balance confirmation from those Debtors whose balance remained outstanding for more than 180 Days.

(ICAI MCQ Booklet)

Q1.	Which of the following Statement is correct? (a) Hundred Percent Checking will give absolute satisfaction to the Auditor about correctness of transactions. (b) Sampling Methods cannot be relied upon to reveal the true feature and characteristics of the population. (c) If drawn properly, a sample would give reasonable basis to an Auditor to draw conclusions about the entire population (d) Sampling should be done only when Hundred Percent Checking is not possible
Q2.	Mr C and Mr A are discussing different approaches to Sampling, which are they? (a) Statistical Sampling and Non-statistical Sampling (b) Large Sample and Small Sample (c) Random Sampling and Systematic Sampling (d) Scientific Sampling and Non-Scientific Sampling
Q3.	Which of the following method is used by the Auditor for Drawing of the Samples? (a) Simple Random Sampling (b) Haphazard Sampling (c) Systematic Sampling (d) Stratified Sampling
Q4.	What is the initial perception of control risk as far as Sales Transactions are concerned? (a) High (b) Medium (c) Low (d) Non-existent
Q5.	To satisfy about the genuineness of Balances of Debtors outstanding for more than 180 Days, M/s CA & Co would have to lower which risk? (a) Inherent Risk (b) Detection Risk (c) Control Risk (d) All of the above

Case Study 6 Answers

Q1.	(c) If drawn properly, a sample would give reasonable basis to an Auditor to draw conclusions about the entire population
Q2.	(a) Statistical Sampling and Non-statistical Sampling
Q3.	(d) Stratified Sampling
Q4.	(a) High
Q5.	(b) Detection Risk

Case Study 7

Sargam Ltd appoints Kishore & Mukesh as statutory auditors for the financial year 2023-2024. Kishore & Mukesh seem to have different opinions on Audit approach to be adopted for audit of Sargam Ltd. Kishore wants to check all transactions without exception in order to ensure that nothing is missed from the scope so as to give them (auditors) reasonable assurance on the coverage of Audit. On the other hand, Mukesh is of the opinion that 100% checking is not required and they can rely on Audit Sampling techniques in order to provide them a reasonable basis on which they can draw conclusions about the entire population. Based on above facts, please respond to below queries posed by them as per SA 530. (ICAI MCQ Booklet)

Q1.	Sampling risk can lead to two types of erroneous conclusions one of them is when test of control appears to be more effective than they actually are which affects _____ and is more likely to lead to an inappropriate audit opinion. (a) audit efficiency (b) audit effectiveness (c) audit quality (d) none of the above
Q2.	When auditor decides to select less than 100% of the population for testing, the auditor is said to be using _____ (a) Audit sampling (b) Representative sampling (c) Test Checking (d) Internal Audit
Q3.	Tolerable error is _____ in population that auditor is willing to _____ for a given sample size. (a) Minimum, Forego (b) Maximum, Forego (c) Minimum, Accept (d) Maximum, Accept
Q4.	The application of audit sampling is such that all sampling units have a chance of selection in order to draw conclusion about the _____. (a) Entire population (b) Selective population (c) Audited population (d) Universe
Q5.	_____ is a method of audit testing which is more scientific than testing based entirely on the auditor's own judgement because it involves use of mathematical laws of probability in determining the appropriate sample size. (a) Statistical Sampling (b) Non statistical Sampling (c) Haphazard Sampling (d) Cluster Sampling

Case Study 7 Answers

Q1.	(b) audit effectiveness
Q2.	(a) Audit sampling
Q3.	(d) Maximum, Accept
Q4.	(a) Entire Population
Q5.	(a) Statistical Sampling

Case Study 8

A Partnership Firm of Chartered Accountants by the name of HS and Associates was appointed to audit books of accounts of WT Limited for financial year 2023-24. HS and Associates consisted of two partners CA H and CA S.

While conducting audit of WT Limited for financial year 2023-24, CA H, one of the partners of HS and Associates used different audit procedures in order to obtain audit evidence.

The different audit procedures used by CA H were as follows:

- 1) As WT Limited was engaged in manufacturing business of wooden doors, CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. The counting of finished wooden doors was necessary for the purpose of verification of stock of finished wooden doors.
- 2) In WT Limited the stock of finished wooden doors was valued manually by multiplying number of finished wooden doors with value per finished wooden door. A team member of CA H again did the calculation in order to verify the accuracy regarding valuation of stock of wooden finished doors.
- 3) CA H with the help of his team members obtained information from people (who were experienced in manufacturing business of wooden doors) about the purchase price of raw materials required in manufacturing business of wooden doors and also obtained some non-financial information.
- 4) CA H and his team members while conducting the audit of WT Limited for financial year 2023-24 in detail checked and evaluated the books of accounts and relevant documents of W Limited.
- 5) CA H asked for written confirmations regarding account balances from Debtors and Creditors of WT Limited.

Keeping the basic concepts about various audit procedures in mind, answer the following multiple-choice questions:

(ICAI MCQ Booklet) (MTP1, Nov 2021, 10 marks)

Q1.	CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. This is an example of which audit procedure: (a) External Confirmation. (b) Observation. (c) Inquiry. (d) Inspection.
Q2.	In order to verify the accuracy regarding valuation of stock of wooden finished doors, a team member of CA H again did the calculation. This is an example of which audit procedure: (a) Analytical Procedures. (b) Inquiry (c) Inspection. (d) Recalculation
Q3.	CA H with the help of his team members obtained information (both financial and non-financial information) from experienced people in manufacturing business of wooden doors. These experienced people provided the required information. This whole method of obtaining information is an example of which audit procedure: (a) inspection (b) performance. (c) Inquiry. (d) investigation.
Q4.	CA H and his team members in detail checked and evaluated the books of accounts and relevant documents of WT Limited. This is an example of which audit procedure: (a) Inspection. (b) Re-performance. (c) Recalculation. (d) Investigation
Q5.	Asking for written confirmations regarding account balances from Debtors and Creditors of WT Limited by CA H is an example of which audit procedure: (a) inquiry (b) inspection (c) investigation. (d) external confirmation.

Case Study 8 Answers

Q1.	(b) Observation
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Q2.	(d) Recalculation.
Q3.	(c) Inquiry
Q4.	(a) Inspection.
Q5.	(d) external confirmation.

Case Study 9

A firm of Chartered Accountants by the name of YZ and Associates was appointed to audit the books of accounts of NH Limited for the FY 2023- 24. YZ and Associates consisted of two partners by the name of Mr. Y and Mr. Z.

NH Limited was into manufacturing business of carpets. The demand of carpets manufactured by NH Limited was not just in India, but also in international markets. As a result, the volume of transactions related to the business of manufacturing carpets was also huge. Mr. Y, the engagement partner, knew that it would not be possible to audit each and every transaction, so he decided to use the technique of Audit Sampling for the purpose of audit of NH Limited.

The audit engagement team consisted of four members. One team member, Mr. Rahul, was of the opinion that the population from which the sample was required to be selected for the purpose of audit must have three important characteristics, namely, appropriateness, completeness and reliability.

According to opinion of second team member, Mr. Sachin, every individual item that make the population is important from the point of view of creating a sample for the purpose of audit.

For different items of Financial Statements, Mr. Y and his team members used different methods for selecting the sample. The examples of which are as follows:

- 1) For the purpose of creating a sample of Repair and Maintenance Expenses, following information was available:
Number of items in Population = 400
Sample Size = 50
Sampling Interval = $[400/50] = 8$
Out of the 400 Repair and Maintenance Expenses transactions during the FY 2023-24, a transaction each from sampling interval of 8 units was selected to create a sample size of 50 units for the purpose of audit.
- 2) A sample was created for Power and Fuel Expenses with the help of random number tables.
- 3) For the purpose of creating a sample of Printing and Stationery Expenses no structured way was used. A sample was created without following a particular technique.
- 4) A sample was created for Travelling Expenses related to business of NH Limited by selecting transactions of amount exceeding ₹ 12,000.

(ICAI MCQ Booklet)

Q1.	With respect to the repair and maintenance expenses incurred by the company during the FY 2023-24, which of the following methods of sample selection was used by the audit engagement team? (a) Haphazard Sampling. (b) Systematic Sampling. (c) Random Sampling. (d) Block Sampling.
Q2.	For checking the power and fuel expenses which of the following methods of sample selection is used by the audit team.: (a) Systematic Sampling. (b) Haphazard Sampling. (c) Block Sampling. (d) Random Sampling.
Q3.	By using which method of sample selection did the audit team select the sample for printing and stationery expenses? (a) Block Sampling. (b) Systematic Sampling. (c) Random Sampling. (d) Haphazard Sampling
Q4.	By following which sample selection method did the audit team create the sample for auditing the travelling expenses related to business of NH Limited? (a) Monetary Unit Sampling.

	(b) Random Sampling. (c) Block Sampling. (d) Systematic Sampling.
Q5.	Mr. Sachin was of the opinion that every individual item that make the population is important from the point of view of creating a sample for the purpose of audit. These individual items making the population are called as: (a) Population Units. (b) Transaction Units. (c) Required Units. (d) Sampling Units

Case Study 9 Answers

Q1.	(b) Systematic Sampling
Q2.	(d) Random Sampling
Q3.	(d) Haphazard sampling
Q4.	(a) Monetary Unit Sampling
Q5.	(d) Sampling Units

Case Study 10

M/s. RRM & Associates have been appointed as the statutory auditors of UVW Ltd. for the FY 2023-24. The engagement partner is CA Raj and his engagement team consists of 2 articulated assistants. CA Raj briefed his audit team regarding the factors affecting the sample selection and the sample size. The team was also told that the tolerable error should be zero and sample size should be selected accordingly. The various concepts like audit sampling, statistical sampling, non- statistical sampling etc. were discussed in detail.

CA Raj gave a detailed audit programme to his team. The audit programme with respect to the checking of accounts receivable and accounts payable consisted of checking such accounts on sample basis. CA Raj asked the engagement team to divide the accounts receivables and account payable balances into following separate groups and to take sample from each of them.

- balances in excess of ₹ 10,00,000;
- balances in the range of ₹ 7,75,001 to ₹ 10,00,000;
- balances in the range of ₹ 5,50,001 to ₹ 7,75,000;
- balances in the range of ₹ 2,25,001 to ₹ 5,50,000; and
- balances ₹ 2,25,000 and below.

During the course of audit, the audit team noticed that certain internal control systems with respect to the accounts receivable were not operating effectively at few instances during the FY 2023-24.

Further, Mr. Tarun, one of the engagement team members has the following understanding with respect to statistical and non-statistical sampling:

Point 1: When statistical sampling is used to select a sample, sample need not be representative.

Point 2: Non- Statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics.

Also, while checking the payment transactions with respect to miscellaneous expenses on sample basis, the engagement team noticed that on 9th and 10th of every month, the miscellaneous expense vouchers were not signed by the authorised personnel. The engagement team discussed among themselves the implications of the same on their audit procedures to be performed in this regard.

Based on the above facts, answer the following:- (ICAI MCQ Booklet) (MTP1, May 2021, 10 marks)

Q1.	With respect to selecting sample for accounts receivable and accounts payable which method of selecting of sample is advised by CA Raj to the engagement team? (a) Stratified Sampling method (b) Monetary Unit Sampling method (c) Haphazard Sampling method (d) None of the above
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Q2.	With respect to the weakness in internal control system of accounts receivable during the FY 2023-24, the audit team:- (a) Should consider a larger sample size or 100% examination of accounts receivables. (b) Should consider a smaller sample size of accounts receivables. (c) Should ignore such weakness in internal control system as M/s RRM & Associates have no responsibility towards the implementation and working of internal controls of the UVW Ltd. (d) Should give an adverse opinion.
Q3.	_____means dividing heterogeneous population into homogeneous sub population, where samples are drawn from each sub population. (a) Value Weighted Selection method (b) Non Statistical Sampling (c) Random Sampling method (d) Stratification
Q4.	With respect to the deviation identified by the auditor occurring on 9th and 10th of every month, what course of action should the audit firm adopt? (a) M/s RRM & Associates should ignore such deviation as it exists only on a very few instances during the entire year under audit. (b) M/s RRM & Associates should extend its audit procedures to such deviated transactions. (c) M/s RRM & Associates shall investigate the nature and causes of such deviations as such deviations may be intentional and may indicate the possibility of fraud. (d) Both b & c
Q5.	Is the understanding of Mr. Tarun with respect to statistical and non- statistical sampling as mentioned in the case scenario as Point no. 1 and Point no. 2, correct? (a) Only understanding as per point no. 1 is correct. (b) Only understanding as per point no. 2 is correct. (c) Understanding as per point no. 1 & point no. 2, both are correct. (d) Understanding as per point no. 1 & point no. 2, both are incorrect.

Case Study 10 Answers

Q1.	(a) Stratified Sampling method
Q2.	(a) Should consider a larger sample size or 100% examination of accounts receivables.
Q3.	(d) Stratification
Q4.	(d) Both b & c
Q5.	(d) Understanding as per point no. 1 & point no. 2, both are incorrect.

Case Study 11

CA X has accepted offer of conducting statutory audit of financial statements of DOS Solutions Private Limited. Keeping in mind requirements of Standards on Auditing including those relating to SA 300, he plans audit so that it is conducted in an effective manner. He knows that because of inherent limitations of an audit, there is audit risk in audit of financial statements even though audit is properly planned and performed in accordance with Standards on Auditing.

Considering nature of operations of the company, he has decided to use audit sampling in performing audit procedures. The various areas of his testing include testing controls over revenues, expenditures, assets and liabilities of the company. Besides, he has decided to perform tests of details in respect of all these areas of financial statements.

While verifying tests of controls over purchase orders placed by the company based on selected audit samples, he has erroneously concluded that Standard operating procedures (SOP) for placing purchase orders are not being followed strictly and controls are less effective than they actually are.

Further, while testing controls over wage payments, he has tested 20 sample wage sheets of different sections of company and finds that one wage sheet has not been signed by authorized officer of the company. The rate of deviation was earlier set by him at 3%.

During the course of designing procedures for selecting samples for verification of trade receivables, he has decided to divide trade receivable balances into groups viz. balances in excess of ₹ 10 lakh, balances in range of ₹ 7,50,001 to ₹ 10,00,000, balances in range

of ₹ 5,00,001 to ₹ 7,50,000, balances in range of ₹ 2,50,001 to ₹ 5,00,000 and balances of ₹ 2,50,000 and below. He has planned to pick up different percentage of items from each of above groups. Random sample is chosen from each group using random number tables.

Some of the trade payables of the company were outstanding since long. He has decided to merely verify arithmetical accuracy of ageing schedule and its reconciliation with books of accounts.

Therefore, nature of audit procedures, nature of financial reporting itself and need for audit to be conducted within a reasonable period of time and at a reasonable period of cost all lead to inherent limitations of audit.

(RTP, Nov 2023, NA)

Q1.	The auditor has erroneously concluded that Standard operating procedures (SOP) for placing purchase order are not being followed strictly and controls are less effective than they actually are. Which of the following statements is likely to be true in this regard? (a) It is a sampling risk and might lead to auditor expressing inappropriate audit opinion. (b) It is a sampling risk and affects audit effectiveness. (c) It is a sampling risk and affects audit efficiency. (d) It is a control risk and affects audit effectiveness
Q2.	The auditor has tested 20 sample wage sheets in different sections of the company and finds that one wage sheet has not been signed by authorized officer of the company. It represents_____? (a) Tolerable misstatement (b) Misstatement (c) Tolerable rate of deviation (d) Actual rate of deviation
Q3.	Which method of selecting samples for verification of trade receivables has been planned by auditor? (a) Simple random sampling (b) Systematic sampling (c) Block sampling (d) Stratified sampling
Q4.	The auditor has decided to merely verify arithmetical accuracy and reconciliation of ageing schedule relating to trade payables. The use of above audit procedure can lead to _____? (a) Sampling risk (b) Non-sampling risk (c) Inherent risk (d) Control risk
Q5.	Keeping in view inherent limitations of audit of financial statements, which of following statements is likely to be most appropriate? (a) Due to inherent limitations of audit, auditor obtains conclusive audit evidence. (b) Due to inherent limitations of audit, auditor can be satisfied with less than persuasive evidence. (c) Due to inherent limitations of audit, subsequent discovery of material misstatement in financial statements after audit, which was conducted in accordance with SAs, does not indicate a failure of audit. (d) Due to inherent limitations of audit, auditor can skip a difficult, time-consuming and costly procedure

Case Study 11 Answers

Q1.	(c) It is a sampling risk and affects audit efficiency
Q2.	(d) Actual rate of deviation
Q3.	(d) Stratified sampling
Q4.	(b) Non-sampling risk
Q5.	(c) Due to inherent limitations of audit, subsequent discovery of material misstatement in financial statements after audit which was conducted in accordance with SAs does not indicate a failure of audit.

Chapter 5 Audit of Items of Financial Statements

Case Study 1

Sunsteel Ltd. is a company engaged in the manufacture of variety of stainless steel household items ranging from hot pot, pressure cooker, cutlery set, bottles, to serving trays. The company has its corporate office in Delhi and its plant in Raigarh, a city in the state of Chhattisgarh. The company is planning to expand its manufacturing activities by setting up two new plants in the Raipur district of the state. For this purpose, the company also raised funds by making a follow-on public offer during the financial year 2022-23. R K Maheshwari & Associates are the statutory auditors of the company since the year 2020-21. The engagement team consisted of 5 members, with CA Raman as the engagement partner, CA Madhu as the senior associate and three articled trainees namely, Aman, Chetanya and Depesh.

The company raised fresh capital of ₹ 5 Cr during the FY 2022-23. The shares with the nominal value of ₹ 10 per share were issued at a premium of ₹ 5 per share.

The company has the Reserves and Surplus totaling to ₹ 2 Cr, comprising of securities premium and general reserve.

CA Raman directed CA Madhu to verify the issue of the share capital in detail giving special consideration to the utilization of the securities premium amount.

The audit engagement team discussed with the management about the performance of the company during the year under consideration. To this, the management told the engagement team that the company is performing very well and the company has doubled its revenue during the year as compared to the last year. The management of the company also told the auditors that during the year the company has made majority of its sales on credit basis to its customers

CA Raman directed Mr. Aman to send balance confirmation requests to debtors having balance in excess of ₹ 1 lakh.

During the course of audit, CA Raman, Chetanya and Depesh also visited the power plants in Raigarh to get a detailed understanding of the manufacturing process. The team performed analytical procedures to obtain audit evidence with respect to the overall reasonableness of purchase quantity and price of inventory. More specifically, Chetanya collected the reports from the management for composition of stock i.e. raw materials as a percentage of total stock and compared the same with the data of the previous year. CA Raman and Chetanya thereafter, discussed the reasons for the variations with the management.

Also, while considering the presentation and disclosure requirements as per Schedule III to the Companies Act, CA Madhu discussed with CA Raman the disclosure with respect to the following account balances:

- Current maturities to long term borrowings
- Long term maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings

Based on the above facts, answer the following questions: **(ICAI Study Material)**

Q1.	Which of the following is not correct with respect to shares issued at premium and securities premium account in terms of Section 52 of the Companies Act, 2013? (a) Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a securities premium account. (b) The securities premium account can be applied by the company in paying up unissued equity shares of the company to be issued to members of the company as fully paid bonus shares. (c) The securities premium account cannot be applied by the company in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company (d) The securities premium account can be applied by the company for the purchase of its own shares or securities under section 68
Q2.	Which of the following is not an example of capital reserve? (a) Revaluation reserve arising from revaluation of fixed assets (b) Securities Premium (c) Capital redemption reserve (d) General reserve
Q3.	Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client. Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances. (a) Only statement 1 is correct (b) Only statement 2 is correct (c) Both statements 1 & 2 are correct (d) Both statements 1 & 2 are incorrect
Q4.	Mr. Chetanya performed which of the following analytical procedures to obtain the audit evidence with respect to the overall reasonableness of purchase quantity and price of raw material? (a) Consumption Analysis

	(b) Stock Composition Analysis (c) Reasonableness test (d) Ratio analysis
Q5.	Which of the following is not correct with respect to the disclosure requirements of Schedule III to the Companies Act 2013? (a) Current maturities of long term borrowings is to be disclosed under the head long term borrowings (b) Long term maturities of finance lease obligations is to be disclosed under the head long term borrowings (c) Interest accrued but not due on borrowings is to be disclosed under the head Other Current Liabilities (d) Interest accrued and due on borrowings is to be disclosed under the head Other Current Liabilities

Case Study 1 Answers	
Q1.	(c) The securities premium account cannot be applied by the company in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company
Q2.	(d) General reserve
Q3.	(c) Both statements 1 & 2 are correct
Q4.	(b) Stock Composition Analysis
Q5.	(a) Current maturities of long term borrowings is to be disclosed under the head long term borrowings

Case Study 2	
<p>A partnership firm of Chartered Accountants, YZ and Associates were appointed as auditor of company UV Private Limited. The financial year for which YZ and Associates were to audit books of accounts of UV Private Limited began on 1 April, 2023 and ended on 31 March, 2024.</p> <p>YZ and Associates consisted of four partners namely Mr. Y, Mr. Z, Mr. G and Mr. H.</p> <p>While auditing books of accounts of UV Private Limited for the period beginning on 1 April, 2023 and ending on 31 March, 2024, one of the partners of YZ and Associates namely Mr. H took up the expenses part for the purpose of audit.</p> <p>The management of UV Private Limited had adopted various accounting policies and principles related to expenses which Mr. H as auditor of UV Private Limited was unable to understand. Some of the issues which Mr. H was unable to understand are mentioned as follows:</p> <ol style="list-style-type: none"> 1) Power and Fuel expenses paid for the months of April, 2024 and May, 2024 have been included and shown as Power and Fuel expenses for the period beginning 1 April, 2023 and ending 31 March, 2024 2) Personal Rent Expense of the son of one of the directors, Mr. T of UV Private Limited has been shown as Rent Expense of business of UV Private Limited. 3) Repair and Maintenance Expenses for the months of February 2024 and March 2024 were still outstanding and were not shown in the Balance Sheet of UV Private Limited. 4) Repair and Maintenance Expenses for the financial year 1 April, 2023 to 31 March, 2024 were very high as compared to financial year 1 April, 2022 to 31 March, 2023. The auditor Mr. H asked the appropriate authority about the reasons for such huge differences in amounts of two financial years. 5) While verifying the insurance expenses, the insurance policies were not shown to auditor Mr. H. <p>The above mentioned five points were some of the issues which Mr. H was unable to understand.</p> <p>Answer the following questions (ICAI MCQ Booklet) (RTP, Nov 2020, NA)</p>	
Q1.	As per the point number (1) mentioned in the above case, the Power and Fuel Expenses paid for the months of April 2024 and May 2024 must be shown under asset side of balance sheet of UV Private Limited as on 31 March, 2024 as: (a) Outstanding Power and Fuel Expenses (b) Prepaid Power and Fuel Expenses (c) Power and Fuel Expenses (d) Power and Fuel Expenses Payable
Q2.	As per point number (2) mentioned above in the case, the Personal Rent Expense of the son of one of the directors Mr. T was added to Rent Expense of business of UV Private Limited. The amount of personal rent expense of the son of the director Mr. T must be: (a) Subtracted from Rent Expense of business of UV Private Limited

	(b) Remain Added to Rent Expense of business of UV Private Limited (c) Again Added to Rent Expense of business of UV Private Limited (d) Subtracted twice from Rent Expense of business of UV Private Limited
Q3.	As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2024 and March 2024 must be shown in the balance sheet of UV Private Limited as on 31 March, 2024 as: (a) Prepaid Repair and Maintenance Expenses (b) Repair and Maintenance Expenses (c) Repair and Maintenance Expenses paid in advance (d) Repair and Maintenance Expenses Payable
Q4.	As per point number (4) mentioned in the case above, the auditor Mr. H asked the appropriate authority for reasons of huge differences in the amount of two financial years of repair and maintenance expenses. By appropriate authority Mr. H was referring to: (a) All employees of UV Private Limited (b) Management of UV Private Limited (c) Members of UV Private Limited (d) Any one director of UV Private Limited
Q5.	As per point number (5) mentioned in the case above, in verifying insurance expenses the insurance policies would provide auditor Mr. H with: (a) Invalid Supporting (b) No Supporting (c) Lack of proper Supporting (d) Sufficient and Appropriate Audit Evidence

Case Study 2 Answers

Q1.	(b) Prepaid Power and Fuel Expenses
Q2.	(a) Subtracted from Rent Expense of business of UV Private Limited
Q3.	(d) Repair and Maintenance Expenses Payable
Q4.	(b) Management of UV Private Limited
Q5.	(d) Sufficient and Appropriate Audit Evidence

Case Study 3

- M/s TPR & Associates have been appointed as the auditors of Octopus Ltd. for the Financial Year 2021-22.
 - During the course of audit, the auditor notices that there is significant change in the number of debtors of the company. The auditor decided to check the debtors account in detail.
 - Further the company has made various provisions like the provisions for taxation, provision for bad & doubtful debts.
 - Also, during the current Financial Year, the auditor attended the physical verification of the inventory being carried out by the management.
 - The auditor notices that there is no substantial change in the bifurcation of amount of items representing the liability side of the balance sheet of Octopus Ltd. Still the auditor understands that he needs to check the liability side in detail.
 - Further the company has also recognised various incomes like interest income and dividend income which auditor understands need to be checked in detail.
 - The auditor is of the understanding that certain matters need to be reported under Companies Auditors Report Order (CARO)
- Based on the above facts, answer the following:- (ICAI MCQ Booklet) (MTP1, May 2020, 10 marks)

Q1.	_____ is a possible obligation that arises from the past events and whose existence will be confirmed only by the occurrence/ non occurrence of one or more uncertain future events not wholly within the control of the entity:- (a) Provision (b) Reserve (c) Contingent Liability
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	(d) Liability
Q2.	Which of the following is not correct with respect to the inventory held by Octopus Limited:- (a) All inventory units held by the company should have been recorded and recognized in the financial statements. (b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance. (c) Inventory should be recognized at cost or net realizable value whichever is lower. (d) Inventory balance as at the year end does not include any element of next year
Q3.	If the management of Octopus Ltd. refuses to allow the auditor, to send the confirmation request to the debtors, the auditor should:- (a) Withdraw from the engagement. (b) Not listen at all to any requests of the management. (c) Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly. (d) Agree to management request and proceed with audit of other items of the financial statements.
Q4.	Which of the following statements is not true so far as the liabilities of a company are concerned:- (a) Liabilities are the financial obligations of a company including owner's funds. (b) Liabilities include borrowing, trade payable and other current liabilities and provisions. (c) Verification of liabilities is as important as that of assets. (d) All of the above
Q5.	Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances. (a) Only statement 1 is correct (b) Only statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect

Case Study 3 Answers

Q1.	(c) Contingent Liability
Q2.	(b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.
Q3.	(c) Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly.
Q4.	(a) Liabilities are the financial obligations of a company including owner's funds.
Q5.	(c) Both 1 & 2 are correct

Case Study 4

XYZ Ltd. is a company engaged in the development of computer hardware. The company has purchased a software namely Zenith X in the current financial year i.e. FY 2023-24. This software will be used by XYZ Ltd. for the production of various hardware.

M/s. ABC & Associates are working as the auditors of XYZ Ltd. since Financial Year 2021-2022.

Since XYZ Ltd. has purchased the software during the current Financial Year, the auditors are of the understanding that there are certain requirements that the company should follow as per relevant provisions applicable in this case.

Also, the auditors had advised their audit staff to give special consideration to the expenditure being capitalized during the year and those which are charged to revenue during the current financial year.

The auditors, M/s ABC & Associated have directed their audit staff to check the following in detail:

- the provisions relating to the depreciation and amortisation of assets and intangible assets and
- the applicability of various Accounting Standards applicable to the entity.

Based on the above facts, answer the following:- (ICAI MCQ Booklet)

Q1.	Which of the following expenses should not be charged to revenue by XYZ Ltd.:-
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	<p>(a) Printing & Stationary (b) Power & Fuel (c) Salary & Wages of employees engaged directly or indirectly in production. (d) Major repairs of fixed assets that increases its productivity.</p>
Q2.	<p>XYZ Ltd. should recognize Zenith X software as intangible, if such software_____:- (a) Is held for use in production or supply of goods or services (b) Is held for administrative purpose (c) Is held for rental to others (d) All of the above</p>
Q3.	<p>In case any intangible asset is not in active use by the entity , the auditor should check whether:- (a) The deletion with respect to the intangible asset has been recorded in the books of accounts post approval by the entity's management. (b) The amortisation charge has ceased beyond the date of deletion. (c) Both a & b (d) None of a & b</p>
Q4.	<p>With respect to the provisions of impairment of computer software, the following Accounting Standard is applicable:- (a) AS 18 (b) AS 28 (c) AS 26 (d) AS 10</p>
Q5.	<p>The following expenditure should not be capitalized with respect to the intangible assets:- (a) Expenditure during Development Phase. (b) Expenditure during Research Phase. (c) None of the above. (d) Both a & b.</p>

Case Study 4 Answers

Q1.	(d) Major repairs of fixed assets that increases its productivity.
Q2.	(d) All of the above
Q3.	(c) Both a & b
Q4.	(b) AS 28
Q5.	(b) Expenditure during Research Phase

Case Study 5

One audit team is conducting statutory audit of Delta Robotics Limited for financial year ending 31st March, 2024 under Companies Act,2013. The revenue from operations of company during year 2023-24 is ₹ 89,40,60,300. Certain observations and information stated as under have been noted during the course of audit by the audit team: -

- A. The said company is availing working capital credit facility to meet its normal operating cycle requirements amounting to ₹ 7.50 crores from a scheduled bank and outstanding balance as on 31st March, 2022 is ₹ 6,49,20,120. The financial statements disclose this outstanding balance in financial statements under the head "Long-term borrowings". Further, the said credit facility is secured against equitable mortgage of an immovable property located at NOIDA. The said facility is guaranteed by all directors of the company, some of relatives of directors and two persons viz. Mr. Krishnamurthy and Mr. Ramalingam who are not related to directors in any manner.
- B. The company has made current investments in Ceekay Limited to the tune of ₹ 1,10,00,000 by way of equity instruments. Further, the company has also made investment in a partnership firm to the tune of ₹ 25,00,000. The said partnership concern is in an upcoming and promising line of business activity.

- C. It was observed that company had received some export orders during the year under audit and these orders had resulted in fructifying export turnover of ₹ 3,88,25,000. During the year under consideration, the company has reflected net loss in respect of foreign currency transactions amounting to ₹ 5,50,000. Further, the company has also imported components and spare parts having FOB value of ₹ 10.00 lacs (CIF ₹ 11.25 lacs) during the year.
- D. The trade payables of the company include dues to micro and small enterprises amounting to ₹ 1,40,36,740.
- E. Printing and stationery expenses, travelling expenses and fair participation expenses are ₹ 74,320, ₹ 88,38,250 and ₹ 1,63,26,260 respectively.

Based upon above, answer following questions keeping in view classification and disclosure requirements of Schedule III of Companies Act, 2013: - (ICAI MCQ Booklet)

Q1.	<p>Consider the following statements: -</p> <p>Statement I-- The company has correctly classified and disclosed outstanding balance of working capital credit facility under the head "Long- term borrowings."</p> <p>Statement-II-- Nature of security for availing working capital credit facility needs to be disclosed. Which of the following is correct?</p> <p>(a) Both statements I and II are true. (b) Statement I is true. However, statement II is false. (c) Statement I is false. However, statement II is true. (d) Both statements I and II are false.</p>
Q2.	<p>Which of the following is most correct as regards to disclosure of fact of guarantee of working capital credit facility?</p> <p>(a) Disclosure regarding guarantee of loan by directors is in accordance with law. (b) Disclosure regarding guarantee of loan by directors and relatives only is in accordance with law. (c) Disclosure regarding guarantee of loan by directors, relatives and non-related persons i.e. Mr. Krishnamurthy and Mr. Ramalingam is in accordance with law. (d) No disclosure is required regarding guarantee of loan.</p>
Q3.	<p>As regards current investments made by company in Ceekay Limited, which of following groups contain most valid requirements mandated by law?</p> <p>(a) Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments and their market value (b) Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments (c) Basis of valuation of individual investment, aggregate amount of quoted investments and their market value (d) Name of body corporate in which investment is made, aggregate amount of quoted investments and their market value.</p>
Q4.	<p>As regards current investments made by company in partnership firm, which of following classification and disclosure requirements include requirements mandated by law?</p> <p>(a) Name of firm in which investment is made, names of all the partners, total capital and shares of each partner (b) Name of firm in which investment is made, names of all the partners, nature of business of firm and total capital (c) Name of firm in which investment is made, names of all the partners, nature of business of firm and shares of each partner (d) names of all the partners, nature of business of firm, total capital and shares of each partner.</p>
Q5.	<p>As regards foreign currency transactions, consider the following statements: -</p> <p>Statement I Earnings in foreign exchange regarding export of goods on CIF basis needs to be disclosed in notes to accounts.</p> <p>Statement II Net loss of foreign currency transactions is required to be disclosed separately in statement of profit and loss.</p> <p>Which of the following statements is correct?</p> <p>(a) Both statements I and II are true. (b) Both statement I and II are false. (c) Statement I is true. Statement II is false. (d) Statement I is false. Statement II is true.</p>

Case Study 5 Answers

Q1.	(c) Statement I is false. However, statement II is true.
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Q2.	(c) Disclosure regarding guarantee of loan by directors, relatives and non-related persons i.e. Mr. Krishnamurthy and Mr. Ramalingam is in accordance with law
Q3.	(a) Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments and their market value
Q4.	(a) Name of firm in which investment is made, names of all the partners, total capital and shares of each partner
Q5.	(d) Statement I is false. Statement II is true.

Case Study 6

M/s Arun Karun & Associates have been appointed as the statutory auditors of HKM Ltd. for the FY 2021-22. HKM Ltd. is a company engaged in the manufacture of computer hardwares. CA Arun is the engagement partner and his team consists of two articled assistants, namely Mr. Ram & Mr. Shyam.

While performing the audit procedures, Mr. Ram did production analysis and calculated the expenditure per unit and compared the same with the previous year and the present year industry trends. When Mr. Ram asked the management about the reasons for variations, he was told that such reasons have already been explained to the cost auditors and the statutory audit team need not spend their time on matters which are of concern for the cost auditor. Mr. Ram was convinced and agreed to the suggestions of the management of HKM Ltd.

Further, during the course of audit, CA Arun found that there has been an increase in the paid up share capital of the company. CA Arun obtained a written representation from the management with respect to such increase in the share capital. Also, CA Arun found that in the company there is a cashier, a petty cashier and in addition there are imprest balances with the employees. Further, the audit team verified all the travelling expenses recognised during the period to confirm whether they relate to the current accounting period only.

CA Arun directed Mr. Ram to verify whether the employee benefit expense has been fairly allocated between the operating expenses incurred in production activities and the general expenses. CA Arun also directed his team to check in detail the particulars of Revenue reserve and share premium account of the company.

Based on the above facts, answer the following:- (ICAI MCQ Booklet)

Q1.	<p>With respect to the contention of the management of HKM Ltd. regarding the production analysis and the related variances, which of the following is correct?</p> <p>(a) M/s Arun Karun & Associates need not waste its time in production analysis as the same is the responsibility of the cost auditor of the company.</p> <p>(b) M/s Arun Karun & Associates should perform production analysis and discuss the reasons of variation with the management of HKM Ltd.</p> <p>(c) M/s Arun Karun & Associates should mention in its audit report regarding the fact of noticed variation in the production analysis. Also they need to mention separately that the management along with the cost auditor is responsible for such analysis.</p> <p>(d) M/s Arun Karun & Associates should ensure that the cost auditor of HKM Ltd. mentions the fact regarding the production analysis in their cost audit report which is to be filed with the Board of Directors and the Central Government.</p>
Q2.	<p>With respect to the audit of cash balance of HKM Ltd. which is the correct course of action for M/s Arun Karun & Associates?</p> <ol style="list-style-type: none"> The cash balance with the cashier, petty cashier, and imprest balances with the employees should be checked simultaneously. The cashier should be present while cash is being counted and he should sign the statement prepared containing the details of the cash balance so counted. Since the company is having more than one cash balances i.e. with cashier, petty cashier, and imprest balances with employees, CA Arun should ask the management to get the cash balance verified by the main cashier and furnish cashier's report to him. CA Arun should ask any of the cashiers to verify the cash balances and provide him with a report on the same. <p>(a) Statement 1 & 2 (b) Statement 1 & 4 (c) Statement 1,3 & 4 (d) Statement 1 & 3</p>
Q3.	<p>Verification of all the travelling expenses of HKM Ltd. by the audit team addresses the following assertion related to the Income Expense account:</p> <p>(a) Valuation</p>

	(b) Completeness (c) Measurement (d) Existence
Q4.	Verifying whether employee benefit expense of HKM Ltd. has been fairly allocated between the operating expense incurred in production activities and general expense addresses which of the following assertions? (a) Completeness (b) Presentation and Disclosure (c) Measurement (d) Occurrence
Q5.	Which of the following is correct with respect to the provisions relating to revenue reserves of HKM Ltd? i) Revenue Reserves of HKM Ltd. can be used to supplement divisible profits in lean years. ii) Revenue Reserve cannot be used to augment the working capital of the business of HKM Ltd. iii) Revenue Reserve cannot be used to finance an extension of the business of HKM Ltd. iv) Revenue Reserve can be used to generally strengthen the company's financial position. (a) ii & iii are correct (b) i & iv are correct (c) i, ii, iii are correct (d) i, ii, iii, iv are correct

Case Study 6 Answers

Q1.	(b) M/s Arun Karun & Associates should perform production analysis and discuss the reasons of variation with the management of HKM Ltd.
Q2.	(a) Statement 1 & 2
Q3.	(b) Completeness
Q4.	(b) Presentation and Disclosure
Q5.	(b) i & iv are correct

Case Study 7

- M/s ANS & Associates have been appointed as the auditors of Star Ltd. for the Financial Year 2023-24.
- During the year under audit, Star Ltd has issued share capital at a premium of ₹ 5 per share.
- The auditors understand that certain provisions as per the Companies Act 2013 related to the issue of shares at premium are applicable to the company
- Also, Star Ltd. has issued Sweat Equity shares to its employees during the year. The audit staff had the following understanding with respect to the sweat equity shares:
"Sweat Equity Shares" mean equity shares issued by the company to employees or directors at a
 - discount or
 - for consideration other than cash
 for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called."
- The engagement partner has advised its audit staff to check in particular whether the company has complied with the relevant provisions related to the issue of sweat equity shares as per the Companies Act 2013.
- Further, the auditor understands that the Company Star Ltd. needs to file various forms with different authorities when there is a change in the share capital of the company during the year.
- Also special consideration is given under audit to the treatment of reserves as Revenue vs Capital by the company during the financial year.

Based on the above facts, answer the following:- (ICAI MCQ Booklet)

Q1.	As there is a change in the share capital of Star Ltd. during the year, which of the following combination related to the forms to be submitted is correct:-
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	<p>(a) Form SH 7: To be filed with Ministry of Corporate Affairs</p> <p>(b) Form PAS: To be filed with the Ministry of Corporate Affairs.</p> <p>(c) Form FCGPR: To be filed with the Reserve Bank of India in case of Foreign Direct Investment by a Non Resident Shareholder.</p> <p>(d) All of the above</p>
Q2.	<p>The Securities Premium Account can be used by the Star Ltd. for various purposes, except one:-</p> <p>(a) In writing off the preliminary expenses of the company</p> <p>(b) Towards the issue of the unissued shares of the company to the members of the company as fully paid bonus shares</p> <p>(c) For purchase of its own shares and other securities under section 68.</p> <p>(d) To be used as working capital.</p>
Q3.	<p>With regard to the issue of Sweat Equity shares following conditions have to be complied. Identify the incorrect one:-</p> <p>(a) The issue is authorized by ordinary resolution passed by the company.</p> <p>(b) The resolution should specify the number of shares, the current market price.</p> <p>(c) The rights, limitations, restrictions and provisions as applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank pari passu with other equity shareholders.</p> <p>(d) Where the equity shares of the company are listed on recognized stock exchange, the shares are issued in accordance with requirements by SEBI.</p>
Q4.	<p>Which of the following is not correct:-</p> <p>(a) Section 52- Securities Premium Account</p> <p>(b) Section 53- Issue of shares at discount</p> <p>(c) Section 54- Issue of Bonus Shares</p> <p>(d) Section 68- Buyback of shares</p>
Q5.	<p>With respect to which of the following, passing of a Special Resolution is required by a company:-</p> <p>(a) Issue of Sweat Equity Shares</p> <p>(b) Reduction of Share Capital</p> <p>(c) Both a & b</p> <p>(d) None of a & b</p>

Case Study 7 Answers

Q1.	(d) All of the above
Q2.	(d) To be used as working capital.
Q3.	(a) The issue is authorized by ordinary resolution passed by the company
Q4.	(c) Section 54- Issue of Bonus Shares
Q5.	(c) Both a & b

Case Study 8

During the financial year 2023-24, a Partnership Firm of Chartered Accountants HW and Associates was appointed to audit the books of accounts of Extremely Healthy and Very Delicious Limited. HW and Associates consists of two partners, Mr. H and Mr. W. While auditing the books of accounts of the above mentioned company for the financial year 2023-24, Mr. H observed certain accounting transactions and accounting treatments which he was not able to understand. Such accounting transactions and accounting treatments are provided as follows:

- 1) The books of accounts of Extremely Healthy and Very Delicious Limited showed profit for the financial year 2023-24. The closing stock was incorrectly recorded in books of accounts of the company for ₹ 11,45,000. However, the actual closing stock was of ₹ 11,05,000.
- 2) Expenses and Incomes were not recorded on Accrual Basis and such fact was not disclosed in the financial statements.
- 3) Each and every type of inventory was valued at higher of Cost and Market Value.

- 4) An amount of ₹ 15,500 received in cash from one of the trade receivable was presented in the cash flow statement as Inflow of Cash of ₹ 15,500 from Investing Activities.
- 5) A payment of ₹ 16,600 was done in cash for the purpose of purchasing Machinery 22. This accounting transaction was presented in the cash flow statement as Inflow of Cash of ₹ 16,600 from Financing Activities.
- 6) Extremely Healthy and Very Delicious Limited received certain amount in cash on issue of shares. One such amount of ₹ 19,100 received in cash was presented as Outflow of Cash of ₹ 19,100 from Operating Activities in the Cash Flow Statement.
- 7) Fair Value of Equipment 31 = ₹ 1,07,300.
Carrying Amount of Equipment 31 = ₹ 90,400.
Residual Value of Equipment 31 = ₹ 79,600.

No depreciation was charged on Equipment 31 for the financial year 2023-24 as Management of Extremely Healthy and Very Delicious Limited was of the opinion that no depreciation would be charged as Fair Value of Equipment 31 was more than Carrying Amount of Equipment 31.

Keeping the basic concepts of Accounting Standard 1 relating to Disclosure of Accounting Policies, Accounting Standard 2 relating to Valuation of Inventories, Accounting Standard 3 relating to Cash Flow Statements, Accounting Standard 10 relating to Property, Plant and Equipment and Audit of Items of Financial Statements in mind answer the multiple choice questions that follow:

(ICAI MCQ Booklet)

Q1.	Closing Stock of ₹ 11,05,000 was incorrectly recorded in books of accounts of Extremely Healthy and Very Delicious Limited for ₹ 11,45,000. This means profit before correction in books of accounts of the company was: (a) Understated by ₹ 20,000. (b) Understated by ₹ 40,000. (c) Overstated by ₹ 20,000. (d) Overstated by ₹ 40,000
Q2.	Inventory of Extremely Healthy and Very Delicious Limited must be valued at: (a) Cost. (b) Lower of Cost and Net Realizable Value. (c) Market Value. (d) Higher of Cost and Net Realizable Value.
Q3.	The amount of ₹ 15,500 which was received in cash from one of the trade receivable of Extremely Healthy and Very Delicious Limited, must be presented in Cash Flow Statement as: (a) Inflow of Cash of ₹ 15,500 from Miscellaneous Activities. (b) Inflow of Cash of ₹ 15,500 from Operating Activities. (c) Inflow of Cash of ₹ 15,500 from Investing Activities. (d) Inflow of Cash of ₹ 15,500 from Financing Activities
Q4.	For the purpose of purchasing Machinery 22, a payment of ₹ 16,600 was done by Extremely Healthy and Very Delicious Limited in cash. This accounting transaction must be presented in the Cash Flow Statement as: (a) Outflow of Cash of ₹ 16,600 from Investing Activities. (b) Outflow of Cash of ₹ 16,600 from Operating Activities. (c) Outflow of Cash of ₹ 16,600 from Financing Activities. (d) Outflow of Cash of ₹ 16,600 from Miscellaneous Activities.
Q5.	During the financial year 2023-24, the fair value of Equipment 31 of Extremely Healthy and Very Delicious Limited was more than the carrying amount of Equipment 31. In this situation which of the following statement is correct: (a) No depreciation would be charged on Equipment 31 for the financial year 2023-24 as Fair Value was more than Carrying Amount for Equipment 31. (b) No depreciation would be charged on Equipment 31 for the financial year 2023-24 as Fair Value was more than Residual Value for Equipment 31. (c) Depreciation would be charged on Equipment 31 for the financial year 2023-24 as Carrying Amount was less than Fair Value for Equipment 31. (d) Depreciation would be charged on Equipment 31 for the financial year 2023-24 as Residual Value is less than Carrying Amount for Equipment 31.

Case Study 8 Answers

Q1.	(d) Overstated by ₹ 40,000.
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Q2.	(b) Lower of Cost and Net Realizable Value.
Q3.	(b) Inflow of Cash of ₹ 15,500 from Operating Activities
Q4.	(a) Outflow of Cash of ₹ 16,600 from Investing Activities
Q5.	(d) Depreciation would be charged on Equipment 31 for the financial year 2023-24 as Residual Value is less than Carrying Amount for Equipment 31.

Case Study 9

A private company by the name of Very Composed Private Limited was required to be audited for the financial year 2023-24. A partnership firm of Chartered Accountants, ST and Associates was appointed as company auditor of Very Composed Private Limited. The partnership firm ST and Associates had two partners, Mr. S and Mr. T. During the course of audit, one of the partners of ST and Associates, Mr. S took up one of the important item of financial statements namely tangible fixed assets for the purpose of audit. While auditing tangible fixed assets Mr. S observed various accounting policies, procedures and principles which management of Very Composed Private Limited had adopted for maintaining books of accounts of the above mentioned company which he was unable to understand. For Example:

- 1) Expenses incurred on installation of new machinery purchased were treated as revenue expenditure.
- 2) Expenses incurred regarding normal maintenance of old machinery were treated as capital expenditure.
- 3) Depreciation was not charged on building of Very Composed Private Limited on the reason that it was non – depreciating in nature.
- 4) The appropriate authority of Very Composed Private Limited had not taken steps for assessing impairment loss on machinery.

The above mentioned four examples were some of the issues which Mr. S was unable to understand while auditing tangible fixed assets of Very Composed Private Limited.

Keeping the basic concepts and accounting principles regarding tangible fixed assets in mind answer the following multiple choice questions that follow: **(ICAI MCQ Booklet)**

Q1.	Expenses incurred on installation of new machinery by Very Composed Private Limited should be treated as: (a) Revenue Expenditure (b) Capital Expenditure (c) Deferred Revenue Expenditure (d) Partly Revenue Expenditure and Partly Capital Expenditure
Q2.	Expenses incurred on normal maintenance of old machinery by Very Composed Private Limited should be treated as: (a) Capital Expenditure (b) Deferred Revenue Expenditure (c) Partly Revenue Expenditure and Partly Capital Expenditure (d) Revenue Expenditure
Q3.	In books of accounts of Very Composed Private Limited, building should be treated as: (a) Depreciating Tangible Fixed Asset (b) Non-Depreciating Tangible Fixed Asset (c) Depreciating Intangible Fixed Asset (d) Non-Depreciating Intangible Fixed Asset
Q4.	In example 4 in integrated case scenario above, Mr. S mentions about appropriate authority of Very Composed Private Limited which has not taken steps for assessing impairment loss on machinery. By appropriate authority Mr. S was referring to: (a) Members of Very Composed Private Limited (b) All employees of Very Composed Private Limited (c) Management of Very Composed Private Limited (d) Any one Director of Very Composed Private Limited
Q5.	The method of depreciation used by Very Composed Private Limited must be such that it allocates amount of depreciation of a tangible fixed asset in a systematic manner over its: (a) Complete Life (b) Service life

	(c) Economic life (d) Useful Life
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Case Study 9 Answers

Q1.	(b) Capital Expenditure
Q2.	(d) Revenue Expenditure
Q3.	(a) Depreciating Tangible Fixed Asset
Q4.	(c) Management of Very Composed Private Limited
Q5.	(d) Useful Life

Case Study 10

Vyom is a CA student who has just enrolled for his articleship training with M/s Kumar & Co., a LLP of Chartered Accountants with Mr. Kumar & Mr. Kanwar as its designated Partners. Vyom has only theoretical knowledge till now of accounting work and wants to gain practical knowledge of Accounting & Auditing. He asks Mr. Kumar to take him to important assignments along with him so that he can also get exposure to practical auditing. Mr. Kumar, sensing his ambition, advises him to proceed slowly with less complex work in the beginning to understand the process of accounting and auditing from the core instead of jumping directly to be a part of the engagement teams for large audits. He assigns him a small audit of a sole trader Client 'X' and asks him to document each and every step of the Audit Programme being handed over to him as a part of the audit team auditing the accounts of Mr. X. Mr X follows accrual system of accounting.

Vyom, on advice from Mr. Kumar, reads first about the Financial Statements, their inclusions and assertions they contain. He learns that a 'Financial Statement Audit' is the most common one but different from all other audits. In preparing the financial statements, an entity's management makes implicit or explicit claims known as assertions regarding the completeness, existence/occurrence, valuation/ measurement, rights and obligations and presentation and disclosure of financial statement items. While auditing the books of Mr. X, he observes the following and documents audit evidence gathered by him:-

- Assets have been shown at their Historical Cost in the Balance Sheet.
- Prepaid & Outstanding Expenses have not been accounted for as per accrual basis.
- Specific audit procedures to check the consistency of audit evidence obtained externally with those generated internally have been carried out.

CA Kumar discusses the evidence collected by Vyom and tells him that they are insufficient and makes him aware of the factors which he needs to consider in his future audits as to determine the sufficiency of audit evidence collected. **(ICAI MCQ Booklet)**

Q1.	Company X's Balance-Sheet shows Building with carrying amount of INR 5 Lakh, the auditor gathers evidence about the Company's ownership and control over such building. This is an assertion w.r.t- (a) Completeness (b) Valuation (c) Existence (d) Rights & Obligations.
Q2.	The Advance Salary given to Mr. Y in the above case has not been accounted for properly in the accounts of the Company and shown on payment basis only. This is a violation of assertion of: (a) Completeness (b) Valuation (c) Rights and obligations (d) Existence
Q3.	Relating and tallying information obtained from audit evidence internally and externally is an example of _____ evidences as observed in the above case. (a) Corroborative (b) Supplementary (c) Contrasting (d) Contradictory

Q4.	Which assertion would Vyom find to be common among Income Statement and Balance Sheet. (a) Existence (b) Valuation (c) Completeness (d) Measurement
Q5.	Sufficiency of the Audit Evidence collected as per the above case is referred to by CA Kumar as_____ of Audit Evidence? (a) Quality (b) Quantum (c) Source (d) Form

Case Study 10 Answers

Q1.	(d) Rights & Obligations.
Q2.	(a) Completeness
Q3.	(d) Contradictory
Q4.	(c) Completeness
Q5.	(b) Quantum

Case Study 11

Ms. Rhea was among the promoters who set up a public company by the name "Aksham Ltd". The company appointed CA Rajendra as the auditor of Aksham Ltd. CA Rajendra is the brother of one of the directors of Aksham Ltd. After setting up of company, the company had a dispute with one customer of the company in year 2021-22 who took the company to court. There are probable chances that company will have to shelve out ₹ 50 lakhs as compensation but the case will likely to be finalised in year 2023-24 CA Rajender considers the fact that Askham Ltd has a present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate i.e. ₹ 50 Lakhs can be made of the amount of the obligation.

Aksham Ltd. declared dividend of ₹ 10 per equity share on 10th April,2023. The financial statements were approved on 30th June,2023. Askham Ltd took loan of ₹ 65 lakhs from Saksham Bank for a period of 10 years; the loan amount was guaranteed by Mr. Pramod, one of the directors of Aksham Ltd. The loan was completely secured against the fixed assets of the company.

Aksham Ltd drew designs of one of the products of the company and this product constituted 90 % sales of the company. The designs of the product were such that the sale of the company will increase every year for the next 5 years. Aksham Ltd booked the designs of the company at a value of ₹ 1 crore in the books of account of the company as intangibles at its cost.

Based on the above information, answer the following questions: (ICAI MCQ Booklet) (RTP, Nov 2021, NA)

Q1.	Advise the company regarding the course of action Aksham Ltd will have to follow for the court case for financial statements prepared for year ending 31st March, 2023 (a) create provision (b) create revenue reserve (c) create capital reserve (d) to be disclosed as contingent liability
Q2.	What is the action which Aksham Ltd is supposed to take with regard to treatment of dividend declared while preparing and finalizing financial statements for year ending 31st March,2023? (a) recognise dividends as a liability (b) disclose the amount of dividend (c) both a and b (d) none of the above
Q3.	State the disclosures Aksham Ltd is required to make with respect to the long-term borrowings taken from Saksham Bank. I. Secured loan from Saksham Bank.

	<p>II. The fixed assets are secured against the loan</p> <p>III. The loan of ₹ 65 lakhs is guaranteed by director.</p> <p>IV. Repayment terms of the loan</p> <p>(a) I, II, III and IV</p> <p>(b) I, II</p> <p>(c) I, II, III</p> <p>(d) II, III</p>
Q4.	<p>State which of the following statement is true with respect to recording an intangible in the books of the company.</p> <p>(a) Intangible is correctly booked by the company.</p> <p>(b) Intangible is wrongly booked by the company as an intangible cannot be booked as per the accounting standard of India.</p> <p>(c) Intangible is wrongly booked by the company as an intangible cannot be booked as per the auditing standards of India.</p> <p>(d) Intangible is wrongly booked by the company as an intangible cannot be booked as per the Companies Act, 2013.</p>

Case Study 11 Answers

Q1.	(a) create provision
Q2.	(b) disclose the amount of dividend
Q3.	(a) I, II, III and IV
Q4.	(a) Intangible is correctly booked by the company.

Case Study 12

You are a partner in ABC & Company, a Chartered Accountant firm based in New Delhi. ABC & Company has been appointed as the statutory auditor of onetime Limited, a public limited company which manufactures and sells wall and table clocks and has many branches all over India. onetime Limited has been exporting the clocks since past two years. However, the domestic sales have contributed towards major source of revenue for the Company.

You being the engagement partner have started the audit for the year ended 31.03.2024 along with your five team members. One of the team members, CA B started verification of inventory. In addition to other procedures, he also checked that valuation of Inventory had been recognised in accordance with AS -2. During detailed checking, he noticed that the amount spent on salary of administrative employees and normal wastage on production of the clocks, had not been added to the valuation of Inventory. The contention of XYZ Limited was that since the cost was not directly related to the production cost and so not added to the cost of inventory.

CA B also noticed that one of the suppliers of onetime Limited, Mr AM had sent some raw material to the Company for storage in their warehouse in March 2024. Due to renovation going on at his warehouse, his stock could be damaged and so he had requested Onetime Limited to keep the same in their warehouse. onetime Limited contended that since the raw material was anyway billed to the Company the next month, so the same had been included in the valuation of stock, since physically the stock was present in the warehouse of Onetime Limited as on 31.03.2024.

The Company had issued shares at premium, and the premium received on the shares had been transferred to a "securities premium account". The same was then applied in writing off the expenses of selling the clocks, writing off the preliminary expenses of the Company and also writing off the commission paid to the sales agents. You have verified the same in detail.

While verifying debtors, team member C noticed that there were a few trade receivables pertaining to export sales mainly to England. Mr. C verified the same with respect to the invoices issued and other supporting documents. The amount booked as on 31.03.2024 was based on the exchange rate as on the date of the invoice.

Mr. T, another team member verified the fixed assets of the Company. onetime Limited had purchased few cars for its directors during the year of audit. The same were appearing in the fixed assets schedule of the Company. Mr T verified the same with respect to the invoices as well as physically verified the assets in the Company's premises. Since the cars were for the official use of the Directors, they were purchased in the name of the Directors of the Company.

Mr. T verified the amount with the Invoice and checked the registration and insurance documents.

One of the article clerks was assigned the work of verification of "Provisions" appearing in the Balance sheet. He wanted to understand from you the circumstances in which a provision is recognised in the books of account. You explained him the situations in which an entity recognises Provisions in its books. Onetime Limited has invested in the shares of other companies.

One of the Companies has declared dividend on its shares. Onetime Limited has not recognised the same in the profit & loss account. Team Member R has asked you to look into the matter since she is unable to understand the reasons for the same.

The Company had spent a huge amount on repair and maintenance of the machinery used for the production of the clocks. The amount was accounted for in two parts: repairs were booked as a revenue expenditure and annual maintenance charges were capitalised and added to the machinery cost. Ms. R has verified the same in detail and raised her observations.

(RTP, May 2022, NA) (MTP2, Nov 2023, 10 marks)

Q1.	Is the raw material lying in the warehouse of onetime Limited accounted for correctly in its books of account? (a) No, since the same belongs to Mr. AM and should appear in his books. (b) Yes, since the same is in possession of onetime Limited and was billed to it the following month. (c) It should be shown in the books of both onetime Limited and Mr. AM. (d) It should not appear in the books of onetime Limited or Mr. AM and the raw material should be disclosed as a note in the final accounts of both the entities.
Q2.	Which exchange rate is considered for accounting of foreign debtors at the year end? (a) Exchange Rate on the date of the invoice. (b) Exchange Rate on the last day of the financial year. (c) Exchange Rate on the date of shipment of the products to the customer. (d) Exchange Rate on the date of delivery of the products to the customer.
Q3.	Which of the following assertions with respect to fixed assets has not been complied with by the Company? (a) Existence (b) Valuation (c) Cut-Off (d) Rights and Obligations
Q4.	Which of the following condition is not required to be met for recognizing a provision? (a) When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. (b) When an entity has a present obligation (legal or constructive) as a result of a past event. (c) A reliable estimate can be made of the amount of the obligation. (d) When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
Q5.	Dividends are recognized in the statement of profit and loss only on fulfilment of which condition: (a) the entity's right to receive payment of the dividend is established. (b) it is probable that the economic benefits associated with the dividend will flow to the entity. (c) the amount of the dividend can be measured reliably. (d) All of the above

Case Study 12 Answers

Q1.	(a) No, since the same belongs to Mr. AM and should appear in his books
Q2.	(b) Exchange Rate on the last day of the financial year.
Q3.	(d) Rights and Obligations
Q4.	(a) When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
Q5.	(d) All of the above

Case Study 13

Kartik, a CA student undergoing his articulated training, is part of an engagement team conducting statutory audit of MSE Auto Private Limited, a company engaged in manufacturing of automobile spare parts. The company has its manufacturing facilities located in Pimpri- Chinchwad industrial belt near Pune. It is a profit making company and one of the most sought after by banks in the area due to its good track record. The following is extract of financial information taken from its pre-audit financial statements for year 2023-24. Figures have been rounded off in ₹ 000's.

Particulars	Year 2023-24	Year 2022-23
Share capital	2500	2500
Long term borrowings	0	15000
Short term borrowings	55000	15000
Inventories	35000	27000
Trade receivables	60000	25000
Revenue from Operations	300000	100000
Profit before tax	60000	18000

While going through schedule of long term borrowings and books of accounts, he finds that reduction of long term borrowings of the company is on account of full payment of a term loan in month of April 2023 taken from a bank in past. However, he finds that charge in respect of above term loan in favour of bank is still subsisting on MCA portal beyond statutory period due to non-registration of charge satisfaction.

He had read about assertions pertaining to balance sheet and income statement. However, he was not sure about nomenclatures assigned to assertions pertaining to balance sheet and income statement.

The team had also attended physical inventory count of the company as at year end in accordance with SA 501.

Besides, company's trade receivables have increased from ₹ 25000 in year 2022-23 to ₹ 60000 in year 2023-24 (both figs in '000s). His understanding is that increase in company's trade receivables as compared to last year signifies longer time taken by company's customers to make their payments.

Considering substantial rise in revenue from operations of the company in the year under audit, team wants to ensure that revenues of company are not overstated.

Based on above, answer the following questions: - (RTP, Nov 2023, NA)

Q1.	<p>Keeping in view description regarding full payment of term loan in April 23 taken from a bank in past and non-registration of satisfaction of charge, which of following statements is correct?</p> <p>(a) The above fact may be disclosed by the company's management in its financial statements at its discretion along with reasons as such disclosure would bring transparency.</p> <p>(b) The above fact along with reasons is required to be disclosed by the company in its financial statements in accordance with requirements of Standards on Auditing.</p> <p>(c) The above fact along with reasons is required to be disclosed by the company in its financial statements in accordance with requirements of Schedule III of Companies Act, 2013.</p> <p>(d) The above fact is not required to be disclosed as term loan has already been repaid in full and there are no outstanding long term borrowings.</p>
Q2.	<p>The company's short-term borrowings have increased during the year 2023-24 as compared to last year. One of following assertions is not relevant to verification of shortterm borrowings. Which odd one you would suggest to Kartik in this regard?</p> <p>(a) Existence</p> <p>(b) Occurrence</p> <p>(c) Completeness</p> <p>(d) Valuation</p>
Q3.	<p>As regards team's attendance at physical inventory count process of company's inventories in accordance with SA 501 is concerned, which of following is not a relevant audit procedure?</p> <p>(a) Inspection of inventories</p> <p>(b) Checking appropriateness of method employed for valuation of inventories</p> <p>(c) Evaluating management's instructions for recording results of physical inventory count</p> <p>(d) Performing test counts</p>
Q4.	<p>The company's trade receivables have increased during year 2023-24 as compared to last year. Which of following statements is most appropriate regarding understanding of Kartik on this issue?</p> <p>(a) The view of Kartik is correct and it has led to increased audit risk pertaining to valuation of trade receivables. Therefore, team needs to go through trade receivables ageing schedule to confirm it.</p> <p>(b) The view of Kartik is incorrect.</p> <p>(c) The view of Kartik is correct and it has led to increased audit risk pertaining to valuation of trade receivables. Therefore, team needs to perform direct confirmation procedures to confirm it.</p> <p>(d) The view of Kartik is correct and it has led to increased audit risk pertaining to valuation of trade receivables. Therefore, team needs to perform cut-off procedures to confirm it</p>
Q5.	<p>The team wants to ensure that revenues of company are not overstated. Which of following is not likely to be a relevant audit procedure in this regard?</p>

	<p>(a) Obtaining confirmations from customers</p> <p>(b) Reviewing GST returns and their reconciliation with revenue stated in statement of profit & loss</p> <p>(c) Reviewing credit notes issued by company post year end</p> <p>(d) Reviewing debit notes issued by company post year end</p>
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Case Study 13 Answers

Q1.	(c) The above fact along with reasons is required to be disclosed by company in its financial statements in accordance with requirements of Schedule III of Companies Act, 2013
Q2.	(b) Occurrence
Q3.	(b) Checking appropriateness of method employed for valuation of inventories
Q4.	(b) The view of Kartik is incorrect.
Q5.	(d) Reviewing debit notes issued by company post year end

Case Study 14

Dhanush, a CA student undergoing articles, is part of an engagement team conducting audit of Test Enterprises Private Limited. The company is engaged in business of conducting aptitude and language tests every fortnight at centres spread all over major cities of country for Indian students desirous of applying to foreign universities. It also sells books containing model test papers for the benefit of students. The company has substantial number of computers at each centre to enable seamless experience for students appearing for standardized aptitude and language tests.

The company has acquired new identifiable software involving substantial expenditure for conducting tests during the year which is expected to drive company's revenues in coming years. At the time of taking a test, a CD containing software is run in each system for enabling students to take tests. Cost of CD without software is nominal.

The revenue of the company during the year 2023-24 was ₹ 50 crores (₹ 45 crores from fees charged from students and ₹ 5 crores from sale of books). Besides, company has also received ₹ 10 lacs as interest on certain investments during the year. The company has a history of profitable operations.

During the course of audit, it is noticed by Dhanush that computers form significant chunk of PPE items in financial statements of company. The company has taken useful life of computers consisting of desktops for 3 years. However, depreciation charged on computers in financial statements of the company is higher than depreciation allowable under Income tax law. It results in lower accounting income as per books of accounts of company as compared with taxable income under Income tax law.

During the course of audit, he notices that cost of CDs along with software cost is treated as an intangible asset by company. It is also part of his responsibility to verify PPE register in accordance with audit programme. On perusing details in PPE register, he finds that some computers have moved from one centre to another centre to meet business requirements. Further, many computers were disposed or scrapped in earlier years. However, proper details in relation to movement and disposal/scrapping have not been entered in PPE register. When these items were physically verified by the management during the year, it has resulted in material discrepancies. The management has properly dealt with such discrepancies in books of accounts.

Based on above, answer the following questions: **(MTP1, May 2024, 10 marks)**

Q1.	<p>Considering description provided in case scenario regarding accounting income as per books of accounts and taxable income under Income tax law, choose appropriate responsibility of Dhanush:</p> <p>(a) To verify deferred tax liability likely created in financial statements in accordance with AS 22</p> <p>(b) To verify deferred tax asset likely created in financial statements in accordance with AS 22</p> <p>(c) To verify deferred tax asset likely created in financial statements in accordance with AS 29</p> <p>(d) To verify deferred tax liability likely created in financial statements in accordance with AS 29</p>
Q2.	<p>Keeping in view description provided in case scenario, which of following statements is likely to be correct regarding accounting treatment of cost of CDs and software acquired by company to run tests?</p> <p>(a) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated such costs as revenue expenditure.</p> <p>(b) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is proper.</p> <p>(c) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as intangible asset.</p> <p>(d) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as revenue expenditure.</p>

Q3.	<p>As regards discrepancies noticed in computer systems on physical verification by management as described in case scenario, which of following statements is most appropriate?</p> <p>(a) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it may result in modification of auditor's opinion.</p> <p>(b) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it entails specific reporting requirement for auditor under Companies Act, 2013.</p> <p>(c) The management has properly dealt with such discrepancies. Therefore, Dhanush should not do anything further.</p> <p>(d) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it is in nature of misstatement which needs to be communicated and documented by auditor.</p>
Q4.	<p>Which of following statements meets requirements of law in respect of revenue from operations of the company?</p> <p>(a) Revenue from operations of ₹ 50 crores should be shown in Statement of Profit and loss.</p> <p>(b) Revenue from operations of ₹ 50.10 crores should be shown in Statement of Profit and loss. However, revenue from sale of books, fees charged from students and interest on investments should be disclosed separately in notes.</p> <p>(c) Revenue from operations of ₹ 50.10 crores should be shown in Statement of Profit and loss.</p> <p>(d) Revenue from operations of ₹ 50 crores should be shown in Statement of Profit and loss. However, revenue from sale of books and fees charged from students should be disclosed separately in notes.</p>
Q5.	<p>The company has taken useful life of desktops to be 3 years. Such a requirement is _____</p> <p>(a) prescribed under Schedule III to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule III.</p> <p>(b) is not prescribed under Companies Act, 2013. It depends upon manufacturing specifications of desktops.</p> <p>(c) prescribed under Schedule II to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule II.</p> <p>(d) is not prescribed under Companies Act, 2013. It needs to be arrived at mandatorily by a management expert.</p>

Case Study 14 Answers

Q1.	(b) To verify deferred tax asset likely created in financial statements in accordance with AS 22
Q2.	(b) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is proper.
Q3.	(b) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it entails specific reporting requirement for auditor under Companies Act, 2013.
Q4.	(d) Revenue from operations of ₹ 50 crores should be shown in Statement of Profit and loss. However, revenue from sale of books and fees charged from students should be disclosed separately in notes
Q5.	(c) prescribed under Schedule II to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule II.

Chapter 6 Audit Documentation

Case Study 1

CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation:-

- A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
- B) The team has determined materiality for financial statements as a whole.
- C) The team has assessed risks of material misstatements to be low.
- D) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.
- E) During the course of audit, many related party transactions have come to notice.

On the basis of above, answer the following questions: (ICAI Study Material) (RTP, May 2023, NA)

Q1.	<p>Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?</p> <p>(a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.</p> <p>(b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties.</p> <p>(c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.</p> <p>(d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous</p>
Q2.	<p>As regards materiality, which of the following statements is most appropriate in context of audit documentation?</p> <p>(a) Materiality has already been determined. There is no need to put it into working papers.</p> <p>(b) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers.</p> <p>(c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.</p> <p>(d) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.</p>
Q3.	<p>As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?</p> <p>(a) Discussion amongst engagement team members and detail of significant decisions reached has to be documented.</p> <p>(b) Details of risk assessment procedures have to be documented.</p> <p>(c) Details about how understanding of each component of internal control was obtained has to be documented.</p> <p>(d) Precise calculation of risk of material misstatements has to be documented.</p>
Q4.	<p>CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?</p> <p>(a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.</p> <p>(b) Detail of test counting undertaken should form part of audit documentation.</p> <p>(c) Detail of obsolete goods found should form part of audit documentation.</p> <p>(d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation</p>
Q5.	<p>As regards related party transactions, which of the following should not be part of audit documentation?</p> <p>(a) Management representation letter in this regard</p> <p>(b) Related party transaction policy of the company</p> <p>(c) Documentation to show that such transactions are at arm's length basis</p> <p>(d) Documentation to show that such transactions are at close length basis.</p>

Case Study 1 Answers

Q1.	(c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.
Q2.	(c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.
Q3.	(d) Precise calculation of risk of material misstatements has to be documented.
Q4.	(d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation
Q5.	(d) Documentation to show that such transactions are at close length basis.

Case Study 2

Auditors while conducting audits are governed by SA 230 "Audit Documentation" in relation to record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

CA. Harry is a statutory auditor of Potter Ltd. The auditor of Rowling Ltd. a parent company of Potter Ltd. asked Harry the working papers of Potter Ltd for commenting on the important requirement of the Central Government.

Also, CA. Bean is statutory auditor of Rowling Ltd. against which Income tax department started search and seizer procedure. CA. Bean was asked for the working papers of the company on the directions and permission of CIT (A) to provide for the relevant information asked.

Based on the above specific cases and in general, answer the following questions as per guidance provided by SA 230.

(ICAI MCQ Booklet)

Q1.	_____ is the file containing the records and data that comprise the audit documentation for a specific engagement. (a) Audit file (b) Engagement file (c) Working file (d) Client's file
Q2.	Which of the following does not affects form, content & extent of documentation (a) Size and complexity of the entity (b) nature of audit team who will perform audit (c) identified Risk of material misstatement (d) audit methodology and tools to be used
Q3.	If in exceptional circumstances the auditor departs from Standards on Auditing, he shall_____ (a) Document the reason for departure (b) document how the alternative procedures were performed for achieving the objective (c) Both (a) and (b) (d) Auditor is not allowed to depart from SAs.
Q4.	Which of the following is not true of working papers? (a) They record the audit evidence to provide support for the auditor's opinion (b) They assist in review of the audit work (c) They are a direct aid in the planning of the audit (d) They provide proof of the correctness of the financial statements
Q5.	Can CA. Bean provide access to working papers to Income Tax department during search & seizure operation? (a) CA. Bean can provide as it is the requirement of law (b) CA. Bean is guilty of professional misconduct (c) CA. Bean should not provide the working paper (d) None of the above

Case Study 2 Answers

Q1.	(a) Audit file
Q2.	(b) nature of audit team who will perform audit
Q3.	(c) Both (a) and (b)
Q4.	(d) They provide proof of the correctness of the financial statements
Q5.	(a) CA. Bean can provide as it is the requirement of law

Chapter 7 Completion and Review

Case Study 1

CA. Gaurav Gogoi is about to conclude audit of a company. It has been noticed during the course of audit that there is shortage of important raw material supplies being imported from China due to prevailing geo-political situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate.

Besides, he also wants to be sure that all subsequent events till now have been considered and accounted for, where ever necessary, in financial statements.

Before concluding audit, he requests written representations from management regarding its responsibilities. However, it is noticed that such written representations provided by management use qualifying language.

He has also communicated significant findings from audit in writing with those charged with governance in the company and has retained copy of relevant mails. Besides, there are certain matters which were communicated by him orally from time to time during the course of audit to those charged with governance.

Based on above, answer the following questions: - (ICAI Study Material)

Q1.	<p>As regards description of matter above concerning issue of going concern, which of the following statements is most appropriate for auditor's report?</p> <p>(a) The auditor should express an unmodified opinion.</p> <p>(b) The auditor should express a qualified opinion as material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>(c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters.</p> <p>(d) Such an issue does not affect auditor's opinion.</p>
Q2.	<p>As regards going concern basis of accounting is concerned, which of the following statements is true?</p> <p>(a) A company showing net loss in its financial statements is essentially not a going concern.</p> <p>(b) Following going concern assumption of accounting is primary duty of auditor.</p> <p>(c) In case, a company is not a going concern, its financial statements must be prepared on liquidation basis.</p> <p>(d) Audit procedure seeking confirmation from banker regarding outstanding balance relates to verification of going concern assumption.</p>
Q3.	<p>Which of the following statements is true in respect of auditor's responsibilities in respect of subsequent events?</p> <p>(a) There is no obligation for an auditor to perform audit procedures for events occurring between date of financial statements and date of auditor's report.</p> <p>(b) There is no obligation for an auditor to perform audit procedures after signing of auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.</p> <p>(c) The auditor has only to rely upon written representation of management regarding subsequent events. He has no other means to know about such events.</p> <p>(d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.</p>
Q4.	<p>As regards use of qualifying language in written representations, which of the following statement is most appropriate?</p> <p>(a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.</p> <p>(b) Written representations should be unconditional. Such a wording is not acceptable.</p> <p>(c) Such a wording dilutes intent of written representations. However, it can be accepted by auditor only in exceptional circumstances.</p> <p>(d) Qualifying language in written representations is compulsory</p>
Q5.	<p>As regards auditor's responsibility regarding matters communicated orally with those charged with governance, which of following is most appropriate?</p> <p>(a) Matters communicated orally have to be documented by the auditor stating when and to whom these were communicated.</p> <p>(b) Matters communicated orally need not be put into writing. It is sufficient for auditor to have communicated orally.</p> <p>(c) Matters communicated orally need not be put into writing. It is not practically feasible.</p> <p>(d) Matters communicated orally have to be documented by the auditor stating to whom these were communicated.</p>

Case Study 1 Answers	
Q1.	(c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters.
Q2.	(c) In case, a company is not a going concern, its financial statements must be prepared on liquidation basis.
Q3.	(d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.
Q4.	(a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.
Q5.	(a) Matters communicated orally have to be documented by the auditor stating when and to whom these were communicated.

Chapter 8 Audit Report

Case Study 1

M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients. You are requested to go through the following and answer the questions that follow:

- During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference of depreciation but M/s Persistent & Co. has stated that they don't want to change the financial statements and if auditor persists they may give the effect in the next financial year.
- During the audit of M/s Dubious Brothers, Mr B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into bank regularly. When Mr. B asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr B.
- During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise.

Based on above, answer following questions: **(ICAI Study Material) (ICAI MCQ Booklet)**

Q1.	In case of M/s Persistent & Company, what would be an ideal Audit Opinion? (a) Unmodified (b) Qualified (c) Mention the fact in Emphasis of Matter Paragraph (d) Disclaimer
Q2.	In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give? (a) Qualified (b) Adverse (c) Disclaimer (d) Unmodified
Q3.	According to you, what would be appropriate course to take in case of M/s Honest & Associates? (a) Issue Qualified Opinion (b) Issue Adverse Opinion (c) Mention the fact of change in method in Emphasis of Matter Paragraph (d) Issue Disclaimer of Opinion
Q4.	When the Auditor, after conclusion of an Audit exercise, is of the opinion that there are material misstatements in the Financial Statements, but they are not pervasive, then what should an Auditor do? (a) Issue Unmodified Opinion (b) Issue Qualified Opinion (c) Issue Disclaimer of Opinion (d) Mention it in Emphasis of Matter Paragraph
Q5.	When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give: (a) Modified Opinion (b) Qualified Opinion (c) Disclaimer of Opinion (d) Unmodified Opinion

Case Study 1 Answers

Q1.	(b) Qualified
Q2.	(c) Disclaimer

Q3.	(c) Mention the fact of change in method in Emphasis of Matter Paragraph
Q4.	(b) Issue Qualified Opinion
Q5.	(d) Unmodified Opinion

Case Study 2

ARG & Associates who have been the auditors of Sigma Ltd for the financial year 2023-24 have concluded their audit, prepared their notes and are ready to draft the Auditor's Report.

As per SA 700, the auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

There seems to be some confusion between the audit team members in regard to format of Audit report, its contents, issues to be incorporated etc. in the Auditor's report.

Also, Sigma Ltd received a grant of ₹ 50 lakhs under the PM Make in India Subsidy Scheme for acquiring machinery for setting up new plant. The entire grant received was credited to Profit and Loss Account.

Mr Ram and Mr Sham (two partners of ARG & Associates) differ on an audit point relating to audit of Sigma Ltd. Mr Ram is of the view that it will attract qualification however Mr Sham disagreed with his opinion.

Based on above facts, you are required to answer below questions which require special attention while preparing the Audit report of Sigma Ltd. (ICAI MCQ Booklet)

Q1.	The auditor shall express _____ when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. (a) qualified opinion (b) adverse opinion (c) unmodified opinion (d) disclaimer of opinion
Q2.	In relation to grant of ₹ 50 lakhs, while preparing the audit report, the auditor needs to: (a) qualify the report stating the fact that the income has been overstated to the extent of the amount of grant net of proportionate credit that would have been worked out. (b) qualify the report stating the fact that the income has been understated to the extent of the amount of grant net of proportionate debit that would have been worked out. (c) express unmodified opinion as Accounting Standard-12 allow the recognition of grant received as income. (d) None of the above
Q3.	The auditor shall express _____ when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. (a) qualified opinion (b) adverse opinion (c) unmodified opinion (d) disclaimer of opinion
Q4.	Assume Mr Ram and Mr Sham from two different joint auditor's firms. How audit report should be made in circumstances where two joint auditors have difference of opinion in relation to a specific issue - (a) The view of Mr Ram will prevail because of prudence (b) Joint Auditors should come at a common point and give opinion accordingly (c) The matter should be referred to a senior joint auditor firm (d) Mr Ram and Mr Sham would issue separate audit reports
Q5.	Communicating key audit matters in the auditor's report is (a) not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. (b) a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705. (c) a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; (d) a separate opinion on individual matters

Case Study 2 Answers	
Q1.	(c) unmodified opinion
Q2.	(a) qualify the report stating the fact that the income has been overstated to the extent of the amount of grant net of proportionate credit that would have been worked out
Q3.	(b) adverse opinion
Q4.	(d) Mr Ram and Mr Sham would issue separate audit reports
Q5.	(a) not a substitute for disclosures in the financial statements that the applicable FRF requires management to make, or that are otherwise necessary to achieve fair presentation.

Case Study 3	
<p>During the FY 2023-24, a partnership firm of Chartered Accountants by the name of MN and Associates was appointed as auditor of four companies namely H1 Limited, W2 Limited, Y3 Limited and Z4 Limited. MN and Associates consisted of two partners namely Mr. M and Mr. N. The management of each company namely H1 Limited, W2 Limited, Y3 Limited and Z4 Limited prepared the financial statements for each company.</p> <p>MN and Associates was required to form an opinion whether the financial statements of four companies namely H1 Limited, W2 Limited, Y3 Limited and Z4 Limited were prepared according to the applicable financial reporting framework. The audit teams of the respective companies checked the financial statements of all four companies from the point of view of accounting policies, accounting estimates and information provided in the financial statements. Audit work of H1 Limited and Y3 Limited was conducted by Mr. M and Audit work of W2 Limited and Z4 Limited was conducted by Mr. N.</p> <p>With respect to the financial statements of H1 Limited, Mr. M obtained sufficient and appropriate audit evidence to conclude that misstatements were material but not pervasive.</p> <p>As far as W2 Limited was concerned, Mr. N was unable to obtain sufficient and appropriate audit evidence to form an opinion. Mr. N also concluded that misstatements that were not detected may possibly affect the financial statements of W2 Limited and that effect may be material as well as pervasive.</p> <p>For Y3 Limited, Mr. M concluded that its financial statements were prepared according to the applicable financial reporting framework. For Z4 Limited, Mr. N obtained sufficient and appropriate audit evidence to conclude that misstatements were material as well as pervasive to the financial statements of Z4 Limited.</p>	
(ICAI MCQ Booklet)	
Q1.	<p>The audit teams of all the companies checked the financial statements of all four companies from the point of view of accounting policies, accounting estimates etc. The accounting policies so adopted by the companies should be:</p> <p>(a) Consistent and Appropriate. (b) Inconsistent and Appropriate. (c) Consistent and Inappropriate. (d) Inconsistent and Inappropriate</p>
Q2.	<p>What kind of opinion should Mr. M give with respect to financial statements of H1 Limited for the FY 2023-24?</p> <p>(a) Adverse Opinion. (b) Qualified Opinion. (c) Disclaimer of Opinion. (d) Unmodified Opinion.</p>
Q3.	<p>With respect to the audit of the financial statements of W2 Limited for the FY 2023-24, what kind of opinion should Mr. N give?</p> <p>(a) Qualified Opinion. (b) Unmodified Opinion. (c) Adverse Opinion. (d) Disclaimer of Opinion</p>
Q4.	<p>Based on the conclusions drawn by Mr. M with respect to the financial statements of Y3 Limited, which of the following kind of audit opinion should be given by Mr. M?</p> <p>(a) Disclaimer of Opinion</p>

	(b) Adverse Opinion. (c) Qualified Opinion. (d) Unmodified Opinion.
Q5.	As the auditor of Z4 Limited, which of the following kind of opinion should Mr. N give with respect to the financial statements of the FY 2023-24? (a) Qualified Opinion. (b) Unmodified Opinion. (c) Adverse Opinion. (d) Disclaimer of Opinion

Case Study 3 Answers	
Q1.	(a) Consistent and Appropriate
Q2.	(b) Qualified Opinion
Q3.	(d) Disclaimer of Opinion
Q4.	(d) Unmodified opinion
Q5.	(c) Adverse Opinion

Case Study 4	
<p>The books of accounts of WZ Limited were required to be audited for the FY 2023-24. WZ Limited was into business of manufacturing door mats. The demand of the door mats manufactured by WZ Limited was huge. Due to this reason the business of WZ Limited was growing quickly.</p> <p>As the business transactions of WZ Limited were in large numbers, two different firms of Chartered Accountants were appointed to jointly audit books of accounts of WZ Limited for the FY 2023-24. The names of two Partnership Firms of Chartered Accountants were M/s MH and Associates and M/s NR and Associates. The partners of M/s MH and Associates were Mr. M and Mr. H, while the partners of M/s NR and Associates were Mr. N and Mr. R.</p> <p>Before conducting the audit of WZ Limited, Mr. M, Mr. H, Mr. N and Mr. R had a discussion to develop a plan for audit of WZ Limited. As far as allocation of work was concerned it was decided that Incomes and Assets part of financial statements would be audited by M/s MH and Associates, while Expenses and Liabilities part of financial statements would be audited by M/s NR and Associates. Certain other work was not divided between the two Firms of Chartered Accountants and was to be carried out by both the auditors.</p> <p>Mr. K one of the employees of WZ Limited has an understanding that each of the auditors were required to issue separate audit reports regarding the audit conducted for the FY 2023-24, even though there was no disagreement regarding opinion between the two auditors</p> <p>(ICAI MCQ Booklet)</p>	
Q1.	To jointly audit books of accounts of WZ Limited for the FY 2023- 24 two different firms of Chartered Accountants namely M/s MH and Associates and M/s NR and Associates were appointed. Both the firms can together be called as: (a) Auditors of WZ Limited. (b) Branch Auditors of WZ Limited. (c) Individual Auditors of WZ Limited. (d) Joint Auditors of WZ Limited
Q2.	Who would be responsible for the checking of Incomes and Expenses part of financial statements of WZ Limited for the FY 2023-24: (a) For Incomes part M/s NR and Associates and for Expenses part M/s MH and Associates. (b) For Incomes part M/s MH and Associates and for Expenses part M/s NR and Associates. (c) Only M/s MH and Associates. (d) Both the auditors would be responsible.
Q3.	Certain work was not divided between the two firms of Chartered Accountants. Which statement would be correct regarding the responsibility of audit of such other work which was not divided:

	<p>(a) Only M/s NR and Associates would be responsible</p> <p>(b) Only M/s MH and Associates would be responsible.</p> <p>(c) Both M/s MH and Associates and M/s NR and Associates would not be responsible as such certain other work was not divided between them.</p> <p>(d) Both M/s MH and Associates and M/s NR and Associates would be jointly and severally responsible for such certain other work which was not divided between them.</p>
Q4.	<p>Is understanding of Mr. K with respect to the issuance of audit report by the joint auditors, correct?</p> <p>(a) Correct because both M/s MH and Associates and M/s NR and Associates were required to issue separate audit reports.</p> <p>(b) Incorrect because both M/s MH and Associates and M/s NR and Associates were required to issue common Audit Report.</p> <p>(c) Incorrect because only M/s MH and Associates was required to issue Audit Report.</p> <p>(d) Incorrect because only M/s NR and Associates was required to issue Audit Report</p>
Q5.	<p>Assume that there was a disagreement regarding opinion between M/s MH and Associates and M/s NR and Associates for the audit conducted for the FY 2023-24 of the books of accounts of WZ Limited. In such scenario who is required to issue Audit Report.</p> <p>(a) Only M/s MH and Associates.</p> <p>(b) Only M/s NR and Associates.</p> <p>(c) M/s MH and Associates and M/s NR and Associates were required to issue Common Audit Report.</p> <p>(d) M/s MH and Associates and M/s NR and Associates were required to issue Separate Audit Reports and the audit reports issued by joint auditors shall make a reference to each other's audit report</p>

Case Study 4 Answers

Q1.	(d) Joint Auditors of WZ Limited
Q2.	(b) For Incomes part M/s MH and Associates and for Expenses part M/s NR and Associates.
Q3.	(d) Both M/s MH and Associates and M/s NR and Associates would be jointly and severally responsible for such certain other work which was not divided between them.
Q4.	(b) Incorrect because both M/s MH and Associates and M/s NR and Associates were required to issue common Audit Report.
Q5.	(d) M/s MH and Associates and M/s NR and Associates were required to issue Separate Audit Reports and the audit reports issued by joint auditors shall make a reference to each other's audit report

Case Study 5

Honest Limited is a listed Company engaged in the construction business. The Company constructs residential buildings after purchasing vacant land and then sells ready flats to customers. The Company has not been earning good profits and so no dividend was declared in the last financial year for which the statutory audit is to be conducted.

XYZ & Company has been appointed as the statutory auditor of Honest Limited. The audit firm has seven partners and is a reputed firm with the partners having expert knowledge in various areas.

While conducting the audit, the engagement partner, CA Z suspects some fraudulent activities undertaken by the officers and employees of the Company. CA Z is aware that for the purpose of SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. He understands that misstatements in the financial statements can arise from either fraud or error.

On detailed verification by the audit team, it was observed that accounts were manipulated with a view to presenting a false state of affairs. The fraud was committed to avoid incidence of income -tax and withhold declaration of dividend. There was also an incidence of cash receipts being suppressed which came to the notice of the audit team.

CA Z had enough reasons to believe that the offence of fraud, involved individually an amount of ₹ 1 crore, and had been committed against the company by its officers or employees. The audit team discussed the reporting requirements of the fraud committed.

One of the audit team members puts forward his recommendations on reporting which includes disclosure in the Board's Report. He states that sub-section (12) of section 143 of the Companies Act, 2013 prescribes that the companies, whose auditors have reported

frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

CA Z discusses the reporting under Companies (Auditor's Report) Order, 2020 [CARO, 2020] wherein the auditor is required to report under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020, about fraud by the company or any fraud on the Company.

Based on the above information, answer the following questions: **(MTP1, May 2022, 8 marks)**

Q1.	<p>Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is:</p> <p>(a) Fraud causes a material misstatement in the financial statements.</p> <p>(b) Fraud is an intentional act.</p> <p>(c) Fraud is easier to detect than error.</p> <p>(d) Fraud can be committed by only the management, those charged with governance, and the employees</p>
Q2.	<p>To whom should XYZ & Company report the fraud committed in Honest Limited?</p> <p>(a) Report the matter only to the Audit Committee constituted under section 177 since the amount of fraud has not exceeded 1 crore.</p> <p>(b) Report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days and on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations.</p> <p>(c) Report the matter only to the Board since the amount of fraud is not less than 1 crore.</p> <p>(d) Report the matter either to the audit committee constituted under section 177 or the Central Government since the amount of fraud is neither less nor more than 1 crore.</p>
Q3.	<p>Sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the auditor is required to disclose in the Board's Report details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year. Which of the following details is not required to be disclosed in the Board's Report?</p> <p>(a) Nature of Fraud with description.</p> <p>(b) Parties involved, if remedial action taken.</p> <p>(c) Approximate Amount involved</p> <p>(d) Remedial actions taken.</p>
Q4.	<p>For reporting under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020, which of the following points the auditor may consider?</p> <p>(a) Fraud by the company or on the company by its officers, employees or third parties to be reported.</p> <p>(b) Only suspected frauds shall be included here and not the noticed frauds.</p> <p>(c) Principles of materiality outlined in Standards on Auditing.</p> <p>(d) The auditor's withdrawal from the engagement and the reasons for the withdrawal</p>

Case Study 5 Answers

Q1.	(b) Fraud is an intentional act.
Q2.	(b) Report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days and on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations.
Q3.	(b) Parties involved, if remedial action taken.
Q4.	(c) Principles of materiality outlined in Standards on Auditing.

Case Study 6

SAM & Company, a Chartered Accountant firm, is in the process of finalising the audit of Health is Wealth Limited which is a Company listed on the Bombay Stock Exchange. Since the past decade, Health is Wealth Limited has made its presence felt in over 10 countries, including India, making it a leader in the global fitness industry. It runs a chain of fitness centres that offers energetic group workouts and multiple workout formats to choose from. It also offers the best equipment, knowledgeable staff and personal advice in a welcoming environment.

SAM & Company being a very reputed firm, was appointed for the statutory audit of Health is Wealth Limited. The Engagement Partner CA A and her team of 8 members have conducted the audit in an efficient and effective manner. The senior manager in the team, CA K is of the opinion that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. One of the article clerks, Mr N, is a fresher and this audit is his first experience as an auditor in a limited company. He is a sharp boy and has grasped all the concepts and techniques very well. However, the term "pervasive" confused him so CA K patiently explained to Mr N the pervasive effects on the financial statements as per the auditor's judgement. Mr. N understood the term well and thanked CA K for clearing all his doubts.

CA A disagreed with CA K that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. So, the entire team held various meetings and discussions, and finally reached to a conclusion. They concluded that they have obtained reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion took into account:

- a) Whether sufficient appropriate audit evidence had been obtained;
- b) Whether uncorrected misstatements were material, individually or in aggregate;
- c) The evaluations.

The Auditor's Report was prepared in writing and it was decided that an unmodified opinion would be expressed. The first section of the auditor's report included the auditor's opinion, and had the heading "Opinion". Following the Opinion section, was a section with the heading "Basis for Opinion". When expressing an unmodified opinion on financial statements, the auditor's opinion used the following phrase,

"In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]."

During the audit, the audit team had observed that there was uncertainty in Health is Wealth Limited relating to the future outcome of a regulatory action. So, a paragraph was included in the auditor's report that referred to this matter which was appropriately disclosed in the financial statements and that, in the auditor's judgment, was of such importance that it was fundamental to users' understanding of the financial statements.

CA A also determined whether the financial statements included the comparative information required by the applicable financial reporting framework and whether such information was appropriately classified. One team member, Mr R was curious to know whether the auditor's opinion referred to the corresponding figures or not, whenever the corresponding figures are presented. CA A explained the circumstances to Mr R in which, when the corresponding figures are presented, auditor's opinion referred to the corresponding figures.

Based on the above information, answer the following questions: **(MTP1, May 2022, 10 marks) (RTP, Nov 2022, NA)**

Q1.	<p>CA K explained to Mr. N the pervasive effects on the financial statements in the auditor's judgement. Pervasive effects on the financial statements are those that, in the auditor's judgement:</p> <ol style="list-style-type: none"> i) Are not confined to specific elements, accounts or items of the financial statements; ii) If so confined, represent or could represent a substantial proportion of the financial statements; or iii) In relation to disclosures, are fundamental to users' understanding of the financial statements. <p>Which of the following is correct?</p> <ol style="list-style-type: none"> (a) (i), (iii) (b) (ii),(iii) (c) (i), (ii) (d) (i), (ii) and (iii)
Q2.	<p>When expressing an unmodified opinion on financial statements, SAM & Company used the following phrase: "In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]." Which is the other phrase which is regarded as being equivalent to the above phrase and could also be used by SAM & Company?</p> <ol style="list-style-type: none"> (a) In our opinion, the accompanying financial statements give a true and correct view of [...] in accordance with [the applicable financial reporting framework]; (b) In our opinion, the accompanying financial statements present correctly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; (c) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; (d) In our opinion, the accompanying financial statements give a correct and fair view of [...] in accordance with [the applicable financial reporting framework].
Q3.	<p>Which of the following statements is not included in the section with the heading "Basis for Opinion" in the Auditor's Report?</p> <ol style="list-style-type: none"> (a) Audit was conducted in accordance with the Accounting Standards.

	<p>(b) Auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.</p> <p>(c) Description of the auditor's responsibilities under the SAs.</p> <p>(d) States whether the auditor believes that the audit evidence the auditor has obtained, is sufficient and appropriate to provide a basis for the auditor's opinion</p>
Q4.	<p>A paragraph was included in the Auditor's Report of Health is Wealth Limited that referred to a matter which was appropriately disclosed in the financial statements that, in the auditor's judgment, was of such importance that it was fundamental to users' understanding of the financial statements. What is this section of the Auditor's Report called?</p> <p>(a) Other Matters. (b) Emphasis of Matters. (c) Key Audit Matters. (d) Auditor's Responsibilities for the Audit of the Financial Statements</p>
Q5.	<p>CA A explained the circumstances to Mr. R in which, when the corresponding figures are presented, auditor's opinion referred to the corresponding figures. Which of these circumstances did he mention to Mr. R?</p> <p>(a) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which a modified opinion has been previously issued. (b) If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved. (c) Prior Period Financial Statements are audited by another auditor. (d) Prior Period Financial Statements not audited.</p>

Case Study 6 Answers

Q1.	(d) (i), (ii) and (iii)
Q2.	(c) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
Q3.	(a) Audit was conducted in accordance with the Accounting Standards.
Q4.	(b) Emphasis of Matters.
Q5.	(d) Prior Period Financial Statements not audited.

Case Study 7

Following is the extract of information taken from financial statements of AAF Private Limited for the financial year 2023-24: -

(All Figs in tables are in ₹ 000s)

Particulars	31/03/24	31/03/23
Paid up share capital	75000	75000
Long term borrowings	24500	30000
Short term borrowings	55000	50000
Other current liabilities	350	550
Property, Plant and Equipment	48500	56000
Depreciation	7500	9500
Profit/(Loss) after tax	(5000)	(6000)

Assume that there are no taxation adjustments.

The schedule of short-term borrowings reflects as under: -

Particulars	31/03/24	31/03/23
Loans repayable on demand from MMT Bank (secured) (Cash credit limit against hypothecation of stocks guaranteed by all directors)	55000	50000

It has been further noticed during the course of audit that quarterly statements filed by company with its bank for availing cash credit facilities of ₹5.50 crores during the year vis-à-vis books of accounts reflect following details: -

Period ending	Value of stocks as per quarterly statements	Value of stocks per Books of accounts
30.06.23	80000	70000
30.09.23	70000	65000
31.12.23	85000	70000
31.03.24	80000	80000

It has also been noticed that long term borrowings consist of a term loan from MMT Bank. Term loan outstanding has reduced in comparison to last year. However, during the year 2023-24, company has not paid one instalment of ₹ 5 lakhs on time which is overdue for 65 days as on balance sheet date. The credit facilities have been classified as Standard assets by the Bank in accordance with prudential guidelines of RBI.

Other current liabilities as on 31/3/24 include TDS payable of ₹ 1.00 lac (out of which ₹ 0.60 lac for month of Feb 24 was due for deposit on 7.3.24). The balance ₹ 0.40 lac pertains to month of March 2024.

You are part of engagement team conducting audit of AAF Private Limited. As part of assigned work, you are also responsible for providing information/input to your senior for reporting under CARO, 2020 for financial year 2023-24.

Based on above, answer the following questions: **(MTP1, Nov 2023, 10 marks)**

Q1.	<p>Considering description about short-term borrowings in the case study, which of following statements is in accordance with CARO, 2020?</p> <p>(a) The statutory auditor is required to provide details of differences in quarterly statements filed with bankers with its books of accounts.</p> <p>(b) The statutory auditor is required to provide details of differences only in respect of those quarterly statements where there is discrepancy of more than 10% as compared to its books of accounts.</p> <p>(c) The statutory auditor is not required to provide details of differences as reporting requirement is triggered only when working capital limits have been sanctioned in excess of ₹ 10 crore during any point of time of the year.</p> <p>(d) The statutory auditor is not required to provide details of differences, as at end of year, books of accounts are in agreement with quarterly statement filed.</p>
Q2.	<p>The company has not paid one instalment of ₹ 5 lakhs on time which is overdue for more than 65 days as on balance sheet date. Identify likely correct statement in this regard in relation to reporting under CARO, 2020: -</p> <p>(a) The account has not become NPA as on 31.3.24. Hence, there is no reporting requirement.</p> <p>(b) The reporting requirement is necessary only when company is declared a wilful defaulter by Bank. In the given situation, there is no reporting requirement.</p> <p>(c) Amount of default along with period of default is required to be reported.</p> <p>(d) The reporting requirement is necessary only when company has diverted amount of term loan for some other purpose. In the given situation, there is no reporting requirement.</p>
Q3.	<p>As regards TDS payable of ₹ 1.00 lakh included in other current liabilities, what input would be provided by you to your senior for reporting under CARO, 2020?</p> <p>(a) TDS payable of ₹ 1.00 lac in financial statements shall not be reported as it does not meet necessary reporting requirements.</p> <p>(b) It is in nature of undisputed statutory dues. Hence, outstanding amount of ₹ 1.00 lac not deposited is to be reported.</p> <p>(c) It is in nature of undisputed statutory dues. However, only outstanding amount of ₹ 0.60 lac not deposited is to be reported.</p> <p>(d) TDS payable of ₹ 1.00 lac does not fall under meaning of "undisputed statutory dues". Hence there is no question of reporting.</p>
Q4.	<p>Which of following is not a reporting duty of statutory auditor regarding Property, Plant and Equipment reflected in company's financial statements under CARO, 2020?</p> <p>(a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment</p> <p>(b) whether Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account</p> <p>(c) whether Property, Plant and Equipment have been physically verified by the auditor during the year; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account</p> <p>(d) whether title deeds of all immovable properties (other than properties where company is lessee and lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company</p>
Q5.	<p>The company has reflected losses in its financial statements for year 2023-24 and 2022-23. Which of following statements</p>

	<p>is likely to be correct in this regard while reporting under CARO, 2020 for year 2023-24?</p> <p>(a) Losses reflected in statement of profit and loss for year 2023-24 and 2022-23 are required to be reported under CARO, 2020.</p> <p>(b) Loss reflected in statement of profit and loss for year 2023-24 is alone required to be reported under CARO, 2020.</p> <p>(c) There is no requirement to report losses reflected in statement of profit and loss under CARO, 2020.</p> <p>(d) The company's losses reflected in statement of profit and loss in financial year 2023-24 and 2022-23 are less than prescribed percentage threshold limit of paid-up capital. Hence, these are not required to be reported.</p>
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Case Study 7 Answers

Q1.	(a) The statutory auditor is required to provide details of differences in quarterly statements filed with bankers with its books of accounts
Q2.	(c) Amount of default along with period of default is required to be reported
Q3.	(a) TDS payable of ₹1.00 lac in financial statements shall not be reported as it does not meet necessary reporting requirements
Q4.	(c) whether Property, Plant and Equipment have been physically verified by the auditor during the year; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account
Q5.	(c) There is no requirement to report losses reflected in statement of profit and loss under CARO, 2020.

Chapter 9 Special Features of Audit of Different Types of Entities

Case Study 1

Consider the following five descriptions: -

- A) Audit of "Implementation of Nagpur Metro Rail Project" was conducted by the Comptroller and Auditor General of India. Following is extract of few audit findings placed on website cag.gov.in.
"The location of New Airport station was not ideal from the viewpoint of ridership due to sparse population in and around the station and also from the accessibility point of view.
Cotton Market station, the second additional station was projected to have high peak hour peak direction trips but the work was kept on hold midway citing fund crunch due to non-release of pending contribution from stakeholders. However, the situation could have been managed through prioritization of works."
- B) Another set of audit findings in respect of audit of Haryana Power Generation Corporation Limited, a wholly owned government company responsible for operation of power generation plants in state of Haryana is as under: -
"The main reason for low generation was higher variable cost of thermal power stations which resulted in backing down of plants."
- C) A report was tabled in Parliament highlighting main features of direct taxes administration of country as mandated in Constitution of India. This report primarily discussed compliance to the provisions of the Income Tax Act, 1961 and the associated rules and procedures etc. as applied to administration of direct taxes including irregularities noticed in finalizing assessments etc.
- D) Radial finance corporation Limited is a government company. The audit of the company is conducted by statutory auditors appointed by Comptroller and Auditor General of India.
- E) Bharat Insurance Company Limited is a general insurance government owned company. The statutory auditor is appointed by Comptroller and Auditor General of India.
The annual report for a particular year also contains comments of statutory auditors on matters such as whether company has carried out reconciliations in respect of its inter-company balances with other government owned insurance companies.

Based on above, answer following questions: **(ICAI Study Material)**

Q1.	Based upon plain reading of audit findings stated at Para (A), identify type of audit carried out by office of the Comptroller and Auditor General of India. (a) Audit against provision of funds (b) Propriety audit (c) Performance audit (d) Compliance audit
Q2.	Keeping in view audit findings in respect of Haryana Power Generation Corporation Limited, identify type of audit carried out. (a) Audit of Government Company (b) Audit against rules and orders (c) Compliance audit (d) Performance audit
Q3.	Which of the following is the most appropriate statement in context of report tabled in Parliament regarding administration of direct taxes? (a) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Comptroller and Auditor General of India. (b) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by an independent task force of experts. (c) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Central Board of Direct Taxes. (d) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by Central Board of Direct Taxes.
Q4.	Who is empowered to conduct "supplementary audit" in case of Radial finance Corporation Limited, a government company? (a) Central Government (b) Another independent auditor appointed by CAG (c) CAG (d) Another independent auditor appointed by Ministry of Corporate Affairs
Q5.	As regards comments of auditors specified in respect of audit report of above insurance company, which of the following is likely to be most appropriate statement?

	<p>(a) Such are likely to be comments of test audit carried out by CAG.</p> <p>(b) Such are likely to be comments in respect of directions to statutory auditor by CAG for reporting on specific aspect of their audit work.</p> <p>(c) Such are likely to be comments of supplementary audit carried out by CAG</p> <p>(d) Such are likely to be comments of statutory auditors in accordance with requirements of Standards on Auditing</p>
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Case Study 1 Answers	
Q1.	(c) Performance audit
Q2.	(d) Performance audit
Q3.	(a) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Comptroller and Auditor General of India.
Q4.	(c) CAG
Q5.	(b) Such are likely to be comments in respect of directions to statutory auditor by CAG for reporting on specific aspect of their audit work.

Case Study 2	
<p>As per Section 143(5) of the Companies Act, the power to appoint auditor of Government Company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government/s rests with Comptroller & Auditor General of India.</p> <p>Sigma & Associates (a practicing Chartered Accountant firm) having good practice spread across regions, industries now applied to Comptroller & Auditor General of India for allotment of audits of Government departments, Local bodies, Co-operative societies etc. The firm is also interested in taking up LLP audits and wants to know peculiarities related to LLP audits in accordance with LLP Rules 2009.</p> <p>Two senior Chartered Accountants are entrusted for this division within Sigma & Associates. Both of them are seasoned and highly experienced Chartered Accountants.</p> <p>Based on below queries/cases, you are required to answer on specific cases which require special attention while conducting audit of Government departments, Local bodies, Co-operative societies etc. (ICAI MCQ Booklet)</p>	
Q1.	<p>Public money should not be utilized for the benefit of a particular person or a section of the community or for the person who is sanctioning the expenditure. These are the principles covered in</p> <p>(a) Performance Audit</p> <p>(b) Audit against rules and orders</p> <p>(c) Propriety Audit</p> <p>(d) Efficiency Audit</p>
Q2.	<p>In case of co- operative societies, bad debts and irrecoverable losses before being written off against Bad Debt funds, Reserve fund etc. should be certified as bad debts or irrecoverable losses by the</p> <p>(a) auditor where the law so requires</p> <p>(b) the managing committee of the society , when law is silent as to certification by auditor</p> <p>(c) the managing committee of the society , irrespective of the provisions of the law</p> <p>(d) Both (a) and (b)</p>
Q3.	<p>As per Rule 24 of LLP Rules, 2009, Statement of Account and Solvency shall be filed in _____ with the _____, within a period of _____.</p> <p>(a) Form 5, SEBI, 30 days from the end of 3 months of the financial year to which the Statement of Account and Solvency relates</p> <p>(b) Form 5, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates.</p> <p>(c) Form 8, SEBI, 30 days from the end of 3 months of the financial year to which the Statement of Account and Solvency relates.</p> <p>(d) Form 8, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates</p>

Q4.	LLP, whose turnover does not exceed ₹ _____ or whose contribution does not exceed ₹ _____, is not required to get its accounts audited. (a) 40 Lakhs, 25 Lakhs (b) 50 Lakhs, 25 Lakhs (c) 40 Lakhs, 20 Lakhs (d) 60 Lakhs, 30 Lakhs
Q5.	Which of the following matter is not required to be inquired by auditor of multi-state co-operative society under Sec. 73(2) of Multi-State Co-operative Societies Act, 2002: (a) Whether loans and advances made on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the society or its members; (b) Whether transactions which are represented merely by book entries are not prejudicial to the interest of Society; (c) Whether personal expenses have been charged to revenue account; and (d) Whether loans and advances shown as deposits.

Case Study 2 Answers

Q1.	(c) Propriety Audit
Q2.	(d) Both (a) and (b)
Q3.	(d) Form 8, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates
Q4.	(a) 40 Lakhs, 25 Lakhs
Q5.	(d) Whether loans and advances shown as deposits.

Case Study 3

Best Tea House is a Co-operative society formed as per the provisions of the Co-operative Societies Act, 1912. It runs a chain of restaurants serving mainly tea and snacks in Delhi. RAS & Associates, a Chartered Accountant firm, has been appointed to conduct the statutory audit of the society. None of the partners of the firm, CA R, CA A and CA S have ever conducted a Co-operative Society audit before and so familiarise themselves with the provisions of the particular Act governing the society before starting the audit.

During the audit, Best Tea House informs the auditors that they have been in operation for the last five years, and no audit was required earlier since their turnover had not exceeded the prescribed limit.

While examining the books of account of Best Tea House, RAS & Associates notice that as stated under section 43(h) of the Central Act, certain rules were framed prescribing the books and accounts to be kept by Best Tea House.

The auditors also understand that according to section 5 of the Central Act, in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of a certain percentage of the total number of shares or of the value of shareholding to a specified amount. RAS & Associates were concerned with this provision so as to watch any breach relating to holding of shares.

While examining the loans of Best Tea House, the auditors notice that the society has given a loan to a relative named Mr. P, of a member of the society, Mr. T, of an amount not exceeding ₹ 1000.

RAS & Associates examined the overdue debts and checked its classification which they are required to report.

During the audit, RAS & Associates notice few transactions for personal profiteering by members of the management committee, which are ultimately detrimental to the interest of the society. RAS & Associates report this matter to the required authority to take necessary action.

Based on the above information, answer the following questions: (ICAI MCQ Booklet) (RTP, Nov 2021, NA)

Q1.	According to section 5 of the Central Act, what is maximum percentage of the total number of shares and what is the maximum value of shareholding that RAS & Associates were concerned with, so as to watch any breach relating to holding of shares? (a) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 5,000 (b) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 5,000 (c) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 1,000 (d) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 1,000
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Q2.	As per Section 29 of the Central Act, Best Tea House cannot give a loan to any person other than: (a) A member and with the special sanction of the Registrar, relatives of the member not exceeding an amount of ₹ 1000. (b) A member and with the special sanction of the Registrar, another registered society. (c) A member and with the special sanction of the Registrar, relatives of the member. (d) A member and with the special sanction of the Registrar, another registered society not exceeding an amount of ₹ 1000.
Q3.	Overdue debts for a period from _____ to _____ and more than _____ were classified and reported by RAS & Associates. (a) 3 months to 6 months and more than 6 months. (b) 6 months to 3 years and more than 3 years. (c) 6 months to 5 years and more than 5 years. (d) 3 months to 5 years and more than 5 years.
Q4.	To whom does RAS & Associates report the few transactions noticed during audit? (a) Registrar of Co-operative Societies (b) Secretary of Best Tea House. (c) State Government (d) Management Committee of Best Tea House

Case Study 3 Answers

Q1.	(d) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 1,000
Q2.	(b) A member and with the special sanction of the Registrar, another registered society.
Q3.	(c) 6 months to 5 years and more than 5 years.
Q4.	(a) Registrar of Co-operative Societies

Case Study 4

Suresh Rana & Associates have been appointed as the statutory auditors of HAIL Ltd. by the Comptroller & Auditor General for the FY 2023-24. HAIL Ltd. is a Government company engaged in the manufacture of metro train coaches. During the course of audit, CA Suresh extended his scope of audit to cover efficiency, effectiveness and economy audit. CA Suresh Rana also asked his audit team to conduct expenditure audit as part of the audit engagement of HAIL Ltd.

During the course of audit, CA Suresh also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. Suresh considered such expenditure as infructuous and avoidable expenditure.

The engagement partner also discussed with his team regarding the areas to be covered while conducting the audit of receipts. The reporting responsibilities of the engagement team were also discussed by the engagement partner with his team.

Based on the above facts, answer the following:- (ICAI MCQ Booklet) (RTP, May 2021, NA) (MTP2, May 2022, 10 marks)

Q1.	Statement 1: Government audit provides public accounting of operational, management programme and policy aspects of public administration as well as accountability of officials administering them. Statement 2: Government audit is equipped and intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end. (a) Only statement 1 is correct (b) Only statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect
Q2.	_____ is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them:- (a) Propriety audit (b) Audit against Rules and orders (c) Performance Audit

	(d) Audit against Provision of funds
Q3.	While conducting audit against provision of funds, the statutory auditors, M/s Suresh Rana & Associates must check:- (a) That each item of expenditure is covered by a sanction either general or special of a competent authority. (b) That the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of expenditure does not exceed the appropriation made. (c) That the expenditure conforms to the relevant provision of the constitution. (d) That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.
Q4.	Which part of expenditure audit covers the scrutiny of the expenditure incurred on the construction of stockyard by the company which is considered as infructuous and avoidable by CA Suresh Rana? (a) Propriety Audit (b) Audit against provision of funds (c) Audit of sanctions (d) Performance Audit
Q5.	While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts? 1. Whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities of HAIL Ltd. 2. Whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or willful omission or negligence to levy or collect taxes or to issue refunds. 3. Whether the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made. 4. Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them. (a) Only statement 1 is correct (b) Statements 1 & 2 are correct (c) Statements 1,2,3,4 are correct (d) Statements 1,2,3 are correct

Case Study 4 Answers

Q1.	(a) Only statement 1 is correct
Q2.	(c) Performance Audit
Q3.	(b) That the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of expenditure does not exceed the appropriation made.
Q4.	(a) Propriety Audit
Q5.	(b) Statements 1 & 2 are correct

Chapter 10 Audit of Banks

Case Study 1

CA M is conducting statutory audit of branch of MMC Bank. During the course of audit, it is noticed as under:-

- i) Loans under "Kisan credit card" are given by Bank to farmers to meet their short-term credit needs for cultivation of crops. In respect of one agricultural advance classified under "Kisan Credit Card" having an outstanding balance of ₹ 20 lacs as at year end, there is no transaction in account since last 90 days. The said loan has been granted for cultivation of paddy which is harvested in a period of 3-4 months from sowing. The branch has classified the said advance as "Standard asset".
- ii) It is also observed that account of one borrower availing cash credit limit of ₹ 50 lacs was taken over from another bank. The proposal was sanctioned by branch manager instead of immediate next higher authority as required in "Manual of Delegation of Powers" of Bank.
- iii) It is noticed that head office of bank has flagged a savings account maintained in branch in which interest was wrongly paid at higher rate due to wrong data feeding entry. Now, situation has been rectified by debiting excess interest paid in the account. Since there was little balance in savings account, a debit balance of ₹ 1.50 lac was created in the said savings account due to above reversal. The matter was immediately informed to account holder. However, he has not turned up for payment since matter was informed to him about six months ago.
- iv) There are many cash credit accounts in the branch. Such borrowers are required to submit monthly stock statements to branch showing calculation of drawing power.
- v) One borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet.

Based on above, answer following questions: **(ICAI Study Material)**

Q1.	As regards description of agricultural advance, which of the following statements is most appropriate in this regard? (a) The branch has erred in making classification as per RBI norms. It is a "Sub-standard" asset. (b) The classification made by branch is proper. However, there are no transactions in account since last 90 days, it is SMA. (c) The classification made by branch is proper. (d) The branch has erred in making classification as per RBI norms. It is a "doubtful" asset.
Q2.	Regarding taken over account from another bank, which of following statements is most appropriate? (a) It is an internal issue of Bank and auditor is not concerned with it. (b) It is an internal issue of Bank. However, the auditor may, at his discretion, report it. (c) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail. (d) There is no issue involved as credit facility was properly sanctioned.
Q3.	As regards debit balance of ₹ 1.50 lacs in Savings account, which of the following is correct from point of view of an auditor? (a) The situation does not attract RBI norms on asset classification. (b) The debit balance of ₹ 1.50 lacs should be classified as NPA. (c) The situation does not attract RBI norms on asset classification as no credit facility was granted. (d) The bank cannot demand excess interest paid to account holder
Q4.	Which of the following statements is not true about "drawing power" (DP)? (a) Drawing Power refers to the amount calculated based on primary security less margin as on particular date. (b) It is always less than sanctioned limit. (c) It can be different from sanctioned limit. (d) Creditors for goods are reduced for purpose of calculating Drawing Power.
Q5.	Considering housing loan and car loan availed by a borrower, which of the following statements is appropriate? (a) Both Housing loan as well as car loan should be classified as "NonPerforming Assets" in accordance with RBI norms on asset classification. (b) Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset. (c) Car Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset. (d) Both Housing as well as car loans should be classified as Standard asset

Case Study 1 Answers

Q1.	(c) The classification made by branch is proper.
Q2.	(c) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail.
Q3.	(b) The debit balance of ₹ 1.50 lacs should be classified as NPA.
Q4.	(b) It is always less than sanctioned limit.
Q5.	(a) Both Housing loan as well as car loan should be classified as "NonPerforming Assets" in accordance with RBI norms on asset classification.

Case Study 2

M/s RGL has been appointed as auditors of New Indian Bank (a nationalised bank) for the Financial year 2023-24 by its Board of Directors.

Appointment of M/s RGL has been challenged by a shareholder in the Bank's Annual General Meeting stating that the appointment should have been made by the shareholders in the bank's AGM.

Their appointment as auditors of the bank throws some questions for the bank's management.

New Indian bank has exposure to crop loans as many branches are located in the rural area. While conducting the audit, the auditors are faced with the question of classification of non performing advances.

Also, New Indian bank has lot of Credit cards issued to its clients, some of which are overdue for long.

While conducting the audit, the auditors came across various peculiarities relating to Bank Audits like classification of NPA's, reporting etc. to name a few.

On the basis of above facts, please suggest appropriate treatments in respective cases (ICAI MCQ Booklet)

Q1.	As per the provisions of relevant enactments, please advise who can appoint auditors of a Nationalised bank. (a) Board of Directors of the Bank (b) Reserve Bank of India (c) Comptroller and Auditor General of India (d) Central Government
Q2.	The matters which the banks require their auditors to deal with in the Long Form Audit Report is to be specified by (a) Banking Regulation Act, 1949 (b) Central Government (c) Comptroller and Auditor General of India (d) Reserve Bank of India
Q3.	The auditors should classify Credit card accounts as NPA, if _____ amount due, as mentioned in the credit card statement is not paid fully within _____ days from next statement date. (a) Total, 90 (b) Minimum, 90 (c) Minimum, 30 (d) Minimum, 60
Q4.	An agricultural advance is classified as NPA, if interest or principal is overdue for _____ in case of short duration crops or if interest or principal is overdue for _____ in case of long duration crops. (a) One crop season, two crop season (b) Two crop season, one crop season (c) 90 days, 120 days (d) 120 days, 90 days
Q5.	The bank is a consortium member of Cash Credit Facilities of ₹ 100 crores to Bottle Limited. Bank's own share is ₹ 20 crores only. During the last two quarters against a debit of ₹ 1.75 crores towards interest the credits in Bottle Ltd's account are to the tune of ₹ 1.25 crores only. The auditors have classified the account of Bottle Ltd as performing (a) Incorrect, Bottle Ltd is Non Performing Asset (NPA) (b) Correct, Bottle Ltd is performing asset (c) Bottle Ltd's classification is subjective

(d) None of the above.

Case Study 2 Answers

Q1.	(a) Board of Directors of the Bank
Q2.	(d) Reserve Bank of India
Q3.	(b) Minimum, 90
Q4.	(b) Two crop season, one crop season
Q5.	(a) Incorrect, Bottle Ltd is Non Performing Asset (NPA)

Case Study 3

PK & Associates, a 20 year old CA firm was duly appointed as Statutory Auditors of one of the major branches of KBC Bank Ltd., a Nationalised bank, as per the applicable procedure of the appointment of auditors. The Engagement Partner, CA Raman Kumar, carries out discussions with the Engagement team on how to plan, start & conclude this Statutory Bank Audit. He also makes them aware of the importance of such Engagement discussion. CA Raman also discusses with other Partners of the firm regarding the Professional Remuneration the firm will be getting against the completion of this Statutory Audit assignment as fixed by the relevant authorities in this case.

He tells the engagement team about various reports they would be required to issue after the conclusion of audit as the Statutory auditors such as the Statutory Report , LFAR , etc. During the course of the audit, the audit team suspects a fraud having been committed in the Bank branch involving an amount of INR 2.5 crores and they report of the same to the Bank's Board of Directors (BOD) but receive no reply against it from them and therefore proceed further as per their legal obligation as the Statutory auditors. They also observe that more than 80% the Bank Branch's advances consist of Gold Loans. Also, more than 90% of the remaining advances are overdue between 61 to 90 days but the Bank has not categorized them accordingly.

(ICAI MCQ Booklet)

Q1.	As per CA Raman's discussions with other partners of the firm, their Professional remuneration as per the assignment allotted in the above case is fixed by the (a) The Shareholders of the Bank at their AGM. (b) The Reserve Bank of India in consultation with the Central Government. (c) The Bank through its Board of Directors. (d) The Central Government
Q2.	The Engagement Team's discussions as held by CA Raman are a part of which of the following phases of an audit? (a) Audit Planning. (b) Developing an Audit Programme. (c) Risk Assessment. (d) Audit Reporting.
Q3.	Which of the following types of Audit Report do PK & Associates will have to issue to comply with the requirements as laid down by RBI circulars as narrated by CA Raman to the Engagement team? (a) Statutory Audit Report (b) Tax Audit Report. (c) LFAR. (d) GST Audit Report.
Q4.	In the given case, what should be CA Raman's legal obligation & reporting requirement w.r.t. the fraud noticed by the team during the course of the audit? (a) Report the nature of, amount & parties involved in the fraud in his audit report. (b) Ask for the matter to be disclosed in the Board's Report by the BOD. (c) Forward the reply received from the BOD to the Central Government along with his report and his comments upon the reply received. (d) Forward his Report with a Note to the Central Govt. stating the non-receipt of any observations from the BOD.

Q5.	The Bank's major advances constitute a specific type of Loan product. What according to you must have been the most common form of Security Creation in the Bank against such types of Loans? (a) Mortgage (b) Pledge (c) Hypothecation (d) Charge
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Case Study 3 Answers

Q1.	(b) The Reserve Bank of India in consultation with the Central Government
Q2.	(a) Audit Planning.
Q3.	(c) LFAR
Q4.	(d) Forward his Report with a Note to the Central Govt. stating the non-receipt of any observations from the BOD.
Q5.	(b) Pledge

Case Study 4

Kwatra & Co. is a CA firm based at New Delhi. They were appointed as the Statutory Auditors of Mannalaxmi Bank Ltd. For the Financial year 2023-24. After having a good discussion with the Engagement team, CA Vikas, the Engagement Partner, started the Bank audit with his team and made the following observations during the course of the audit:-

- One of the borrowers, Mr. Rakesh Verma has availed a Machinery Loan from the Bank but has not paid the EMI since the past 100 days. However, his business is going good and the Bank Manager is of the view that such loan need not be classified as NPA as they have his Factory building available with them as Mortgaged Security against the Machinery Loan and good amount could be realized by its auction in the case of default by Mr. Verma.
- Mrs. Lata, one of the prime customers of the Bank has availed a CC facility for her Garment business, a Car Loan for her personal purpose and an Education loan for her son's higher studies, all from the Bank branch under audit. She has been regular in meeting the EMI obligations of all the loans except for the Car loan where she has not been able to pay the EMI since the past 4 months.
- Mr. Kapoor has been sanctioned a Cash Credit Limit of INR 55 lakhs by the Bank and the outstanding balance in his CC account is INR 55 lakhs since the past 3 months. There are no credits continuously for 90 days as on the date of Balance Sheet
- Sakhi Cooperative Society's Term Loan of INR 10 lakhs has been guaranteed by the Central Government and is overdue since the past 120 days. The CG guarantee has not been invoked or repudiated till now.
- Similarly, Vishwas NGO's loan of INR 7 lakhs has been guaranteed by the State Government but it is overdue since the past 105 days but the Bank manager is of the view that this not be categorized as NPA as it has been guaranteed by the State Government and the guarantee has not been invoked/repudiated.
- The RBI inspection team had identified a KCC Loan given to Mr. Khara, a farmer as a Loss in its RBI Report but the Bank has not provisioned it accordingly as the manager is hopeful of recovery from such loan.
- There is a Term Loan advance by the Bank as a Lead Bank together with two other major banks under a specific agreement to a big Corporate house in the city.

(ICAI MCQ Booklet)

Q1.	Mr. Verma's Loan account in the above case should be categorized as- (a) NPA because of no recovery for more than 90 days. (b) Loss asset as there are minute chances of recovery. (c) Standard asset as per the Manager as security is available against this loan and also the net worth of the borrower is strong. (d) SMA 02 Loan.
Q2.	Which of the following Loan facilities given to Mrs. Lata be categorized as NPA by the Bank - (a) Cash Credit Facility (b) Education Loan (c) Car Loan (d) All loans advanced

Q3.	Mr Kapoor's loan account as per the above case is - (a) Overdue (b) SMA 01 (c) Doubtful asset (d) Out of Order
Q4.	The loan sanctioned to Sakhi Cooperative Society in the above case should be categorized as ____ for the purpose of Provisioning of Assets but/and deemed/taken to be as _____ for the purpose of Income recognition by the Bank, respectively. (a) NPA; NPA. (b) NPA; Standard. (c) Standard; NPA. (d) Standard; Standard.
Q5.	The loan sanctioned to Vishwas NGO in the above case should be categorized as ____ for the purpose of Provisioning of Assets but/and deemed/taken to be as _____ for the purpose of Income recognition by the Bank, respectively. (a) NPA; NPA. (b) NPA; Standard. (c) Standard; NPA. (d) Standard; Standard

Case Study 4 Answers

Q1.	(a) NPA because of no recovery for more than 90 days
Q2.	(d) All loans advanced
Q3.	(d) Out of Order
Q4.	(c) Standard; NPA.
Q5.	(a) NPA; NPA

Case Study 5

Bharat Bank, a nationalised bank, has branches all over India and has been the most popular public sector bank in India for the past few years. The bank is governed by the Banking Regulations Act, 1949 and the Central Statutory Auditors of the bank, ABC & Associates, were appointed according to the provisions of the relevant enactments. The engagement partner CA C commenced the audit with his team of seven members so that the audit is completed on time and all the documents are submitted before the due date. The audit at all the branches also started simultaneously and ABC & Associates was in constant touch with all the branch auditors to ensure timely completion of the audit.

As per the audit strategy and plan, CA Q along with Ms. R and Mr. P were assigned the audit of the advances of Bharat Bank. Advances constituted the largest item on the asset s side of the balance sheet of the bank. Since audit of advances is one of the most important areas covered by auditors in a bank audit, it was assigned to CA Q since he was aware of the various functional areas of the bank/branches, its processes, procedures, systems and prevailing internal controls with regard to advances.

CA Q started with verifying whether the advances were classified as per RBI Prudential Norms. There were five categories of advances which were available to CA Q for verification. They were: Standard Regular, Sub Standard, Doubtful, Loss and Special Mention Accounts. An ageing analysis was available for doubtful advances and Special Mention Accounts which was examined in detail by CA Q.

Ms. R, on being instructed by CA Q, verified the securities offered by the borrowers for the bank finance. For a particular customer named Aquabrass Pvt Ltd., the security was in the form of delivery of goods by Aquabrass to Bharat Bank with the intention of creating a charge thereon as security for the advance. The legal ownership of the goods remained with Aquabrass. In case of another customer named Prism Works, there was a transfer of a life insurance policy in favour of the bank as security. The bank had absolute right over the policy. Ms. R examined all the relevant documents for the above two cases in detail. She continued with her examination of other securities based on the sample selected by her.

While checking the classification of NPA, Mr. P came across a customer named Trustworthy whose term loan instalment was overdue for 90 days at the year-end, but it was 100% secured against the office building. The same was classified as a Substandard asset. There was another customer named Super40, who had a cash credit account and a term loan with the bank. Super40 had been paying

the instalments on the term loan as well as the interest on the cash credit account regularly and there was no overdue amount. Mr. P verified the drawing power of Super40 and found it to be less than the sanctioned limit throughout the year. The outstanding balance of Super40 during the whole year exceeded the drawing power but was less than the sanctioned limit. Both the advances to Super40 were classified as Standard Advances since the recoveries were regular and outstanding balance in the cash credit was less than the sanctioned limit.

On examination of large advances, CA Q noticed that a customer named Stylish N Smart Private Limited had one funded loan (term loan) and one non funded loan (bank guarantee) sanctioned from the bank. CA Q checked in detail whether commission earned by the bank on the bank guarantee was provided for on accrual basis.

CA Q along with Ms. R and Mr. P verified the advances in detail and also recommended a few changes in the classification/provisions based on the examination of the sample selected by them.

Based on the above information, answer the following questions: (RTP, Nov 2022, NA)

Q1.	<p>What are the sub categories of the special mention accounts?</p> <p>(a) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)</p> <p>(b) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 0-45 days) and SMA 2 (Overdue between 46-90 days)</p> <p>(c) SMA 0 (accounts not yet due for payment), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)</p> <p>(d) SMA 0 (accounts not yet due for payment), SMA 1 (Overdue between 0-45 days) and SMA 2 (Overdue between 46-90 days)</p>
Q2.	<p>Creation of security of Aquabross Private Ltd. and Prism Works was in the form of:</p> <p>(a) Mortgage and Hypothecation.</p> <p>(b) Lien and Set-off.</p> <p>(c) Hypothecation and Pledge.</p> <p>(d) Pledge and Assignment.</p>
Q3.	<p>In your opinion is Trustworthy a standard asset or a substandard asset?</p> <p>(a) Though it is due for 90 days, it is 100% secured so it is a standard asset.</p> <p>(b) Since it is due for 90 days, it is a substandard asset irrespective of the security.</p> <p>(c) Since it is not due for more than 90 days, it is a standard asset irrespective of the security.</p> <p>(d) Since it is not due for more than 90 days and it is 100 % secured, it is a standard asset.</p>
Q4.	<p>Is Super40 correctly classified as a standard asset?</p> <p>(a) Yes, since the recoveries in both term loan and cash credit were regular and outstanding balance in the cash credit was less than the sanctioned limit.</p> <p>(b) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, so both the advances, that is, the term loan and cash credit facility will be classified as NPA.</p> <p>(c) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, the cash credit facility will be classified as NPA and term loan as standard.</p> <p>(d) Yes, since the recoveries in both term loan and cash credit were regular, there is no relevance of sanctioning power/drawing power.</p>
Q5.	<p>Which among the following is a non- funded loan?</p> <p>(a) Demand Loans</p> <p>(b) Bills Discounted and Purchased</p> <p>(c) Letter of Credit</p> <p>(d) Participation on Risk Sharing basis</p>

Case Study 5 Answers

Q1.	(a) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)
Q2.	(d) Pledge and Assignment.
Q3.	(c) Since it is not overdue for more than 90 days, it is a standard asset irrespective of the security.

Q4.	(b) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, so both the advances, that is, the term loan and cash credit facility will be classified as NPA.
Q5.	(c) Letter of Credit

Case Study 6

Rohan is part of an engagement team conducting statutory audit of branch of a nationalized bank. The financial statements to be audited include Balance sheet and Profit & Loss account of the branch drawn up in accordance with Form A and Form B respectively of the Third Schedule to the Banking Regulation Act, 1949. Besides, various advances and other returns are also to be verified as part of audit.

Rohan was part of all audit work pertaining to verification of deposits, advances, income and expenditure of the branch.

While verifying different items of profit and loss account, it was noticed that income included income on account of interest earned and other income.

The team also verified system of branch prior to sanction of advances like verifying creditworthiness of borrower etc. It was also verified whether there exists system for bringing to the notice of higher authorities, accounts which exceed the sanctioned limits or drawing power. Besides, the team also verified whether there exists a system for review of operations in accounts once a year and more frequently in case of large advances.

During the course of audit, it was noticed that one advance, consisting of a term loan, having outstanding balance of ₹ 20 crore as on balance sheet date has been guaranteed by Uttar Pradesh government. The interest of term loan has remained overdue for more than 90 days. The branch has classified advance as non-performing asset and made applicable provision and reversed unrealized income. Rohan is perplexed as to whether classification, provisioning and reversal of unrealized income made by branch is proper.

The auditee branch is a CBS branch and uses FINACLE software. The core banking system (CBS) is the set of basic software components that manage the services provided by a bank to its customers through its branches. The bank's customers can execute their transactions from any branch, ATM, Service Outlets, Internet, Phone at their disposal. It helps banks to reduce risk that can result from manual data entry and out of date information. It also helps banks to improve service delivery quality and time to its customer. The software is accessed from different branches of bank via communication lines like telephones, satellite, internet, etc.

The engagement team has kept record of audit documentation in accordance with SA 230

(MTP2, Nov 2022, 10 marks)

Q1.	Which of the following does not constitute "Other income" in the profit and loss account of branch of a bank? (a) Discount on Bills purchased (b) Commission on Bills sent for collection (c) Loan processing fees (d) Credit card fees
Q2.	Identify what the engagement team is trying to do in respect to advances of the branch. (a) The engagement team is carrying out analytical procedures in respect of advances. (b) The engagement team is carrying out substantive procedures in respect of advances. (c) The engagement team is evaluating internal control over advances. (d) The engagement team is trying to select samples for verification of advances.
Q3.	Considering state government guaranteed advance of ₹ 20 crore and its NPA classification made by branch, which of the following statements is most appropriate? (a) The branch has correctly classified account as NPA and has rightly made provisioning and reversal of unrealized income in this regard. Uttar Pradesh government guarantee has no effect on provisioning and income recognition. (b) The branch has correctly classified account as NPA and has rightly made provisioning. However, unrealized income should not have been reversed due to Uttar Pradesh government guarantee. (c) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee without having recourse to provisioning and reversal of unrealized income. (d) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee. No provisioning is required. However, for purposes of income recognition, it should be treated as NPA and unrealized income should be reversed.
Q4.	The branch is operating in CBS environment. In view of above, which of the following statements is most appropriate? (a) Due to CBS environment, substantive procedures alone are effective to reduce audit risk to an acceptably low level. (b) In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management. (c) The extensive use of IT systems in CBS environment substantially reduces need to assess inherent and control risks.

	(d) Low level of branch staff sensitisation to the control expectations of management requires fewer audit procedures.
Q5.	With regards to audit documentation, consider the following: - (P) NOC from previous auditor (Q) Management certified trial balance of branch for year under consideration (R) KYC verification details (S) Latest RBI master directions/circulars Which of the following statements is correct as regards to audit documentation? (a) Only documents stated at Q and R form part of audit documentation. (b) Only documents stated at Q, R and S form part of audit documentation. (c) Only documents stated at Q and S form part of audit documentation. (d) All documents stated at P, Q, R and S form part of audit documentation

Case Study 6 Answers

Q1.	(a) Discount on Bills purchased
Q2.	(c) The engagement team is evaluating internal control over advances.
Q3.	(a) The branch has correctly classified account as NPA and has rightly made provisioning and reversal of unrealized income in this regard. Uttar Pradesh government guarantee has no effect on provisioning and income recognition.
Q4.	(b) In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management
Q5.	(d) All documents stated at P, Q, R and S form part of audit documentation.

Case Study 7

CA B is conducting statutory audit of branch of a nationalized bank. Saurabh, a CA student, is also part of engagement team conducting statutory branch audit. The field of bank branch audit is new to him and he is following instructions as required by engagement partner.

The engagement partner has asked him to prepare a summary of non-funded credit facilities outstanding as on balance sheet date. The following information is appearing in branch's CBS data/records as on 31st March, 2023:

S.no	Particulars in CBS (Core Banking solution)/records	Amount in ₹ crores
1	Agricultural term loans	15.00
2	Staff housing loans	3.50
3	Staff vehicle loans	0.20
4	Housing loans-General public	10.00
5	Letters of credit issued	2.50
6	Education loans	1.50
7	Guarantees issued (Fully secured by 100% margin)	1.00
8	Bills purchased and discounted	2.00
9	Bills for collection	0.10

On going through listing of housing loans to general public, CA B notices that branch has sanctioned many housing loans of small ticket size ranging between ₹10.00 to ₹ 20 lakhs. Therefore, he has assessed risk of material misstatements to be high. As a consequence, he has designed procedures to perform tests of controls as well as substantive tests.

Saurabh has been further asked to go through SMA (Special Mention Accounts) jotting as on 30th November, 2022. Such reports are available from system on monthly frequency. Being new to such type of assignment, he is unable to understand relevance of above audit procedure mandated by engagement partner.

Based on above, answer the following questions: (MTP1, May 2024, 6 Marks)

Q1.	Considering table given in the case scenario, which of the following combinations is appropriate example of non- funded credit facilities provided by branch to its customers? (a) Bills purchased and discounted; bills for collection
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	<p>(b) Bills for collection; staff housing loans; letters of credit issued</p> <p>(c) Bills purchased and discounted; letters of credit issued; guarantees issued (fully secured by 100% margin)</p> <p>(d) Letters of credit issued, guarantees issued (fully secured by 100% margin)</p>
Q2.	<p>CA B's decision to perform both tests of controls as well as substantive tests was taken after he had assessed risk of material misstatement in financial statements to be high due to large number of small ticket size loans. Which Standard on Auditing deals with auditor's responsibility to design such tests?</p> <p>(a) SA 500</p> <p>(b) SA 330</p> <p>(c) SA 300</p> <p>(d) SA 315</p>
Q3.	<p>Saurabh is unable to understand relevance of going through SMA jotting as on 30th November, 2022. Which of following statements is most appropriate in this context?</p> <p>(a) It would necessarily help auditor in identifying accounts with significant lending exposure.</p> <p>(b) It would help auditor in identifying accounts which may involve downgrading from Sub-standard asset category to doubtful category.</p> <p>(c) It would help auditor in identifying accounts where substantial recoveries have been received during the year.</p> <p>(d) It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset</p>

Case Study 7 Answers

Q1.	(d) Letters of credit issued; guarantees issued (fully secured by 100% margin)
Q2.	(b) SA 330
Q3.	(d) It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.

Chapter 11 Ethics and Terms of Audit Engagements

Case Study 1

Das & Co, a firm of auditors, is offered appointment as auditor of a company, a prospective new client. CA Sukanya, one of partners, is dealing with new client. While meeting with officers of the company, she comes to know that Sushant, CFO of the company, was her class mate. In fact, both of them had started CA together. However, Sushant had left CA mid-way due to repeated failures and tried his luck to pursue MBA (finance) from one of leading institutions.

During initial discussions, it transpires that company is going to launch new services in the field of "weather-forecasting". Such services would be available on web site of company and micro weather information would be available on payment of charges. The company requests audit firm to be visibly associated with their marketing blitz.

Assume that firm chooses to accept the offer and writes to previous auditor, Walker & Co., to advise whether there exist any professional reasons for them not to accept the proposed offer. However, Walker & Co. do not reply to the request of Das & Co.

During preliminary discussions, it also became known that the said company has acquired all shares of another company. Under relevant provisions of law, financial statements of both companies needed to be consolidated and audited. Despite this knowledge, Das & Co. failed to advise their client regarding audit of consolidated financial statements.

The company also offers auditors contract for providing IT services pertaining to information system of company

Based on above, answer following questions: **(ICAI Study Material)**

Q1.	<p>Considering discussion about Sukanya and Sushant, which of the following statements seems most appropriate?</p> <p>(a) The above discussion is irrelevant in context of proposed offer.</p> <p>(b) The proposed offer should be accepted by firm. The engagement team may be headed by CA Sukanya for better coordination and results.</p> <p>(c) The proposed offer should be accepted by firm. The engagement team may be headed by a different partner of the firm.</p> <p>(d) The matter is too trivial to be reported by CA Sukanya to other partners of firm</p>
Q2.	<p>Keeping in view request of the company to be visibly associated with company's new services, identify which type of threat is being faced by audit firm.</p> <p>(a) Self-interest threat</p> <p>(b) Familiarity threat</p> <p>(c) Self-review threat</p> <p>(d) Advocacy threat</p>
Q3.	<p>The previous auditors, Walker & Co., have not replied to communication of Das & Co. Which fundamental principle of professional ethics is not followed by them?</p> <p>(a) Objectivity</p> <p>(b) Professional behaviour</p> <p>(c) Professional competence and due care</p> <p>(d) Integrity</p>
Q4.	<p>Das & Co. have failed to advise the company regarding audit of consolidated financial statements. Which fundamental principle of professional ethics is violated by Das & Co.?</p> <p>(a) Professional behaviour</p> <p>(b) Integrity</p> <p>(c) Objectivity</p> <p>(d) Professional competence and due care</p>
Q5.	<p>Which of the following statements is most appropriate regarding providing offer of work of IT services by auditors to the company?</p> <p>(a) Such offer may create a self-review threat.</p> <p>(b) Such offer may create an advocacy threat.</p> <p>(c) Such offer does not constitute any threat.</p> <p>(d) Such offer may create self-review and advocacy threats.</p>

Case Study 1 Answers

Q1.	(c) The proposed offer should be accepted by firm. The engagement team may be headed by a different partner of the firm.
Q2.	(d) Advocacy threat

Q3.	(b) Professional behaviour
Q4.	(d) Professional competence and due care
Q5.	(a) Such offer may create a self-review threat.

Case Study 2

Mr. Manicharan had been working in the Internal Audit Department of a Listed Company, SOS Chemicals Ltd. for the past 10 years. He had been closely working with the Statutory Auditors of the company, namely, M/s TNA & Co., Chartered Accountants during the Conduct of Statutory Audits of the company every year. Mr. Manicharan has retired from the service of the Company and now wishes to join M/s TNA & Co. on employment basis having such a huge experience in the field of Auditing for the past 10 years.

CA David, the Engagement Partner, who has been engaged to conduct the Statutory Audit of SOS Chemicals Ltd. on behalf the CA firm wants Mr. Manicharan to be a part of the Engagement team but the Senior Partner of the CA firm, CA Raman refuses to allow him owing to a potential compromise with the 'Independence of the Auditor' in an Audit. CA David, who usually questions every if and but, wants to know about this whereby CA Raman tells him that in any audit, an auditor should be independent of the entity subject to audit.

CA David questions him on how the independence can be compromised if Mr. Manicharan is a part of the audit team. He is told that their firm's system of Quality Control includes Policies & Procedures addressing elements like Leadership responsibilities for quality within the firm, Ethical requirements, Continuing Client relationships, Human resources, Engagement Performance and Monitoring. So, 'Independence' of the auditor is one of the major Ethical requirements, governed by various SAs & SQC issued by ICAI. He tells David that Professional integrity and Independence are considered essential characteristics of all the Professions but are more so in the case of Accountancy Profession.

'Independence' implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him. The threats to independence in case of its compromise are Self-interest threats, Self-review treats, Advocacy treats, Familiarity threats & Intimidation threats as identified by the code of Ethics prepared by IFAC.

CA Raman, after satisfying the Questioning mind & curiosity of CA David, the Engagement Partner, asks to him to carry out the audit in the most effective manner and ask him for any clarifications further, if required.

(ICAI MCQ Booklet)

Q1.	<p>"An Auditor should be independent of the entity subject to audit". Here 'Independence' means.</p> <p>(i) Independence of Mind (ii) Independence in Appearance (iii) Independence in Authority (iv) Independence in Character</p> <p>(a) (i) & (ii) (b) (i) & (iii) (c) (iii) & (iv) (d) (i), (iii) & (iv)</p>
Q2.	<p>The Code of Ethics for Professional Accountants identifies 5 types of Independence threats, as told by CA Raman in the above case. The Code has been prepared by IFAC, which refers to</p> <p>(a) Indian Federation of Auditors (b) International Federation of Accountants (c) International Forum of Auditors (d) Indian Forum of Accountants</p>
Q3.	<p>As per CA Raman, Mr. Manicharan cannot be a part of the Engagement team because of his independence being threatened by which of the following threats?</p> <p>(a) Self-Review (b) Intimidation (c) Self-Interest (d) Advocacy</p>
Q4.	<p>CA David, the Engagement Partner, as observed in the above case scenario has an attitude of Professional</p> <p>(a) Influence (b) Judgement (c) Skepticism</p>

	(d) Interest
Q5.	In the above case scenario, the audit engagement letter must be sent by _____ to the _____. (a) TNA & Co. to SOS Chemicals Ltd. (b) SOS Chemicals Ltd. to TNA & Co. (c) Anyone can prepare & send (d) SOS Chemicals' Shareholders to the Engagement Partner

Case Study 2 Answers

Q1.	(a) (i) & (ii)
Q2.	(b) International Federation of Accountants
Q3.	(a) Self-Review
Q4.	(c) Skepticism
Q5.	(a) TNA & Co. to SOS Chemicals Ltd.

Mixed Questions**Case Study 1**

Mr Laxman is appointed as statutory auditor of Best Limited for the Financial Year ended 31st March, 2024. During the course of audit, it was found that few doubtful transactions had been committed by finance manager who retired in March, 2024.

The fraud was going on since last 4-5 years and the total amount misappropriated is approximately ₹ 75 lacs.

Balance sheet of Best Ltd. reflected a cash balance of ₹ 7 crores. The company has taken a loan of ₹ 2 crores from the bank despite of the huge cash balance with the company.

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

On the basis of above facts answer below questions in relation to Mr Laxman's role and duties while conducting statutory audit of Best Limited. **(ICAI MCQ Booklet) (MTP1, Nov 2020, 8 marks)**

Q1.	Mr Laxman shall obtain _____ that the financial statements are free from fraud and misstatement. (a) Absolute assurance (b) Reasonable assurance (c) Management's assurance (d) Chief Financial Officer assurance
Q2.	As per Section 143 (12) of Companies Act, 2013 & Rule 13 of CAAR, 2014; Mr Laxman shall (a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed. (b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed. (c) report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed. (d) report the matter to the Board within such time and in such manner as prescribed.
Q3.	Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs. (a) Inherent, unavoidable (b) Inherent, complete (c) Management, unavoidable (d) Regulatory, control
Q4.	As an auditor what conclusion can Mr Laxman draw looking at the huge cash reserve of the company and corresponding bank loan? (a) Report this matter to the Central Government u/s 143(12) as there is a possibility of fraud (b) Obtain sufficient and appropriate audit evidence of existence of fraud (c) Report the matter under CARO, 2020 (d) There is nothing to report as it's a normal financial decision

Case Study 1 Answers

Q1.	(b) Reasonable assurance
Q2.	(a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
Q3.	(a) Inherent, unavoidable
Q4.	(b) Obtain sufficient and appropriate audit evidence of existence of fraud

Case Study 2

Moon Group of companies is a retail chain involved in the selling of daily consumer needs directly to the customer. They are in the process of appointing an audit firm for the audit of their accounts for the financial year 2021-22. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India.

Sumant & Co. is appointed as the principal auditor for the entire group. Companies Act 2013 prescribes in detail the terms of this audit engagement. Further, there are many branch auditors appointed for the outlets in the other cities. The company also has an internal audit function conducted on quarterly basis by Ram & Co. Following are the observations during the course of the statutory audit:

- One of the discounts offered by the store is in the form of payback cards where reward points are accumulated and the customer can redeem the same on subsequent purchase. The management and internal auditors are of the opinion that the points redeemed are to be treated as trade discount. The external auditors are doubtful on the matter.
- One of the outlet in Chennai region is in the verge of getting closed and is only left with low value stock to be cleared before closure. During the year, the sales were only around ₹ 1,40,000/- and the auditor considers this component immaterial. All other outlets are performing well with good revenue share.
- The gratuity valuation of the employees of the retail chain is done by an external valuer. The auditor, considering the quantum involved appoints an external auditor's expert for the verification of the actuarial calculation of gratuity.

From the above facts, answer the following questions by choosing the correct answer: (ICAI MCQ Booklet)

Q1.	<p>As per SA 210 – Agreeing the Terms of Audit Engagement, which of the following statement is correct?</p> <p>(a) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.</p> <p>(b) Since law prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement except for the fact that law or regulation applies and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.</p> <p>(c) The auditor has to take an extract of the law prescribing the details of the terms of the audit engagement and obtain the counter signature of the management in it.</p> <p>(d) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement, however it need not seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements</p>
Q2.	<p>With respect to the treatment of discount on redemption of points in payback card, what should be the action of the external auditor?</p> <p>(a) The auditor can place reliance and go by the opinion of the branch auditor and internal auditor as they have only done a thorough and detailed audit of the accounts</p> <p>(b) The auditor can place reliance on the management's accounting policy as prima facie they are only responsible for preparation of financial statements.</p> <p>(c) The external auditor has sole responsibility for the audit opinion expressed and hence he should perform procedures to satisfy himself on the correct treatment and issue opinion accordingly.</p> <p>(d) The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditor's opinion has higher authority than external auditor's opinion.</p>
Q3.	<p>What is the main objective of the external auditor, when he uses the work of the internal audit function of Ram & Co.?</p> <p>(a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.</p> <p>(b) To appropriately direct, supervise and review the work of the internal audit function</p> <p>(c) Review the internal audit report and audit the areas not covered by the internal audit function</p> <p>(d) Enquire from management on the special points that arose during internal audit and follow up on the course of action on those points</p>
Q4.	<p>The external auditor finds that the branch auditor of the outlet in the Chennai region, which is in the verge of closing down, is audited by an auditor who is not a member of the Institute of Chartered accountants of India. What should the external auditor do?</p> <p>(a) Since the professional competence of the auditor is in question, the external auditor should himself visit the premise and audit the accounts.</p> <p>(b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply.</p> <p>(c) The auditor can rely on the financial statements of that component by obtaining written representation from management that the branch auditor is otherwise well qualified.</p> <p>(d) Since the professional competence of the auditor is in question, the external auditor should co-ordinate with the branch auditor and call for the books of accounts and other explanations</p>
Q5.	<p>Which of these is not a factor affecting the external auditor's evaluation of the objectivity of the internal audit function?</p> <p>(a) Whether the organizational status of the internal audit function supports the ability of the function to be free from bias,</p>

	<p>conflict of interest or undue influence of others to override professional judgment.</p> <p>(b) Whether the internal audit function is free of any conflicting responsibilities.</p> <p>(c) Whether the internal auditors have adequate technical training and proficiency in auditing.</p> <p>(d) Whether those charged with governance oversee employment decisions related to internal audit function.</p>
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Case Study 2 Answers	
Q1.	(b) Since law prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement except for the fact that law or regulation applies and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements
Q2.	(c) The external auditor has sole responsibility for the audit opinion expressed and hence he should perform procedures to satisfy himself on the correct treatment and issue opinion accordingly
Q3.	(a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.
Q4.	(b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply.
Q5.	(c) Whether the internal auditors have adequate technical training and proficiency in auditing.

Case Study 3	
<p>M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2023-24. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.</p> <p>Various topics like audit planning, overall audit strategy, audit programme were discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.</p> <p>Based on the above facts, answer the following:- (ICAI MCQ Booklet) (RTP, May 2020, NA)</p>	
Q1.	<p>_____sets the scope, timing & direction of the audit and guides the development of the more detailed plan.</p> <p>(a) Audit Programme</p> <p>(b) Overall Audit Strategy</p> <p>(c) Completion Memorandum</p> <p>(d) Audit Plan</p>
Q2.	<p>Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.</p> <p>Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.</p> <p>(a) Only Statement 1 is correct</p> <p>(b) Only Statement 2 is correct</p> <p>(c) Both Statements 1 & 2 are correct</p> <p>(d) Both Statements 1 & 2 are incorrect</p>
Q3.	<p>_____ means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-</p> <p>(a) Benchmark Materiality</p> <p>(b) Materiality in Planning</p> <p>(c) Performance Materiality</p> <p>(d) Materiality</p>
Q4.	<p>Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-</p>

	(a) Total Revenue (b) Profit before tax (c) Net Asset Value (d) None of the above
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Case Study 3 Answers

Q1.	(b) Overall Audit Strategy
Q2.	(c) Both Statements 1 & 2 are correct
Q3.	(c) Performance materiality.
Q4.	(d) None of the above

Case Study 4

M/s PQR & Associates are appointed as auditors of Jupiter Ltd. for the Financial Year 2023-24.

- The team consisted of Mr. P, Mr. Q, Mr. R all Chartered Accountants and three article assistants.
- Mr. P, one of the engagement partners, briefed the audit staff about various items of financial statement to be checked in detail in case of Jupiter Ltd and about various aspects to be covered in the audit of the company.
- Mr. P told the audit staff about audit documentation, audit evidence, audit file, completion memorandum and many other things along with relevant Standards of Auditing applicable.
- Mr. P also told the staff about the risk of material misstatement that the financial statements are prone to and how it affects the sufficiency and appropriateness of audit evidence.
- The audit staff was also apprised about the various audit procedures to be adopted while conducting the audit of Jupiter Ltd.
- Further discussions were done about various types of risks related to financial statement and the audit work, the related audit procedures, and the risk assessment procedures.
- The engagement partners are also very particular about the application of various Standards on Auditing applicable in case of Jupiter Ltd.

Based on the above facts, answer the following:- (ICAI MCQ Booklet) (MTP1, May 2023, 10 marks)

Q1.	_____ is the summary of significant matters identified during audit and way they are addressed:- (a) Audit File (b) Audit Programme (c) Completion memorandum (d) Checklists
Q2.	The susceptibility of an assertion to a misstatement that could be material before consideration of any related control is_____-:- (a) Control Risk (b) Inherent Risk (c) Audit Risk (d) Significant Risk
Q3.	Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures. Statement 2: Substantive procedures consist of test of details and analytical procedures. (a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect
Q4.	_____ refers to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error at the financial statement and assertion levels:- (a) Analytical Procedures (b) Risk Assessment Procedures

	(c) Audit Procedures (d) Substantive Analytical Procedures
Q5.	Statement 1:- Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level. Statement 2:-Test of Controls is audit procedure designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level. (a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect

Case Study 4 Answers	
Q1.	(c) Completion memorandum
Q2.	(b) Inherent Risk
Q3.	(c) Both 1 & 2 are correct
Q4.	(b) Risk Assessment Procedures
Q5.	(b) Only Statement 2 is correct

Case Study 5	
<p>M/s UVW & Associates have been appointed as auditors of Mars Ltd. for the Financial Year 2023-24.</p> <ul style="list-style-type: none"> • During the course of audit, the auditors notice that there are certain legal expenses been charged to revenue during the financial year by Mars Ltd. • These legal expenses are related to litigations going against the company regarding its Corporate Social Responsibility expenses incurred near its factory area. • Further, M/s UVW & Associates noticed that there is a major UV change in the debtors and creditors account of Mars Ltd. during the financial year under audit. The auditors have decided to send balance confirmation requests to the debtors and creditors of Mars Ltd. Also the auditors decide to take management representation letters wherever required. • Also, the auditors have noticed certain related party transactions reflected in the financial statements of Mars Ltd during the financial year under audit. The transaction is between Mars Ltd and a Company owned by wife of one of the directors of Mars Ltd. • The auditors have become aware of certain subsequent events occurring in case of Mars Ltd. These are related to the outcomes of the litigations going against Mars Ltd. • The auditors are also concerned whether the litigations going against Mars Ltd. and their outcomes have any impact on the going concern of the company. <p>Based on the above facts, answer the following:- (ICAI MCQ Booklet) (MTP1, May 2023, 10 marks)</p>	
Q1.	Statement 1: Although Written Representations provide necessary audit evidence, they do not provide sufficient and appropriate audit evidence on their own about the matters with which they deal. Statement 2: Written Representations do not include financial statements, the assertions within, or supporting books and records. (a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both Statement 1 & 2 are correct (d) None of Statement 1 & 2 is correct
Q2.	The auditor can perform the following procedures to identify litigation and claims of Mars Ltd:- (a) Inquiry of management including in house legal counsel. (b) Reviewing legal expenses account. (c) Reviewing of minutes of meetings of those charged to governance and correspondence between entity and external legal counsel. (d) All of the above.

Q3.	Negative confirmation requests require the third party to respond in the following cases:- (a) If there is agreement (b) If there is disagreement (c) In both cases of agreement as well as disagreement (d) None of the above.
Q4.	Statement 1:- A failure of the confirming party to respond, or fully respond to a positive confirmation request or a confirmation request returned undelivered is a case of Non Response. Statement 2:- A response that indicates difference between information requested to be confirmed and contained in entity's records and information provided by the confirming part is a case of Exception. (a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both Statement 1 & 2 are correct (d) None of Statement 1 & 2 is correct
Q5.	Which of the following is incorrect so far as the related party transactions are concerned:- (a) Many related party transactions are in the normal course of business. (b) Related party transactions may not be conducted under normal market term and conditions. (c) In some circumstances, related party transactions may give rise to higher risks of material misstatement. (d) None of the above.

Case Study 5 Answers

Q1.	(c) Both Statement 1 & 2 are correct
Q2.	(d) All of the above.
Q3.	(b) If there is disagreement
Q4.	(c) Both Statement 1 & 2 are correct
Q5.	(d) None of the above.

Case Study 6

Ravish and Co, a chartered accountancy firm, has been auditing the books of PQ groups of banks, from the past 6 years. Ravish and Co. has a good standing reputation as auditor and there are regular quality control activities performed by the firm's engagement partner. The recent weekly meeting of the firm's staff included discussions on each of the element of the firm's system of quality control as per SQC 1 and code of ethics as per SA 200.

During the 7th year of audit, there have been some changes in the bank due to which the firm is considering revision of audit terms as per SA 210. Also, new laws and updates in the field of accounting makes the auditor feel that the financial reporting framework used by the bank is not acceptable as per law and is considering the impact of this on his audit report.

Owing to the changes, Mr. Ravish instructs his articles to go through the audit programme once again and make necessary changes to it. He also reviews the audit plan developed for the bank.

After the above exercise of re-planning and revision in terms of the engagement as per SA 210, Mr. Ravish and Co. carries on the audit of the 7th year and observes the following issues:

- As per the Income Tax Act 1961, the banks are to report certain high value transactions to the department. On verification of certain records, the auditor suspects that there is noncompliance with the law and in his judgment; the effect of the suspected non-compliance may be material to the financial statements. On discussion with management, he does not get sufficient information supportive that the bank is in compliance with the law.
- The management of the bank shows recent investigation reports by external authorities to the auditor wherein red flags have been raised in the internal control system of the bank. The management blames the auditor that he has not audited the entity's internal system correctly and threatens to hold the auditor responsible for the same.

Considering the above facts, answer the following questions by choosing the correct answer. (ICAI MCQ Booklet)

Q1.	Which among the following is NOT an element of firm's system of quality control? (a) Ethical Requirements
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	(b) Acceptance and continuance of client relationships and specific engagements (c) Engagement review (d) Monitoring
Q2.	When conducting an audit of financial statement, which of the following is NOT a fundamental principle of professional ethics? (a) Integrity (b) Professional Skepticism (c) Confidentiality (d) Objectivity
Q3.	Which of the following statement is incorrect considering the context of revision in audit terms as per SA 210? (a) Indication that the entity has misunderstood the objective and scope of the audit (b) A significant change in ownership of the bank (c) A change in legal or regulatory requirements (d) Significant change in the audit team
Q4.	The auditor has found that the financial reporting framework provided by law or regulation is unacceptable. What should be the impact of this on his report? (a) Issue an adverse opinion owing to unacceptable financial reporting framework (b) Include an "Emphasis of Matter Paragraph" drawing user's attention to additional disclosures other than those as per law. (c) Include an "Other Matter paragraph" drawing user's attention to additional disclosure other than those as per law. (d) No need of any mention in report as law or regulation has prescribed the framework and law holds highest authority
Q5.	Which among the following best defines an Audit Programme? (a) An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements. (b) An audit programme is a statement containing the details of the hours worked, work done and output achieved by the staff of the audit firm used by the principal for review purpose (c) An audit programme is a checklist developed by the audit firm covering verification aspects which are common to clients handled by the audit firm. (d) An audit programme is the policies and procedures adopted by the company for ensuring orderly and efficient conduct of audit, including timely provision of records to auditors and prompt response to audit queries

Case Study 6 Answers

Q1.	(c) Engagement review
Q2.	(b) Professional Skepticism
Q3.	(d) Significant change in the audit team
Q4.	(b) Include an "Emphasis of Matter Paragraph" drawing user's attention to additional disclosures other than those as per law
Q5.	(a) An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements.

Case Study 7

Cheenu & Co are the auditors of a manufacturing industry. During the course of the audit, the following are the observations:

- Due to paucity of time, one of the partners of Cheenu & Co. suggests that the team may complete the audit procedures and issue the audit report. They may carry out the audit documentation at a later stage.
- Cheenu & Co. has identified the benchmark for the materiality level. However, there is a difference of opinion in documenting materiality for the financial statements. One of the partners is of the opinion that there is no need to document the same as per SA 230.

- c) During the course of the audit, Cheenu & Co. wants to verify the inventory of the company held under the custody and control of the third party. The management refuses the same as it is not practicable.
- d) There exists a litigation matter in which the auditor assesses a risk of material misstatement and wants to directly communicate with the entity's external legal counsel. The management however refuses to give the auditor permission to communicate or meet the entity's external legal counsel. Further, the auditor is unable to obtain sufficient appropriate audit evidence by performing alternate procedures.

From the above information, answer the following by choosing the correct option. (ICAI MCQ Booklet)

Q1.	As per SQC1, what is the retention period of the audit documentation? (a) It should be no shorter than seven years from the date of the auditor's report. (b) It should be no shorter than eight years from the date of the auditor's report (c) There is no such retention period; audit documentation must be there permanently as a defense in favor of the auditor in any litigation (d) It should be no shorter than eight years from the date of entering into the audit agreement with client
Q2.	As part of the audit documentation, the auditor may consider it helpful to prepare and retain a summary that describes significant matters identified during the audit and how they were addressed. What is this summary known as? (a) Audit File (b) Completion Memorandum (c) Evidence summary (d) Control Memorandum
Q3.	How should the auditor verify the inventory held in custody with the third party? (a) SA 501 mandates auditor to verify the same physically, hence management refusal will lead to a disclaimer of opinion (b) The auditor should perform other procedures like requesting confirmation from third party or inspecting documentation like warehouse receipts to confirm existence of the inventory (c) The auditor should obtain written representation from management on the inventory held in custody with third party (d) Inventory of client held with third party is outside the scope of audit; hence auditor need not verify the same for his audit opinion on the financial statements.
Q4.	Is the opinion of the auditor on not to document the materiality level correct? (a) Yes, SA 230 does not prescribe any documentation of materiality level as it is derived out of auditor's professional judgment. (b) Yes, none of the auditing standards prescribe documentation of materiality level. (c) No, though SA 230 does not prescribe any documentation, it should be documented as per SA 320. (d) No, SA 230 explicitly states that materiality level should be documented.
Q5.	Which among the following is not a factor for identification of an appropriate benchmark? (a) The elements of the financial statements (b) The relative volatility of the benchmark (c) The entity's ownership structure and the way it is financed. (d) Previous experience of audit with the entity

Case Study 7 Answers

Q1.	(a) It should be no shorter than seven years from the date of the auditor's report.
Q2.	(b) Completion Memorandum
Q3.	(b) The auditor should perform other procedures like requesting confirmation from third party or inspecting documentation like warehouse receipts to confirm existence of the inventory
Q4.	(c) No, though SA 230 does not prescribe any documentation, it should be documented as per SA 320
Q5.	(d) Previous experience of audit with the entity

Case Study 8

RM & Associates have been appointed as Auditors of Techblocks Consulting Ltd. for the year 2023-24. CA R and CA M were the Engagement partners.

Para 1 - The Firm has freshly appointed 2 Article Clerks who had no practical knowledge in the area of Auditing. They had to work to tight hardheaded factual issues and were baffling to understand the various terms and their objectives in the field of Auditing.

Para 2 - To make sure that the Article Clerk do not misplace or mis-handle the Working Papers, CA M also described the relevance of Audit File and clarified that working papers are the property of Auditor. Such Audit file should be preserved for a period of seven years.

Para 3 - CA R while scrutinizing Books of Accounts suspected some fictitious sales as a result of which he anticipated inflated Debtors. Management was reluctant to give the details. As CA R could not gather more evidence from the Management, he sought to obtain details from the third party.

Para 4 - On further perusal of Opening Balances, it is essential to perceive that Accounting Policies have been consistently applied in the current period's financial statements and whether any changes have been properly accounted for and disclosed. CA M assigned this duty to his article clerk. The Article clerk explained to CA M about how he had observed that accounting policies were not consistently applied in relation to opening balances in accordance with the financial reporting framework or a change is not properly accounted or not adequately disclosed.

Para 5 - Subsequently, the Auditors gathered from the Management that there was a fire in the Factory premises after the Balance Sheet date, as a result of which the company suffered loss of Inventories. It did not provide any conditions on the Balance Sheet date. SA 560 deals with such type of transactions.

(ICAI MCQ Booklet) (MTP1, Nov 2021, 10 marks)

Q1.	<p>The Auditor explained his Audit team the purpose of Audit Documentation. Which of the following is incorrect with respect to the purpose of Audit Documentation?</p> <p>(a) It enables the conduct of quality control reviews and inspections in accordance with SQC-1.</p> <p>(b) It helps in preparation of Financial Statements.</p> <p>(c) It retains a record of matters of continuing significance to future audits.</p> <p>(d) It enables the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.</p>
Q2.	<p>An auditor strictly ensured that the audit team should document/ assemble all the working papers in Audit file. The completion of assembling the Audit File is an administrative process and should be done in:</p> <p>(a) It should be within 30 days from the date of Audit Report.</p> <p>(b) It should be within 60 days from the completion of Audit.</p> <p>(c) It should not be more than 60 days after the date of Audit Report.</p> <p>(d) It should be before 90 days from the completion of Audit.</p>
Q3.	<p>With reference to para 3 of Case scenario, this is a case of obtaining External Confirmation by the Auditor. Which of the following is inappropriate with regard to External Confirmation?</p> <p>(a) External Confirmations are restricted to Account balances only.</p> <p>(b) It is also used in a case to obtain Audit evidence about the absence of certain conditions say, Side Agreement.</p> <p>(c) It can be also effective in obtaining Audit evidence about verification of Inventories held by third parties at bonded warehouses for processing or on consignment.</p> <p>(d) External Confirmation is also functional in case of Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the Balance Sheet date.</p>
Q4.	<p>With reference to para 4, in such a situation CA M shall express a:</p> <p>(a) A Disclaimer Opinion</p> <p>(b) A qualified opinion</p> <p>(c) A qualified opinion or an adverse opinion in accordance with SA 705</p> <p>(d) An unmodified opinion</p>
Q5.	<p>In respect to subject matter mentioned in Para 5, what procedures should Auditor perform to identify such events?</p> <p>Statement 1: Obtain an understanding of any procedures management has established as well as Inquiry with Management and those charged with governance procedures for identification of such subsequent events.</p> <p>Statement 2: Inspection of Minutes of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about the matters discussed at any such meetings for which minutes are not yet available.</p>

	<p>Statement 3: The Auditor should not read the entity's latest subsequent interim financial statements, if any.</p> <p>(a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both Statements 1 and 2 are correct (d) Only Statement 3 is correct</p>
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Case Study 8 Answers

Q1.	(b) It helps in preparation of Financial Statements.
Q2.	(c) It should not be more than 60 days after the date of Audit Report.
Q3.	(a) External Confirmations are restricted to Account balances only.
Q4.	(c) A qualified opinion or an adverse opinion in accordance with SA 705
Q5.	(c) Both Statements 1 and 2 are correct

Case Study 9

Mars Ltd. is a public limited Company incorporated during the previous financial year 2023-24. R S Shah & Associates have been appointed as the Auditors of the Company.

Para 1 - Its Authorized Capital was ₹ 75 Lacs. Subsequently it increased its Share Capital. They issued Shares at a premium of ₹ 25/- per share. The Company has transferred the amount received as premium to the Securities Premium Account.

Para 2 - CA R recommended his Engagement Team to prepare an Audit Strategy as well as Audit plan for efficient conduct of audit. He advised to the team that they should include a series of verification procedures to be applied to Financial Statements of the Company for accomplishing the Audit objectives. CA R illustrated to his team the relationship between Audit strategy as well as Audit plan

Para 3 - Encompassed by a huge clientele, one of the Auditee firm was a LLP. It was in the name of Mangaldeep Geotech LLP. They conducted the business in a very efficient way but had allotted only the Audit and the Income Tax work to CA R S Shah & Associates. The Partners of the LLP were capable enough but however inadvertently bypassed the ROC Compliances. They had no knowledge about the Compliances and its related penalties. Thus they approached CA R S Shah and Associates for their guidance. They were completely clueless as to filing of Annual Return with ROC.

Para 4 - R S Shah and Associates have been appointed as Auditors of a large Enterprise namely Search Results Ltd. Considering the overhaul required in the Organization's Risk Management, Directors of the listed companies braced the subject of Internal Financial Control with much seriousness and rigor. The dawn of the Financial Year lays down the daunting task of establishing and implementing Internal Financial Control in an Enterprise.

Para 5 - The Auditors are performing their Audit work in the Company Search Results Ltd by using CAAT's. The Company is completely automated and all the processes, operations are carried out using the Computer systems. Testing is performed in an automated environment to increase the efficiency and allow for more robust tools to be built. There are four types of testing methods in an Automated environment. They are Inquiry, Observation, Inspection and Re-performance.

(ICAI MCQ Booklet) (MTP2, Nov 2021, 10 marks)

Q1.	<p>Sec. 52 of the Companies Act states that Security Premium Account can be applied by the Company for one of the purpose mentioned below. Which of the following is an INCORRECT option?</p> <p>(a) To write off preliminary expenses of the Company (b) To pay dividend to equity shareholders (c) To provide premium on redemption of Preference share capital (d) To purchase its own shares or other securities under Sec 68(Buyback)</p>
Q2.	<p>In reference to para 2, which of the following Statement is inappropriate?</p> <p>(a) Once the overall audit strategy is established, an audit plan can be developed to address the various matters identified in the overall audit strategy.</p>

	<p>(b) The establishment of overall audit strategy as well as detailed audit plan is a discrete and sequential process.</p> <p>(c) Audit Strategy and Audit plan are inter-related as changes in one may result in consequential changes to the other.</p> <p>(d) The Audit plan is more detailed than the Audit Strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members.</p>
Q3.	<p>In reference to para 3, which form from the following should be filed by the Partners to avoid penalty consequences?</p> <p>(a) Form 11 within 90 day of closer of financial year and Form 8 within a period of 60 days from the end of six months of the financial year.</p> <p>(b) Form 11 within 60 days of closer of financial year and Form 8 within a period of 30 days from the end of six months of the financial year.</p> <p>(c) Form 11 within 30 days of closer of financial year and Form 8 within a period of 60 days from the end of three months of the financial year.</p> <p>(d) Form 11 within 60 day of closer of financial year and Form 8 within a period of 90 days from the end of three months of the financial year.</p>
Q4.	<p>With reference to para 4, which of the following point ensures implementation of policies and procedures with regard to Internal Financial Control by the Companies?</p> <p>(a) Reliability of Financial Reporting</p> <p>(b) Effectiveness and efficiency of operations</p> <p>(c) Compliance with applicable laws and regulations</p> <p>(d) All of the above.</p>
Q5.	<p>Which of the following statement is inappropriate with regard to testing methods as mentioned in Para 5 above?</p> <p>(a) Inquiry in combination with Inspection gives the most effective and efficient audit evidence.</p> <p>(b) Re-performance is the most effective as an audit test and gives the best audit evidence.</p> <p>(c) Inquiry should always be used in combination with any other testing method.</p> <p>(d) which audit test to use and in what combination does not require professional judgment</p>

Case Study 9 Answers

Q1.	(b) To pay dividend to equity shareholders
Q2.	(b) The establishment of overall audit strategy as well as detailed audit plan is a discrete and sequential process.
Q3.	(b) Form 11 within 60 days of closer of financial year and Form 8 within a period of 30 days from the end of six months of the financial year
Q4.	(d) All of the above.
Q5.	(d) which audit test to use and in what combination does not require professional judgment.

Case Study 10

A Partnership Firm of Chartered Accountants by the name of S K and Associates were appointed as the Auditors of the Company named Big Box Ltd.

Para 1 The Auditors, S K and Associates had to bank on the policies and procedures adopted by the Company for ensuring the efficient conduct of its business. They have to state about the adequacy of Internal Financial Controls in the Company. The Company had a turnover of ₹ 60 Crores as per the latest Audited Balance Sheet and its Borrowings during the year were ₹ 20 Crores from Banks.

Para 2 The CFO of the Company, Mrs. Darshana felt dubious in the Accounts department of the Company. She entreated the Auditors to perform a thorough investigation of the Accounts department. Mrs. Darshana was also anticipating a fraud in this situation. Both the Auditor as well as the CFO of the Company analysed the various risk factors. The Auditors observed that the Head Accountant of the Department has inflated the Sales amount to finish his targets. There was collusion between the Head Accountant & Employees of the Company. Employees were presented incentives on accomplishing their targets. This resulted in a fraud by the Head Accountant of amount aggregating to ₹ 75 Lacs.

Para 3 Mr. X, an acquaintance of CA S, wanted to form an LLP with his distant relatives. He wanted to possess in-depth knowledge about LLP. CA S explained him that LLP is a separate legal structure and is liable to full extent of its assets but the partners are liable to the extent of their agreed contribution in LLP. Mr. X additionally wanted to know the criteria for the accounts of LLP to be audited. CA S enlightened him that the accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009.

Para 4 Big Box Ltd. is expanding its business. Consequently, it requires many Computers. Purchasing computers may involve paying a huge upfront cost. Cash flow may get disrupted. Hence the Company came up with an idea of getting the computers on lease. It will allow the business to have access to the latest technology without harming any cash flow. The Auditors explained to the Directors that leasing computers would come under the purview of Operating Lease.

(ICAI MCQ Booklet) (MTP2, Nov 2021, 8 marks)

Q1.	The Auditors of S K and Associates were doubtful concerning the applicability of Internal Financial Controls in the Company Big Box Ltd. With reference to details provided in Para 1 above, please guide them in this regard. (a) It will be applicable as Turnover exceeds the threshold limit of ₹ 50 Crores. (b) It is not applicable as the Borrowings are less than ₹ 25 Crores during the financial year. (c) It will be applicable as the Company is a Public Listed Company. (d) Reporting on Internal Financial Control is not under the scope of Auditors reporting. Hence, Not Applicable.
Q2.	With reference to para 2, wherein a fraud was observed by the Auditor, what should be the course of action of the Auditor? (a) The Auditor should report the fraud details to Central Government. (b) The Auditor shall report the fraud to the audit Committee or to the Board within the prescribed time. (c) The Auditor shall disclose it in the Audit Report and report the fraud details to RBI too. (d) Both a & c above.
Q3.	With regard to information provided in Para 3, which of the following is a CORRECT option? (a) Any LLP whose turnover does not exceed, in any financial year, ₹ 40 Lacs or whose contribution does not exceed ₹ 25 Lacs is not required to get its accounts audited. (b) Any LLP whose turnover does not exceed, in any financial year, ₹ 50 Lacs or whose contribution does not exceed ₹ 20 Lacs is not required to get its accounts audited. (c) Any LLP whose turnover exceeds ₹ 25 Lacs in any financial year or whose contribution exceeds ₹ 10 Lacs in any financial year is required to get its accounts audited. (d) Any LLP whose turnover does not exceed, in any financial year, ₹ 40 Lacs and whose contribution does not exceed ₹ 25 Lacs is not required to get its accounts audited.
Q4.	With reference to para 4, which among the following is an INCORRECT trait about the Operating Lease? (a) The Lessee does not have the option to buy the asset during the lease period. (b) The Lessee cannot claim Depreciation on the leased asset. (c) The Lessee generally bears the Insurance, Maintenance and Taxes. (d) The Lease term generally extends to less than 75% of the projected useful life of the leased asset.

Case Study 10 Answers

Q1.	(c) It will be applicable as the Company is a Public Listed Company
Q2.	(b) The Auditor shall report the fraud to the audit Committee or to the Board within the prescribed time.
Q3.	(a) Any LLP whose turnover does not exceed, in any financial year, ₹ 40 Lacs or whose contribution does not exceed ₹ 25 Lacs is not required to get its accounts audited.
Q4.	(c) The Lessee generally bears the Insurance, Maintenance and Taxes.

Case Study 11

M/s. K. Goenka & Associates have been appointed as the statutory auditors of ABC Ltd. for the FY 2023-24. The engagement partner, CA K. Goenka established the overall audit strategy and made the detailed plan with respect to the audit assignment of ABC Ltd. after discussing the same with the engagement team.

The strategy adopted by M/s. K. Goenka & Associates consisted of relying on the internal control system of the company and the audit plan and programme were developed accordingly and the audit team started to work in accordance with the developed audit

plan and programme. During the course of audit, the engagement partner, CA K. Goenka found that some internal controls implemented by the company were not operating effectively. So, he decided not to rely on the internal control system of the company & accordingly changed the overall audit strategy, audit plan & audit programme.

While conducting the audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of the company. CA K. Goenka asked for the addresses of various debtors from the management of ABC Ltd. for the purpose of sending balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of ABC Ltd. asked the debtors to send the responses of such confirmation requests to General Manager of accounts department of the company, who will in turn provide such responses to the audit team.

Further, the audit team found that a legal case has been filed against the company on account of customer complaint. CA K. Goenka discussed with his team regarding the audit procedures that can be performed by the audit team to verify the implications of such litigation on the financial statements of the company.

One of the audit team members, Mr. Girish had the following understanding with respect to the audit file to be maintained by the audit team with respect to the audit assignment:

Point no. 1: The completion of assembly of final audit file after the date of the auditor's report is an administrative process involving the performance of new audit procedures or drawing of new conclusions.

Point no. 2: After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

CA K. Goenka briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of ABC Ltd. and also discussed with his team in detail regarding the various aspects of audit file

(ICAI MCQ Booklet) (MTP1, Nov 2022, 10 marks)

Q1.	<p>Is CA K. Goenka right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established & plan so developed?</p> <p>(a) CA K. Goenka is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.</p> <p>(b) CA K. Goenka is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.</p> <p>(c) CA K. Goenka is right in making changes to the overall audit strategy and the audit plan.</p> <p>(d) CA K. Goenka can change the overall audit strategy and audit plan only after taking due permission from the management of ABC Ltd.</p>
Q2.	<p>Which of the following audit procedures should the audit team perform with respect to verification of debtors' balances?</p> <p>(a) M/s. K. Goenka & Associates can compare the debtors' balance reflected in financial statements with invoices, debit notes, credit notes, monthly accounts statement sent to the customers.</p> <p>(b) M/s. K. Goenka & Associates can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.</p> <p>(c) M/s. K. Goenka & Associates can obtain management representations with respect to the debtors' balances from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.</p> <p>(d) Both a & b.</p>
Q3.	<p>Is management correct in asking the debtors to provide the reply of confirmation request directly to the General Manager of accounts department of the company?</p> <p>(a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.</p> <p>(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.</p> <p>(c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation is provided to the auditors.</p> <p>(d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.</p>
Q4.	<p>For confirming/verifying the litigation going against the company which of the following audit procedures is not correct?</p> <p>(a) M/s. K. Goenka & Associates can enquire the management including in house legal counsel.</p> <p>(b) M/s. K. Goenka & Associates should review the minutes of meetings of those charged with governance.</p> <p>(c) M/s. K. Goenka & Associates can review the legal expense account.</p> <p>(d) M/s. K. Goenka & Associates need not perform audit procedures with respect to litigation claims of the company except for obtaining written representation from the management in this regard.</p>
Q5.	<p>Is the understanding of Mr. Girish regarding the assembly of audit file with respect to an audit assignment, mentioned as point no. 1 & point no. 2 in the case scenario, correct?</p>

- (a) Only understanding as per point no. 1 is correct.
- (b) Only understanding as per point no. 2 is correct.
- (c) Understanding as per point no. 1 & point no. 2 both are correct.
- (d) Understanding as per point no. 1 & point no. 2, both are incorrect.

Case Study 11 Answers

Q1.	(c) CA K. Goenka is right in making changes to the overall audit strategy and the audit plan.
Q2.	(d) Both a & b.
Q3.	(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.
Q4.	(d) M/s. K. Goenka & Associates need not perform audit procedures with respect to litigation claims of the company except for obtaining written representation from the management in this regard.
Q5.	(b) Only understanding as per point no. 2 is correct.

Case Study 12

J S M & Associates is a Chartered Accountants Firm providing Auditing, Assurance, Taxation and Advisory services. They are revered for their professional ethos and technical expertise with a team of highly competent professionals. The Firm is led by 3 Partners CA Jay, CA Shyam and CA Mohan. They have served in various Industries thus generating deep insights of multifarious businesses.

CA Jay understands and explains to his team members that while taking up any assignment, its scope has to be determined. The Auditor can determine the scope of an audit of financial statements following the requirements of legislation and regulations.

There are various Inherent limitations of audit due to which Audit risk cannot be reduced to zero. CA Mohan emphasized to his team members that each one of them should exercise professional judgment in deciding the extent of audit procedures. However, the inherent limitations of Audit are not a justification for the Auditor to be satisfied with less than persuasive audit evidence.

The Firm J S M & Associates are auditing books of Max Durables Pvt. Ltd. The Registered office of the Company is at Mumbai and they have a Branch at Ahmedabad. The Auditors wanted to verify the Books of Accounts maintained at Branch Office. However, the Directors denied for the same. The Auditors contended that they have a right to visit the Branch and access the Books of Accounts.

During the financial year 2021-22, Max Durables Pvt. Ltd acquires 55% shares of Bluefin Innovations Ltd. The Paid-up Capital of Max Durables Pvt. Ltd. is ₹ 50 Lacs and Borrowings from Bank are ₹ 65 Lacs. The Total Revenue during the financial year 2021-22 is ₹ 8.5 Crores.

Supplementary, the Auditor also had to prepare Consolidated Financial Statements of Max Durables Pvt. Ltd and Bluefin Innovations Ltd for the year ended 31st March 2022. It is preparation and presentation of Financial Statements of a group as a single enterprise.

CA Shyam discussed with his other Partners as well as his team members the significance of documenting their Working Papers. He explained with illustrations that Audit Documentation is the record of audit procedures performed, with relevant audit evidence and conclusions the Auditor reached. It includes Audit Programme, Analyses, summaries of significant matters etc.

(ICAI MCQ Booklet)

Q1.	<p>Various Points merit consideration in regard to scope of Audit. Which of the following Statement is not true with respect to the scope of Audit?</p> <ul style="list-style-type: none"> (a) To form an opinion, the Auditor should be satisfied that accounting information is reliable and sufficient as the basis for preparation of financial statements. (b) The audit should be organized to cover adequately all aspects of the enterprise relevant to the financial statements being audited. (c) The professional skill required of an Auditor includes that of a technical expert for determining physical conditions of certain assets. (d) In forming an opinion, the Auditor should decide whether the relevant information is properly disclosed in the financial statements.
Q2.	<p>Which of the following Statement in reference to an Auditor is INCORRECT?</p> <ul style="list-style-type: none"> (a) The auditor is not expected to perform duties which fall outside the scope of his competence. (b) Auditor's primary responsibility is to detect frauds and errors in financial statements. (c) Auditor is not an Insurer. (d) Auditor needs to be independent.

Q3.	<p>CARO 2020, is an additional Reporting requirement Order. It is applicable to few class of Companies as per the provisions of the Companies Act 2013. The Auditors of Max Durables Pvt. Ltd is of the view that CARO is not applicable to the Company. Kindly discern your contention regarding applicability of CARO amongst the following.</p> <p>(a) It is not applicable as Max Durables Pvt. Ltd is a Private Ltd. Company and its Paid-up Capital and Borrowings are less than the threshold limits.</p> <p>(b) CARO is not applicable to Holding Companies.</p> <p>(c) CARO is not applicable to Max Durables Pvt. Ltd. as it is a private company which is excluded from the purview of CARO 2020.</p> <p>(d) It is applicable to Max Durables Pvt. Ltd. as it is a Holding Company of a Public Company</p>
Q4.	<p>With respect to applicability of CARO to the Auditor's Report on Consolidated Financial Statements in case of Max Durables Pvt. Ltd., which of the following statement is CORRECT?</p> <p>(a) CARO shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3.</p> <p>(b) CARO is applicable to stand alone Companies along with Consolidated Financial Statements.</p> <p>(c) CARO is applicable to Consolidated Financial Statements.</p> <p>(d) None of the above is correct.</p>
Q5.	<p>The Audit Documentation should be prepared on timely basis. Documentation performed after the audit work has been performed is likely to be _____ Which of the following is CORRECT with respect to above?</p> <p>(a) It is likely to be more accurate than documentation prepared at the time such work is performed.</p> <p>(b) It is likely to be less accurate than documentation prepared at the time such work is performed.</p> <p>(c) It is likely to be more relevant than documentation prepared at the time such work is performed.</p> <p>(d) It will be more justified than documentation prepared at the time such work is performed.</p>

Case Study 12 Answers

Q1.	(c) The professional skill required of an Auditor includes that of a technical expert for determining physical conditions of certain assets.
Q2.	(b) Auditor's primary responsibility is to detect frauds and errors in financial statements.
Q3.	(d) It is applicable to Max Durables Pvt. Ltd. as it is a Holding Company of a Public Company.
Q4.	(a) CARO shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3
Q5.	(b) It is likely to be less accurate than documentation prepared at the time such work is performed.

Case Study 13

P K Talati & Associates is a Partnership Firm of Chartered Accountants CA P & CA K. They had varied exposure of providing services in the field of Accounting, Auditing and Taxation.

The Gayatri Multi State Co-operative Society was set up with the purpose of arranging credit for fertilizers, agriculture implements, improved seeds etc. for its members. The Firm P K Talati & Associates, Chartered Accountants were entrusted Special Audit of the Multi State Co-operative Society as it was observed that its affairs are not being managed in accordance with self-help and mutual deed. Financial position of the Gayatri Multi State Co-operative Society was also at stake.

P K Talati & Associates are appointed as Auditors of Grow More Ceramics Manufacturing Ltd. The Company was in the stage of development. The company had to purchase few more Machinery. It had already availed different loans from the Banks. In order to avoid the financial burden, the management of the company did not want to infuse more capital funds in the Business. As a result, they decided to take the machinery on rent. So, they entered into an Agreement with GKC Machinery Ltd. The terms of Agreement were that the Company, Grow More Ceramics Manufacturing Ltd. has to pay monthly rentals & can claim depreciation in their books of accounts but they had to bear the load of insurance and maintenance. Further at the end of the term, the Company will have an option to buy back the Machinery.

Over a period, the Company, Grow More Ceramics Manufacturing Ltd. has grown manifold. To take benefit of the technical expertise from more than one firm, the company appointed C K Maheswari & Associates also as the auditors of the Company.

As the Company was growing, it started exporting its products. Government Licences were required to export silicon carbide bricks and graphite bricks. Auditor's responsibilities with regard to Compliance with the terms of licence to operate exports or to avoid penalties are fundamental, though laws and regulations do not have a direct effect on the quantification.

The Company with steady and sustained growth switched to complete Automation. It implemented General IT Controls that maintain integrity of information as well as security of data.

Information Technology not only comforts smooth running of business, but is also relevant in Audit. It affects the reduction of Audit Risk through electronic data processing which in turn reduces the likelihood of errors in the Audit work.

(ICAI MCQ Booklet)

Q1.	In case of The Gayatri Multi State Co-operative Society, powers to conduct Special Audit can be directed only by _____. Which of the following option is CORRECT? (a) Members of the Society (b) Central Registrar (c) Central Government (d) Managing Committee
Q2.	Various financing options give an Entrepreneur & Companies an option to conserve their capital so as to spread the cost of asset over a long period of time. The Financial Agreement between Grow More Ceramics Manufacturing Ltd. and GKC Machinery Ltd is also one of these kinds. Which of the following term would be most suitable to name the Agreement? (a) Hire-Purchase Agreement (b) Finance Lease (c) Operating Lease (d) Instalment System
Q3.	With reference to SA 299, there are certain requirements to be followed while appointing Joint Auditors in the Company. Which of the following Statement is INCORRECT with regard to that? (a) The Joint Auditors shall jointly establish an overall Audit Strategy that sets the scope, timing and direction of the Audit, and that guides the development of the Audit plan. (b) Each of the Firm will obtain separate Engagement Letter as well as separate Management Representation Letter for them. (c) Risks of Material Misstatement needs to be considered and assessed by each of the Joint Auditors and shall be communicated to other Joint Auditors and documented, whether pertaining to the overall financial statements or to the area of allocation among the other Joint Auditors (d) Prior to the commencement of Audit, the Joint Auditors should discuss and develop a joint audit plan to ascertain the reporting objectives of the engagement .
Q4.	General IT Controls that ensure Project Initiation, Construction, Documentation & Training as well as Testing and Quality Assurance are _____. Which of the following is a CORRECT option? (a) Access Security (b) Data Center and Network Operations (c) Program Change (d) Application system acquisition, development and maintenance
Q5.	Statement 1: General IT controls support the functioning of Application controls. Statement 2: The Company auditor need not report on the efficacy of Internal Financial controls in his Audit Report in the case of a One Person Company. (a) Statement 1 is correct (b) Statement 2 is correct (c) Both the statements are correct (d) None of the statement is correct

Case Study 13 Answers

Q1.	(c) Central Government
Q2.	(b) Finance Lease
Q3.	(b) Each of the Firm will obtain separate Engagement Letter as well as separate Management Representation Letter for them.
Q4.	(d) Application system acquisition, development and maintenance

Q5.	(c) Both the statements are correct.
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Case Study 14

P & S Associates, Chartered Accountants, is one of the respected Firms in their areas of service. The firm is led by CA P and CA S. Partners' personal contribution on the assignments is very high. The partners are supported by the staff in legal research and compliance activities of the firm.

The firm has been appointed as Auditors of Water Side Ltd. Before initiation of Audit, the Auditors went through the Audit Engagement which illustrated the responsibilities of Auditor, responsibilities of Management, the objective and scope of the audit of Financial Statements. Management wanted some changes in the Engagement Letter. Changes were, however, not acceptable to the Auditor.

CA S is very sincere and hardworking Professional. He performs his duties meticulously. So he is of the view that he should document all his working papers including all the matters related to the audit, audit procedures to be performed, audit evidence obtained, and conclusions reached thereon. Thus, he maintained a file and recorded every finding during the Audit.

CA S wanted to formulate the Audit Programme. This is possible only after understanding of the Internal Control systems and its actual operations. He observed that the Internal Control system developed in the Company was such that there was timely rotation of employees from one department to another. This facilitated that no employee would continue doing the same work in one department to get a niche of it.

Due to varied number of transactions, CA S decided to use Audit Sampling in performing audit procedures. Audit sampling enables the auditor to obtain & evaluate audit evidence about some characteristics of the items selected in order to draw conclusion about the population from where the sample is drawn.

The Firm P & S Associates, being in the panel of C & AG, were appointed as auditors of a Government Company, namely Transformers & Electricals Malabar Ltd. As this was their first assignment of Government Audit, they wanted to be doubly sure about its provisions.

The Auditors also wanted to ensure that there are no flaws in their reporting procedures too. It is a right as well as obligation of the auditor to report on the results of their Audit findings.

(ICAI MCQ Booklet)

Q1.	<p>If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:</p> <p>(a) Withdraw from the Audit Engagement where possible under applicable law or regulation.</p> <p>(b) Determine whether there is any obligation, either contractual or otherwise to report the circumstances to other parties, such as those charged with governance, owners or regulators.</p> <p>(c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.</p> <p>(d) The auditor shall mention such fact in the audit report while giving an unqualified opinion.</p>
Q2.	<p>Audit Documentation may be recorded on paper or on electronic media. Which of the following will not form a part of Audit Documentation?</p> <p>(a) Audit Programmes</p> <p>(b) E-mails concerning significant matters</p> <p>(c) Letters of Confirmation & Representation</p> <p>(d) Superseded drafts of working papers and financial statements</p>
Q3.	<p>To ensure review and evaluation of Internal Controls, the Auditor opted to assess the Sales Department of the Company. Which of the following Step shall be INCORRECT with regard to it?</p> <p>(a) Authorised approval for selling goods to new customers</p> <p>(b) Invoice Payment Approvals / disbursements</p> <p>(c) Reviewing exception reports that include large or unusual transactions</p> <p>(d) Sending out monthly Statements to customers</p>
Q4.	<p>Statement 1: Article 150 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the Finance Minister may on the advice of the C&AG prescribe.</p> <p>Statement 2: The Comptroller and Auditor General does not have any authority to audit the accounts of stores and inventory kept in any office or department of the Union or of a State.</p> <p>(a) Statement 1 is correct</p> <p>(b) Statement 2 is correct</p> <p>(c) Both the statements are correct</p> <p>(d) None of the statement is correct</p>

Q5.	Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the _____ who shall cause them to be laid before House of Parliament/State Legislature. (a) Prime Minister/ Chief Minister (b) Union Finance Minister (c) President/Governor (d) a & b above
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Case Study 14 Answers

Q1.	(c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
Q2.	(d) Superseded drafts of working papers and financial statements
Q3.	(b) Invoice Payment Approvals / disbursements
Q4.	(d) None of the statement is correct
Q5.	(c) President/Governor

Case Study 15

AM and Associates, a partnership Firm has been appointed as the Statutory Auditor of Happy Limited. The firm consists of two partners, CA A and CA M. CA M, being the engagement partner briefs the team (which includes five articles) about the audit of Happy Limited and its audit strategy, audit plan and programme.

The relationship between the overall audit strategy and audit plan was discussed in detail along with the important principles in developing an overall audit plan as per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment." CA M also discussed with his team the points to be considered for the purpose of constructing an Audit Programme.

He also explains to them about the importance of Audit Evidence. He tells them how necessary Audit Evidence is to support the auditor's opinion and report. He further emphasises that most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating Audit Evidence. Audit procedures to obtain Audit Evidence can include inquiry, inspection, observation, confirmation, recalculation, re performance and analytical procedures. These audit procedures, often in some combination, may be used as risk assessment procedures, test of controls or substantive procedures, depending on the context in which they are applied by the auditor.

One of the articles, Ms S wanted more clarity on risk assessment procedures and test of controls. CA M explained to her that risk assessment procedures are referred to as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. Test of controls are defined as an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. CA M further added that they could test controls for a particular time, or throughout the period for which they intend to rely on those controls, in order to provide an appropriate basis for their intended reliance.

Ms S wanted to know whether it would be appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control. CA M shared with her the points to be considered for using the audit evidence obtained in previous audits about the operating effectiveness of controls.

You being one of the team members of the audit team have very clearly understood all the instructions of the engagement partner and are now looking forward to start the audit. (ICAI MCQ Booklet)

Q1.	CA M discussed with Ms S the points to be considered for using the audit evidence obtained in previous audits about the operating effectiveness of controls. In your opinion, which of the following points was not relevant for the discussion? (a) The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process. (b) The risks arising from the characteristics of the control, including whether it is manual or automated. (c) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control. (d) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.
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Q2.	<p>The relationship between overall Audit Strategy and Audit Plan can be defined as under: Statement I: Establishment of the overall audit strategy and the detailed audit plan are necessarily sequential processes. Statement II: Changes in one may result in consequential changes to the other. Statement III: Establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes. Statement IV: An audit plan can be developed, once the overall audit strategy has been established.</p> <p>(a) Statement I and Statement II are correct. (b) Statement II, III and IV are correct. (c) Statement II and III are correct. (d) Statement I, II and IV are correct.</p>
Q3.	<p>As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment, the auditor shall obtain an understanding of the nature of the entity, including:</p> <p>(a) Its operations (b) the way that the entity is structured and how it is financed (c) its ownership and governance structures (d) All of the above</p>
Q4.	<p>For the purpose of Audit Programme construction, which of the following points should be kept in mind:</p> <p>(a) Consider all possibilities of fraud (b) Stay within the scope and limitation of the assignment (c) Co – ordinate the procedures to be applied to non - related items. (d) All of the above</p>

Case Study 15 Answers	
Q1.	(d) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.
Q2.	(b) Statement II, III and IV are correct.
Q3.	(d) All of the above
Q4.	(b) Stay within the scope and limitation of the assignment

Case Study 16
<p>Ghan Shyam & Associates have been appointed as the statutory auditors of ABC Ltd. for the FY 2023 -2024. The engagement partner, CA Ghan Shyam established the overall audit strategy and made the detailed plan with respect to the audit assignment of ABC Ltd. after discussing the same with the engagement team.</p> <p>The strategy adopted by Ghan Shyam & Associates consisted of relying on the internal control system of the company and the audit plan and programme were developed accordingly & executed by the engagement team. During the course of audit, the engagement partner, CA Ghan Shyam found that some internal control system of the company were not in place. So, he decided not to rely on the internal control system of the company and accordingly changed the firm's overall audit strategy, audit plan & audit programme.</p> <p>While conducting audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of ABC Ltd. CA Ghan Shyam also asked for the addresses of various debtors from the management of ABC Ltd. to send balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of ABC Ltd. asked the debtors to send the responses to such confirmation request to General Manager of accounts department who will in turn provide such responses to the audit team. Also with respect to five random debtors, CA Ghan Shyam decided to confirm the terms of agreement also along with confirming the balance amount, by seeking responses to confirmation requests from such debtors.</p> <p>During the course of audit, the auditor found that the inventory of ABC Ltd. is kept at its factories and various other locations including warehouses. The audit team is unable to attend the physical verification activity undertaken by the management at all such locations.</p> <p>During the course of audit, the audit team found that legal cases have been filed against the company on account of customer complaint. CA Ghan Shyam discussed with his team regarding the audit procedures that can be performed by the audit team in this regard. CA Ghan Shyam also briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of ABC Ltd.</p> <p>Based on the above facts, answer the following:- (MTP1, May 2021, 10 marks)</p>

Q1.	<p>Is CA Ghan Shyam right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established & plan so developed?</p> <p>(a) CA Ghan Shyam is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.</p> <p>(b) CA Ghan Shyam is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.</p> <p>(c) CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.</p> <p>(d) CA Ghan Shyam can change the overall audit strategy and audit plan only after discussing the same with the management of ABC Ltd.</p>
Q2.	<p>Which of the following audit procedures should the audit team perform with respect to verification of debtors balance?</p> <p>(a) Ghan Shyam & Associates can compare the debtors balance reflected in financial statement with the total balance of ledgers account in the books of ABC Ltd.</p> <p>(b) Ghan Shyam & Associates can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.</p> <p>(c) Ghan Shyam & Associates can obtain management representations with respect to the debtors balance from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.</p> <p>(d) Both a & b.</p>
Q3.	<p>Statement 1: The reliability of information to be used as audit evidence is influenced by its source and its nature, and the circumstances under which it is obtained.</p> <p>Statement 2: The audit evidence obtained from sources external to the entity are generally more reliable than the audit evidence from internal sources.</p> <p>(a) Only statement 1 is true</p> <p>(b) Only statement 2 is true</p> <p>(c) Both the statements are true</p> <p>(d) None of the statements is true</p>
Q4.	<p>With respect to the inventory of ABC Ltd. kept in warehouse, which audit procedures can the audit team perform to obtain sufficient and appropriate audit evidence?</p> <p>(a) Checking of warehouse receipt with the inventory record of ABC Ltd.</p> <p>(b) Obtaining direct confirmation with respect to quantity & condition of inventory of ABC Ltd. from the warehouse.</p> <p>(c) Both a & b</p> <p>(d) Seeking a management representation regarding inventory valuation and mentioning the fact regarding inventory being kept at the warehouse in the audit report.</p>
Q5.	<p>Is management correct in asking the debtors to provide the reply of confirmation request of auditor to the General Manager of accounts department of the company?</p> <p>(a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.</p> <p>(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.</p> <p>(c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation are provided to the auditors.</p> <p>(d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.</p>

Case Study 16 Answers

Q1.	(c) CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.
Q2.	(d) Both a & b.
Q3.	(c) Both the statements are true
Q4.	(c) Both a & b
Q5.	(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.

Case Study 17

Meeta, Neeta, Rita and Babita are friends and all of them have joined office of an auditing firm for undergoing articled training. It is still early days in the office. However, all of them are curious about different issues of auditing. They have also studied auditing subject. They were going through one audit file of a large manufacturing company as part of their training. In the file are included some audit working papers and other related documents.

- A) Some papers contained in file reflect following: -
- Are budgets for capital expenditure approved by the Board?
 - Are approved budgets communicated in writing to accounts department and to department originating the request?
 - Is the authority to incur capital expenditure restricted to specified officials?
 - Are receipts of capital items subject to controls as in case of purchases of raw material, stores?
 - Is there proper check to see that amounts expended do not exceed the amount authorised?

Further, "Yes", "No" and "Not applicable" along with remarks/notes have been provided by the employees of company against items stated at serial no.[i] to [v].

- B) Also included in audit working papers is a detailed note on process of employee recruitment followed by company along with practices on related matters such as orientation, training, evaluation, compensation and promotion of employees. In particular, it seemed that auditors had shown keen interest in standards followed by the company in recruiting most qualified individuals.
- C) The audit file also includes documentation on how customs duty paid by company on imported raw material was verified. The engagement team had examined the payment of custom duty with reference to bill of entry available in client records. It was verified that customs duty was in accordance with applicable duty rate on goods. In cases where duty was paid by clearing and forwarding agent, bill of entry with reference to bill of forwarder was verified.
- D) The audit file includes a document, signed by CEO of company addressed to auditors, extract of which is as under: -
We have provided you with: -
- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit;
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - All transactions have been recorded in the accounting records and are reflected in the financial statements.
- E) The audit file included following draft to be included in audit report: -

"Revenue is one of the main profit drivers and is, therefore, susceptible to misstatement. Cut-off is the main relevant assertion insofar as revenue recognition is concerned, since an inappropriate cut-off can result in material misstatement of results for the year.

Our audit procedures with regard to revenue recognition included testing controls, automated and manual- around deliveries, inventory reconciliations and substantive testing for cut-offs and analytical review procedures."

The issues pertaining to above for audit period under consideration were communicated with responsible persons in management.

(MTP2, Nov 2022, 10 marks)

Q1.	Regarding description of expenditure on capital items reflected in Para A, which of the following views is Most appropriate? (a) Meeta is of view that such a document is in nature of a checklist for evaluating internal control over capital items. (b) Neeta is of view that such a document is in nature of audit programme for verification of capital items. (c) Babita considers that such a document is in nature of an internal control questionnaire for evaluating internal control over capital items. (d) Rita considers it to be specific audit plan in relation to capital items.
Q2.	On reading description in Para B, what were the auditors trying to do by studying employee recruitment and related HR matters? (a) Auditors were trying to gain an understanding of how the company is monitoring controls. (b) Auditors were gaining knowledge to understand how employee pay rolls are prepared and whether there could be any misstatements in pay rolls due to non- inclusion of promotion increments (c) Auditors were trying to understand control environment of the company. (d) Auditors were trying to assess the control activities relevant to audit to assess risk of material misstatement.
Q3.	On the basis of description provided in Para C, identify audit procedure(s) performed by auditors. (a) Test of Controls (b) Vouching (c) Analytical Procedures (d) Verification

Q4.	What would the most appropriate nomenclature to extract of document described in Para D? (a) Engagement letter (b) Written Representation (c) External confirmation (d) Offer letter to auditor
Q5.	Given draft in Para E, which of the following views is Most appropriate in accordance with relevant Standards on Auditing? (a) Meeta is of the view that draft in Para E needs emphasis in audit report. Therefore, its inclusion under heading "Emphasis of Matter" is proper. (b) Neeta is of the view that draft in Para E is a residuary matter. Therefore, its inclusion under heading "Other Matters" is proper. (c) Rita is of the view that draft in Para E provides the basis on which opinion is to be given. Therefore, its inclusion under heading "Basis for Opinion" is proper. (d) Babita is of the view that draft in Para E relates to significant matter identified during course of audit and it contains how the same was addressed. Therefore, its inclusion under heading "Key Audit Matters" is proper

Case Study 17 Answers	
Q1.	(c) Babita considers that such a document is in nature of an internal control questionnaire for evaluating internal control over capital items.
Q2.	(c) Auditors were trying to understand control environment of the company
Q3.	(b) Vouching
Q4.	(b) Written Representation
Q5.	(d) Babita is of the view that draft in Box E relates to significant matter identified during course of audit and it contains how the same was addressed. Therefore, its inclusion under heading "Key Audit Matters" is proper.

Case Study 18
<p>As per SA 210 "Agreeing the Terms of Audit Engagements", preconditions for an audit may be defined as the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.</p> <p>Mridul & Co, a firm of Chartered Accountants agreed on the Terms of Audit Engagements of a Private Limited Company, Jayshree Private Limited. Jayshree Private Limited has conveyed to Mridul & Co that they want the firm to undertake the statutory audit as well as to examine the life of its plant and machinery at Indore which is in existence for 10 years. While finalizing the scope of the audit, the auditors agreed to cover all the units of the company based at Delhi and Indore. Mridul & Co has asked Jayshree Private Ltd to make all the relevant disclosures in the financial statements. The auditors were vigilant to inquire about any audit evidence that contradicts the other audit evidence.</p> <p>The auditors decided to cover following aspects under audit:</p> <ol style="list-style-type: none"> i) An examination of the system of accounting and internal control ii) Reviewing the system and procedures. iii) Checking of the arithmetical accuracy of the books of account. iv) Verification of the authenticity and validity of transactions. v) Classification between capital and revenue expenditure. vi) Comparison of the balance sheet and profit and loss account or other statements with the underlying record. vii) Verification of the title, existence and value of the assets. viii) Verification of the liabilities stated in the balance sheet. ix) Checking the results shown by the profit and loss and to see whether the results shown are true and fair. x) Reporting to the appropriate person/body whether the statements of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organisation. xi) Where audit is of a corporate body, confirming that the statutory requirements have been complied with. <p>While testing the accounts receivables of Jayshree Private Limited, the auditor decided to divide the accounts receivables by age of receivables in the following manner:</p> <ul style="list-style-type: none"> ● Below 15 days ● 15 days -30 days

- 31-60 days
- 61-90 days
- 91 days and beyond

Based on the above facts, answer the following: **(MTP2, May 2023, 10 marks)**

Q1.	<p>According to you, what is the scope of the audit which Mridul & Co should cover in the audit of financial statements of Jayshree Private Limited?</p> <p>I. to examine the life of its plant and machinery at Indore which is in existence for 10 years. II. to cover all the units of the company based at Delhi and Indore. III. to check whether the relevant disclosures are properly made in the financial statements.</p> <p>(a) I,II,III (b) I,II (c) II,III (d) I,III</p>
Q2.	<p>What is the name of the method used by the auditor for segregation of accounts receivable?</p> <p>(a) Value weighted selection (b) Stratification (c) Systematic method of Sampling (d) Tests of Control</p>
Q3.	<p>The aspects covered by auditor should be:</p> <p>(a) i,ii,iii,x,vi,vii (b) i,ii,iv,v,vi,vii (c) i,ii,iii,iv,v,vi,vii,viii,ix,x,xi (d) ii,iii,viii,x,xi</p>
Q4.	<p>The auditor's vigilance to question the audit evidence that contradicts the other audit evidence is called as:</p> <p>(a) Professional Skepticism (b) Vigilant Skepticism (c) Professional Judgement (d) Judgement and Skepticism</p>
Q5.	<p>With respect to the preconditions for an audit, which one of the following is correct:</p> <p>I. The use by Management of an acceptable financial reporting framework in the preparation of financial statements. II. Management's responsibility for the internal control III. Giving auditor access to all information and access to the Entity's premises.</p> <p>(a) I, II (b) I, II, III (c) II, III (d) I, III</p>

Case Study 18 Answers

Q1.	(c) II and III
Q2.	(b) Stratification
Q3.	(c) i, ii, iii, iv, v, vi, vii, viii, ix, x, xi.
Q4.	(a) Professional Skepticism
Q5.	(b) (I), (II) & (III)

Case Study 19

DS & Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd, a company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also, the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives. The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013.

DS & Co. have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

While formulating audit plan for the company, CA D (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas

The following is extract of financial information of the company: -

(figures in rupees crores)

S. No.	Particulars	Year 2022-23	Year 2021-22
1	Turnover	30.00	15.00
2	Inventories	5.00	2.00
3	Property, plant and equipment (Gross block)	1.25	1.25
4	Property, plant and equipment (Net block)	1.00	1.25
5	Gross profit	6.00	3.75
6	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss.

Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements., engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.

Based on above, answer the following questions: - (RTP, May 2024, NA)

Q1.	<p>Keeping in view description provided in the case scenario, which of the following statements is likely to be most appropriate?</p> <p>(a) Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.</p> <p>(b) Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.</p> <p>(c) The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is low.</p> <p>(d) The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is high.</p>
Q2.	<p>CA D has included in audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is not likely to be relevant?</p> <p>(a) Inspecting and reviewing company's plan for physical verification of PPE</p> <p>(b) Assessing depreciation method used</p> <p>(c) Verifying cost of PPE items acquired during the year with purchase bills</p> <p>(d) Recalculation of depreciation charged in statement of profit and loss</p>
Q3.	<p>Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?</p> <p>(a) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.</p> <p>(b) Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.</p> <p>(c) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.</p> <p>(d) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year.</p>

Q4.	<p>CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of _____?</p> <p>(a) Ratio analysis forming part of substantive analytical procedures (b) Trend analysis forming part of substantive analytical procedures (c) Reasonable test forming part of substantive analytical procedures (d) Structural modelling forming part of substantive analytical procedures</p>
Q5.	<p>Considering case scenario in totality, identify which of following combination of Standards is not proper for their likely relevance in performing and completing above engagement?</p> <p>(a) SQC 1, SA 220, SA 501, SA 505 (b) SA 550, SA 510, SA 220, SA 610 (c) SA 700, SA 510, SA 220, SA 500 (d) SQC 1, SA 700</p>

Case Study 19 Answers

Q1.	(d) The situation reflected in case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is high.
Q2.	(c) Verifying cost of PPE items acquired during the year with purchase bills
Q3.	(a) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.
Q4.	(b) Trend analysis forming part of substantive analytical procedures
Q5.	(b) SA 550, SA 510, SA 220, SA 610

Case Study 20

CA M. Raja has accepted offer of appointment of auditor of an entity. As business carried on by the entity is new to him, he wants to gain an understanding about the entity and its environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard.

He wants reasonable assurance that accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded.

Further, during the course of audit, he has noticed as under: -

- As required by the management, bank reconciliation is required to be performed monthly. However, the same is not carried out as stipulated due to time constraints faced by accountant.
- The entity has a system of procuring its raw material supplies on the basis of valid purchase orders issued by the entity. However, purchase orders are not numbered in a sequence properly.
- Wage sheets are not verified by a responsible official as required by management.
- Staff of the entity is responsible for bringing cash from centers in nearby areas to entity's premises from where it is deposited into entity's bank account. However, concerned officer has not renewed insurance for cash in transit.

Based on above, answer the following questions: - (RTP, May 2024, NA)

Q1.	<p>The auditor has performed procedures to obtain audit evidence about design and implementation of controls. Which of the following procedures is more reliable to obtain audit evidence relating to application of a control?</p> <p>(a) Observing application of control (b) Inspecting documentation pertaining to control (c) Inquiry about application of control (d) Studying design of control</p>
Q2.	<p>Examination and evaluation of internal control is indispensable for CA M. Raja. It provides him necessary comfort relating to completeness of accounting information. However, review of internal controls of the entity will not enable him to know_____</p> <p>(a) whether errors or frauds are likely to be located in ordinary course of operations of business (b) whether an effective internal audit department is operating</p>

	(c) whether his opinion needs modification (d) whether any administrative control has bearing on his work
Q3.	As regards weaknesses identified by the auditor in control system, which of the following represent(s) significant deficiencies in internal control? (a) Not performing bank reconciliation timely and not verifying wage sheets by responsible official only (b) Not performing bank reconciliation timely and lack of proper sequence in purchase orders only (c) Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit (d) Lack of insurance for cash in transit only
Q4.	Which of the following is most appropriate regarding auditor's responsibility in accordance with SA 265? (a) To communicate significant deficiencies in internal control to management (b) To communicate significant deficiencies in internal control along with explanation of their potential effects to management (c) To communicate significant deficiencies in internal control along with explanation of their potential effects, to provide sufficient information to understand context of communication to management and express opinion on effectiveness of internal control (d) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management

Case Study 20 Answers

Q1.	(a) Observing application of control.
Q2.	(c) whether his opinion needs modification
Q3.	(c) Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit
Q4.	(d) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management.

Case Study 21

CDL Limited, a company dealing in FMCG goods, is having 50 branches in India. SKC & Associates (referred to as company's auditor) are appointed as statutory auditors of the company for year 2023-24. Further, company has also appointed Mr. D as branch auditor for 5 of its branches.

Since Mr. D is conducting audit of only 5 branches of company, he has not arrived at materiality level in respect of auditee branches. On the same lines, identification and assessment of risk of material misstatement has not been performed. He is of the view that determination of materiality and identifying & assessing risks of material misstatement is done for financial statements of company as a whole. He has mainly performed substantive audit procedures in respect of financial statements of auditee branches like verification of PPE items, inventories, trade receivables, cash, bank balances and trade payables at auditee branches and maintained documentation of the same.

During the course of audit at two branches dealing in same kind of goods, Mr. D has performed analytical procedures pertaining to inventories. He has arrived at and compared inventory turnover ratio (Cost of goods sold/Average inventory) over a period of years of two branches. The results of analytical procedures are summarized in Table I below:

Table 1

Particulars	Branch	Year 2021-22	Year 2022-23	Year 2023-24
Inventory turnover ratio	I	15	14	12
Inventory turnover ratio	II	4	6	10

The company's auditor has also decided to use work of Mr. D with respect to financial information of 5 branches included in financial information of the company. During the course of audit, company's auditor has advised Mr. D by way of email certain significant accounting, auditing and reporting requirements and has asked him to provide representation as to compliance with them. Irritated and surprised, Mr. D is of the view that such an email is beyond the rights of the company's auditor.

Based on above, answer the following questions: **(MTP1, May 2024, 8 marks)**

Q1.	<p>As regards audit of a branch of CDL Limited as referred to in case scenario is concerned, which of following statements is most appropriate?</p> <p>(a) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to company's auditor.</p> <p>(b) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to members of company.</p> <p>(c) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to company's auditor.</p> <p>(d) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to members of company.</p>
Q2.	<p>After reading methodology for carrying out branch audits by Mr. D, which of following statements is likely to be most appropriate?</p> <p>(a) Separate determination of materiality and identifying & assessing risk of material misstatement is not required in respect of each of the branches. He is required to perform only substantive procedures as described in the case scenario in respect of auditee branches and maintain documentation of the same.</p> <p>(b) Separate determination of materiality and identifying & assessing risk of material misstatement is required in respect of each of branches. However, documentation for these matters regarding branches is not required. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.</p> <p>(c) Separate determination of materiality and identifying & assessing risk of material misstatement is required along with documentation thereof in respect of each of branches. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.</p> <p>(d) Identifying & assessing risk of material misstatement is required along with documentation in respect of each of branches. However, materiality is required to be arrived at for financial statements of company as a whole. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same</p>
Q3.	<p>Choose the correct statement regarding results of analytical procedures performed by Mr. D summarized in Table 1 in case scenario.</p> <p>(a) During year 2023-24, inventories of Branch I have moved faster in comparison to Branch II.</p> <p>(b) During year 2023-24, inventories of Branch II have moved faster in comparison to Branch I.</p> <p>(c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 2023-24 as compared to previous years.</p> <p>(d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years.</p>
Q4.	<p>Considering contents of email sent by company's auditor to Mr. D, which of following statements is likely to be in accordance with Standards on Auditing?</p> <p>(a) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements and ask him to provide representation as to compliance with them.</p> <p>(b) Company's auditor can advise Mr. D certain significant accounting, auditing and reporting requirements. However, asking him to provide representation as to compliance with them is breach of Mr. D's independence.</p> <p>(c) Company's auditor cannot advise Mr. D certain significant accounting, auditing and reporting requirements. It is breach of Mr. D's independence.</p> <p>(d) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements only when Mr. D makes such a request.</p>

Case Study 21 Answers

Q1.	<p>(a) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to company's auditor.</p>
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Q2.	(c) Separate determination of materiality and identifying & assessing risk of material misstatement is required along with documentation thereof in respect of each of branches. He is required to perform substantive procedures as described in case study in respect of auditee branches and also maintain documentation of same.
Q3.	(a) During year 2023-24, inventories of Branch I have moved faster in comparison to Branch II.
Q4.	(a) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements and ask him to provide representation as to compliance with them.