

Chapter 4: Audit Evidence

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Test Your Understanding 1

On perusal of financial statements of a company, auditor of company finds that notes to accounts contain ageing of trade payables in accordance with requirements of Schedule III of Companies Act, 2013. The accountant of company is responsible for ensuring proper ageing of trade payables included in notes to accounts. The auditor wants to verify whether ageing of trade payables made in financial statements is proper or not. Identify what he is trying to do.



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Chapter: 5 Audit of Items of FS

Gathering that transactions and balances reflected in financial statements convey so many things, both stated and understood, he found such a framework quite logical. In this context, requirements of applicable financial reporting framework become too important to be taken lightly. Schedule III of Companies Act, 2013 came to his mind instantaneously in context of their talks pertaining to a manufacturing company.



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	If the Company has made any buyback of securities, ensure compliance of specific requirements as given under section 68 of Companies Act 2013.
Required DISCLOSURE for equity have been appropriately made	Ensure whether the following disclosure requirements of Schedule III (Part I) to Companies Act, 2013 have been complied with:



	If the Company has made any buy of securities, ensure compliance of specific requirements as given under section 68 of the Companies Act 2013.
Required DISCLOSURE for equity have been appropriately made	Ensure whether the following disclosure requirements of Schedule III (Part I) to the Companies Act, 2013 have been complied with:

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Important Note:
Students are advised to refer Accounting Study Material (Paper-1) & 5 both wherever reference to Accounting Standards is given and also to Corporate and Other Law Study Material (Paper-2) wherever reference to Sections of Companies Act, 2013 is given.



Important Note:
Students are advised to refer **Advanced** Accounting Study Material (Paper-1) wherever reference to Accounting Standards is given and also to Corporate and Other Laws Study Material (Paper-2) wherever reference to Sections of the Companies Act, 2013 is given.

Page No: 5.118

Chapter 8: Audit Report

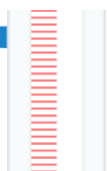
AUDIT REPORT

8.31

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2020 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure a statement on matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

[For detailed discussion on CARO 2020, refer Chapter 10, The Company Audit]



AUDIT REPORT

8.31

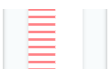
Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2020 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

As required by Section 143(3) of the Act, we report that:

Page No: 8.31 Deletion

[Note: Student may refer SA 299 (revised) "Joint Audit of Financial Statements" reproduced in "Auditing Pronouncements" for comprehensive knowledge.]



[Note: Student may refer SA 299 (revised) "Joint Audit of Financial Statements" for comprehensive knowledge.]

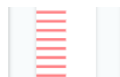
Page No: 8.68 Deletion: reproduced in "Auditing Pronouncements"

Removed Notes Section – at the end of chapter

Chapter 9: Special features of Audit of different type of entities

Answers to Questions involving study

1. c 2. d 3. a 4. c 5. **B**



Answers to Questions involving study

1. c 2. d 3. a 4. c 5. **b**

Page No: 9.82: Replaced option

ANSWERS / SOLUTIONS

Answers to the MCQs based tions

1. d 2. b 3. b 4. **b** 5. c



ANSWERS / SOLUTIONS

Answers to the MCQs ba questions

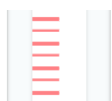
1. d 2. b 3. b 4. **d** 5. c

Page No: 9.88: Replaced option

Removed Notes Section – at the end of chapter

Chapter 10: Audit of Banks

(ii) If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrower's accounts, the existence of security should be ignored and the asset should be straight-away classified as **loss asset**. It may be either written off or fully provided for by the bank.



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Page No: 10.32: Replaced

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Chapter 11: Ethics and Engagements

the threats to an acceptable level. All such safeguards measures need to be recorded in a form that can serve as evidence of compliance with due process.

- If the auditor is unable to fully implement credible and adequate safeguards



Note: For more details on threats and safeguards, refer to additional material on BoS Knowledge portal.

Page No: 11.12: Inserted: “Note: For more details on threats and safeguards, refer to additional material on BoS Knowledge portal.”

Inserted New Content after Page Number 11.44: Case Scenarios

Case Scenario

Case Scenario 1

M/s Vishwacharya and Associates, a CA firm based in Orissa, is appointed as an auditor of CBF Bank for the financial year 2023-24. During the course of audit, it came to notice that CBF Bank has sanctioned an overdraft facility of ₹75 lakh to Times Ltd. However, as per the stock statement furnished for the last quarter, the drawing power was calculated to be ₹50 lakh. It was observed that few advances were guaranteed by the:

- Central Government as part of ‘Make in India’ initiative. However, the guarantee was not invoked, and the advances were overdue by 95 days. These advances were classified as standard assets and were regarded as NPA for income recognition purpose.

- ii. State Government as part of 'Power Generation' initiative. However, the guarantee was not invoked, and the advances were overdue by 80 days. These advances were also classified as standard assets and were regarded as NPA for income recognition purpose.

Additionally, XYZ Ltd., is a borrower availing cash credit facility of ₹110 Lakh against security of paid stocks and debtors up to 90 days. Margin stipulated was 25% of stock and 40% for debtors. Bank has calculated drawing power based on following information provided by XYZ Ltd.

Particulars	(₹) Amount
Value of Stocks (as on 31.12.2023)	130 Lakh
Value of Debtors (as on 31.12.2023)	75 Lakh
Value of stocks (Fully damaged and included in (i) above)	7 Lakh
Value of Debtors (exceeding 90 days included in (ii) above)	10 Lakh
Value of creditors for goods	60 Lakh

Also, the outstanding balance in one of the Loan accounts was ₹25 Lakh and the realisable value of the security as assessed by the bank / approved valuers was ₹2.25 Lakh. Bank identified the same as erosion in the value of security. It was classified as doubtful category and provision was made for the doubtful assets. A discussion also took place among the team members regarding issuance of the audit reports after completion of the bank audit and annexure to the same such as Long Form Audit Report, Report on compliance with SLR Requirements, Report on Treasury Operations – as per RBI guidelines, Report on compliance as per Ghosh committee recommendations and Report on adverse credit - lending ratio in the rural areas, etc.

Based on the above, answer the following: -

- With respect to the overdraft facility sanctioned to Times Ltd., the account would be termed as out of order if:
 - The outstanding balance remains continuously in excess of ₹75 Lakh.
 - The outstanding balance remains continuously in excess of ₹50 Lakh.
 - The outstanding balance in the account is less than ₹75 Lakh but there are no credits or payments deposited into the account continuously for 90 days as on balance sheet date
 - The outstanding balance is less than ₹50 Lakh.

Choose the correct option from below:

- (i), (ii) and (iii)
- (i), (iii) and (iv)
- (ii), (iii) and (iv)
- (iii) and (iv)

2. Which of recognition is correct the treatment by the bank on the provisioning and income in case of bank guarantee given by the Central Government and State Government?
- a) Both (i) and (ii) are correct
 - b) Only (ii) is correct
 - c) Only (i) is correct**
 - d) Both (i) and (ii) are incorrect.
3. In the given case drawing power of the borrower XYZ Limited should be:
- a) ₹86.25 Lakh**
 - b) ₹76.35 Lakh
 - c) ₹96.25 Lakh
 - d) ₹85.45 Lakh
4. The Bank has identified an erosion in the value of security and made provision for doubtful assets. Whether the treatment by bank for the doubtful asset is correct?
- a) Yes. The security should be classified under doubtful category. It may be either written off or fully provided by the bank.
 - b) No. The existence of such security should be ignored, and the asset should straight away be classified as loss asset. It may be either written off or fully provided by the bank.**
 - c) Yes. The security should be classified under doubtful category and provisioning should be made as applicable for doubtful assets.
 - d) No. The existence of the security should be ignored, and the asset should straight away be classified as loss asset. Provisioning should be made for doubtful assets.
5. The Statutory Central Auditors of a bank must furnish, in addition to the main audit report, various other audit reports. From the options, choose the audit reports that M/s Vishwacharya and Associates shall furnish.
- (i) Long Form Audit Report**
 - (ii) Report on compliance with SLR Requirements**
 - (iii) Report on Treasury Operations – as per RBI guidelines**
 - (iv) Report on compliance as per Ghosh committee recommendations**
 - (v) Report on adverse credit - lending ratio in the rural areas.**

Choose the correct answer:

- a) (i), (ii), (iii), (iv) and (v)
- b) Only (i), (ii), (iii) and (iv)**
- c) Only (i), (ii) and (iii)
- d) Only (i), (ii) and (v)

Pluto Limited is engaged in the manufacturing and distribution of furniture. After Covid, as the number of people working from home has gone up, this customisable range home office furniture has gained lot of importance. They were able to perform very well over the years and the same has been reflected in their financial statements.

During the year 2023-24, M/s Saha and Associates was reappointed as the auditor. The new engagement team has CA Saha (partner) and five article assistants. Given the large volume of transactions, the partner instructed the article assistants to review the financial statements and auditor's report from the previous year, 2022-23, to gain a thorough understanding.

While reviewing the summary page, one of the article Kabir noticed that few points were under discussion with the partner before finalising the audit:

The team verified the following points with respect to employee benefit expenses:

- The employee benefit expenses recorded in the books were actually incurred during the relevant period.
- The expenses in respect of all personnel have been accounted for.
- The expenses recognised during the period are pertaining to the current accounting period.

It was also noted that dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023 and was recognised as liability in the year 2022-23.

Another article Krish noticed that debtors constitute a major component of the company's financial statements. As part of audit procedure, the auditor requested the client to obtain external confirmations from the parties. For this, a list of all the debtors were obtained and a random sampling was performed by the auditor. The client directly obtained the selected debtor confirmations from the customers on time.

Krish also observed addition in the assets amounting ₹ 50 lakhs during the year supported by sufficient audit evidence. However, upon scrutiny, it was found that some of the invoices were not in the name of the company. Further, Cash and cash equivalents were classified as balances with banks, cheques and drafts on hand, cash on hand and earmarked balances with banks (e.g. unpaid dividend).

Based on above, answer the following questions: -

1. Which among the following assertions are discussed with respect to the employee benefit expenses?
 - (i) Measurement
 - (ii) Occurrence
 - (iii) Cutoff
 - (iv) Completeness

Choose the correct combination from below:

- a) (i), (ii) and (iv)

- b) (ii), (iii) and (iv)
- c) (i), (iii) and (iv)**
- d) (i), (ii) and (iii)

3. Which assertion has been affected in the case of fixed assets?

- a) Existence
- b) Rights and obligation**
- c) Completeness
- d) Measurement

4. Cash and cash equivalents were not properly classified by the client. Which of the following is incorrect disclosure of the same?

- a) Balances with banks
- b) Cheques and drafts on hand
- c) Cash on hand
- d) Earmarked balances with banks (e.g.: unpaid dividend)**

Case Scenario 3

Priority Limited is a large company engaged in manufacturing of terry towels

making steady profits on a year-to-year basis. PMR & Associates, statutory auditors of the company since last two years, are in process of establishing audit strategy for conducting statutory audit under the Companies Act, 2013 for year 2023-24.

The company has 5 branches which are audited by independent auditors appointed under the Companies Act, 2013. It also has a wholly owned subsidiary company which is audited by another audit firm under name of JKL & Associates. The engagement team has noticed that company has maintained several bank accounts and there is substantial movement in fixed deposits during the year leading to risk of misstatement in cash and cash equivalents. The engagement team has planned procedures regarding the same.

- i. At the planning stage, engagement partner is also trying to set materiality for financial statements as a whole. The following information extracted from financial statements is given as under: -

Particulars	(Amount in ₹ crores)
Revenue	100
Total Assets	40
Profit before Tax	8
Total Liabilities (excluding Equity)	30

- ii. While designing a sample for verifying revenues of company as part of tests of details, engagement partner has determined “tolerable misstatement” for ₹5.00 Lakh in order to address the risk that aggregate of individual immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible undetected misstatements. One of the newly joined engagement team members has little

conceptual understanding of “tolerable misstatement” determined by engagement partner. He also has no idea of the effect of change in tolerable misstatement on sample size.

- iii. During course of audit, while performing tests of details, engagement team has come across certain misstatements in selected sample pertaining to verification of revenues. The team has projected misstatements to population of revenues. The team wants to comply with the Standards on Auditing strictly.

Based on the above, answer the following: -

1. The auditors of the company are in the process of establishing an audit strategy. Which of the following is not a relevant factor in establishing overall audit strategy in the given case scenario?
 - a) Consideration of 5 branches which are audited by independent auditors
 - b) Consideration of wholly owned subsidiary company audited by another audit firm
 - c) Expected time of holding AGM in accordance with provisions of the Companies Act, 2013
 - d) Nature, timing and extent of planned procedures for cash and cash equivalents**
2. For Priority limited, which benchmark would the engagement partner most likely to use for setting materiality for the financial statements as a whole?
 - a) A percentage of Revenue
 - b) A percentage of Total assets
 - c) A percentage of Profit before tax**
 - d) A percentage of Total liabilities (excluding equity)
3. In the given case scenario, assume that the engagement partner has decided to increase tolerable misstatement to ₹10.00 Lakh while designing sample described. Select the correct statement.
 - a) It would lead to decrease in sample size.**
 - b) It would lead to an increase in sample size.
 - c) It would have no effect on sample size.
 - d) It is not possible to draw inference on sample size due to increase in tolerable misstatement.
4. While performing procedures on designed sample, the engagement team identified certain misstatements in selected sample and projected these to the entire population of revenues. According to the requirements of the Standards on Auditing, which statement is correct in this regard?
 - a) Anomalous misstatement is auditor’s best estimate of misstatement in population.

- b) **The projected misstatement plus anomalous misstatement, if any, is best estimate of misstatement in population.**
- c) When projected misstatement exceeds tolerable misstatement, sample provides a reasonable basis for conclusion about tested population.
- d) When projected misstatement plus anomalous statement, if any, exceeds tolerable misstatement, sample provides a reasonable basis for conclusion about tested population.

Case Scenario 4

Bandhu Charitable Trust is considering the appointment of MNO & Associates, Chartered Accountants, as independent auditors of its financial statements. The Trust is engaged in providing affordable healthcare services. It is in interest of both auditor and client to issue an engagement letter so that the possibility of misunderstanding is reduced to a great extent. It is, therefore, important that each party should be clear about the nature of engagement. It should exactly specify the scope of the work. Such an “engagement letter” is exchanged between Trust management and auditors.

While performing audit procedures, it is noticed by auditors that bills of two vehicles are not in name of Trust but in name of trustees. However, payment of these vehicles was made from bank account of Trust. The said vehicles are used for activities of Trust.

It is also noticed that the sum of ₹50.00 Lakh is reflected in Trust’s financial statements in name of Gamma Instrument and Equipment in schedule of creditors. The said amount is outstanding since two years. The auditors sent confirmation request to the said supplier and seek management’s co-operation in this regard. However, management of the Trust informs the auditor regarding certain dispute going on with the supplier of equipment due to some quality issues. It is further informed that dispute is near settlement and it would not be proper to send confirmation request as it can affect negotiation process.

Based on the above, answer the following : -

1. As regards exchange of engagement letter between Trust management and auditors is concerned, which of the following statements is likely to be true?
 - a) **Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to the expected form and content of report to be issued by them and a statement that there may be circumstances in which such report may differ from its expected form and content.**
 - b) Engagement letter is sent by Bandhu Charitable Trust to MNO & Associates. It includes reference to the expected form and content of report to be issued by auditors. However, it does not include a statement that such report may differ from its expected form and content.
 - c) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to expected form and content of report to be issued by them. However, it

does not include a statement that such a report may differ from its expected form and content.

- d) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It does not include reference to the expected form and content of report to be issued by them.

2. Considering the issues related to vehicles as described in the case study, identify the most appropriate statement.

- a) Auditors have identified misstatement concerning “Existence” assertion made by Trust management.
- b) Auditors have identified misstatement concerning Obligations” assertion made by Trust management.**
- c) Auditors have identified misstatement concerning “Accuracy” assertion made by Trust management.
- d) Auditors have identified misstatement concerning “Completeness” assertion made by Trust management.

3. What course of action should the auditor take regarding the amount payable to the equipment supplier when management has communicated that sending a confirmation request could negatively impact the negotiation process?

- a) The auditor should issue adverse opinion in auditor’s report.
- b) The auditor should seek audit evidence as to the validity and reasonableness of the reasons for refusal and perform alternative audit procedures.**
- c) The auditor should withdraw from engagement as Trust management’s refusal is a limitation on scope of independent audit.
- d) The auditor should disclaim opinion in auditor’s report.

Case Scenario 5

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

The company has substantial number of computers at each center to enable

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

The revenue of the company during the year 2023-24 was ₹50 crores (₹45 crores from fees charged from students and ₹5 crores from sale of books). Besides, company has also

received ₹10 lacs as interest on certain investments during the year. The company has a history of profitable operations.

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

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

Based on above, answer the following questions:

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

- c) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as intangible asset.
- d) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as revenue expenditure.
3. As regards discrepancies noticed in computer systems on physical verification by management as described in case scenario, which of the following statements is most appropriate?
- a) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it may result in modification of auditor's opinion.
- b) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it entails specific reporting requirement for auditor under the Companies Act, 2013.**
- c) The management has properly dealt with such discrepancies. Therefore, Dhanush should not do anything further.
- d) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it is in nature of misstatement which needs to be communicated and documented by auditor.
4. Which of the following statements meets requirements of law in respect of revenue from operations of the company?
- a) Revenue from operations of ₹50 crores should be shown in Statement of Profit and loss.
- b) Revenue from operations of ₹50.10 crores should be shown in Statement of Profit and loss. However, revenue from sale of books, fees charged from students and interest on investments should be disclosed separately in notes.
- c) Revenue from operations of ₹50.10 crores should be shown in Statement of Profit and loss.
- d) Revenue from operations of ₹50 crores should be shown in Statement of Profit and loss. However, revenue from sale of books and fees charged from students should be disclosed separately in notes.**
5. The company has taken useful life of desktops to be 3 years. Such a requirement is _____
- a) prescribed under Schedule III to the Companies Act, 2013. However, a company can choose a useful life different from what is prescribed under Schedule III.
- b) is not prescribed under the Companies Act, 2013. It depends upon manufacturing specifications of desktops.
- c) prescribed under Schedule II to the Companies Act, 2013. However, a company can choose a useful life different from what is prescribed under Schedule II.**

- d) is not prescribed under the Companies Act, 2013. It needs to be arrived at mandatorily by a management expert.

Case Scenario 6

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

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

in respect of financial statements of auditee branches like verification of PPE items, inventories, trade receivables, cash, bank balances and trade payables at auditee branches and maintained documentation of the same.

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

Table 1

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

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

Based on above, answer the following questions:

- As regards audit of a branch of CDL Limited as referred to in case scenario is concerned, which of the following statements is most appropriate?
 - The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013. In case branch**

accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to company's auditor.

- b) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to members of company.
- c) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to company's auditor.
- d) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to members of company.

2. After reading methodology for carrying out branch audits by Mr. D, which of the following statements is likely to be most appropriate?

- a) Separate determination of materiality and identifying & assessing risk of material misstatement is not required in respect of each of the branches. He is required to perform only substantive procedures as described in the case scenario in respect of auditee branches and maintain documentation of the same.
- b) Separate determination of materiality and identifying & assessing risk of material misstatement is required in respect of each of branches. However, documentation for these matters regarding branches is not required. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.
- c) Separate determination of materiality and identifying & assessing risk of material misstatement is required along with documentation thereof in respect of each of branches. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.**
- d) Identifying & assessing risk of material misstatement is required along with documentation in respect of each of branches. However, materiality is required to be arrived at for financial statements of company as a whole. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.

3. Choose the correct statement regarding results of analytical procedures performed by Mr. D summarized in Table 1 in case scenario.

- a) During the year 2023-24, inventories of Branch I have moved faster in comparison to Branch II.**

- b) During the year 2023-24, inventories of Branch II have moved faster in comparison to Branch I.
- c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 2023-24 as compared to previous years.
- d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years.
4. Considering the contents of email sent by company's auditor to Mr. D, which of the following statements is likely to be in accordance with Standards on Auditing?
- a) **Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements and ask him to provide representation as to compliance with them.**
- b) Company's auditor can advise Mr. D certain significant accounting, auditing and reporting requirements. However, asking him to provide representation as to compliance with them is breach of Mr. D's independence.
- c) Company's auditor cannot advise Mr. D certain significant accounting, auditing and reporting requirements. It is breach of Mr. D's independence.
- d) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements only when Mr. D makes such a request.

Case Scenario 7

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

The engagement partner has asked him to prepare a summary of non-funded credit facilities outstanding as on balance sheet date. The following information is appearing in branch's CBS data/records as on 31st March, 2024:

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

On going through listing of housing loans to public, CA B notices that branch has sanctioned many housing loans of small ticket size ranging between ₹10.00 to ₹20 lakhs. Therefore, he has

assessed the risk of material misstatements to be high. As a consequence, he has designed procedures to perform tests of controls as well as substantive tests.

Saurabh has been further asked to go through SMA (Special Mention Accounts) jotting as on 30th November, 2023.

Such reports are available from the system monthly frequency. Being new to such type of assignment, he is unable to understand relevance of above audit procedure mandated by engagement partner.

Based on above, answer the following questions:

1. Considering table given in the case scenario, which of the following combinations is appropriate example of non-funded credit facilities provided by branch to its customers?
 - a) Bills purchased and discounted; bills for collection
 - b) Bills for collection; staff housing loans; letters of credit issued
 - c) Bills purchased and discounted; letters of credit issued; guarantees issued (fully secured by 100% margin)
 - d) **Letters of credit issued, guarantees issued (fully secured by 100% margin)**
2. CA B's decision to perform both tests of controls as well as substantive tests was taken after he had assessed the risk of material misstatement in financial statements to be high due to large number of small ticket size loans. Which Standard on Auditing deals with auditor's responsibility to design such tests?
 - a) SA 500
 - b) **SA 330**
 - c) SA 300
 - d) SA 315
3. Saurabh is unable to understand relevance of going through SMA jotting as on 30th November, 2023. Which of the following statements is most appropriate in this context?
 - a) It would necessarily help the auditor in identifying accounts with significant lending exposure.
 - b) It would help the auditor in identifying accounts which may involve downgrading from Sub-standard asset category to doubtful category.
 - c) It would help the auditor in identifying accounts where substantial recoveries have been received during the year.
 - d) **It would help the auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.**

Case Scenario 8

Watch IT India Private Limited is a company engaged in business of manufacturing smart watches. The company had a slow start in the beginning as the company's products were gaining traction with customers. However, momentum has picked up during the year. The company

wants to appoint M/s Tripathi & Associates, a CA firm, as their auditor for year 2023-24 by replacing their existing auditors M/s Sreepath and Co. M/s Tripathi & Associates are willing to accept the engagement. They communicated with previous auditors before accepting the engagement. However, M/s Sreepath and Co. have failed to respond.

CA Kishan, partner of M/s Tripathi & Associates explained to his team members about the importance of Engagement letter. He also arranged a team discussion on matters relating to acceptance of terms of engagement.

The first point of consideration was concerning preconditions for an audit. Mr. Arun, a team member, could recollect a few of them. Those included determining whether financial reporting framework used in the preparation of financial statement is acceptable, management providing auditor with access to all relevant information and additional information upon auditor's request.

It was further elaborated by Arun that management must provide unrestricted access to employees within entity as may be required by auditor for obtaining audit evidence. Team members were asked to list factors that may necessitate revision of Engagement letter in case of recurring audits. Mr. Kumar, another team member replied that revision may be required in cases involving significant change in ownership, recent changes in senior management, change in financial reporting framework adopted in preparation of financial Statements, modest change in nature or size of the entity's business, change in legal and regulatory requirements etc.

Mr. Ram, one of the team members, raised a doubt. He enquired regarding recourse available to incoming auditor in case management makes it clear before acceptance of engagement by auditor regarding its inability in providing support to him in respect of certain procedures expected to be performed during course of audit. In this respect, specific question was raised relating to sending of confirmation requests to material trade payables reflecting in financial statements of a company. Trade payables pertain to material input and input services acquired and utilised by company during the year. Lack of support by management in such a case would, in effect, signify management's refusal to allow auditor to send confirmation requests at the outset before engagement is accepted by auditor.

Based on above, answer the following questions:

1. As regards the doubt of Mr. Ram described in the last para of case scenario, which of the following statements is likely to be in accordance with Standards on Auditing?
 - a) The auditor needs to inquire into management's reasons for the refusal and perform alternative audit procedures to obtain relevant and reliable audit evidence.
 - b) The auditor needs to evaluate implications of management's refusal on auditor's assessment of risk of material misstatement and perform alternative audit procedures to obtain relevant and reliable audit evidence.
 - c) **The auditor should not accept such an engagement.**

- d) The auditor needs to evaluate implications of management's refusal on risk of fraud and perform alternative audit procedures to obtain relevant and reliable audit evidence.

2. When CA Kishan, the partner, asked about preconditions for an audit, Mr. Arun could recollect only few of them. Read the passage and find out which among the following points were missed.

- (i) Obtaining management responsibility on specific legal aspects governing the organisation.
- (ii) Obtaining management on specific legal aspects responsibility on Standards on Auditing applicable to the organisation.
- (iii) Obtaining management responsibility for the preparation of financial statements as per applicable financial reporting framework.
- (iv) Obtaining management responsibility on necessary Internal controls to enable preparation of financial statements which are free from material misstatement whether due to error or fraud.

Choose the correct answer from below options.

- a) (i), (ii) and (iii)
 - b) (ii), (iii) and (iv)
 - c) (iii) and (iv)**
 - d) (i) and (iv)
3. From what Mr. Kumar replied about the factors requiring a revision of Engagement letter one point was incorrect. Read the passage and find that incorrect factor.
- a) A significant change in ownership
 - b) A recent change in management
 - c) A change in financial reporting framework adopted in preparation of Financial Statements
 - d) A modest change in nature or size of the entity's business**
4. M/s Sreepath & Co. have failed to respond to incoming auditors. In this regard, choose the most appropriate option: -
- a) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of objectivity governing professional ethics.
 - b) It was ethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It does not involve violation of any of fundamental principles governing professional ethics.
 - c) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of Professional competence and due care governing professional ethics.

- d) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of professional behaviour governing professional ethics.**

Case Scenario 9

In accordance with the requirements of Standards on Auditing, CA Tina (a freshly qualified professional) wants to obtain sufficient appropriate audit evidence in an audit engagement pertaining to financial statements of a partnership firm for the year 2023-24. The firm trades in FMCG goods. Appointed in May, 2024, she needs evidence to obtain information for arriving at her judgment. Clearly remembering fundamentals that an auditor must obtain sufficient appropriate audit evidence to draw reasonable conclusions on financial statements, she proceeded in accordance with audit plan prepared by her.

During the year 2023-24, the firm was maintaining a current account with a branch of a public sector bank. Her audit plan had included procedure of confirming balance of current account directly from bank. As at 28th March, 2024, the firm had an urgent need to pay its utility bill amounting to ₹1.00 lacs. However, due to insufficiency of funds, it had requested branch manager to get cheque drawn on utility company cleared. Therefore, balance in current account of firm in books of bank branch stood at ₹0.92 lacs (Debit). The firm had also issued cheques in evening of 31st March, 2024 in anticipation of funds on next working day i.e. 3rd April, 2024. It had also certain cheques dated 27th March, 2024 from its debtors lying with it which were deposited in afternoon of 31st March, 2024 in bank branch at request of debtors.

Her plan also included performance of certain procedures pertaining to verification of inventories. Inventories of FMCG goods were material to financial statements. Her assistant, Tisha, had her own notion about understanding sufficient appropriate audit evidence.

She further feels that when audit evidence is obtained from

available records of an entity, it is known as internal evidence like purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law. She is also of the view that audit evidence obtained by auditor is final and conclusive.

Based upon above, answer the following questions: -

1. As regards matter of balance in current account and related issues is concerned, which of the following statements is likely to be most appropriate?
 - a) Amount of ₹0.92 lac is required to be classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence.
 - b) Amount of ₹0.92 lac is required to be classified under cash & bank balances in financial statements of firm. The procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence.

- c) Amount of ₹0.92 lac is required to be classified under current liabilities in financial statements of firm. The procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence.
- d) Amount of ₹0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence.**
2. Considering matter of verification of inventories, which of the following statements is based on facts described in the situation and also in essence of Standards on Auditing?
- a) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of the year 2023-24 and subsequent period. Such evidence may constitute sufficient appropriate audit evidence.**
- b) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2023-24 and subsequent period. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence.
- c) She should verify purchase invoices of inventory items lying in stocks as at year end. Stock records are not required to be verified. Such evidence is likely to constitute sufficient appropriate audit evidence.
- d) She should verify purchase invoices of inventory items lying in stocks as at year end. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence.
3. Identify correct statement on the basis of description provided in case scenario: -
- a) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are all examples of internal evidence. Audit evidence obtained by auditor is final and conclusive.
- b) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are all examples of internal evidence. Audit evidence obtained by auditor is persuasive.
- c) Only debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are examples of internal evidence. Audit evidence obtained by auditor is persuasive.**
- d) Only debit notes issued by firm on debtors for GST short charged earlier during the year is an example of internal evidence. Audit evidence obtained by auditor is persuasive.