

## Chapter 8 - Audit Report

### Part I : Descriptive Questions

#### SA 700 "Forming an Opinion and Reporting on Financial Statements"

Q1.	<p>Maithili Thakur, a CA student, was perusing audit report of a company. Her eyes fell on an 18-digit alpha numeric number stated at end of audit report below the signatures of auditor and membership number. Make her understand objective and significance of such a randomly generated number. Is it required to be stated in case of audit reports only? <b>(ICAI Study Material - Test Your Understanding)</b></p> <ul style="list-style-type: none"> <li>• The 18-digit alpha numeric number noticed by her at end of audit report is <b>Unique Document Identification number (UDIN)</b>. It is a system generated unique number.</li> <li>• Its basic objective is to <b>curb the malpractices</b> of non-CAs impersonating themselves as CAs. It helps in <b>securing</b> reports and documents issued by practising CAs.</li> <li>• It is required to be stated in case of audit <b>reports and certificates</b>.</li> </ul>
Q2.	<p>CA. Maya Memani has conducted audit of a company. She has asked Sana, a CA student undergoing training in her office, to prepare draft audit report. Sana was part of engagement team conducting the audit. She has been further told to prepare draft report expressing unmodified opinion. After drafting para comprising unmodified opinion, Sana feels no need to provide basis for opinion. Discuss why her thinking is not proper. <b>(ICAI Study Material - Test Your Understanding)</b></p> <p><b>"Basis for Opinion"</b> is one of basic elements of an audit report in accordance with SA 700. Even in cases where unmodified opinion is expressed by auditor, "Basis for opinion" has to be provided by auditor. Basis for opinion section provides context about auditor's opinion. Therefore, Sana's thinking is <b>not proper</b></p>
Q3.	<p>M/s Smart &amp; Associates are the statutory auditors of Hotmeals Ltd. for the FY 2023- 24. How will the auditor address the audit report issued on the financial statements for the FY 2023-24? Also give a title to the report <b>(ICAI Study Material - Illustration)</b></p> <p><b>Title:</b> Independent Auditor's Report <b>Addressee:</b> To the Members of Hotmeals Ltd.</p>
Q4.	<p>Richa International is a partnership firm dealing in export of blankets. The partners of the firm are Richa and Ashish. Explain how the statutory auditor of the firm will address the auditor's report. <b>(ICAI Study Material - Illustration)</b></p> <p><b>Title:</b> Independent Auditor's Report <b>Addressee:</b> To the Partners of Richa International</p>
Q5.	<p>M/s Amitabh &amp; Associates are the statutory auditors of Ringston Ltd. which is a company engaged in the business of manufacture of pen drives. The auditor has started drafting the audit report for the FY 2023-24. CA Amitabh, the engagement partner is of the view that the financial statements of Ringston Ltd. represent a true and fair view. Give the draft of the opinion paragraph of the audit report. <b>(ICAI Study Material - Illustration)</b></p> <p><b>Draft of the opinion paragraph</b></p> <p>We have audited the financial statements of Ringston Limited which comprise the <b>Balance Sheet</b> as at 31.03.2024 and the statement of <b>Profit and Loss</b> Account and the notes to the financial statements, including a summary of <b>significant accounting policies</b> and other explanatory information.</p> <p>In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a <b>true</b> and <b>fair</b> view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31.03.2024 and the Profit &amp; Loss for the year ending on that date.</p>
Q6.	<p>M/s Kite Rite &amp; Associates are the statutory auditors of Prime Deluxe Limited, for the FY 2023-24. At the time of finalising the audit report, one of the engagement team members, Mr. Robin, asked the engagement partner, CA Kite as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA Kite, explained the team in detail and asked Mr. Robin to draft such section for the auditor's report of Prime Deluxe Limited. Help Mr. Robin to draft the Basis for opinion</p>

	<p>section. (ICAI Study Material - Illustration)</p> <p><b>Basis for Opinion</b></p> <p>We conducted our audit in accordance with the <b>Standards on Auditing</b> specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.</p> <p>We are <b>independent</b> of the Company in accordance with the Code of Ethics issued by ICAI together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other <b>ethical responsibilities</b> in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is <b>sufficient</b> and <b>appropriate</b> to provide a basis for our opinion</p>
Q7.	<p>Diamond Shine Ltd. is a company engaged in the manufacture of detergent. M/s Bright &amp; Associates are the statutory auditors of the company. Explain how the paragraph related to the management's responsibility will come in the auditor's report. (ICAI Study Material - Illustration)</p> <p><b>Management's Responsibility for the Standalone Financial Statements</b></p> <p>The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act.</p> <p>This responsibility also includes <b>maintenance</b> of adequate accounting <b>records</b> in accordance with the provisions of the Act for <b>safeguarding</b> of the assets of the Company and for <b>preventing</b> and <b>detecting frauds</b> and other irregularities; selection and application of appropriate <b>accounting policies</b>; making <b>judgements</b> and <b>estimates</b> that are reasonable and prudent; and design, implementation and maintenance of <b>adequate internal financial controls</b>, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the <b>preparation</b> and <b>presentation</b> of the <b>financial statement</b> that give a <b>true</b> and <b>fair</b> view and are free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial statements, <b>management</b> is responsible for <b>assessing</b> the Company's <b>ability to continue</b> as a <b>going concern</b>, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those Board of Directors are also responsible for overseeing the <b>Company's financial reporting process</b>.</p>
Q8.	<p>M/s Ajay Vijay &amp; Associates are the statutory auditors of Sarovar Ltd. for the FY 2023- 24. The company is engaged in the business of manufacture of water bottles. At the time of finalising the auditor's report, one of the audit team members asked CA Ajay, the engagement partner to advise as to how the auditor's responsibilities can be shown in an appendix to the auditor's report. Draft the auditor's responsibility paragraph so as to advise the audit team member. (ICAI Study Material - Illustration)</p> <p><b>Auditor's Responsibilities for the Audit of the Financial Statements</b></p> <p>Our objectives are to obtain <b>reasonable assurance</b> about whether the financial statements as a whole are <b>free</b> from <b>material misstatement</b>, whether due to fraud or error, and to issue an auditor's <b>report</b> that includes our opinion. Reasonable assurance is a <b>high level</b> of assurance, but is <b>not</b> a <b>guarantee</b> that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are <b>considered material</b> if, individually or in aggregate, they could reasonably be <b>expected to influence</b> the <b>economic decisions</b> of <b>users</b> taken on the basis of these financial statements.</p> <p>A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [indicate page number or other specific reference to the location of the description], forms part of our auditor's report.</p>
Q9.	<p>M/s TUV &amp; Associates are the statutory auditors of Venus Ltd. for the FY 2023-24. At the time of finalising the auditor's report, one of the audit team members asked the engagement partner, CA Tarun, to explain as to how the auditor's report will be signed. Help CA Tarun in explaining the same. (ICAI Study Material - Illustration)</p> <p>The following is the correct way of signing an audit report.</p>

	<p style="text-align: right;">M/s TUV &amp; Associates Chartered Accountants (Firm's Registration No.) Signature (Name of the Member Signing the Audit Report) (Designation) (Membership No. XXXXX) UDIN: 20037320AAAAAH1111</p> <p>Place of Signature: Date:</p>
Q10.	<p>"The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements." Discuss stating clearly qualitative aspects of the entity's accounting practices <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. Advise about qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. <b>(RTP, May 2018, NA) (MTP1, Nov 2019, 4 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor evaluated, in respect of T Ltd., whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Auditor's evaluation included consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. Advise the qualitative aspects of the entity's accounting practices. <b>(MTP1, May 2018, 5 marks) (MTP2, Nov 2018, 5 Marks) (MTP1, May 2019, 4 marks)</b></p> <p>Qualitative Aspects of the Entity's Accounting Practices</p> <ol style="list-style-type: none"> <li>1. Management makes a number of <b>judgments</b> about the amounts and disclosures in the financial statements.</li> <li>2. <b>SA 260</b> contains a discussion of the qualitative aspects of accounting practices.</li> <li>3. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that <b>lack of neutrality</b> together with uncorrected misstatements causes the financial statements to be materially misstated. Indicators of a lack of neutrality include the following:       <ol style="list-style-type: none"> <li>a. The <b>selective correction</b> of <b>misstatements</b> brought to management's attention during the audit Example</li> <li>b. <b>Possible management bias</b> in the making of accounting <b>estimates</b>.</li> </ol> </li> <li>4. <b>SA 540</b> addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.</li> </ol>
Q11.	<p>"An auditor is required to make specific evaluations while forming an opinion in an audit report." State them. <b>(ICAI Study Material - Test Your Knowledge) (SA, Nov 2018, 5 marks) (MTP2, May 2021, 4 marks) (MTP1, Nov 2021, 3 marks) (MTP1, May 2023, 4 marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Explain stating clearly specific evaluations made by the auditor. <b>(RTP, May 2022, NA)</b></p> <p><b>Specific Evaluations by the auditor:</b> In particular, the auditor shall evaluate whether :</p> <ul style="list-style-type: none"> <li>• The financial statements adequately <b>disclose</b> the <b>significant accounting policies</b> selected and applied;</li> <li>• The <b>accounting policies</b> selected and applied are <b>consistent</b> with the applicable financial reporting framework and are appropriate;</li> <li>• The accounting <b>estimates</b> made by management are <b>reasonable</b>;</li> </ul>

	<ul style="list-style-type: none"> <li>• The <b>information</b> presented in the financial statements is relevant, reliable, comparable, and understandable;</li> <li>• The financial statements provide <b>adequate disclosures</b> to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and</li> <li>• The <b>terminology</b> used in the financial statements, including the title of each financial statement, is appropriate.</li> </ul>
Q12.	<p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required. (ICAI Study Material - Test Your Knowledge) (RTP, May 2020, NA) (RTP, May 2023, NA)</p> <p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that <b>lack of neutrality</b> together with uncorrected misstatements causes the financial statements to be materially misstated. Indicators of a lack of neutrality include the following:</p> <ul style="list-style-type: none"> <li>• The <b>selective correction</b> of <b>misstatements</b> brought to management's attention during the audit. Example <ul style="list-style-type: none"> <li>○ Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings.</li> <li>○ The combination of several deficiencies affecting the same significant account or disclosure (or the same internal control component) could amount to a significant deficiency (or material weakness if required to be communicated in the jurisdiction). This evaluation requires judgment and involvement of audit executives.</li> </ul> </li> <li>• <b>Possible management bias</b> in the making of accounting <b>estimates</b></li> </ul>
Q13.	<p>"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." Explain (ICAI Study Material - Test Your Knowledge)</p> <p style="text-align: center;"><b>OR</b></p> <p>M/s S &amp; Associates are the Statutory Auditors of Real Ltd., a company engaged in the business of manufacturing of garments. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the F.Y. 2023-2024. CA K, the engagement partner, wants to conclude that whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. What factors he should consider to reach that conclusion? (SA, Dec 2021, 4 marks) (MTP1, Nov 2023, 4 marks)</p> <p><b>Factors to be considered to form an opinion:</b></p> <p>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.</p> <p>In order to <b>form that opinion</b>, the auditor shall <b>conclude</b> as to whether the auditor has obtained <b>reasonable assurance</b> about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:</p> <ul style="list-style-type: none"> <li>• The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit <b>evidence</b> has been obtained</li> <li>• The auditor's conclusion, in accordance with SA 450, whether <b>uncorrected misstatements</b> are material, individually or in aggregate.</li> <li>• The <b>evaluations</b> required <ul style="list-style-type: none"> <li>○ The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting <b>framework</b>.</li> <li>○ This evaluation shall include consideration of the <b>qualitative aspects</b> of the entity's accounting practices, including indicators of <b>possible bias</b> in management's judgments</li> </ul> </li> </ul>
Q14.	<p>The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain (ICAI Study Material - Test Your Knowledge) (RTP, Nov 2018, NA) (MTP2, May 2019, 4 marks) (MTP1, May 2020, 4 marks) (MTP2, May 2021, 4 marks) (MTP2, May 2023, 4 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>The description of management's responsibilities in the auditor's report includes reference to management's responsibilities as it helps to explain to users the premise on which an audit is conducted. Explain (RTP, May 2023, NA)</p>

	<p><b>Responsibilities for the Financial Statements:</b> The auditor's report shall include a section with a heading "<b>Responsibilities of Management for the Financial Statements.</b>"</p> <p><b>SA 200</b> explains the premise, relating to the responsibilities of management and, where appropriate, TCWG, on which an audit in accordance with SAs is conducted. Management and, where appropriate, TCWG accept responsibility for the <b>preparation</b> of the <b>financial statements</b>. Management also accepts responsibility for such <b>internal control</b> as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.</p> <p>This section of the auditor's report shall describe management's responsibility for:</p> <ol style="list-style-type: none"> <li><b>Preparing the financial statements</b> in accordance with the applicable financial reporting framework, and for such <b>internal control</b> as management determines is <b>necessary</b> to <b>enable</b> the <b>preparation</b> of financial statements that are <b>free</b> from material misstatement, whether due to fraud or error and</li> <li><b>Assessing</b> the entity's <b>ability</b> to continue as a <b>going concern</b> and <b>whether</b> the <b>use</b> of the going concern basis of accounting is <b>appropriate</b> as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.</li> </ol>
Q15.	<p>The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion". Explain what is included in this "Basis for Opinion" section. <b>(ICAI Study Material - Test Your Knowledge) (RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (MTP2, Nov 2023, 3 marks)</b></p> <p>Basis for Opinion: The auditor's report shall include a section, <b>directly following</b> the <b>Opinion</b> section, with the heading "Basis for Opinion", that:</p> <ul style="list-style-type: none"> <li>States that the <b>audit</b> was <b>conducted</b> in <b>accordance</b> with <b>Standards on Auditing</b>;</li> <li>Refers to the <b>section</b> of the auditor's report that <b>describes</b> the <b>auditor's responsibilities</b> under the SAs;</li> <li>Includes a <b>statement</b> that the auditor is <b>independent</b> of the entity in accordance with the relevant ethical requirements relating to the audit and has <b>fulfilled</b> the auditor's other <b>ethical responsibilities</b> in accordance with these requirements.</li> <li>States whether the auditor believes that the <b>audit evidence</b> the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.</li> </ul>
Q16.	<p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion." The Opinion section of the auditor's report shall also identify the entity whose financial statements have been audited. Apart from the above, explain the other relevant points to be included in opinion section. <b>(ICAI Study Material - Test Your Knowledge) (RTP, May 2020, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>While drafting auditor's report of LK Ltd., what are the matter to be included by auditor in Opinion Section paragraph? <b>(RTP, Nov 2022, NA)</b></p> <p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion." The Opinion section of the auditor's report shall also:</p> <ul style="list-style-type: none"> <li><b>Identify</b> the <b>entity</b> whose financial statements have been audited;</li> <li><b>State</b> that the financial statements have been audited;</li> <li><b>Identify</b> the <b>title</b> of each statement comprising the financial statements;</li> <li><b>Refer</b> to the <b>notes</b>, including the summary of significant accounting policies; and</li> <li><b>Specify</b> the <b>date</b> of, or <b>period</b> covered by, each financial statement comprising the financial statements.</li> </ul>
Q17.	<p>In order to form the audit opinion as required by SA 700, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Explain the conclusions that the auditor shall take into account. Also explain the objective of auditor as per SA 700. <b>(MTP1, Nov 2018, 5 Marks)</b></p> <p>The objectives of the auditor as per <b>SA 700</b>, "Forming an opinion and reporting on Financial Statements" are:</p> <ul style="list-style-type: none"> <li>To <b>form an opinion</b> on the financial statements based on an <b>evaluation</b> of the <b>conclusions</b> drawn from the <b>audit evidence obtained</b>; and</li> </ul>

	<ul style="list-style-type: none"> <li>To <b>express</b> clearly that <b>opinion</b> through a <b>written report</b>. 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.</li> </ul> <p>To form opinion - Auditor to obtain Reasonable assurance</p> <p>In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained <b>reasonable assurance</b> about whether the financial statements as a whole are <b>free</b> from <b>material misstatement</b>, whether due to fraud or error.</p> <p>That conclusion shall take into account:</p> <ul style="list-style-type: none"> <li>whether sufficient appropriate audit <b>evidence</b> has been obtained;</li> <li>whether <b>uncorrected misstatements</b> are material, individually or in aggregate;</li> <li>The <b>evaluations</b></li> </ul>
Q18.	<p>The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be given and give reasoning (MTP2, May 2019, 3 marks) (MTP1, May 2020, 3 marks) (RTP, May 2021, NA)</p> <p><b>Unqualified Opinion:</b></p> <p>As per <b>SA 700</b> "Forming an Opinion and Reporting on Financial Statements", the auditor shall express an unqualified opinion when he concludes that the financial statements give a <b>true</b> and <b>fair</b> view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements.</p> <p>An unqualified opinion indicates that:</p> <ul style="list-style-type: none"> <li>the financial statements have been prepared using the <b>generally accepted accounting principles</b>, which have been consistently applied;</li> <li>the financial statements <b>comply</b> with relevant <b>statutory requirements</b> and regulations;</li> <li>there is adequate <b>disclosure</b> of all <b>material matters</b> relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.</li> </ul>
Q19.	<p>The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally. Explain (RTP, May 2021, NA)</p> <p>The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users.</p> <p>This SA promotes <b>consistency</b> in the auditor's report but recognizes the need for <b>flexibility</b> to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been <b>conducted</b> in accordance with <b>SAs</b>, promotes <b>credibility</b> in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards.</p> <p>It also helps to promote the <b>user's understanding</b> and to identify <b>unusual</b> circumstances when they occur</p>

### SA 701 "Communicating Key Audit Matters in the Auditor's Report"

Q20.	<p>Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse. (ICAI Study Material- Test Your Knowledge) (RTP, May 2018, NA) (RTP, Nov 2019, NA)</p> <p style="text-align: center;"><b>OR</b></p> <p>Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not considered as a substitute or alternative for a number of important items. What are those items? (MTP2, May 2022, 3 marks) (RTP, Nov 2023, NA)</p> <p>As per <b>SA 701</b>, "Communicating Key Audit Matters in the Independent Auditor's Report", communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is <b>NOT</b></p> <ul style="list-style-type: none"> <li>A <b>substitute</b> for <b>disclosures</b> in the <b>financial statements</b> that the applicable Financial reporting framework requires</li> </ul>
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	<p>management to make, or that are otherwise necessary to achieve fair presentation;</p> <ul style="list-style-type: none"> <li>• A substitute for the auditor expressing a <b>modified opinion</b> when required by the circumstances of a specific audit engagement in accordance with <b>SA 705</b></li> <li>• A substitute for <b>reporting</b> in accordance with <b>SA 570</b> 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; or</li> <li>• A <b>separate opinion</b> on <b>individual</b> matters.</li> </ul>
Q21.	<p>Explain clearly the purpose of communicating key audit matters. (RTP, Nov 2018, NA)</p> <p><b>Purpose of communicating key audit matters:</b> As per <b>SA 701</b>, "Communicating Key Audit Matters in the Independent Auditor's Report", the purpose of communicating key audit matters is to</p> <ul style="list-style-type: none"> <li>• enhance the <b>communicative value</b> of the auditor's report by providing greater <b>transparency</b> about the audit that was performed.</li> <li>• Communicating key audit matters provides <b>additional information</b> to <b>intended users</b> of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.</li> <li>• Communicating key audit matters may also assist intended users in understanding the <b>entity</b> and <b>areas</b> of significant management <b>judgment</b> in the audited financial statements.</li> </ul>
Q22.	<p>The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". What would the introductory language in this section of the auditor's report state. Also, state the purpose of communicating key audit matters. (MTP2, May 2018, 5 marks)</p> <p>The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report shall state that:</p> <ul style="list-style-type: none"> <li>• Key audit matters are those matters that, in the auditor's professional <b>judgment</b>, were of <b>most significance</b> in the audit of the financial statements [of the current period]; and</li> <li>• These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor <b>does not provide a separate opinion</b> on these matters.</li> </ul> <p><b>Purpose of communicating key audit matters - Refer to Qno 21</b></p>
Q23.	<p>How would an auditor determine Key Audit Matters as per SA - 701, "Communicating Key Audit Matters in the Independent Auditor's Report"? (SA, Nov 2020, 3 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>As an auditor of listed company, what are the matters that the auditor should keep in mind while determining "Key Audit Matters". (RTP, Nov 2021, NA) (MTP1, Nov 2021, 3 marks)</p> <p><b>Determining Key Audit Matters:</b> As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:</p> <ul style="list-style-type: none"> <li>• Areas of <b>higher assessed risk</b> of <b>material misstatement</b>, or significant risks identified in accordance with SA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".</li> <li>• Significant <b>auditor judgments</b> relating to <b>areas</b> in the financial statements that involved <b>significant management judgment</b>, including <b>accounting estimates</b> that have been identified as having high <b>estimation uncertainty</b>.</li> <li>• The effect on the audit of <b>significant events</b> or <b>transactions</b> that occurred during the period.</li> </ul> <p>The auditor shall determine which of the matters determined in accordance with above were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.</p>

## SA 705 “Modifications to the Opinion in the Independent Auditor’s Report”

Q24.	<p>CA. Sarasbhai Patel, while conducting audit of an entity, feels that there is an atmosphere of non-cooperation all around. He has not been provided with necessary support for attending inventory count process of entity as at year end. Besides, CFO is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality.</p> <p>He was not able to verify revenues of entity due to lack of complete details. For verifying expenses, he has been asking for bills on a sample basis, but staff has been making lame excuses. The matter was brought to knowledge of higher echelons of management, but of no avail. The auditor feels that there could be misstatements and their possible effects would be material and affecting many aspects of financial statements.</p> <p>Assuming it is not possible to withdraw from engagement, what type of opinion should be expressed by auditor? <b>(ICAI Study Material - Test Your Understanding)</b></p>
	<p>In the given case, auditor has <b>not</b> been able to <b>obtain sufficient appropriate audit evidence</b> relating to inventories, debtors, creditors, revenues and expenses. The matter has brought to knowledge of management but no result has been achieved. Besides, auditor opines that there could be misstatements and their <b>possible effects</b> could be <b>both material and pervasive</b>. In such circumstances, he should make <b>disclaimer of opinion</b> in accordance with SA 705</p>
Q25.	<p>M/s Daisy &amp; Associates are the statutory auditors of Zebra Ltd. for the FY 2023-24. CA Daisy, the engagement partner wants to verify the cash in hand as on 31.03.2024. The cash balance of the company as on 31.03.2024 is ₹ 1,00,000/- and the turnover of the company for the year is ₹ 6 crores. The management of the company informs CA Daisy that such cash verification is not possible as the cashier is on leave for his marriage and no other employee of the company is available as all are busy in year ending activities. Explain the relevant provisions to deal with such a situation. <b>(ICAI Study Material - Illustration)</b></p>
	<ul style="list-style-type: none"> <li>• If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers is likely to result in the need to express a <b>qualified opinion or to disclaim</b> an opinion on the financial statements, the auditor shall request that management remove the limitation.</li> <li>• In the present case CA Daisy, the statutory auditor is unable to verify the cash in hand of Zebra Ltd. as on 31.03.2024. The same is due to a limitation imposed by the management of Zebra Ltd. which is due to the non availability of the cashier.</li> <li>• In such situation, CA Daisy should perform <b>alternate procedures</b> to verify the cash on hand of the company. Further, CA Daisy should consider the impact on the auditor’s report and may consider issuing a <b>qualified</b> opinion in this case.</li> </ul>
Q26.	<p>M/s Sun Moon &amp; Associates are the statutory auditors of Venus Ltd. for the FY 2023-24. Owing to the pervasive nature of material misstatements in the financial statements of the company, CA Moon, the engagement partner decided to give an adverse opinion. Explain the responsibility of CA Moon with respect to communication with those charged with governance <b>(ICAI Study Material - Illustration)</b></p>
	<p>CA Moon, being the statutory auditor of Venus Ltd. should communicate with those charged with governance about the circumstances that led to the expected modification i.e. an <b>adverse</b> opinion. Further the wording of such modification also needs to be discussed.</p>
Q27.	<p>Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old &amp; Associates are the statutory auditors of the company for the FY 2023-24. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material. Explain the type of opinion that should be given by M/s Young Old &amp; Associates in this case. <b>(ICAI Study Material - Illustration)</b></p>
	<p>M/s Young Old &amp; Associates should give a <b>qualified</b> opinion as the effect of the misstatement on account of the non-bifurcation of loans into long term and short term loans, is <b>material</b> but <b>not pervasive</b>.</p>
Q28.	<p>M/s Taj Raj &amp; Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2023-24. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2024. Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj. <b>(ICAI Study Material - Illustration)</b></p>



	<p>The auditor shall express an <b>adverse</b> opinion when the auditor, having <b>obtained sufficient appropriate audit evidence</b>, concludes that <b>misstatements</b>, individually or in the aggregate, are <b>both material</b> and <b>pervasive</b> to the financial statements.</p> <p>In the case Porex Ltd., CA Taj found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Such situations are not reflected in the financial statements of the company despite having a material and pervasive impact on the financial statements. As such, CA Taj should give an <b>adverse opinion</b>.</p> <p>Further, CA Taj should also <b>consider</b> the reporting responsibilities under <b>CARO 2020</b> and section 143(12) of the Companies Act, 2013.</p>
Q29.	<p>Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2023-24 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. Explain the kind of audit report that the statutory auditor of the company should issue in this case. <b>(ICAI Study Material - Illustration)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2023- 24 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. The auditor believes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. Explain the kind of audit report that the statutory auditor of the company should issue in this case. <b>(RTP, Nov 2021, NA)</b></p> <ul style="list-style-type: none"> <li>● The auditor shall <b>disclaim</b> an opinion when the auditor is <b>unable to obtain sufficient appropriate audit evidence</b> on which to base the opinion, and the auditor concludes that the <b>possible effects</b> on the financial statements of undetected misstatements, if any, could be <b>both material</b> and <b>pervasive</b>.</li> <li>● The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.</li> <li>● In the present case Delightful Ltd, the statutory auditor of the company is unable to extract correct data and reports from the SAP system for conduct of audit. Also, such data and reports are not available manually. Moreover, the auditor believes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.</li> <li>● As such, the statutory auditor of Delightful Ltd. should give a <b>disclaimer of opinion</b>.</li> </ul>
Q30.	<p>Discuss the objective of the auditor as per Standard on Auditing (SA) 705 "Modifications to The Opinion in The Independent Auditor's Report" <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p>As per <b>SA 705</b> "Modifications To The Opinion In The Independent Auditor's Report", the objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:</p> <ul style="list-style-type: none"> <li>● The auditor concludes, based on the <b>audit evidence obtained</b>, that the financial statements as a whole are <b>not free from material misstatement</b>; or</li> <li>● The auditor is <b>unable to obtain sufficient appropriate audit evidence to conclude</b> that the financial statements as a whole are <b>free from material misstatement</b>.</li> </ul>
Q31.	<p>Distinguish between an adverse opinion and a qualified opinion. Also draft an opinion paragraph for both types of opinion. <b>(ICAI Study Material - Test Your Knowledge) (MTP2, Nov 2023, 4 marks)</b></p> <p>An auditor shall express an <b>adverse</b> opinion, when the auditor having <b>obtained sufficient</b> and <b>appropriate</b> audit evidence, concludes that <b>misstatements</b>, individually or in aggregate are <b>both material</b> and <b>pervasive</b>.</p> <p>Whereas, when the auditor, having <b>obtained sufficient</b> and <b>appropriate</b> audit evidence, concludes that <b>misstatements</b> are</p>

	<p><b>material but not pervasive</b>, shall express a <b>qualified opinion</b>.</p> <p>SA705 – “Modifications To The Opinion In The Independent Auditor’s Report” deals with the form and content of both types of report. The following are the draft of the opinion paragraphs of the reports.</p> <p><b>Adverse Opinion</b></p> <p>We have audited the accompanying consolidated financial statements of ABC Company Limited and its subsidiaries, its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 2024, the consolidated statement of profit and Loss, (consolidated statement of changes in equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the “consolidated financial statements”).</p> <p>In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements <b>do not give a true and fair view</b> in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 2024, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.</p> <p><b>Qualified Opinion</b></p> <p>We have audited the standalone financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at March 31, 2024, and the statement of Profit and Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.</p> <p>In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 2024 and profit/loss, (changes in equity) and its cash flows for the year ended on that date.</p>
Q32.	<p>Discuss the factors affecting the decision of the auditor regarding which type of modified opinion is appropriate. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p>The decision regarding which type of modified opinion is appropriate depends upon:</p> <ul style="list-style-type: none"> <li>● The <b>nature</b> of the matter giving rise to the modification, that is, whether the financial statements are <b>materially misstated</b> or, in the case of an <b>inability to obtain sufficient appropriate audit evidence</b>, may be materially misstated; and</li> <li>● The auditor’s <b>judgment</b> about the <b>pervasiveness</b> of the effects or possible effects of the matter on the financial statements.</li> </ul>
Q33.	<p>XYZ Ltd. which is in the business of trading of automobile components is following Cash Basis of Accounting for sale of spare parts. As Statutory Auditor of XYZ Ltd. explain the reporting requirements, manner of qualification and disclosure, if any, to be made in the auditor’s report in line with AS-1 ‘Disclosure of Accounting Policies’. <b>(SA, Jan 2021, 3 marks)</b></p> <p>Reporting requirements, Manner of qualification and disclosure to be made in the auditor’s report in line with AS 1, “Disclosure of Accounting Policies” are given hereunder :</p> <ul style="list-style-type: none"> <li>● In the case of a company, members should <b>qualify</b> their audit reports in case –       <ol style="list-style-type: none"> <li>a) <b>accounting policies</b> required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013 have <b>not been disclosed</b>, or</li> <li>b) accounts have <b>not been prepared</b> on <b>accrual</b> basis, or</li> <li>c) the <b>fundamental accounting assumption</b> of going concern has <b>not been followed</b> and this fact has not been disclosed in the financial statements, or</li> <li>d) <b>proper disclosures</b> regarding <b>changes</b> in the accounting policies have <b>not been made</b>.</li> </ol> </li> <li>● Where a company has been given a <b>specific exemption</b> regarding any of the matters stated above but the <b>fact</b> of such exemption has <b>not been adequately disclosed</b> in the accounts, the member should mention the fact of exemption in his audit report without necessarily making it a subject matter of audit qualification.</li> <li>● In view of the above, the auditor will have to consider different circumstances whether the audit report has to be qualified or only disclosures have to be given.</li> <li>● In making a qualification / disclosure in the audit report, the auditor should consider the <b>materiality</b> of the relevant item. Thus, the auditor need not make qualification / disclosure in respect of items which, in his judgment, are not</li> </ul>

	<p>material.</p> <ul style="list-style-type: none"> <li>• A disclosure, which is not a subject matter of audit qualification, should be made in the auditor's report in a manner that it is clear to the reader that the disclosure does not constitute an audit qualification. The paragraph containing the auditor's opinion on true and fair view should not include a reference to the paragraph containing the aforesaid disclosure.</li> </ul>
Q34.	<p>What an auditor should state in "Basis for opinion" section of auditor's report and when the auditor modifies the opinion on the financial statements, what amendments he should make in this section ? (SA, Jan 2021, 4 marks) (RTP, Nov 2023, NA)</p> <p>An auditor should state in "Basis for Opinion" section of Auditor's Report as under: Basis for Opinion: The auditor's report shall include a section, <b>directly following the Opinion</b> section, with the heading "Basis for Opinion", that:</p> <ul style="list-style-type: none"> <li>• States that the <b>audit</b> was <b>conducted</b> in <b>accordance</b> with <b>Standards on Auditing</b>;</li> <li>• Refers to the <b>section</b> of the auditor's report that <b>describes</b> the <b>auditor's responsibilities</b> under the SAs;</li> <li>• Includes a <b>statement</b> that the auditor is <b>independent</b> of the entity in accordance with the relevant ethical requirements relating to the audit and has <b>fulfilled</b> the auditor's other <b>ethical responsibilities</b> in accordance with these requirements.</li> <li>• States whether the auditor believes that the <b>audit evidence</b> the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.</li> </ul> <p><b>Amendments an Auditor should make:</b> When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised):</p> <ul style="list-style-type: none"> <li>• <b>Amend</b> the heading "Basis for Opinion" required by para of SA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and</li> <li>• Within this section, include a <b>description</b> of the matter giving rise to the modification.</li> </ul>
Q35.	<p>CA Guru is in the process of preparing the final audit report of JPA Private Limited and would like to disclaim his opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence. How CA Guru shall amend the description of the auditor's responsibilities as required by SA 700 (Revised)? (SA, July 2021, 3 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700. Explain (RTP, May 2022, NA)</p> <p>When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700 to include only the following:</p> <ul style="list-style-type: none"> <li>• A <b>statement</b> that the <b>auditor's responsibility</b> is to conduct an audit of the entity's financial statements in <b>accordance</b> with <b>Standards on Auditing</b> and to issue an auditor's <b>report</b>;</li> <li>• A statement that, however, <b>because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements</b>, and</li> <li>• The statement about auditor <b>independence</b> and other <b>ethical responsibilities</b> required by SA 700 (Revised)</li> </ul>
Q36.	<p>While conducting audit of VED Ltd., you as an auditor are not only prevented in completing certain audit procedures but also are not able to obtain audit evidence even by performing alternative procedures. How you will deal with this situation? (MTP1, May 2022, 4 marks)</p> <p>As per <b>SA 705</b>, "Modifications to the Opinion in the Independent Auditor's Report", if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a <b>qualified</b> opinion <b>or to disclaim</b> an opinion on the financial statements, the auditor shall request that management remove the limitation.</p> <p>If management refuses to remove the limitation, the auditor shall <b>communicate</b> the matter to <b>those charged with governance</b>, unless all of those charged with governance are involved in managing the entity and determine whether it is</p>

	<p>possible to perform alternative procedures to obtain sufficient appropriate audit evidence.</p> <p>If the auditor is <b>unable to obtain sufficient appropriate audit evidence</b>, the auditor shall determine the implications as follows:</p> <ul style="list-style-type: none"> <li>• If the auditor concludes that the <b>possible effects</b> on the financial statements of undetected misstatements, if any, could be <b>material</b> but <b>not pervasive</b>, the auditor shall <b>qualify</b> the opinion; or</li> <li>• If the auditor concludes that the <b>possible effects</b> on the financial statements of undetected misstatements, if any, could be <b>both material</b> and <b>pervasive</b> so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall: <ul style="list-style-type: none"> <li>○ <b>Withdraw</b> from the audit, where practicable and possible under applicable law or regulation; or</li> <li>○ If withdrawal from the audit before issuing the auditor's report is <b>not</b> practicable or possible, <b>disclaim</b> an opinion on the financial statements.</li> </ul> </li> </ul> <p>If the auditor withdraws, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.</p>
Q37.	<p>What are the circumstances in which auditors are required to qualify their reports of companies for matters related to AS-1 'Disclosure of Accounting Policies'? <b>(MTP1, May 2022, 3 marks)</b></p> <p>While discharging their attest function, the members of the Institute may keep the following in mind with regard to mandatory Accounting Standards. As per AS 1 - Disclosure of Accounting Policies, in the case of a company, members should qualify their audit reports in case:</p> <ol style="list-style-type: none"> <li>i) <b>accounting policies</b> required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, have <b>not been disclosed</b>, or</li> <li>ii) <b>accounts</b> have <b>not been prepared</b> on <b>accrual</b> basis, or</li> <li>iii) the <b>fundamental accounting assumption</b> of going concern has <b>not been followed</b> and this fact has not been disclosed in the financial statements, or</li> <li>iv) <b>proper disclosures</b> regarding changes in the accounting policies have <b>not been made</b>.</li> </ol>
Q38.	<p>Elucidate the circumstances when a modification to the Auditor's opinion is required. Also state the factors for making the decision regarding which type of modified opinion is appropriate. <b>(SA, May 2023, 3 marks)</b></p> <p>As required by SA 705 "Modifications To The Opinion In The Independent Auditor's Report" The auditor shall modify the opinion in the auditor's report in the following circumstances:</p> <ul style="list-style-type: none"> <li>• The auditor concludes, based on the <b>audit evidence obtained</b>, that the financial statements as a whole are <b>not free from material misstatement</b>; or</li> <li>• The auditor is <b>unable to obtain sufficient appropriate audit evidence to conclude</b> that the financial statements as a whole are <b>free from material misstatement</b>.</li> </ul> <p>The decision regarding which type of modified opinion is appropriate depends upon:</p> <ul style="list-style-type: none"> <li>• The <b>nature</b> of the matter giving rise to the modification, that is, whether the financial statements are <b>materially</b> misstated or, in the case of an <b>inability to obtain sufficient appropriate audit evidence</b>, may be materially misstated; and</li> <li>• The auditor's <b>judgment</b> about the <b>pervasiveness</b> of the effects or possible effects of the matter on the financial statements.</li> </ul>

### SA 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs In The Independent Auditor's Report"

Q39.	<p>Lomaxe Ltd. is a company engaged in the business of manufacture of candles. CA Kamalnath is the statutory auditor of the company for the FY 2023-24. During the year under audit, there was a fire in the company's factory as a result of which, some of the company's plant and machinery was destroyed. The same was disclosed by the company in the notes to accounts annexed to the financial statements for the year ending 31.03.2024. CA Kamalnath decided to communicate this matter in the auditor's report as he is of the view that the matter is of such importance that it is fundamental to the user's understanding of the financial statements. Help CA Kamalnath to deal with this situation in the auditor's report <b>(ICAI Study Material - Illustration)</b></p>
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	<p>In the present case there is a need to add Emphasis on Matter Paragraph in the Auditor's Report. The draft of the same is as under:</p> <p><b>Emphasis of Matter – Effects of Fire in Company's Factory</b></p> <p>We draw attention to Note Y of the financial statements, which describes the effects of a fire in the Company's factory. Our opinion is <b>not modified</b> in respect of this matter.</p>
Q40.	<p>Define Emphasis of Matter Paragraph and how it should be disclosed in the Independent Auditor's Report? (ICAI Study Material- Test Your Knowledge) (SA, May 2018, 5 marks) (RTP, Nov 2020, NA)</p> <p style="text-align: center;"><b>OR</b></p> <p>Define Emphasis of Matter paragraph. When the auditor shall include an Emphasis of Matter paragraph in the auditor's report? Also explain how the auditor would include an Emphasis of Matter in the auditor's report? (RTP, May 2019, NA)</p> <p><b>Emphasis of Matter paragraph</b> – A paragraph included in the auditor's report that refers to a matter appropriately <b>presented</b> or <b>disclosed</b> in the financial statements that, in the auditor's <b>judgment</b>, is of such importance that it is <b>fundamental</b> to <b>users'</b> understanding of the financial statements.</p> <p><b>Emphasis of Matter Paragraphs in the Auditor's Report</b></p> <p>If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:</p> <ul style="list-style-type: none"> <li>• The auditor would <b>not</b> be required to <b>modify</b> the opinion in accordance with SA 705 (Revised) as a result of the matter; and</li> <li>• When <b>SA 701 applies</b>, the <b>matter</b> has <b>not</b> been <b>determined</b> to be a <b>key audit matter</b> to be communicated in the auditor's report.</li> </ul> <p><b>Separate section for Emphasis of Matter paragraph:</b></p> <p>When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:</p> <ul style="list-style-type: none"> <li>• <b>Include</b> the <b>paragraph</b> within a <b>separate section</b> of the auditor's report with an <b>appropriate heading</b> that includes the term "Emphasis of Matter";</li> <li>• Include in the paragraph a clear <b>reference</b> to the <b>matter</b> being emphasized and to <b>where relevant disclosures</b> that fully describe the matter can be <b>found</b> in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and</li> <li>• <b>Indicate</b> that the auditor's <b>opinion</b> is <b>not modified</b> in respect of the matter emphasized</li> </ul>
Q41.	<p>State clearly the objective of the Auditor as per SA 706. Also define emphasis of matter paragraph and other matter paragraph. (MTP1, Nov 2020, 4 marks)</p> <p>As per <b>SA 706</b> (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs In The Independent Auditor's Report", the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:</p> <ul style="list-style-type: none"> <li>• A matter, although appropriately <b>presented</b> or <b>disclosed</b> in the financial statements, that is of such importance that it is <b>fundamental</b> to <b>users'</b> understanding of the financial statements; or</li> <li>• As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</li> </ul> <p>Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately <b>presented</b> or <b>disclosed</b> in the financial statements that, in the auditor's <b>judgment</b>, is of such importance that it is <b>fundamental</b> to <b>users'</b> understanding of the financial statements.</p> <p>Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter <b>other than those presented</b> or <b>disclosed</b> in the financial statements that, in the auditor's <b>judgment</b>, is relevant to <b>users'</b> understanding of the audit, the <b>auditor's responsibilities</b> or the auditor's report</p>
Q42.	<p>Mention the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. (MTP2, Nov 2021, 3 marks) (RTP, Nov 2022, NA) (MTP1, Nov 2023, 4 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>What is meant by Emphasis of Matter Paragraph? Give some examples of circumstances where the auditor may consider it</p>

necessary to include an Emphasis of Matter paragraph. (MTP1, Nov 2022, 4 Marks)

Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately **presented** or **disclosed** in the financial statements that, in the auditor's **judgment**, is of such importance that it is **fundamental** to users' understanding of the financial statements.

**Examples of circumstances to include Emphasis of Matter Paragraph:**

The examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are;

- An **uncertainty** relating to the future outcome of an exceptional litigation or regulatory action.
- A significant **subsequent event** that occurs between the date of the financial statements and the date of the auditor's report.
- Early **application** (where permitted) of a **new accounting standard** that has a material effect on the financial statements.
- A major **catastrophe** that has had, or continues to have, a significant effect on the entity's financial position.

## SA 710 "Comparative Information - Corresponding Figures and Comparative Financial Statements"

Q43. The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement. Advise the essential audit reporting differences between the approaches Also explain the audit procedure regarding comparative information. (MTP2, May 2018, 5 marks)

OR

The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. Explain clearly stating the essential audit reporting differences between the approaches. Also define comparative information and audit procedures regarding comparative information. (RTP, May 2019, NA)

The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.

The essential audit reporting differences between the approaches are:

- For **corresponding** figures, the auditor's opinion on the financial statements refers to the **current period only**; whereas
- For **comparative financial statements**, the auditor's opinion refers to **each period** for which **financial statements** are **presented**.

**Definition of Comparative information** – The **amounts** and **disclosures** included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.

**Audit Procedures regarding comparative information**

- The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately **classified**. For this purpose, the auditor shall evaluate whether:
  - The comparative information **agrees** with the **amounts** and **other disclosures presented in the prior period**; and
  - The accounting **policies** reflected in the comparative information are **consistent** with those applied in the current period or, if there have been **changes** in accounting policies, whether those changes have been properly **accounted** for and adequately **presented** and **disclosed**.
- If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such **additional** audit procedures as are necessary in the

	<p>circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.</p> <ul style="list-style-type: none"> <li>The auditor shall request <b>written representations</b> for <b>all periods</b> referred to in the auditor's opinion. The auditor <b>may</b> requests a <b>specific written representation</b> regarding <b>any prior period</b> item that is separately disclosed in the current year's financial statement</li> </ul>
Q44.	<p>When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in some circumstances. Explain those circumstances <b>(MTP1, Nov 2018, 5 Marks) (MTP1, Nov 2022, 4 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures. Discuss the exceptions of the above statement when the prior period financial statements are audited. <b>(SA, Nov 2019, 4 marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The senior member of the firm Kaur &amp; Associates, Chartered Accountants, informed to its auditing staff that at the time of audit reporting regarding corresponding figures, when corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in specified circumstances. What are those exceptional circumstances? <b>(SA, May 2022, 4 Marks)</b></p> <hr/> <p>When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures <b>except</b> in the following circumstances.</p> <ul style="list-style-type: none"> <li>If the auditor's report on prior period FS was <b>modified</b> and the subject of modification is still <b>unresolved</b>, the auditor shall <b>modify</b> the <b>current audit report</b> also. In the Basis for Modification paragraph in the auditor's report, the auditor shall either <ul style="list-style-type: none"> <li>Refer to <b>both</b> the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the <b>effects</b> or <b>possible effects</b> of the matter on the current period's figures are <b>material</b>; or</li> <li>In <b>other</b> cases, explain that the audit opinion has been modified because of the <b>effects</b> or <b>possible effects</b> of the <b>unresolved matter</b> on the comparability of the current period's figures and the corresponding figures.</li> </ul> </li> <li>If the auditor obtains audit evidence that a <b>material misstatement exists</b> in the <b>prior</b> period FS on which an <b>unmodified opinion</b> has been previously issued, the auditor shall verify whether the misstatement has been <b>dealt</b> with as <b>required</b> under the applicable financial reporting framework and, if that is not the case, the auditor shall express a <b>qualified</b> opinion or an <b>adverse</b> opinion in the auditor's report on the current period financial statements, modified.</li> <li><b>Prior Period Financial Statements Not Audited</b>- If the prior period financial statements were not audited, the auditor shall state in an <b>Other Matter paragraph</b> in the auditor's report that the corresponding figures are unaudited. Such a statement <b>does not</b>, however, <b>relieve</b> the auditor of the requirement to <b>obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements</b> that materially affect the current period's financial statements</li> </ul>
Q45.	<p>If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, what is required to be stated by the auditor in an Other Matter paragraph. <b>(MTP1, Nov 2022, 3 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>NG Ltd. appointed CA N as the statutory auditor for the F.Y. 2023-2024. Previous year's auditor gave a qualified opinion on the Comparative Financial Statements for the year ended 31.03.2023. What will be the reporting responsibility casted on CA N when he forms an opinion and prepares audit report on the Comparative Financial Statements for the F.Y. 2023-2024? <b>(SA, Nov 2022, 4 marks)</b></p> <hr/> <p>As per SA 710, if the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:</p> <ul style="list-style-type: none"> <li>That the financial statements of the prior period were <b>audited</b> by a <b>predecessor</b> auditor;</li> <li>The <b>type</b> of <b>opinion</b> expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; and</li> <li>The <b>date</b> of that report, unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements</li> </ul>

## SA 299 "Joint Audit of Financial Statements"

Q46.	<p>The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit. (ICAI Study Material - Test Your Knowledge) (RTP, Nov 2019, NA) (MTP2, May 2023, 4 marks)</p>
	<p><b>Joint Audit:</b> The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually. It essentially involves sharing of the total work. This is by itself a great advantage.</p> <p>In specific terms the advantages that flow may be the following:</p> <ol style="list-style-type: none"> <li>i) <b>Sharing of expertise.</b></li> <li>ii) Advantage of <b>mutual consultation.</b></li> <li>iii) <b>Lower workload.</b></li> <li>iv) Better <b>quality</b> of performance.</li> <li>v) <b>Improved</b> service to the client.</li> <li>vi) In respect of multinational companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.</li> <li>vii) <b>Lower staff development costs.</b></li> <li>viii) <b>Lower costs</b> to carry out the work.</li> <li>ix) A sense of <b>healthy competition</b> towards a better performance</li> </ol>
Q47.	<p>"Before the commencement of audit, the joint auditors should discuss and develop a joint audit plan." Discuss the points to be considered in developing the joint audit plan by the joint auditors. (SA, Nov 2019, 4 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should identify division of audit areas and common audit areas. Explain stating the other relevant considerations in this regard. (ICAI Study Material - Test Your Knowledge) (RTP, May 2020, NA)</p> <p>Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should:</p> <ul style="list-style-type: none"> <li>• identify <b>division</b> of audit areas and <b>common</b> audit areas;</li> <li>• ascertain the <b>reporting objectives</b> of the engagement;</li> <li>• consider and <b>communicate</b> among all joint auditors the factors that are significant in <b>directing</b> the engagement team's efforts;</li> <li>• consider the results of <b>preliminary engagement</b> activities, or similar engagements performed earlier.</li> <li>• ascertain the nature, timing and extent of <b>resources</b> necessary to accomplish the engagement.</li> </ul>
Q48.	<p>HMB Limited's business has grown from one state of India to various countries of the world. Since the business has increased manifold, the management decided to appoint joint auditors for conducting the statutory audit of the company. They appointed three CA firms for it. For which audit work the joint auditors will be jointly &amp; severally responsible? (SA, Nov 2022, 4 marks)</p> <p><b>Joint Audit of Financial Statements:</b> As per SA 299, "Joint Audit of Financial Statements", all the joint auditors shall be jointly and severally responsible for:</p> <ul style="list-style-type: none"> <li>• the audit work which is <b>not divided</b> among the joint auditors and is carried out by all joint auditors;</li> <li>• <b>decisions</b> taken by <b>all</b> the joint auditors under audit planning in respect of common audit areas;</li> <li>• <b>matters</b> which are <b>brought</b> to the <b>notice</b> of the joint auditors by any one of them and there is an agreement among the joint auditors on such matters;</li> <li>• examining that the financial statements of the entity comply with the <b>requirements</b> of the relevant <b>statutes</b>;</li> <li>• <b>presentation</b> and <b>disclosure</b> of the financial statements as required by the applicable financial reporting framework;</li> <li>• ensuring that the audit <b>report</b> complies with the requirements of the relevant <b>statutes</b>, applicable <b>Standards</b> on <b>Auditing</b> and other relevant <b>pronouncements</b> issued by ICAI.</li> </ul>



## Audit of Branch Office Accounts

Q49.	<p>CA. Dicky Yadav is auditor of a company having four branches. The four branches are audited by another auditor CA. Yamini Jain. The reports in respect of accounts of branches examined by her have already been sent to company auditor. During the course of audit, CA Dicky Yadav asks the branch auditor to share with her summary of audit procedures and findings in respect of accounts of branches examined. CA. Yamini Jain feels it as encroachment of her domain. Discuss the issue <b>(ICAI Study Material - Test Your Understanding)</b></p>
	<p>As per <b>SA 600</b> - "Using the Work of Another Auditor", the <b>principal</b> auditor <b>might discuss</b> with the other auditor the audit <b>procedures</b> applied or <b>review</b> a written <b>summary</b> of the other auditor's procedures and findings which may be in the form of a completed <b>questionnaire</b> or check-list.</p> <p>Such review of audit procedures and findings can be undertaken if the principal auditor feels that it is <b>necessary</b> to apply such procedures to obtain sufficient appropriate audit evidence. It is <b>not</b> an encroachment of another auditor's domain.</p>
Q50.	<p>ABC Ltd is a company incorporated in India. It has branches within and outside India. Explain who can be appointed as an auditor of these branches within and outside India. Also explain to whom branch auditor is required to report. <b>(ICAI Study Material - Test Your Knowledge) (RTP, May 2020, NA)</b></p>
	<p><b>Branch Auditor:</b></p> <ul style="list-style-type: none"> <li>● <b>Section 143(8)</b> of the Companies Act, 2013, prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.</li> <li>● Where a company has a branch office, the accounts of that office shall be audited either by       <ul style="list-style-type: none"> <li>○ the auditor appointed for the company i.e. <b>company's auditor</b></li> <li>○ any other person <b>qualified</b> for appointment as an auditor of the company under this Act</li> <li>○ where the branch office is situated in a country <b>outside India</b>, the accounts of the branch office shall be audited either by the <b>company's auditor</b> or by an <b>accountant</b> or by <b>any other</b> person duly <b>qualified</b> to act as an auditor of the accounts of the branch office in <b>accordance</b> with the <b>laws of that country</b></li> </ul> </li> <li>● The branch auditor shall prepare a <b>report</b> on the accounts of the branch examined by him and <b>send</b> it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.</li> <li>● Further as per rule 12 of the Companies (Audit and Auditors) Rules, 2014, the branch auditor shall <b>submit</b> his report to the company's auditor and <b>reporting of fraud</b> by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.</li> </ul>
Q51.	<p>When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole. Explain. <b>(RTP, Nov 2018, NA) (MTP1, Nov 2020, 4 Marks)</b></p>
	<p><b>SA 600</b> "Using the work of Another Auditor" establishes the standard when an auditor, reporting on the financial statements of a company, uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity. There should be sufficient liaison between the principal auditor and the other auditor. SA 600 provides the following in this regard:</p> <ul style="list-style-type: none"> <li>● Where another auditor has been appointed for the component, the principal auditor would normally be entitled to <b>rely</b> upon the work of such auditor <b>unless</b> there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component. Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.</li> <li>● When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:       <ul style="list-style-type: none"> <li>○ advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for <b>co-ordination</b> of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring <b>special consideration</b>, procedures for the identification of inter-component transactions that may require <b>disclosure</b> and the time-table for completion of audit; and</li> <li>○ advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.</li> </ul> </li> <li>● The <b>principal</b> auditor <b>might discuss</b> with the other auditor the audit <b>procedures</b> applied or <b>review</b> a written <b>summary</b> of the other auditor's procedures and findings which may be in the form of a completed <b>questionnaire</b> or check-list.</li> <li>● The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the <b>circumstances</b> of the engagement and the principal auditor's knowledge of the professional</li> </ul>

	competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.
Q52.	<p>RJ Limited is in the business of trading of cycles having Head Office at Delhi and branch at Mumbai. Statutory audit of Head Office was to be done by CA D and statutory audit of branch at Mumbai was to be done by CA M. During the course of audit by CA D at head office, CA D Wanted to visit branch at Mumbai and verify the inventory records at Mumbai. The management of RJ Limited did not allow CA D to visit Mumbai office and verify the inventory records as the branch audit of Mumbai was already being undertaken by another CA M. In the above situation, discuss the rights available with CA D in terms of the Companies Act, 2013. <b>(SA, Nov 2020, 3 Marks)</b></p> <ul style="list-style-type: none"> <li>● <b>Section 143(1)</b> of the Companies Act, 2013, provides that company auditor, <b>at all times</b>, shall have a <b>right of access</b> to the <b>books</b> of account and <b>vouchers</b> of the company, whether kept at the registered office of the company or at any other place and he is entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor.</li> <li>● The right of access is <b>not limited</b> to those books and records maintained at the registered or head office so that in the case of a company with branches, the <b>right also extends to the branch records</b>, if the auditor considers it necessary to have access thereto as per Section 143(8).</li> <li>● In the given case where CA D was appointed as Statutory Auditor of Head office of RJ Ltd and CA M was appointed to conduct Statutory Audit of Branch office of RJ Ltd., CA D wanted to visit Mumbai Branch to verify the inventory records at Mumbai but management of RJ Ltd did not allow CA D to verify the inventory records at its Mumbai Branch on the ground that branch audit was already being undertaken by another CA M.</li> <li>● It can be concluded that CA D has a <b>right to visit</b> the branch for verifying inventory records at Mumbai even if the branch accounts are audited by another auditor CA M, if he considers it <b>necessary</b> to do so for the performance of his duties as an auditor.</li> </ul>

### Reporting Requirements Under The Companies Act, 2013

Q53.	<p>Mr. A is appointed as statutory auditor of a company 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 2 -3 years and the total amount misappropriated exceeding ₹ 100 lakhs. As a statutory auditor, what would be reporting responsibilities of Mr. A? <b>(SA, May 2018, 5 marks) (MTP1, May 2021, 4 marks)</b></p> <p><b>Reporting Fraud to Central Government:</b></p> <ul style="list-style-type: none"> <li>● As per <b>section 143(12)</b> of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, has <b>reason to believe</b> that an offence of fraud, which involves or is <b>expected</b> to involve individually an amount of <b>₹ 1 crore or above</b>, is being or has been committed in the company by its officers or employees, the auditor shall <b>report</b> the matter to the <b>Central Government</b> within such time and in such manner as prescribed.</li> <li>● However, in case of a fraud involving lesser than the specified amount, i.e. <b>below ₹ 1 Cr.</b>, the auditor shall <b>report</b> the matter to the <b>audit committee</b> constituted u/s 177 <b>or</b> to the <b>Board</b> in other cases within such time and in such manner as may be prescribed</li> <li>● The companies, whose auditors have reported frauds 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.</li> </ul>
Q54.	<p>Explain the duties of Auditor to inquire under Section 143(1) of the Companies Act, 2013. <b>(RTP, Nov 2018, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor is not required to report on the matters specified in sub-section (1) of Section 143 unless he has any special comments to make on any of the items referred to therein. If he is satisfied as a result of the inquiries, he has no further duty to report that he is so satisfied. Explain clearly stating the matters for which the auditor has to perform his duty of inquiry under this section. <b>(MTP1, Nov 2018, 5 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor has to make inquiries on certain matters under section 143(1) of Companies Act, 2013. Discuss those matters. <b>(MTP1, Nov 2020, 6 Marks)</b></p> <p><b>Reporting requirement relating to matters stated in section 143(1)</b> Under section 143(1), auditor shall inquire into following matters given as under: -</p>

	<p>a) whether <b>loans</b> and <b>advances</b> made by the company on the basis of <b>security</b> have been properly secured and whether the <b>terms</b> on which they have been made are <b>prejudicial</b> to the <b>interests</b> of the company or its members;</p> <p>b) whether transactions of the company which are <b>represented</b> merely by <b>book entries</b> are prejudicial to the interests of the company;</p> <p>c) where the company <b>not</b> being an <b>investment</b> company or a <b>banking</b> company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a <b>price less than</b> that at which they were <b>purchased</b> by the company;</p> <p>d) whether loans and advances made by the company have been shown as <b>deposits</b>;</p> <p>e) whether <b>personal expenses</b> have been charged to revenue account;</p> <p>f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether <b>cash</b> has <b>actually</b> been <b>received</b> in respect of such allotment, and if no cash has actually been so received, whether the <b>position</b> as stated in the account books and the balance sheet is <b>correct</b>, regular and <b>not misleading</b>.</p> <p>The auditor should make a report to the members in case he finds an answer to any of these matters in <b>adverse</b>.</p>
Q55.	<p>The auditor shall make a report to the members of the company on the accounts examined by him. Explain with reference to relevant provisions of the Companies Act, 2013. <b>(RTP, Nov 2019, NA) (MTP1, May 2023, 3 marks)</b></p> <p><b>Reporting on accounts examined</b></p> <ul style="list-style-type: none"> <li>As per <b>Section 143(2)</b> of the Companies Act, 2013, the auditor shall make a <b>report</b> to the <b>members</b> of the company on the <b>accounts examined</b> by him and on every <b>financial statements</b> which are required by or under this Act to be laid before the company in <b>general meeting</b> and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made there under or under any order made under this section</li> <li>Auditor has to report whether to best of his information and knowledge, the said accounts, financial statements give a <b>true</b> and <b>fair</b> view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as prescribed</li> </ul>
Q56.	<p>The head accountant of a company entered fake invoices of credit purchases in the books of account aggregate of ₹ 50 lakh and cleared all the payments to such bogus creditor. How will you deal as an auditor? <b>(RTP, May 2020, NA)</b></p> <ul style="list-style-type: none"> <li>As per <b>section 143(12)</b> of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, the auditor of the company is required to report the fraudulent activity to the <b>Board</b> or <b>Audit Committee</b> (as the case may be) within <b>2 days</b> of his knowledge of fraud.</li> <li>Further, the company is also required to <b>disclose</b> the same in the <b>Board's Report</b>.</li> <li>It may be noted that the auditor need <b>not</b> to <b>report</b> the <b>central government</b> as the amount of fraud involved is less than ₹ 1 crore, however, reporting under CARO, 2020 is required.</li> </ul>
Q57.	<p>As per Sec 143(3)(j) of the Companies Act, 2013, the auditor's report shall also include such other matters as may be prescribed by Rule 11 of the Companies (Audit and Auditors) Rule, 2014. Discuss those matters on which views and comments of the auditor are required. <b>(SA, Dec 2021, 4 marks) (RTP, Nov 2023, NA)</b></p> <p>Matters on which views and comments of the auditor are required:</p> <ol style="list-style-type: none"> <li>whether the company has disclosed the impact, if any, of <b>pending litigations</b> on its financial position in its financial statement;</li> <li>whether the company has made provision, as required under any law or accounting standards, for <b>material foreseeable losses</b>, if any, on long term contracts including derivative contracts;</li> <li>whether there has been any <b>delay</b> in transferring amounts, required to be transferred, to the <b>Investor Education and Protection Fund</b> by the company.</li> <li>(i) Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;</li> <li>(ii) Whether the management has represented, that, to the best of its knowledge and belief, other than as disclosed</li> </ol>

	<p>in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and</p> <p>(iii) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.</p> <p>v) Whether the <b>dividend</b> declared or paid during the year by the company is in <b>compliance</b> with <b>section 123</b> of the Companies Act, 2013</p> <p>vi) Whether the company has used such <b>accounting software</b> for maintaining its books of account which has a feature of recording <b>audit trail</b> (edit log) facility and the same has been <b>operated</b> throughout the year for all transactions recorded in the software and the audit trail feature has <b>not been tampered</b> with and the audit trail has been <b>preserved</b> by the company as per the statutory requirements for record retention.</p>
Q58.	<p>CA R is the statutory auditor and Mr. P is the cost auditor of DEF Ltd., a company engaged in the production of tyres. Mr. P noticed a fraud of INR 1.25 crores done by the senior manager of the company and immediately informed the audit committee even before CA R was aware of the fraud. State the duty of CA R under section 143(12) of the Companies Act on reporting on frauds already detected and reported <b>(SA, Dec 2021, 4 marks)</b></p> <p><b>Reporting on Frauds already detected and reported:</b></p> <ul style="list-style-type: none"> <li>• The auditor, CA R should apply <b>professional skepticism</b> to evaluate/verify that the fraud was indeed identified/detected in all aspects by the management or through the company's vigil/whistle blower mechanism so that distinction can be clearly made with respect to frauds identified/detected due to matters raised by the auditor vis -à-vis those identified/detected by the company through its internal control mechanism.</li> <li>• Since reporting on fraud under <b>section 143(12)</b> is required even by the cost auditor and the secretarial auditor of the company, it is possible that a suspected offence involving fraud may have been reported by them even before the auditor became aware of the fraud.</li> <li>• Here too, if a suspected offence of fraud has already been reported under section 143(12) by such other person, and the auditor becomes aware of such suspected offence involving fraud, he need not report the same since he has not per se identified the suspected offence of fraud.</li> <li>• However, in case of a <b>fraud</b> which <b>involves</b> or is <b>expected</b> to involve individually, an amount of <b>₹ 1 crore or more</b>, the auditor should <b>review the steps</b> taken by the management/those charged with governance with respect to the reported instance of suspected offence of fraud stated above, and if he is <b>not satisfied</b> with such steps, he should state the reasons for his dissatisfaction in writing and request the management/ those charged with governance to perform <b>additional procedures</b> to enable the auditor to satisfy himself that the matter has been appropriately addressed. If the management/those charged with governance fail to undertake appropriate additional procedures <b>within 45 days</b> of his request, the auditor would need to evaluate if he should report the matter to the <b>Central Government</b> in accordance with Rule 13 of the Companies (Audit and Auditors) Rules, 2014.</li> </ul>
Q59.	<p>Under provisions of Section 143(2), the auditor shall make a report to the members of the company on the accounts examined by him. Explain along with relevant rule of The Companies (Audit and Auditors) Rules, 2014 <b>(MTP1, May 2022, 4 marks)</b></p> <p>Report to the members of the company on the accounts examined by him - <b>Refer Qno 55</b> Matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 - <b>Refer Qno 57</b></p>
Q60.	<p>CA E was appointed statutory auditor of XYZ Private Limited in AGM held in the month of August, 2023 for the first time for audit of financial statements of the company from year 2023-24 onwards. Since he is new to the company, he wants to be sure about integrity of accounting records. In this regard, he wants to ensure that software used by company for maintenance of its books of accounts is capable of tracking user activities and changes made to entries in books of accounts, if any, during the course of year. What CA E is looking for in the given situation? Discuss the reporting requirements for CA E in this matter to be included in audit report to be issued under the Companies Act, 2013. <b>(MTP2, Nov 2023, 3 marks)</b></p> <p>In the given situation, the auditor is looking for a feature of "audit trail" in software used by a company for maintenance of books of accounts. Under section 143(3) of Companies Act, 2013, it has to be reported by the auditor as under: -</p>

Whether the company has used such **accounting software** for maintaining its books of account which has a feature of recording **audit trail** (edit log) facility and the same has been **operated** throughout the year for all transactions recorded in the software and the audit trail feature has **not** been **tampered** with and the audit trail has been **preserved** by the company as per the statutory requirements for record retention.

## CARO - Companies (Auditor's Report) Order, 2020

Q61.	<p>CA. Ravi Patnaik is conducting audit of a company for which reporting requirements under CARO, 2020 are applicable. He finds that cash credit facilities amounting to ₹ 4 crores were released to the company by branch of a bank for meeting its working capital requirements. He finds that out of above funds, ₹ 1 crore have been used by company for installing effluent treatment plant to meet State pollution control Board requirements. Is there any reporting obligation upon him under CARO,2020? <b>(ICAI Study Material - Test Your Understanding)</b></p>
	<ul style="list-style-type: none"> <li>● <b>Clause (ix)(d)</b> of CARO, 2020 whether funds raised on short term basis have been utilised for long term purposes, if yes, the <b>nature</b> and <b>amount</b> to be indicated.</li> <li>● In the given situation, funds have been raised for meeting working capital requirements for ₹ 4 crores. Cash credit facilities for meeting working capital requirements are, by their very nature, short term borrowings. Out of above, ₹1 crore have been used by the company for investment in effluent treatment plant which is ostensibly for a long-term purpose.</li> <li>● Hence, the matter needs to be reported in accordance with requirements of Clause (ix)(d) of CARO, 2020</li> </ul>
Q62.	<p>The company has dispensed with the practice of taking inventory of their inventories at the year-end as in their opinion the exercise is redundant, time consuming and intrusion to normal functioning of the operations. Explain reporting requirement under CARO, 2020. <b>(ICAI Study Material- Illustration)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>State the matters to be included in auditor's report as per CARO, 2020 regarding - Verification of inventory and working capital limits. <b>(MTP2, May 2022, 3 marks)</b></p>
	<p><b>Clause (ii)</b> of Para 3 of CARO, 2020, requires the auditor to report</p> <ol style="list-style-type: none"> <li>a) whether physical verification of inventory has been <b>conducted at reasonable intervals</b> by the <b>management</b> and whether, in the <b>opinion</b> of the <b>auditor</b>, the <b>coverage</b> and <b>procedure</b> of such verification by the management is appropriate; whether any discrepancies of <b>10% or more</b> in the aggregate for each class of inventory were noticed and if so, whether they have been properly <b>dealt</b> with in the books of account;</li> <li>b) whether during <b>any</b> point of time of the year, the company has been <b>sanctioned</b> working capital limits in excess of ₹ <b>5 crore</b>, in <b>aggregate</b>, from banks or financial institutions on the basis of <b>security</b> of <b>current assets</b>; whether the quarterly <b>returns</b> or statements <b>filed</b> by the company with such banks or financial institutions are in <b>agreement</b> with the <b>books</b> of account of the Company, if not, give details;</li> </ol> <p>In the given case, the above requirement of physical verification of inventory by the management has not been taken place and therefore the auditor should point out the same under CARO, 2020. He may consider the impact on financial statement and report accordingly.</p>
Q63.	<p>Examine the applicability of CARO 2020 : 'Educating Child' is a limited company registered under section 8 of the Companies Act, 2013. <b>(ICAI Study Material- Illustration)</b></p> <p>In the given case, 'Educating Child' is licensed to operate under section 8 of the Companies Act, 2013. Therefore, CARO, 2020 shall <b>not</b> be <b>applicable</b> to 'Educating Child' accordingly.</p>
Q64.	<p>Discuss which class of companies are specifically exempt from the applicability of CARO 2020. <b>(ICAI Study Material - Test Your Knowledge) (MTP1, Nov 2019, 3 Marks)</b></p> <p>CARO 2020 shall apply to <b>every</b> company including a <b>foreign</b> company as defined in section 2(42) of the Companies Act, 2013, <b>except</b>–</p> <ul style="list-style-type: none"> <li>● A <b>banking</b> company</li> <li>● An <b>insurance</b> company</li> <li>● A company licensed to operate under <b>section 8</b> of the Companies Act;</li> <li>● A <b>One Person</b> Company as defined in section 2(62) of the Companies Act;</li> </ul>

	<ul style="list-style-type: none"> <li>● A <b>small company</b> as defined in section 2(85) of the Companies Act; and</li> <li>● a <b>private limited company, not being a subsidiary or holding company of a public company</b>, <ul style="list-style-type: none"> <li>○ having a <b>paid up capital</b> and reserves and surplus not more than <b>₹ 1 crore</b> as on the balance sheet date and</li> <li>○ which does not have total <b>borrowings exceeding ₹ 1 crore</b> from any bank or financial institution at any point of time during the financial year and</li> <li>○ which does not have a total <b>revenue</b> as disclosed in Schedule III to the Companies Act (including revenue from discontinuing operations) <b>exceeding ₹ 10 crore</b> during the financial year as per the financial statements.</li> </ul> </li> </ul>
Q65.	<p>Discuss the reporting requirements under CARO 2020, with respect to the moneys raised by the company by way of initial public offer or further public offer and where the company has made any preferential allotment or private placement of shares. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>State the matters to be included in the auditor's report as per CARO, 2020, regarding:</p> <ol style="list-style-type: none"> <li>i) Private Placement of Preferential Issues.</li> <li>ii) Utilisation of IPO and further public offer.</li> </ol> <p><b>(SA, May 2018, 4 Marks) (MTP2, May 2019, 4 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>State the auditor's reporting responsibilities under CARO, 2020 when –</p> <ol style="list-style-type: none"> <li>i) The company has made private placement of shares.</li> <li>ii) The company has raised money by public issue.</li> </ol> <p><b>(SA, Dec 2021, 4 marks)</b></p> <p><b>Private Placement of Preferential Issues [Para 3(x) of CARO 2020]</b></p> <ul style="list-style-type: none"> <li>● whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so,</li> <li>● whether the requirements of <b>section 42</b> and <b>section 62</b> of the Companies Act, 2013 have been <b>complied</b> with and the funds raised have been used for the <b>purposes</b> for which the funds were <b>raised</b>, if <b>not</b>, provide <b>details</b> in respect of <b>amount</b> involved and <b>nature</b> of non-compliance;</li> </ul> <p><b>Utilisation of IPO and further public offer [Para 3(x) of CARO 2020]</b></p> <ul style="list-style-type: none"> <li>● whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were <b>applied</b> for the <b>purposes</b> for which those are <b>raised</b>, if <b>not</b>,</li> <li>● the <b>details</b> together with delays or default and subsequent rectification, if any, as may be applicable, be reported</li> </ul>
Q66.	<p>State the matters to be included in the auditor's report as per CARO, 2020 regarding -</p> <ol style="list-style-type: none"> <li>i) Default in repayment of loans or borrowing to a financial institution, bank etc.</li> <li>ii) Fraud by the company or on the Company by its officers or employees.</li> </ol> <p><b>(MTP1, May 2018, 4 marks) (MTP1, May 2019, 4 Marks) (MTP2, May 2021, 4 Marks) (MTP2, Nov 2021, 3 Marks)</b></p> <ol style="list-style-type: none"> <li>i) Default in repayment of loans or borrowing to a financial institution, bank etc. - <b>Refer Qno 73</b></li> <li>ii) Fraud by the company or on the Company by its officers or employees. <b>[Clause (xi) of Para 3 of CARO 2020]</b> <ol style="list-style-type: none"> <li>a) whether any fraud <b>by</b> the company or any fraud <b>on</b> the company has been <b>noticed</b> or <b>reported</b> during the year, if <b>yes</b>, the <b>nature</b> and the <b>amount</b> involved is to be indicated;</li> <li>b) whether any report under <b>section 143(12)</b> of the Companies Act has been filed by the auditors in Form <b>ADT-4</b> as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;</li> <li>c) whether the auditor has considered <b>whistle-blower complaints</b>, if any, received during the year by the company;</li> </ol> </li> </ol>
Q67.	<p>State the matters to be included in the auditor's report as per CARO, 2020 regarding-</p> <ol style="list-style-type: none"> <li>i) in case the company has accepted deposits</li> <li>ii) Nidhi company</li> </ol>

(MTP2, May 2018, 4 Marks)

Matters to be included in the Auditor's Report under CARO, 2020: The auditor's report on the accounts of a company to which CARO applies shall include a statement on the following matters, namely-

i) **In case the company has accepted deposits**

in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the **directives** issued by the **Reserve Bank of India** and the provisions of **sections 73 to 76** or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been **complied** with, if **not**, the **nature** of such **contraventions** be stated; if an **order** has been passed by **Company Law Board or National Company Law Tribunal or Reserve Bank of India** or any **court** or any other **tribunal**, whether the same has been **complied** with or not;

ii) **Nidhi company**

- whether the **Nidhi Company** has complied with the **Net Owned Funds to Deposits** in the ratio of **1:20** to meet out the liability;
- whether the Nidhi Company is maintaining **10% unencumbered term deposits** as specified in the Nidhi Rules, 2014 to meet out the liability;
- whether there has been any **default** in payment of **interest** on deposits or repayment thereof for any period and if so, the details thereof;

Q68.

Discuss the reporting requirements regarding Property, Plant and Equipment under CARO, 2020.

(MTP2, Nov 2018, 3 Marks) (SA, May 2019, 3 Marks) (RTP, Nov 2021, NA)

OR

Explain the Reporting requirements the auditor should ensure under CARO 2020 related to PPE and Intangible assets.

(RTP, May 2022, NA)

Reporting for PPE and Intangible assets - **Clause (i)** of Para 3 of CARO ,2020, requires the auditor to include a statement in the auditor's report on the following matters, namely -

- whether the company is maintaining **proper records** showing **full particulars**, including **quantitative** details and **situation** of PPE
- whether the company is maintaining **proper records** showing full particulars of **intangible** assets;
- whether these 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;
- whether the title deeds of **all** the immovable properties (**other than** properties where the company is the lessee and the lease agreements are duly executed in favor of the **lessee**) **disclosed** in the financial statements are held in the name of the company, if not, provide the details thereof in the **format** below:-

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held –indicate range, where appropriate	Reason for not being held in name of company*
					*also indicate if in dispute

- whether the company has **revalued** its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is **based** on the valuation by a **Registered Valuer**; **specify** the amount of change, if **change is 10% or more** in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;
- whether any **proceedings** have been initiated or are pending against the company for holding any **benami property** under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately **disclosed** the details in its financial statements;

Q69.

State the matters to be included in the auditor's report as per CARO, 2020 regarding-

- i) Property, Plant and Equipment
- ii) statutory dues

	<p><b>(MTP1, Nov 2018, 5 Marks) (MTP1, May 2020, 4 Marks)</b></p> <p>i) Property, Plant and Equipment - <b>Refer QNo 68</b></p> <p>ii) As per <b>clause (vii)</b> of Para 3 of CARO, 2020, reporting requirements in respect of statutory dues are :</p> <p>a) whether the company is <b>regular</b> in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if <b>not</b>, the extent of the <b>arrears of outstanding</b> statutory dues as on the <b>last day</b> of the <b>financial year</b> concerned for a period of <b>more than six months</b> from the <b>date they became payable</b>, shall be indicated;</p> <p>b) where statutory dues referred to in sub-clause (a) have <b>not</b> been <b>deposited</b> on <b>account</b> of any <b>dispute</b>, then the <b>amounts</b> involved and the <b>forum</b> where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);</p>
Q70.	<p>The company has raised funds by issuing fully convertible debentures. These funds were raised for the expansion and diversification of the business. However, the company utilized these funds for repayment of long term loans and advances." Advise the auditor regarding reporting requirements under CARO, 2020.</p> <p><b>(SA, Nov 2018, 4 Marks)(MTP1, Nov 2021, 3 Marks) (SA, Nov 2022, 4 marks)</b></p> <p>The auditor is required to report as per <b>clause (x)(b)</b> of paragraph 3 of CARO 2020, whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of <b>section 42</b> and <b>section 62</b> of the Companies Act, 2013 have been <b>complied</b> with and the funds raised have been used for the <b>purposes</b> for which the funds were <b>raised</b>, if <b>not</b>, provide <b>details</b> in respect of <b>amount</b> involved and <b>nature</b> of non compliance;</p> <p>In view of the above clause, the auditor would report that funds raised by the company for expansion and diversification of business have not been used for the said purpose rather the company has utilized these funds for repayment of long term loans and advance.</p>
Q71.	<p>M Ltd. has given certain loans to related parties and also has accepted certain deposits. As an auditor, how will you include the above items in paragraph 3 of CARO, 2020? <b>(SA, Nov 2019, 4 Marks) (MTP1, May 2021, 3 Marks)</b></p> <p><b>Loans to related parties:</b></p> <p><b>Para 3(iii)</b> of CARO, 2020 states whether during the year the company has granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,</p> <p>a. whether during the year the company has provided loans or provided advances in the nature of loans, if so, indicate</p> <ul style="list-style-type: none"> <li>o the <b>aggregate</b> amount during the year, and <b>balance outstanding</b> at the balance sheet date with respect to such loans or advances and guarantees or security to <b>subsidiaries, joint ventures and associates</b>;</li> <li>o the <b>aggregate</b> amount during the year, and <b>balance outstanding</b> at the balance sheet date with respect to such loans or advances and guarantees or security to <b>parties other than subsidiaries, joint ventures and associates</b>;</li> </ul> <p>b. whether <b>terms</b> and <b>conditions</b> of the grant of all loans and advances in the nature of loans and guarantees provided are <b>not prejudicial</b> to the company's <b>interest</b>;</p> <p>c. in respect of loans and advances in the nature of loans, whether the <b>schedule</b> of <b>repayment</b> of principal and payment of interest has been stipulated and whether the repayments or receipts are <b>regular</b>;</p> <p>d. if the amount is overdue, state the total amount <b>overdue</b> for <b>more than 90 days</b>, and whether <b>reasonable steps</b> have been taken by the company for recovery of the principal and interest;</p> <p>e. whether any <b>loan</b> or advance in the nature of loan granted which has <b>fallen due</b> during the year, has been <b>renewed</b> or <b>extended</b> or fresh loans granted to <b>settle</b> the <b>overdues</b> of <b>existing loans</b> given to the <b>same parties</b>, if so, specify the <b>aggregate amount</b> of such <b>dues</b> renewed or extended or settled by fresh loans and the <b>percentage</b> of the <b>aggregate to the total loans</b> or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];</p> <p>f. whether the company has granted any loans or advances in the nature of loans <b>either repayable on demand</b> or <b>without</b> specifying any <b>terms</b> or <b>period</b> of repayment, if so, specify the <b>aggregate amount, percentage</b> thereof to the total loans granted, aggregate amount of loans <b>granted to Promoters, related parties</b> as defined in section 2(76) of the Companies Act, 2013;</p> <p><b>Deposit Accepted [Para 3(v) of CARO, 2020]</b></p>



	<ul style="list-style-type: none"> <li>in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the <b>directives</b> issued by the <b>RBI</b> and the provisions of <b>sections 73 to 76</b> or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been <b>complied with</b>, if <b>not</b>, the <b>nature</b> of such <b>contraventions</b> be stated;</li> <li>if an <b>order</b> has been passed by <b>Company Law Board or National Company Law Tribunal or RBI</b> or any <b>court</b> or any other <b>tribunal</b>, whether the same has been <b>complied with</b> or not;</li> </ul>												
Q72.	<p>Provision of CARO, 2020 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid up Capital and Reserves &amp; Surplus of ₹ 50 lakhs, Secured loan from bank of ₹ 90 Lakhs and Turnover of ₹ 5 Crore, for the financial year 2023-24. (MTP2, May 2021, 3 Marks)</p> <p>CARO specifically exempts a <b>private limited company, not being a subsidiary or holding company of a public company</b>,</p> <ul style="list-style-type: none"> <li>having a <b>paid up capital</b> and reserves and surplus not more than <b>₹ 1 crore</b> as on the balance sheet date and</li> <li>which does not have total <b>borrowings exceeding ₹ 1 crore</b> from any bank or financial institution at any point of time during the financial year and</li> <li>which does not have a total <b>revenue</b> as disclosed in Schedule III to the Companies Act (including revenue from discontinuing operations) <b>exceeding ₹ 10 crore</b> during the financial year as per the financial statements</li> </ul> <p>It is clear that ABC Pvt. Ltd. is a subsidiary of XYZ Ltd. and hence <b>not exempt</b> from CARO, 2020 although it is satisfying the conditions that allow exemption to private limited company which is not a subsidiary or holding company of a public company</p>												
Q73.	<p>State the matters to be included in auditor's report as per CARO, 2020 regarding "Default in repayment of loan or borrowing to a financial institution, bank etc." (MTP1, May 2022, 3 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>ABC Ltd. is a public company, which has availed various loans and cash credit facilities from Banks and other financial institutions. The company has defaulted in repayments of such borrowings during the year under audit. What are the reporting requirements in this regard under the Companies (Auditor's Report) Order, 2020 ? (SA, May 2023, 4 marks)</p> <p><b>Repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders</b> [Clause (ix) of Para 3 of CARO 2020]</p> <p>a) whether the company has <b>defaulted</b> in <b>repayment of loans</b> or <b>other borrowings</b> or in the <b>payment of interest</b> thereon to any lender, if <b>yes</b>, the <b>period</b> and the <b>amount</b> of default to be reported as per the format below:-</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Nature of borrowing, including debt securities</th> <th style="width: 15%;">Name of lender</th> <th style="width: 15%;">Amount not paid on due date</th> <th style="width: 15%;">Whether principal or interest</th> <th style="width: 15%;">No. of days delay or unpaid</th> <th style="width: 20%;">Remarks, if any</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: center;">lender wise details to be provided in case of defaults to banks, financial institutions and Government.</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>b) whether the company is a declared <b>wilful defaulter</b> by any bank or financial institution or other lender;</p> <p>c) whether <b>term loans</b> were <b>applied</b> for the <b>purpose</b> for which the loans were obtained; if <b>not</b>, the <b>amount</b> of loan so <b>diverted</b> and the <b>purpose</b> for which it is used may be <b>reported</b>;</p> <p>d) whether funds raised on <b>short term basis</b> have been utilized for long term purposes, if yes, the <b>nature</b> and <b>amount</b> to be indicated;</p> <p>e) whether the company has taken any <b>funds</b> from any entity or person on account of or to meet the <b>obligations</b> of its <b>subsidiaries, associates or joint ventures</b>, if so, <b>details</b> thereof with <b>nature</b> of such transactions and the <b>amount</b> in each case;</p> <p>f) whether the company has raised loans during the year on the <b>pledge of securities</b> held in its subsidiaries, joint ventures or associate companies, if so, give <b>details</b> thereof and also <b>report</b> if the company has <b>defaulted</b> in repayment of such loans raised;</p>	Nature of borrowing, including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any		lender wise details to be provided in case of defaults to banks, financial institutions and Government.				
Nature of borrowing, including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any								
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Q74.	<p>D Ltd. is a company engaged in publishing business magazines. CA P is the statutory auditor of the company. The company takes property in the barter deal from its real estate customers against publication of their advertisements. The properties obtained during the year through such barter deals have been considered in the books of accounts on the basis of possession letter only and have been included in PPE in the financial statements. Considering this matter of such importance that is fundamental to the users understanding, CA P has decided to communicate the same in his report. CA P seeks your guidance in reporting this matter in his audit report. <b>(SA, May 2022, 4 marks)</b></p>												
	<p><b>Para 3 (i)(c)</b> of CARO 2020 requires the auditor to report the following:</p> <ul style="list-style-type: none"> <li>whether the title deeds of <b>all</b> the immovable properties (<b>other than</b> properties where the company is the lessee and the lease agreements are duly executed in favour of the <b>lessee</b>) <b>disclosed</b> in the financial statements are held in the <b>name</b> of the company,</li> <li>if not, provide the details thereof in the <b>format</b> below</li> </ul> <table border="1" data-bbox="285 495 1490 709"> <thead> <tr> <th>Description of property</th> <th>Gross carrying value</th> <th>Held in name of</th> <th>Whether promoter, director or their relative or employee</th> <th>Period held— indicate range, where appropriate</th> <th>Reason for not being held in name of company*</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>*also indicate if in dispute</td> </tr> </tbody> </table>	Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held— indicate range, where appropriate	Reason for not being held in name of company*						*also indicate if in dispute
Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held— indicate range, where appropriate	Reason for not being held in name of company*								
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Q75.	<p>Discuss the reporting requirements as per CARO, 2020, regarding:</p> <ol style="list-style-type: none"> <li>Inventory and</li> <li>Deposits accepted by company or amounts which are deemed to be deposits.</li> </ol> <p><b>(MTP2, Nov 2022, 4 Marks)</b></p>												
	<p>Matters to be included as per CARO, 2020:</p> <ol style="list-style-type: none"> <li><b>Inventory [Para 3(ii)]</b> <ol style="list-style-type: none"> <li>whether physical verification of inventory has been <b>conducted</b> at <b>reasonable intervals</b> by the management and whether, in the <b>opinion</b> of the <b>auditor</b>, the <b>coverage</b> and <b>procedure</b> of such verification by the management is appropriate; whether any discrepancies of <b>10% or more</b> in the aggregate for each class of inventory were noticed and if so, whether they have been properly <b>dealt</b> with in the books of account;</li> <li>whether during <b>any</b> point of time of the year, the company has been <b>sanctioned</b> working capital limits in <b>excess of ₹ 5 crore</b>, in <b>aggregate</b>, from banks or financial institutions on the basis of <b>security of current assets</b>; whether the quarterly <b>returns</b> or statements <b>filed</b> by the company with such banks or financial institutions are in <b>agreement</b> with the <b>books</b> of account of the Company, if not, give details;</li> </ol> </li> <li><b>Deposits accepted by company or amounts which are deemed to be deposits [Para 3(v)]</b> <ul style="list-style-type: none"> <li>In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the <b>directives</b> issued by the <b>Reserve Bank of India</b> and the provisions of <b>sections 73 to 76</b> or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been <b>complied</b> with, if <b>not</b>, the <b>nature</b> of such <b>contraventions</b> be stated;</li> <li>if an order has been passed by <b>Company Law Board or National Company Law Tribunal or Reserve Bank of India</b> or any <b>court</b> or any other <b>tribunal</b>, whether the same has been <b>complied</b> with or not;</li> </ul> </li> </ol>												
Q76.	<p>Discuss the reporting requirements regarding statutory dues and Internal Audit as per CARO, 2020. <b>(MTP1, Nov 2022, 4 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Discuss the reporting requirements as per CARO, 2020, regarding:</p> <ol style="list-style-type: none"> <li>disputed and undisputed statutory dues and</li> <li>internal audit system of the company</li> </ol> <p><b>(MTP1, May 2023, 4 marks)</b></p>												
	<p>Matters to be included as per CARO, 2020 :</p> <ol style="list-style-type: none"> <li><b>Statutory dues [Para 3(vii)]</b> <ol style="list-style-type: none"> <li>whether the company is <b>regular</b> in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales -tax, service tax, duty of customs, duty</li> </ol> </li> </ol>												

	<p>of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if <b>not</b>, the <b>extent</b> of the <b>arrears of outstanding</b> statutory dues as on the <b>last day</b> of the <b>financial year</b> concerned for a period of <b>more than six months</b> from the <b>date they became payable</b>, shall be indicated;</p> <p>b) where statutory dues referred to in sub-clause (a) have <b>not</b> been <b>deposited</b> on account of any <b>dispute</b>, then the <b>amounts</b> involved and the <b>forum</b> where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);</p> <p>ii) <b>Internal Audit [Para 3(xiv)]</b></p> <p>a) whether the company has an <b>internal audit system</b> commensurate with the <b>size</b> and <b>nature</b> of its business.</p> <p>b) whether the <b>reports</b> of the <b>Internal Auditors</b> for the period under audit were <b>considered</b> by the statutory auditor;</p>
Q77.	<p>State the matters to be included in the auditor's report as per CARO, 2020 regarding:</p> <p>i) Nidhi Company.</p> <p>ii) Transactions with related parties.</p> <p><b>(RTP, Nov 2023, NA)</b></p> <p><b>i) Nidhi Company</b> As per <b>clause (xii)</b> of CARO, 2020, the following matters are required to be included in the auditor's report relating to Nidhi Company</p> <p>a) whether the <b>Nidhi Company</b> has complied with the <b>Net Owned Funds to Deposits</b> in the ratio of <b>1:20</b> to meet out the liability;</p> <p>b) whether the Nidhi Company is maintaining <b>10% unencumbered term deposits</b> as specified in the Nidhi Rules, 2014 to meet out the liability;</p> <p>c) whether there has been any <b>default</b> in payment of <b>interest</b> on deposits or repayment thereof for any period and if so, the details thereof;</p> <p><b>ii) Transactions with related parties</b> As per <b>clause (xiii)</b> of CARO, 2020, the following matter is required to be included in the auditor's report relating to transactions with the related parties: whether <b>all</b> transactions with the <b>related parties</b> are in compliance with <b>sections 177 and 188</b> of Companies Act where applicable and the details have been <b>disclosed</b> in the financial statements, etc., as required by the applicable <b>accounting standards</b>;</p>
Q78.	<p>G Pvt. Ltd. had fully paid up Capital and Reserves of ₹ 1.20 crore as at the end of F.Y. 2022-2023. During the F.Y 2023-2024, the company incurred losses to the tune of ₹ 25 lacs. During the year, the company also borrowed ₹ 55 lakh each from a bank and a financial institution independently. It had a turnover of Rs 850 lakh (other than revenue of ₹ 250 lakh from discontinuing operations). Ascertain whether CARO, 2020 is applicable to the company (<b>SA, May 2022, 4 marks</b>)</p> <p><b>Applicability of CARO, 2020 in case of Private Ltd. Company:</b> CARO, 2020 shall apply to every company including a foreign company <b>except</b>– a <b>private limited company, not being a subsidiary or holding company of a public company</b>,</p> <ul style="list-style-type: none"> <li>• having a <b>paid-up capital</b> and reserves and surplus not more than <b>₹ 1 crore</b> as on the balance sheet date; and</li> <li>• which does not have total <b>borrowings exceeding ₹ 1 crore</b> from any bank or financial institution at any point of time during the financial year; and</li> <li>• which does not have a total <b>revenue</b> as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) <b>exceeding ₹ 10 crore</b> during the financial year as per the financial statements.</li> </ul> <p>Applying the above to the given case,</p> <ul style="list-style-type: none"> <li>• Paid-up capital and reserves : ₹ 95 Lakh (₹ 120 Lakh - ₹ 25 Lakh)</li> <li>• Borrowings from a Bank and financial institution : ₹ 1.10 Crore (₹ 55 Lakh + ₹ 55 Lakh)</li> <li>• Turnover (including discontinuing operations): ₹ 11 Crore (₹ 850 lakh + ₹ 250 Lakh)</li> </ul> <p>As per Section 2(85) of Companies Act, 2013 read with Companies (Specification of Definitions Details) Rules, 2014, small company means a company, other than a public company:</p> <ul style="list-style-type: none"> <li>• <b>paid-up share capital</b> of which <b>does not exceed ₹ 4 crore</b>; and</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>turnover</b> of which as per its last profit and loss account for the immediately preceding financial year <b>does not exceed ₹ 40 crore.</b></li> </ul> <p><b>Conclusion:</b> CARO is <b>not applicable</b> over the company as it is a small company.</p>
Q79.	<p>AST Pvt. Ltd. has fully paid capital of ₹ 120 lakhs. During the year, the company had borrowed ₹ 20 lakhs each from a bank and a financial institution. It has a turnover of ₹ 525 lakhs during the immediately preceding financial year. Will Companies (Auditor's Report) Order, 2020 be applicable to AST Pvt. Ltd.? <b>(SELF)</b></p> <p><b>Applicability of CARO, 2020:</b> The Companies (Auditor's Report) Order, 2020, <b>exempts a Small Company</b> as defined in Section 2(85) of the Companies Act, 2013. As per Section 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of Definition Details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:</p> <ul style="list-style-type: none"> <li>• <b>paid-up share capital</b> of which <b>does not exceed ₹ 4 crore</b>; and</li> <li>• <b>turnover</b> of which as per its last profit and loss account for the immediately preceding financial year <b>does not exceed ₹ 40 crore.</b></li> </ul> <p>In the present case, both paid-up capital and turnover of the company is within the threshold limits as specified above, hence AST Pvt. Ltd. will be classified as a <b>small company</b>.</p> <p><b>Conclusion:</b> CARO is <b>not applicable</b> over AST Pvt. Ltd. as it is a small company.</p>

## Part II: Correct/Incorrect Questions

Q1.	<p>There is no need of addressee in the Auditor's report. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p><b>Incorrect.</b> The auditor's report shall be addressed, as appropriate, based on the <b>circumstances</b> of the engagement. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for <b>whom the report is prepared</b>, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.</p>
Q2.	<p>The auditor shall express a qualified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p><b>Incorrect.</b> The auditor shall express an <b>unmodified</b> opinion when the auditor concludes that the financial statements are prepared, in all <b>material</b> respects, in accordance with the applicable financial reporting framework.</p>
Q3.	<p>The auditor shall modify the opinion in the auditor's report only when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p><b>Incorrect.</b> The auditor shall modify the opinion in the auditor's report when:</p> <ul style="list-style-type: none"> <li>• The auditor concludes that, based on the audit <b>evidence obtained</b>, the <b>financial statements</b> as a whole are <b>not free</b> from <b>material misstatement</b>; or</li> <li>• The auditor is <b>unable</b> to obtain <b>sufficient appropriate audit evidence</b> to conclude that the <b>financial statements</b> as a whole are <b>free</b> from <b>material misstatement</b></li> </ul>
Q4.	<p>The auditor shall express a disclaimer of opinion 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. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p><b>Incorrect.</b> The auditor shall express an <b>adverse</b> opinion when the auditor, having <b>obtained sufficient appropriate audit evidence</b>, concludes that misstatements, individually or in the aggregate, are <b>both material</b> and <b>pervasive</b> to the financial statements.</p>

Q5.	When the auditor has to express an adverse opinion, he need not communicate with those charged with governance as this may have an impact on payment of his audit fees. <b>(ICAI Study Material - Test Your Knowledge)</b>
	<b>Incorrect.</b> When the auditor expects to <b>modify</b> the opinion in the auditor's report, the auditor shall <b>communicate with those charged with governance</b> the circumstances that led to the expected modification and the wording of the modification.
Q6.	Communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements. <b>(ICAI Study Material - Test Your Knowledge)</b>
	<b>OR</b> The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements. <b>(SA, May 2018, 2 marks) (MTP2, May 2019, 2 marks)</b>
	<b>Incorrect.</b> Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is <b>not a substitute</b> for <b>disclosures</b> in the <b>financial statements</b> that the applicable Financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.
Q7.	Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion. <b>(ICAI Study Material - Test Your Knowledge)</b>
	<b>OR</b> Communicating Key Audit Matters is a substitute for the auditor expressing a modified audit opinion when required by the circumstances of a specific audit engagement in accordance with SA 705. <b>(SA, Jan 2021, 2 marks)</b>
	<b>Incorrect.</b> Communicating key audit matters in the auditor's report is <b>not a substitute</b> for the auditor expressing a <b>modified opinion</b> when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
Q8.	The concept of "joint audit" has legal foothold under the Companies Act, 2013. <b>(ICAI Study Material - Test Your Knowledge)</b>
	<b>Correct.</b> Under provisions of section 139(3), the members of a company may resolve to provide that audit shall be conducted by <b>more than one auditor</b> . Hence, the concept of "joint audit" has a <b>legal foothold</b> also under Companies Act, 2013.
Q9.	The auditor shall express an adverse opinion when: a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive <b>(MTP1, May 2018, 2 marks) (MTP1, Nov 2018, 2 marks) (MTP1, May 2019, 2 marks)</b>
	<b>Incorrect.</b> The auditor shall express a <b>qualified</b> opinion when: a) The auditor, having obtained <b>sufficient appropriate audit evidence</b> , concludes that misstatements, individually or in the aggregate, are <b>material</b> , but <b>not pervasive</b> , to the financial statements; or b) The auditor is <b>unable to obtain sufficient appropriate audit evidence</b> on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be <b>material but not pervasive</b>
Q10.	Other matter paragraph is paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. <b>(MTP1, May 2018, 2 marks) (MTP1, Nov 2018, 2 marks) (MTP2, Nov 2018, 2 Marks) (MTP1, May 2019, 2 marks)</b>
	<b>Incorrect.</b> <b>Emphasis of Matter paragraph</b> is a paragraph included in the auditor's report that refers to a matter appropriately <b>presented</b> or <b>disclosed</b> in the financial statements that, in the auditor's <b>judgment</b> , is of such importance that it is fundamental to <b>users'</b> understanding of the financial statements
Q11.	The auditor shall express a qualified opinion when: a) The auditor concludes that misstatements are material but not pervasive to the financial statements; or b) The auditor is unable to obtain sufficient appropriate audit evidence but the auditor concludes that the possible

	effects on the financial statements of undetected misstatements, if any, could be material but not pervasive " (MTP2, Nov 2018, 2 Marks)
	<p><b>Correct.</b> The auditor shall express a <b>qualified</b> opinion when:</p> <ol style="list-style-type: none"> <li>The auditor, having obtained <b>sufficient appropriate audit evidence</b>, concludes that misstatements, individually or in the aggregate, are <b>material</b>, but <b>not pervasive</b>, to the financial statements; or</li> <li>The auditor is <b>unable to obtain sufficient appropriate audit evidence</b> on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be <b>material but not pervasive</b></li> </ol>
Q12.	An auditor should issue disclaimer of opinion when there is difference of opinion between him and the management on a particular point. (SA, Nov 2018, 2 marks)
	<b>Incorrect.</b> The auditor shall <b>disclaim</b> an opinion when the auditor is <b>unable</b> to obtain <b>sufficient appropriate audit evidence</b> on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be <b>both material and pervasive</b> . In case of difference of opinion, either the auditor will issue a <b>qualified report or adverse report</b> and not disclaimer of opinion.
Q13.	Joint auditor is always bound by the views of majority of the joint auditors regarding matters to be covered in report. (SA, May 2019, 2 marks)
	<b>Incorrect.</b> Where the joint auditors are in <b>disagreement</b> with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a <b>separate audit report</b> . In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s). Therefore, joint auditor is <b>not bound</b> by the views of the majority of the joint auditors regarding the matters to be covered in the audit report.
Q14.	Where the firm is appointed as an auditor of the entity the audit report is signed only in the name of audit firm. (SA, May 2019, 2 marks)
	<b>OR</b>
	Where a firm is appointed as the auditor of a company, the report is signed only in the personal name of the partner signing the report. (SA, Nov 2022, 2 marks)
	<b>Incorrect.</b> Where the firm is appointed as the auditor, the report is signed in the <b>personal name</b> of the <b>auditor and</b> in the <b>name</b> of the <b>audit firm</b> . The partner/proprietor signing the audit report also needs to mention the <b>membership number</b> assigned by ICAI along with <b>registration number</b> for the <b>firm</b>
Q15.	If financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion. (MTP1, Nov 2019, 2 marks)
	<b>Incorrect.</b> As per <b>SA 705</b> "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall express an <b>adverse</b> opinion when the auditor, having <b>obtained sufficient appropriate audit evidence</b> , concludes that misstatements, individually or in the aggregate, are <b>both material and pervasive</b> to the financial statements. However, the auditor shall express <b>qualified</b> opinion when he concludes that misstatement, individually or in aggregate are <b>material but not pervasive</b> .
Q16.	Provision of CARO, 2020 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid up Capital and Reserves & Surplus of ₹ 50 lakhs, Secured loan from bank of ₹ 90 Lakhs and Turnover of ₹ 5 Crore, for the financial year 2023-24. (SA, Nov 2019, 2 Marks)
	<p><b>Incorrect.</b> CARO specifically exempts a <b>private limited company, not being a subsidiary or holding company of a public company</b>,</p> <ul style="list-style-type: none"> <li>having a <b>paid up capital</b> and reserves and surplus not more than <b>₹ 1 crore</b> as on the balance sheet date and</li> <li>which does not have total <b>borrowings exceeding ₹ 1 crore</b> from any bank or financial institution at any point of time during the financial year and</li> <li>which does not have a total <b>revenue</b> as disclosed in Schedule III to the Companies Act (including revenue from discontinuing operations) <b>exceeding ₹ 10 crore</b> during the financial year as per the financial statements</li> </ul> <p>It is clear that ABC Pvt. Ltd. is a subsidiary of XYZ Ltd. and hence <b>not exempt</b> from CARO, 2020 although it is satisfying the conditions that allow exemption to private limited company which is not a subsidiary or holding company of a public</p>

	company
Q17.	An Audit report is an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent. <b>(RTP, May 2020, NA)</b>
	<b>Incorrect.</b> The purpose of an audit is to enhance the degree of confidence of intended <b>users</b> of the financial statements. The aforesaid purpose is achieved by the expression of an independent reporting by the auditor as to whether the financial statements exhibit a <b>true</b> and <b>fair</b> view of the affairs of the entity. Thus, an Audit report is an opinion drawn on the entity's financial statements to make sure that the records are a true and fair representation of the transactions they claim to represent.
Q18.	If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall include an Emphasis of Matter paragraph in the auditor's report. <b>(MTP1, May 2020, 2 marks) (MTP2, May 2021, 2 marks)</b>
	<b>Incorrect.</b> If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705
Q19.	In considering the qualitative aspects of the entity's accounting practices, the auditor may not become aware of possible bias in management's judgments. <b>(RTP, Nov 2020, NA)</b>
	<b>Incorrect.</b> In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated.
Q20.	The auditor has to report under section 143 of companies act, 2013 whether the company has adequate internal controls in place and overall effectiveness of such internal controls. <b>(MTP1, Nov 2020, 2 Marks)</b>
	<b>Incorrect.</b> Under provisions of <b>Section 143</b> of the Companies Act, 2013, the auditor has to report whether the company has adequate <b>internal financial controls</b> with reference to financial statements in place and <b>operating effectiveness</b> of such controls. The auditor has to <b>report</b> on adequacy and effectiveness of <b>internal financial controls only and not internal controls</b> .
Q21.	In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. <b>(RTP, May 2021, NA)</b>
	<b>Correct.</b> In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated.
Q22.	The inclusion of an Emphasis of Matter paragraph in the Auditor's Report affects the auditor's opinion. <b>(MTP1, May 2021, 2 marks) (RTP, Nov 2023, NA)</b>
	<b>Incorrect.</b> When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall Indicate that the auditor's opinion is <b>not modified</b> in respect of the matter emphasized. Such a paragraph shall refer only to information <b>presented</b> or <b>disclosed</b> in the financial statements. The inclusion of an Emphasis of Matter paragraph in the auditor's report <b>does not affect the auditor's opinion</b> .
Q23.	The Location of the description of the auditor's responsibilities for the audit of the financial statements is always within the body of the auditor's report. <b>(SA, July 2021, 2 marks)</b>
	<b>Incorrect.</b> The description of the auditor's responsibilities for the audit of the financial statement shall be always shown as below - <ul style="list-style-type: none"> <li>● Within the <b>body</b> of the auditor's report</li> <li>● Within an <b>appendix</b> to the auditor's report, in which case the auditor's report shall include a <b>reference</b> to the <b>location</b> of the appendix or</li> <li>● By a specific <b>reference within</b> the auditor's <b>report</b> to the <b>location</b> of such a description on a <b>website</b> of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so</li> </ul>

Q24.	<p>Auditor has to disclose the impact, if any, of the pending litigations on the financial position of the auditee in his audit report. <b>(SA, Dec 2021, 2 marks)</b></p> <p><b>Incorrect.</b> Rule 11 of the Companies (Audit and Auditors) Rules, 2014 prescribes the other matters to be included in the auditor's report. The auditor's report shall also include their <b>views</b> and <b>comments</b> on whether the company has disclosed the impact, if any, of <b>pending litigations</b> on its financial position in its financial statement</p>
Q25.	<p>Reporting of fraud of INR 150 Lakhs by auditor will be done within three days of the fraud coming to the knowledge of the auditor to the Board or the Audit Committee along with remedial action taken <b>(SA, Dec 2021, 2 marks)</b></p> <p><b>Incorrect.</b> The auditor shall report the matter to the <b>Board</b> or the <b>Audit Committee</b>, as the case may be, immediately but not later than <b>2 days of his knowledge of the fraud</b>, seeking their reply or observations <b>within 45 days</b>. Company is bound to disclose <b>remedial action</b> taken in Board's report.</p>
Q26.	<p>Communicating key audit matters in the auditor's report is 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 <b>(RTP, May 2022, NA)</b></p> <p><b>Incorrect.</b> Communicating key audit matters in the auditor's report is <b>not a substitute</b> for reporting in accordance with <b>SA 570</b> 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</p>
Q27.	<p>According to Para 3(1)(d) of CARO, 2020, an auditor needs to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 5% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets <b>(RTP, May 2022, NA)</b></p> <p><b>Incorrect.</b> According to Para 3(1)(d) of CARO, 2020, an auditor needs to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if <b>change is 10% or more</b> in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets</p>
Q28.	<p>An auditor has to report on the matters specified in section 143(1) of the Companies Act, 2013. <b>(MTP1, May 2022, 2 marks) (RTP, Nov 2022, NA)</b></p> <p><b>Incorrect.</b> The auditor is <b>not</b> required to report on the matters specified in section 143(1) of the Companies Act, 2013 <b>unless</b> he has any <b>special comments</b> to make on any of the items referred to therein. If he is satisfied as a result of the inquiries, he has no further duty to report that he is so satisfied. However, the auditor should make a report to the members in case he finds answer to any of these matters in <b>adverse</b></p>
Q29.	<p>According to CARO 2020, the company auditor is required to state that whether the title deeds of all immovable properties held in the name of the company are disclosed in its financial statements. <b>(SA, May 2022, 2 Marks)</b></p> <p><b>Incorrect.</b> According to CARO, 2020, the company auditor is required to state whether the title deeds of <b>all</b> the immovable properties (<b>other than</b> properties where the company is the <b>lessee</b> and the lease agreements are duly executed in favour of the lessee) <b>disclosed</b> in the financial statements are held in the <b>name</b> of the company.</p>
Q30.	<p>Mr. T, the director of A Ltd., has purchased an old car belonging to the company against the cooling equipment belonging to the director, which is given to the company as consideration for the car. The auditor is not required to include this in his CARO report <b>(SA, Nov 2022, 2 marks)</b></p> <p><b>Incorrect.</b> As per Para 3(xv) of CARO, 2020, the auditor is required to report whether the company has entered into any <b>non-cash transactions</b> with <b>directors</b> or persons connected with him and if so, whether the provisions of <b>section 192</b> of Companies Act have been complied with.</p>
Q31.	<p>Communicating key audit matters in the auditor's report is a separate opinion on individual matters. <b>(SA, May 2023, 2 marks)</b></p> <p><b>Incorrect.</b> As per <b>SA 701</b>, "Communicating Key Audit Matters in the Independent Auditor's Report", communicating key audit</p>



matters in the auditor's report is **not a separate opinion on individual matters**.

### Part III: Multiple Choice Questions

Q1.	<p>While expressing an unmodified opinion on financial statements, the auditor shall not use which of the following phrases?</p> <p>(a) present fairly in all material respects          (b) give a true and fair view          (c) with the foregoing explanation          (d) All of the above</p> <p><b>(ICAI Study Material - Test Your Knowledge)</b></p>
	<p><b>Correct answer:</b> (c) with the foregoing explanation  <b>Explanation:</b> When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion</p>
Q2.	<p>_____ is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.</p> <p>(a) Emphasis of Matter Paragraph          (b) Other Matter Paragraph          (c) Key Audit Matter          (d) Management Responsibility Paragraph.</p> <p><b>(ICAI Study Material - Test Your Knowledge)</b></p>
	<p><b>Correct answer:</b> (a) Emphasis of Matter Paragraph</p>
Q3.	<p>Statement 1: Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.</p> <p>Statement 2: Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.</p> <p>(a) Only Statement 1 is correct          (b) Only Statement 2 is correct          (c) Both the statements are correct          (d) None of the statement is correct</p> <p><b>(ICAI Study Material - Test Your Knowledge)</b></p>
	<p><b>Correct answer:</b> (d) None of the statement is correct  <b>Explanation:</b></p> <ul style="list-style-type: none"> <li>• S1 is incorrect. Communicating key audit matters in the auditor's report is 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;</li> <li>• S2 is incorrect. Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705</li> </ul>
Q4.	<p>Which of the following is not correct?</p> <p>(a) SA 700 - Forming an Opinion and Reporting on the Financial Statements          (b) SA 701- Key Audit Matters in the Independent Auditor's Report          (c) SA 705- Comparative Information- Corresponding figures and Comparative Financial Statements          (d) SA 706- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</p> <p><b>(ICAI Study Material - Test Your Knowledge)</b></p>
	<p><b>Correct answer:</b> (c) SA 705- Comparative Information- Corresponding figures and Comparative Financial Statements</p>

	<b>Explanation:</b> SA 710 - "Comparative Information- Corresponding figures and Comparative financial statements"
Q5.	<p>Responsibilities of Joint Auditors are governed by:</p> <p>(a) SA 200 (b) SA 229 (c) SA 299 (d) SA 230</p> <p><b>(ICAI Study Material - Test Your Knowledge)</b></p>
	<b>Correct answer:</b> (c) SA 299
Q6.	<p>SA 700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SAs more recognizable. Which of the following is that specific heading :</p> <p>(a) Key audit matters (b) Basis of opinion (c) Date (d) All of the above</p> <p><b>(Sample MCQs) (ICAI MCQs)</b></p>
	<b>Correct answer:</b> (d) All of the above
Q7.	<p>The Opinion section of the auditor's report shall:</p> <p>(a) Identify the entity whose financial statements have been audited; (b) State that the financial statements have been audited; (c) Identify the title of each statement comprising the financial statements; (d) All of the above</p> <p><b>(ICAI MCQs)</b></p>
	<b>Correct answer:</b> (d) All of the above
Q8.	<p>The auditor shall express _____opinion 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.</p> <p>(a) Adverse (b) Qualified (c) Disclaimer (d) None of the above</p> <p><b>(Sample MCQs) (ICAI MCQs)</b></p>
	<b>Correct answer:</b> (a) Adverse
Q9.	<p>Which of the following is not a type of modified opinion:</p> <p>(a) qualified opinion (b) adverse opinion (c) disclaimer of opinion (d) negative opinion</p> <p><b>(ICAI MCQs)</b></p>
	<p><b>Correct answer:</b> (d) negative opinion</p> <p><b>Explanation:</b> There are three types of modified opinions, namely qualified opinion, adverse opinion and a disclaimer of opinion</p>
Q10.	<p>CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has</p>

	<p>concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?</p> <p>(a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>(b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>(c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>(d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p><b>(Sample MCQs) (RTP, May 2019, NA)</b></p>
	<p><b>Correct answer:</b> (a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework</p> <p><b>Explanation:</b> When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.</p>
Q11.	<p>Minnie Ltd., a listed company, appointed CA. Kranny for auditing complete set of consolidated financial statements of the company. CA. Kranny is unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements. Based on the audit evidence obtained, CA. Kranny concludes that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570. State what type of opinion CA. Kranny must have provided in the given scenario?</p> <p>(a) Unmodified opinion.  (b) Qualified opinion.  (c) Adverse opinion.  (d) Disclaimer of opinion.</p> <p><b>(Sample MCQs)</b></p>
	<p><b>Correct answer:</b> (b) Qualified opinion</p> <p><b>Explanation:</b> The auditor shall express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.</p>
Q12.	<p>Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020</p> <p>(a) Clause (xi)  (b) Clause (xii)  (c) Clause (xiii)  (d) Clause (xiv)</p> <p><b>(ICAI MCQs)</b></p>
	<p><b>Correct answer:</b> (a) Clause (xi)</p>
Q13.	<p>Reporting on fraud is to be made by an auditor to Central Government when fraud amount is</p> <p>(a) Exceeding ₹10 lakh  (b) Exceeding ₹50 lakh  (c) Exceeding ₹1 crore</p>

	(d) ₹ 1 crore or above <b>(ICAI MCQs)</b>
	<b>Correct answer:</b> (d) ₹1 crore or above <b>Explanation:</b> <ul style="list-style-type: none"> <li>• Fraud involving an amount of less than ₹ 1 crore - Report to Board/Audit Committee</li> <li>• Fraud involving an amount of ₹ 1 crore or above - Report to Central Government</li> </ul>
Q14.	Reporting on fraud is made by auditor to Central Government in statement in the form (a) ADT – 1 (b) ADT – 2 (c) ADT – 3 (d) ADT - 4 <b>(ICAI MCQs)</b>
	<b>Correct answer:</b> (d) ADT - 4 <b>Explanation:</b> <ul style="list-style-type: none"> <li>• Information to the Registrar by Company for appointment of Auditor - Form ADT 1</li> <li>• Application for removal of auditor(s) from his/their office before expiry of term - Form ADT 2</li> <li>• Notice of Resignation by the Auditor - Form ADT 3</li> </ul>
Q15.	M/s XYZ & Associates is appointed as the new auditors of M/s Bright Ltd. On conducting the audit, the firm found that the accountant has entered fake invoices of credit purchases in the books of accounts aggregated of ₹ 55 Lakhs and cleared all the payments to the fake creditor. The auditor M/s PQR & Associates should report such fraud to : (a) Central Government (b) Reserve Bank of India (c) Board of Directors/Audit Committee (d) Comptroller & Auditor General <b>(ICAI MCQs)</b>
	<b>OR</b>
	M/s PQR & Associates is appointed as the new auditors of M/s Prince Ltd. On conducting the audit, the firm found that the accountant has entered fake invoices of credit purchases in the books of accounts aggregated of ₹ 75 Lakhs and cleared all the payments to the fake creditor. The auditor M/s PQR & Associates should report such fraud to : (a) Central Government (b) Reserve Bank of India (c) Board of Directors/Audit Committee (d) Comptroller & Auditor General <b>(MTP1, Nov 2021, 2 marks)</b>
	<b>Correct answer:</b> (c) Board of Directors/Audit Committee <b>Explanation:</b> In case of a fraud involving an amount less than ₹ 1 crore, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
Q16.	Which of the following is correct : (a) The auditor shall express a qualified opinion 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. (b) The auditor shall express a disclaimer opinion 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. (c) The auditor shall express an adverse opinion 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. (d) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements <b>(MTP1, May 2019, 2 marks)</b>

	<p><b>Correct answer:</b> (c) The auditor shall express an adverse opinion 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.</p>
Q17.	<p>In case of a fraud involving less than ₹ 1 crore, the auditor shall</p> <p>(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.</p> <p>(b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.</p> <p>(c) report the matter to the Board within such time and in such manner as prescribed.</p> <p>(d) 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.</p> <p><b>(MTP1, May 2019, 1 mark)</b></p> <p><b>Correct answer:</b> (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.</p>
Q18.	<p>Which of the following is incorrect :</p> <p>(a) Communicating key audit matters in the auditor's report is 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;</p> <p>(b) Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);</p> <p>(c) Communicating key audit matters in the auditor's report is not 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;</p> <p>(d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);</p> <p><b>(MTP2, May 2019, 2 marks)</b></p> <p><b>Correct answer:</b> (d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised)</p> <p><b>Explanation:</b> Statement 4 is incorrect. Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705.</p>
Q19.	<p>Which of the following is correct :</p> <p>(a) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor need not disclose the substantive reasons for the different opinion.</p> <p>(b) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.</p> <p>(c) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an emphasis of Matter paragraph in accordance with SA 706.</p> <p>(d) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph or emphasis of matter paragraph in accordance with SA 706.</p> <p><b>(MTP2, May 2019, 2 marks)</b></p> <p><b>Correct answer:</b> (b) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706</p>

Q20.	<p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express:</p> <p>(a) a disclaimer opinion  (b) a qualified opinion  (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.  (d) unmodified opinion</p> <p><b>(RTP, Nov 2019, NA) (MTP1, May 2020, 2 marks)</b></p>
<p><b>Correct answer:</b> (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.</p>	
Q21.	<p>An Audit report is :</p> <p>(a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.  (b) an opinion drawn on the entity's books of accounts to make sure that the records are true and fair representation of the transactions they claim to represent.  (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.  (d) an opinion drawn on the entity's books of accounts to make sure that the records are true and correct representation of the transactions they claim to represent</p> <p><b>(MTP1, Nov 2019, 1 Mark)</b></p>
<p><b>Correct answer:</b> (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.</p>	
Q22.	<p>Which of the following is not a Specific Evaluations by the Auditor :</p> <p>(a) The financial statements adequately disclose the significant accounting policies selected and applied;  (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;  (c) The accounting estimates made by management are reasonable;  (d) The sufficient appropriate audit evidence has been obtained;</p> <p><b>(MTP1, Nov 2019, 2 Marks)</b></p>
<p><b>Correct answer:</b> (d) The sufficient appropriate audit evidence has been obtained;</p>	
Q23.	<p>A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue–</p> <p>(a) a qualified opinion  (b) an adverse opinion  (c) a disclaimer of opinion  (d) emphasis of matter paragraph.</p> <p><b>(MTP1, Nov 2019, 1 Mark)</b></p>
<p><b>Correct answer:</b> (a) a qualified opinion</p>	
Q24.	<p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances,</p> <p>(a) the auditor shall express a qualified opinion in accordance with SA 705.  (b) the auditor shall express a disclaimer of opinion in accordance with SA 705.  (c) the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705.  (d) the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.</p> <p><b>(MTP1, Nov 2019, 2 Marks)</b></p>
<p><b>Correct answer:</b> (d) the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705</p>	
Q25.	<p>Which of the following is correct as per section 143(10) of the Companies Act, 2013 :</p>

	<p>(a) IFAC may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.</p> <p>(b) the International Auditing Standards Board may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.</p> <p>(c) the MCA may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.</p> <p>(d) the Central Government may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.</p> <p><b>(MTP1, Nov 2019, 1 Mark)</b></p>
	<p><b>Correct answer:</b> (d) the Central Government may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.</p>
Q26.	<p>Which of the following is not a duty of auditor to report under section 143(1)?</p> <p>(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;</p> <p>(b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;</p> <p>(c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;</p> <p>(d) whether the report on the accounts of any branch office of the company audited under sub-section(8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;</p> <p><b>(MTP1, Nov 2019, 1 Mark)</b></p>
	<p><b>Correct answer:</b> (d) whether the report on the accounts of any branch office of the company audited under sub-section(8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;</p>
Q27.	<p>Which of the following is not an advantage of Joint Audit :</p> <p>(a) Sharing of expertise.</p> <p>(b) General superiority complexes of some auditors.</p> <p>(c) Lower workload.</p> <p>(d) Displacement of the auditor of the company taken over in a take - over often obviated.</p> <p><b>(MTP1, Nov 2019, 1 mark)</b></p>
	<p><b>Correct answer:</b> (b) General superiority complexes of some auditors.</p> <p><b>Explanation:</b> General superiority complexes of some auditors is a disadvantage of Joint Audit.</p>
Q28.	<p>Which of the following is not correct:</p> <p>(a) SA 700- Forming an Opinion and Reporting on Financial Statements</p> <p>(b) SA 705- Modified Opinion</p> <p>(c) SA 701- Communicating Key Audit Matters</p> <p>(d) SA 706-Comparative Information</p> <p><b>(MTP1, Nov 2020, 2 marks)</b></p>
	<p><b>Correct answer:</b> (d) SA 706-Comparative Information</p> <p><b>Explanation:</b> SA 710 "Comparative Information- Corresponding figures and Comparative financial statements"</p>
Q29.	<p>Which of the following is correct, in case of joint audit, where there is disagreement with regard to the opinion or any matters to be covered by the audit report.</p>

	<p>(a) The auditors shall express their opinion in separate audit report.          (b) The audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s).          (c) Both (a) and (b) are correct          (d) The auditor who is having a separate opinion is bound by the opinion of the majority of the auditors and needs to issue a common audit report.  <b>(MTP1, May 2021, 1 mark)</b></p>
	<p><b>Correct answer:</b> (c) Both (a) and (b) are correct  <b>Explanation:</b> Where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report. A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in a separate audit report in case of disagreement. In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s)</p>
Q30.	<p>To jointly audit books of accounts of WZ Limited for the financial year 2023-24 two different firms of Chartered Accountants namely MH and Associates and NR and Associates were appointed. MH and Associates and NR and Associates can together be called as:          (a) Principal Auditors of WZ Limited.          (b) Branch Auditors of WZ Limited.          (c) Individual Auditors of WZ Limited          (d) Joint Auditors of WZ Limited.  <b>(RTP, Nov 2021, NA)</b></p>
	<p><b>Correct answer:</b> (d) Joint Auditors of WZ Limited</p>
Q31.	<p>Which of the following is FALSE regarding UDIN? (Unique document identification number)          (a) It is to be generated on UDIN portal.          (b) Its basic objective is to help ICAI in keeping and maintaining an online registry of different services provided by all of its members.          (c) It has to be generated and stated for each audit report signed by a Chartered Accountant.          (d) It has to be generated and stated for each certificate signed by a Chartered Accountant.  <b>(MTP2, Nov 2022, 1 mark)</b></p>
	<p><b>Correct answer:</b> (b) Its basic objective is to help ICAI in keeping and maintaining an online registry of different services provided by all of its members.  <b>Explanation:</b></p> <ul style="list-style-type: none"> <li>● Basic objective of UDIN is : To curb the malpractices of certification by non-CAs by impersonating themselves as CAs, the ICAI has come out with an innovative concept of UDIN i.e. Unique Document Identification Number which has been implemented in a phased manner. It will secure the certificates/reports/ documents attested/certified by practicing CAs. This will also enable the Regulators/Banks/Third parties to check the authenticity of the certificates/reports/documents.</li> <li>● Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them</li> <li>● An auditor is also required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report.</li> </ul>
Q32.	<p>During the course of audit of a listed company, CA P finds that solar power generating plant capitalized in books for ₹ 5.00 crore during the year does not exist. It became known that only bills were arranged and no assets were actually procured. Besides, financial statements also reflect depreciation of ₹ 1.50 core on above. The bills of capitalized asset were approved by procurement head. The matter was reported to audit committee by CA P. However, no response was received. Considering above, choose the most appropriate option: -          (a) The matter needs to be reported to MCA in ADT-4. It also requires reporting under CARO,2020.          (b) The matter needs to be reported to MCA in ADT-4. It does not require reporting under CARO,2020.          (c) The matter need not be reported to MCA. However, it requires reporting under CARO,2020.          (d) The matter needs neither reporting to MCA nor under CARO,2020  <b>(MTP2, Nov 2022, 1 mark)</b></p>



	<b>Correct answer:</b> (a) The matter needs to be reported to MCA in ADT-4. It also requires reporting under CARO,2020.
Q33.	Which of following is not an element of audit report in accordance with SA 700? (a) Title (b) Addressee (c) Audit strategy (d) Auditor's opinion <b>(MTP2, Nov 2023, 1 mark)</b>
	<b>Correct answer:</b> (c) Audit strategy
Q34.	An auditor disclaims opinion when_____? (a) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be material. (b) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and adverse. (c) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and pervasive. (d) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and perverse. <b>(MTP2, Nov 2023, 1 mark)</b>
	<b>Correct answer:</b> (c) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and pervasive.
Q35.	UDIN (Unique Document Identification Number) is required to be stated by practising Chartered Accountant on: - (a) Each audit report only (b) Each audit report and each certificate (c) Each audit report issued under Companies Act, 2013 only (d) Each audit report issued under Companies Act, 2013 only and each certificate <b>(MTP2, Nov 2023, 1 mark)</b>
	<b>Correct answer:</b> (b) Each audit report and each certificate
Q36.	For which of following company, provisions of CARO,2020 would be applicable? (a) Boost Up Training (OPC) Private Limited (b) RCI Bank Limited (c) PST Industries Limited (d) Moon Insurance Limited <b>(MTP2, Nov 2023, 1 mark)</b>
	<b>Correct answer:</b> (c) PST Industries Limited
	<b>Explanation:</b> Banking company, insurance company and One Person Company are exempt from the applicability of CARO.
Q37.	While reporting under CARO, 2020, it is duty of statutory auditor of company to report: - (a) Fraud of less than ₹ 1 crore committed by officers or employees of company during the year (b) Fraud of ₹ 1 crore or more committed by officers or employees of company during the year (c) Fraud of ₹ 5 crore or more committed by officers or employees of company during the year (d) Any fraud by the company or on the company noticed or reported during the year <b>(MTP2, Nov 2023, 1 mark)</b>
	<b>Correct answer:</b> (d) Any fraud by the company or on the company noticed or reported during the year
	<b>Explanation:</b> Difference between Section 143(12) and CARO reporting <ul style="list-style-type: none"> <li>• If the auditor is not sure whether fraud is being committed or not but due to some transactions, the auditor has the</li> </ul>

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reasons to believe that a fraud is being committed or has been committed by an employee or officer. So, in such a case the auditor needs to report as per section 143(12).

- As per sec 143(12) read with Rule 13, In case of a fraud involving an amount less than ₹ 1 crore, the auditor shall report the matter to Board/audit committee. And, in case of a fraud involving an amount of ₹ 1 crore or above, the auditor shall report the matter to CG.
  - In CARO, the auditor is required to report any fraud by the company or any fraud on the company has been noticed or reported during the year. However, this clause will include only the reported frauds and not suspected fraud.
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