

**For CA FINAL
PAPER 3**

**ADVANCE AUDITING
AND
PROFESSIONAL ETHICS**

**VOLUME – II
(MCQ'S QUESTIONS)**

Edition – 2

**CA CS Amit Tated
FCA, CS, DISA**



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FINAL AUDIT – MCQ QUESTIONS WITH ANSWERS

SEPTEMBER 2025

1. PP Ltd. wants to make disclosure on its performance against the various principles of the National Guidelines on Responsible Business Conduct" to meet reporting requirements on ESG parameters called Business Responsibility & Sustainable Reporting (BRSR) and for this purpose, they requested their statutory auditor CA BH & Associates to provide advisory services on BRSR study to be prepared by the company. Accordingly the audit firm agreed to be the "Assurance provider of BRSR core" for PP Ltd. while making disclosure on the performance against the various principles of BRSR, CA BH & Associates have adopted following methodology to provide assurance on BRSR for PP Ltd.

- (a) Preliminary Review of ESG report, parameters.
- (b) On-site Assessment/verification of ESG Report.
- (c) Issuance of Assessment Report and Assessment Statement.
- (d) Review of the responses and clarifications on the findings.
- (e) Deliberations of findings of the off-site assessment and overlooking of documents.
- (f) Recommendation of Assessment/verification report including interim result of Assessment/Reverification.

From the above methodology adopted which are correct?

- (A) (b), (c) & (f)
- (B) (a), (b) & (e)
- (C) (a), (b), (c) & (d)
- (d) (a), (b), (e) & (f)

2. M/s. CP and Associates are appointed as the Peer Reviewer of M/s. RS and Co., Chartered Accountants. On going through the Profit and Loss account of the firm, it was observed that in following assignments they had charged fees which were contingent upon the findings or results of such work. In which of the below assignments undertaken, M/s. RS and Co. have violated the provisions of Regulation 192? (02)

(A) In case of assignment as auditor of a co-operative society, the fees are charged on the percentage of the paid-up capital.

(B) In case of assignment as a liquidator, fees are charged on a percentage of the realization of the assets.

(C) In case of assignment for appearing before the Income Tax Appellate Tribunal on behalf of an audit client, the fees are charged based on the reduction in the demand note issued by the Income Tax Department.

(D) In case of assignment of cost optimization, the fees are charged on a percentage of the benefit derived.

3. CA X is the engagement partner of Good Work Ltd. since last 5 years. Since he is familiar with the working of the company, they have approached CA X to perform various other assignments for them. Which assignment out of the below can be accepted by CA X as per the recent decisions of the Ethical Standards Board? (02)

(A) To act as Authorized Representative for their foreign customer.

(B) To prepare compilation of financial information.

(C) To represent the company as Trademark Attorney.

(D) To act as a non-executive director in its Joint Venture company.

ANSWERS:

1. (C) 2. (C) 3. (A)

INTEGRATED CASE SCENARIO 1

A Ltd., is a top 1000 listed company engaged in manufacturing of edible oils having its registered office at Mumbai and its branches all over India. M/s HG & Co., Chartered Accountants, have been appointed as the statutory auditors of A Ltd. for the financial year 2024 - 25. CA H is the engagement partner for this assignment. The company's net worth is ₹ 500 crores, annual turnover is ₹ 1000 crores and net profit is on 5 crores during immediately preceding financial year 2023-24. During the course of audit, CA H made the following major observations:

- A Ltd. has constituted a Corporate Social Responsibility (CSR) Committee of the Board pursuant to Section 135 of the Companies Act, 2013. The CSR Committee has formulated and recommended to the Board a CSR Policy and has recommended the amount of expenditure to be incurred on the specified activities which shall be recognized as CSR spending. CA H observed that an amount of ₹ 20 lacs was unspent in respect of other than on-going projects relating to the CSR spending. CA H is exploring his reporting responsibilities for compliance under CARO, 2020.
- CA H during the course of audit noticed that Enforcement Directorate had issued show-cause notices for various non-compliances of Foreign Exchange Management Act and regulatory action against the company may be expected. The Board of Directors have not mentioned the same in their report as the outcome is uncertain. This is not reflecting anywhere in the financial statements, however, CA H thinks that it is relevant for the users' understanding of the financial statements.
- The company also has 2 subsidiaries B Ltd. and C Ltd. The auditors are required to prepare the standalone as well as the consolidated financial statements of the company. For the purpose of making current period consolidation adjustments, CA H has asked the company to provide with the financial statements and information of the subsidiaries. Both the subsidiaries are audited by other auditors.
- CA H in consultation with management, decided to visit 10 out of 15 branches of A Ltd., within a period of 15 - 20 days, situated in various states of India. Management decided to pay CA H advance of ₹ 5 lacs against the estimated expenses of ₹ 5.25 lacs on visits to be conducted as a part of services rendered. In terms of the discussion, ₹ 5 lacs was transferred to his bank account from which he has to meet all the expenses for visiting branches for the audit. However, he failed to keep the amount received from A Ltd. in a separate bank account.
- Based on the above facts, answer the following Q Nos. 4 to 7, by choosing the right option.

4. For failing to keep moneys in a separate bank account, will CA H be held guilty of professional misconduct under Chartered Accountant Act, 1949 and its schedules thereto?

(A) No, in this connection the Council has made suggestion that an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule and not keeping in separate bank account is valid hence CA H will not be held guilty of professional misconduct.

(B) Yes, in this connection the Council has made specific suggestion that an advance received by a Chartered Accountant against services to be rendered and not kept in separate bank account is covered under Clause (10) of Part I of the Second Schedule and hence CA H will be held guilty of professional misconduct.

(C) Yes, any amount received from the client and not kept in a separate bank account falls under Clause (10) of Part I of the Second Schedule and hence CA H will be held guilty of professional misconduct.

(D) No, CA H will not be held guilty of professional misconduct since provisions of Clause (10) of Part I of the Second Schedule are applicable only to professional accountant in service and not to professional accountant in practice.

5. With regard to the unspent amount of 20 lacs, out of the following select the appropriate reporting responsibilities of M/s HG & Co. for compliance of CARO 2020:

(02)

(A) Whether the company has transferred the unspent amount of 20 lacs to a Fund specified in Schedule III to the Companies Act within a period of six months of the expiry of the financial year.

(B) Whether the company has transferred the unspent amount of 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year.

(C) Whether the company has transferred the unspent amount of 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of three months of the expiry of the financial year.

(D) Whether the company has transferred the unspent amount of 20 lacs to a Fund specified in Schedule III to the Companies Act within a period of three months of the expiry of the financial year.

6. How will CA H report the matter relating to the non-compliances under Foreign Exchange Management Act?

(02)

(A) CA H should include the matter in Other Matter Paragraph

(B) CA H should include the matter in Emphasis of Matter Paragraph

(C) CA H should include the matter in Key audit matters

(D) CA H should not report the matter as no regulatory action has been taken against the company as on the balance sheet date.

7. Which of the following is not a current period consolidation adjustment? (02)

(A) Adjustments to the financial statements for the recognized subsequent events.

(B) Adjustments relating to harmonising the different accounting policies followed by A Ltd. and B Ltd. & C Ltd.

(C) Determination of goodwill or capital reserve of B Ltd. and C Ltd. as per the applicable accounting standards.

(D) Determination of unrealised intra-group profits on assets acquired/transferred from / to B Ltd. and / or C Ltd.

ANSWERS:

4. (A)

5. (B)

6. (A)

7. (C)

INTEGRATED CASE SCENARIO II

M/s SQC & Associates is a firm of Chartered Accountants, specialising in audit and assurance services for the past 2 decades, having 6 partners with its headquarters at Thiruvananthapuram and branch offices at 3 locations in Kerala.

They are appointed as statutory auditors of Kochi Branch of KLM Bank Limited for the Financial Year 2024-25. The Bank branch has granted various types of advances to its customers including export advances. The auditors want to be sure that there is no revenue leakage in the branch and the auditor has conducted a detailed verification of compliance with the bank's policies and guidelines.

The following discrepancies are identified during verification of revenue leakage:

- (i) QT Ltd. was sanctioned a term loan of 5 crores at an interest rate of 9.5% p.a. as per the sanction letter. However, due to some technical problem, the bank's Core Banking System (CBS) reflects an interest rate of 8.5% p.a. w.e.f. 01/04/2024.
- (ii) The bank has sanctioned a working capital limit of 3 crores to NK Pvt. Ltd. The bank's circular mandates a processing fee of 1%, but only 0.5% was charged.

(iii) The bank has sanctioned a Cash Credit (CC) limit of ₹ 4 crores to DEF Ltd. with a condition that stock statements must be submitted monthly. DEF Ltd. has not submitted stock statements for 3 months, triggering a penal interest of 2% p.a. as per the sanctioned terms.

(iv) An exporter, GHI Exports, availed packing credit of ₹ 2 crore at 6% p.a. for three months but repayment has been done with 1 month delay. The overdue interest rate is 12% p.a. as per the bank's circular. However, overdue interest rate for the delayed period was not applied in the CBS.

M/s SQC & Associates are appointed as auditors of Easy Finance Limited, which is an NBFC company for the year 2024 - 25 for which CA S is the engagement partner CA S is concerned with calculating the aggregate risk adjusted value of assets for reckoning the minimum capital ratio.

Following details are available from the Balance sheet of Easy Finance Limited as on 31st March, 2025:

(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	₹ 8 crores
(ii) Investments - Bonds of public financial institutions	₹ 50 crores
(iii) Current Assets - Loans to staff	₹ 5 crores
(iv) Fixed Assets (Net of Depreciation) - Furniture and Fixtures	₹ 30 crores
(v) Domestic Sovereign - State Government Guaranteed claims which are in default for 75 days	₹ 60 crores

Further M/s SQC & Associates were appointed as statutory auditors of MRP Limited, a listed company, for the financial year 2024 - 25. It was observed during the audit that MRP Limited has carried out revaluation of its buildings and software assets. The revaluation was conducted by a Registered Valuer certified by the Insolvency and Bankruptcy Board of India (IBBI).

- As a result of the revaluation, the carrying value of its "Buildings" was increased. It represents 6% increase over the Gross carrying value of the "Buildings" class as at the beginning of the year. It represents 12% increase over the not carrying value of the "Buildings" class as at the beginning of the year.

- The “Software Assets” saw a downward revaluation adjustment. It constitutes 10% reduction over the Gross carrying value of the “software” class as at the beginning of the year. It constitutes 16% reduction over the net carrying value of the “software” class as at the beginning of the year.

MS SQC & Associates are in the course of forming an opinion on the financial statements of MRP Limited, Based on the evaluation of the conclusions drawn from the audit evidence obtained, they have made the following observations:

Observation 1:

The company procures raw materials from a large number of local and international suppliers. As on 31st March 2025, trade payables form a significant portion of total liabilities. A substantial number of supplier accounts were subject to reconciliation issues, delayed confirmations or required significant year-end adjustments. The management did not respond properly to the issues raised by the auditor. It was considered as a high risk area by the auditor. However, based on other audit procedures, it was concluded that the trade payable balances had been appropriately recorded.

Observation 2:

A batch of finished goods worth 1.8 crores was found to be missing during the physical verification of inventory. It constituted a significant portion of the value of inventory of finished goods. The management stated that it was due to a clerical error in location mapping and claimed to have traced the goods post year-end. However, the documentation presented was insufficient and not independently verifiable.

On the basis of the above details, you are required to answer the following questions:
(Q. Nos 8 to 11)

8. What type of opinion or reporting M/s SQC & Associates should issue in their auditor's report of for MRP Limited considering the two observations as per the applicable Standard on Auditing? (02)

(A) Include Observation 1 in a Key Audit Matter (KAM) Section and Observation 2 in Emphasis of Matter paragraph.

(B) Issue an unmodified opinion as both matters have explanations from management and are not pervasive.

(C) Disclose Observation 1 under "Other Matter" paragraph and Qualify the opinion due to the material but not pervasive limitation of Observation 2.

(D) Disclose Observation 1 under "Key Audit Matter" and Qualify the audit opinion due to material but not pervasive limitation of Observation 2.

9. You are required to calculate the amount of revenue leakage calculated by the auditors for Kochi Branch of KLM Bank limited. (02)

(A) ₹ 9,00,000

(B) ₹ 9,50,000

(C) ₹ 8,50,000

(D) ₹ 10,50,000

10. Select the correct option after calculating the aggregate risk adjusted value of above funded assets for reckoning the minimum capital ratio of Easy Finance Limited for the year ended on 31st March, 2025. (02)

(A) ₹ 92 crores

(B) ₹ 110 crores

(C) ₹ 115 crores

(D) ₹ 52 crores

11. How will M/s SQC & Associates report under CARO, 2020, with reference to the revaluation of assets of MRP Limited? (02)

(A) Report only the revaluation of buildings, mention that valuation is done by a Registered Valuer and specify the amount of change.

(B) Report only the revaluation of software assets, mention that valuation is done by a Registered Valuer and specify the amount of change.

(C) Both the revaluation of buildings as well as software assets is not required to be reported.

(D) Both the revaluation of buildings as well as software assets is required to be reported, mention that valuation is done by a Registered Valuer and specify the amount of change.

ANSWERS:

8. (D)

9. (B)

10. (A)

11. (D)

INTEGRATED CASE SCENARIO III

Ratnesh Limited (hereinafter referred to as 'The Company'), a listed entity, is in the business of hiring of Oil Rigs, is established since 2001, The Company is having its Head Office at Mumbai and having its operations across the country. The Company appointed MPR & Co., GKS & Co., YX & Associates and ABC & Associates as joint auditors for the year 2024 - 25. The professional work was divided by audit firms among themselves mutually. However, work relating to "Information processing" which is a part of the control activities, a component of Internal Controls of the company was allocated to MPR & Co. specifically and was not a part of the joint audit assignment. Due to shortage of resources, MPR & Co. took the help of subordinate staff of ABC & Associates for such verification. While verifying the controls, subordinate staff of ABC & Associate observed the following control activities.

- (i) Actual performance was reviewed against budgeted one.
- (ii) Edit checks of input data and numerical sequence checks.
- (iii) Authorisation for access to computer programs and data files.
- (iv) Controls over the implementation of new releases of packaged software applications.

During audit, one of the joint auditors GKS & Co. observed that the Company has adopted a new IND AS which will be effective from 01-04-2026. Early adoption of the aforesaid IND AS is permitted as per extant guidelines. This early adoption of YX & Associates appointed Mr. C, as an expert, to verify the actuarial valuation done by the company. They performed the following specific procedures to evaluate the relevance and reasonableness of Mr. C's findings and their consistency with other audit evidence for the audit purpose:

- (i) Performed corroborative procedures for observing Mr. C's work.
- (ii) Performed detailed analytical procedures to see whether Principles of materiality aspects considered.
- (iii) Reviewed the data for completeness and internal consistency.
- (iv) Verified the origin of the data.

Based on the above, answer the following question from 12 to 15:

12. Which audit firm is responsible for lapses in the audit procedures for testing of control activities relating to information processing, in terms of SA 299, in case the audit procedures are not performed professionally by subordinate staff of ABC & Associates? (02)

(A) Both MPR & Co. and ABC & Associates
(B) MPR & Co. only
(C) ABC & Associates only
(D) All the joint auditors will be responsible

13. Which of the activities verified by the subordinate staff of ABC & Associates pertains to the Control Activities - Information processing? (02)

Options:

(A) (iii) & (iv)
(B) (i) & (ii)
(C) (ii) & (iii)
(D) (ii) & (iv)

14. Which of the following are not the specific procedures to evaluate the relevance and reasonableness of Mr. C's finding and consistency with other audit evidence? (02)

(A) (iii) and (iv)
(B) (i) and (ii)
(C) (ii) and (iii)
(D) (i) and (iv)

15. The effect of early adoption of Ind-AS will be reported under which head in the Audit Report? (02)

(A) Key Audit Matter
(B) Other Information
(C) Other Matter Paragraph
(D) Emphasis of Matter Paragraph

ANSWERS:

12. (B)

13. (D)

14. (A)

15. (D)

MAY 2025

INTEGRATED CASE SCENARIO 1

M/s FILE & Co. is a firm of Chartered Accountants consisting of 12 partners based at Mumbai. The audit firm is engaged in the audit of DEAF Ltd. for the financial year 2024-2025 for which CA L is the engagement partner.

During the course of the audit of DEAF Ltd., the following misstatements were identified:

- I - A calculation error in the depreciation schedule amounting to ₹ 1 lakh.
- II - Management's estimate regarding inventory valuation seemed aggressive, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable.
- III - A sample audit revealed an error in sales invoices amounting to ₹ 60,000 and the population of similar invoices totaled ₹ 1 crore. The auditor's best estimate of misstatement in population identified in the samples to the entire population is ₹ 6 lakhs.

CA L has determined a threshold of ₹ 75,000 as the amount below which misstatements would be considered clearly trivial.

Further:

- (i) The auditor communicated with those charged with governance regarding uncorrected misstatements and their effect and requested to them that uncorrected misstatements be corrected.
- (ii) The management corrected the inventory valuation issue but did not correct the depreciation error or the error in sales invoices amounting to 60,000, considering the immateriality.
- (iii) After evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, CA L is concerned on the documentation aspect with reference to the relevant Standard on Auditing.

M/s FILE & Co. is also the statutory auditors of Purple Pvt. Ltd., a manufacturing company, which has been severely impacted by economic downturns and operational

inefficiencies. The company's cash flow statements reveal recurring negative cash flows, and its interim financial statements show a significant decline in profitability. Additionally, Purple Pvt. Ltd. has defaulted on loan covenants, and on-going litigation poses a risk of substantial financial liabilities. Management has stated their plans to mitigate these challenges by restructuring debt, securing additional funding from related parties, and reducing operational costs. However, no formal documentation supporting these plans has been provided yet.

M/s FILE & Co. have identified the events and conditions in the case of Purple Pvt. Ltd. which cast significant doubt on the entity's ability to continue as a Going Concern, and auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty exists and gather evidence including of mitigating factors.

M/s FILE & Co. is planning to perform the following additional procedures:

- (i) As long as management provides a representation letter stating their plans to address financing difficulties the auditor is not bound by the terms of breached loan agreements.
- (ii) Confirm the existence, legality, and enforceability of arrangements to provide or maintain financial support, both from related/third parties and the assessment of the financial ability of such parties to provide the promised support as immaterial.
- (iii) Evaluate the assumptions underlying cash flow, profit, and other relevant forecasts, considering historical accuracy and current market conditions.
- (iv) Considering whether existing facts and information have become available since the date of management's initial assessment that could impact the going concern conclusion.
- (v) Review minutes of meetings of shareholders, those charged with governance, and relevant committees for references to financial difficulties, plans for mitigating actions, or discussions on securing additional funding.
- (vi) If management has not yet performed an assessment, the entity is treated as not a going concern and issue a modified audit opinion without further evidence.

M/s FILE & Co. the statutory auditors of Crypto Ltd., a non-listed public company, carrying out manufacturing activity, have been identified for their quality review based

upon risk based approach. However, Crypto Ltd. is neither covered under Rule 3 of NFRA Rules, 2018 nor referred to QRB by NFRA. The Quality Review Board (QRB) is entrusted with conducting a quality review of M/s FILE & Co.'s audit services. During the review, QRB identifies non-compliance with Standards on Auditing (SAs) in areas related to engagement documentation and independence. Meanwhile, NFRA receives a whistle blower complaint regarding audit irregularities in Glitch Ltd., a listed company, audited by FILE & Co. M/s FILE & Co. was charged with failure to identify related parties and transactions with them. Glitch Ltd. has made 95% of sales to a related party which was not identified as such in the annual report of the company. NFRA initiates an investigation under Section 132 (4) of the Companies Act, 2013.

Based on the above facts, answer the following questions (Q. Nos. 1 to 4):

1. Which of the following actions is not required as part of the auditor's documentation for the identified misstatements of DEAF Ltd.?
 - (A) Justifications for not communicating identified misstatements to those charged with governance.
 - (B) Recording the predetermined threshold of 75,000 as the amount below which misstatements would be considered clearly trivial.
 - (C) Listing all identified misstatements, including the inventory misstatement, even if corrected by management.
 - (D) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion. (02)
2. Based on the listed additional procedures, which of the following are the inappropriate actions for the auditor to take decision on Going Concern in the case of Purple Pvt. Ltd.?

(A) (i), (ii), (iii), (iv)	(B) (i), (ii), (iv), (vi)
(C) (ii), (iii), (iv), (vi)	(D) (iii), (iv), (v), (vi) (02)
3. Which of the following statements is most appropriate in the context of the roles of QRB and NFRA?

(a) QRB is empowered to review the quality of audit services for both Crypto Ltd. and Glitch Ltd. since it oversees all entities audited by ICAI members.

(b) NFRA cannot investigate Glitch Ltd. as it falls under QRB's jurisdiction due to the audit being performed by ICAI members.

(c) QRB can review the quality of audit services of Crypto Ltd.; but can not review the quality of audit services of Glitch Ltd.

(d) NFRA and QRB have overlapping jurisdiction for listed entities, and either body can independently investigate Glitch Ltd. (02)

4. Which of the following options is correct regarding the classification and treatment of the identified misstatements of DEAF Ltd. under relevant Standard on Auditing?

(a) The ₹ 1 lakh error in depreciation schedule qualifies as a judgmental misstatement. Management's estimate regarding inventory, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable does not qualify as a misstatement.

A sample audit revealed an error in sales invoices amounting to ₹ 60,000 is an factual misstatement.

(b) The ₹1 lakh error in the depreciation schedule is a judgmental misstatement. The inventory valuation overstatement of ₹5 lakhs is a factual misstatement. The invoice-related error does not qualify as a misstatement as the individual error is below the trivial threshold.

(c) The ₹1 lakh error in the depreciation schedule is a factual misstatement. The inventory valuation overstatement of ₹5 lakhs is a projected misstatement. The auditor's best estimate of misstatement of ₹6 lakhs to entire population is a judgmental misstatement.

(d) The 1 lakh error in the depreciation schedule is a factual misstatement. The inventory valuation overstatement of 5 lakhs is a judgemental misstatement. The auditor's best estimate of misstatement of 6 lakhs to entire population is a projected misstatement. (02)

ANSWERS

1. (B)

2. (A)

3. (D)

4. (D)

INTEGRATED CASE SCENARIO II

M/s TAG & Associates, a Chartered Accountant firm was appointed by Comptroller and Auditor General to conduct performance audit of Wind power Ltd., a public sector undertaking of Government of India for the financial year 2024-25. Wind power Ltd. is engaged in generation of wind power with setting up of wind power plants at distinct locations in the country. The audit is assigned with the objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

The audit firm is concerned with Planning for Performance Audit.

The audit manager Mr. G suggested the following procedures in the following sequence of steps for conduct of Performance audit:

- (1) Understanding the entity/programme
- (2) Defining the objectives and the scope of audit
- (3) Deciding audit approach
- (4) Developing audit questions
- (5) Determining audit criteria
- (6) Establishing time table and resources
- (7) Preparing Audit Design Matrix
- (8) Assessing audit team skills and whether outside expertise required
- (9) Intimation of Audit programme to audit entities

Further, in the course of performance audit of Wind power Ltd., the engagement partner CA JP entrusted the audit work to four team members namely Mr. P, Mr. Q, Mr. R, Mr. S. The audit team is initially concentrated in deciding audit approach. CA JP suggested that there is no uniform audit approach prescribed that can be applicable to all types of subjects of performance audits. CA JP asked his team members to suggest a method for conducting the Performance audit.

- Mr. P suggested a method which involves a descriptive analysis of an entity, scheme or a programme.
- Mr. Q suggested a method which involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc.
- Mr. R suggested a method which involves collecting information from members of a population to assess the interrelation of events and conditions.
- Mr. S suggested a method which involves review of the systems in place for planning, conducting, checking and monitoring the activity.

CA JP analysed the methods suggested by each team member.

M/s TAG & Associates were appointed as statutory auditors of Indore Main branch of a public sector bank for the financial year 2024 - 25. Advances generally constitute a major part of the assets of the branch. There are substantial number of borrowers to whom variety of advances are granted. Hence they felt that audit of advances requires major attention. M/s TAG & Associates are primarily concerned with obtaining evidence about the following while carrying out audit of advances:

- Amounts due to the bank are appropriately supported by loan documents.
- The stated basis of valuation of advances is appropriate and properly applied and recoverability of advances is recognized in their valuation.
- Advances are disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory and regulatory requirements.
- Appropriate provisions towards advances are made as per RBI norms, accounting standards and generally accepted accounting practices.

Audit approach of advances should encompass designing appropriate audit procedures to obtain audit evidence in all these areas.

The engagement partner, CA R assigned the focus areas in advances to the members of audit team as follows:

Mr. X was assigned to focus on evaluation of internal control on advances.

Mr. Y was assigned to focus on substantive audit procedures on advances.

Mr. Z was assigned to focus on recoverability of advances.

Further during the course of audit, it was observed that in the case of Kiran Ltd., a trading company which has availed a cash credit facility of ₹ 10 crore from Indore Main branch, the drawing power was not arrived at by bank.

As of 31st March 2025, the following details are provided regarding its stock, receivables (with ageing analysis), and creditors for calculating the Drawing Power (DP):

Particulars	Amount (₹ in lakhs)	Remarks
Total Stock	900	Includes damaged stock of 60 lakhs.
Total Receivables (Debtors)	800	Ageing details provided below.
Creditors for Stock	140	Related to stock financed by creditors.
Margin on Stock	25%	As per bank sanction terms.
Margin on Receivables	40%	As per bank sanction terms.
Sanctioned Cash Credit Limit	1000	

Debtors' Ageing Analysis:

Age Bucket	Amount (₹ in lakhs)
0 - 30 days	250
31 - 60 days	200
61 - 90 days	250
> 90 days (Overdue)	100
Total Receivables	800

On the basis of the above details, you are required to answer the following questions (Q. Nos. 5 to 8):

5. As regards the method suggested for conducting performance audit of Wind power Ltd., by which team member, do you think that, it may not be possible for the auditor to work with complete data due to its high volume and in such cases sampling techniques are required to be used?

(a) Mr. P (b) Mr. Q (c) Mr. R (d) Mr. S

6. The following audit procedures are undertaken by the audit team in relation to audit of advances of the Indore Main branch:

- (i) Examine existence, enforceability and valuation of securities in respect of securities requiring registration.
- (ii) Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.
- (iii) Examine whether system laid down in bank for review/renewals of advances is being followed.
- (iv) Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of SMA1 and SMA2 borrowers from the bank and same can be considered for selection of problematic accounts.
- (v) Review auditor's reports in case of borrowers having credit facilities from the banking system beyond a cut-off limit fixed by board of directors of bank.

From the above, identify the audit procedures that Mr. Y should focus upon.

(A) (i), (ii), (iii) (B) (ii), (iv), (v)
 (C) (ii) & (iv) (D) (iii) & (iv) (02)

7. What is the Drawing Power (DP) available to Kiran Ltd. as of 31st March 2025?

(A) ₹ 1005 lakhs (B) ₹ 1000 lakhs
 (C) ₹ 945 lakhs (D) ₹ 990 lakhs (02)

8. CA JP, the engagement partner is satisfied with the procedures suggested by audit manager but he is not convinced with the sequence of steps while planning the performance audit of Wind power Ltd. He seeks your advice in suggesting the correct sequence after rearranging them. You are required to select the correct option from the following:

- (A) Step 1, 2, 6, 4, 5, 3, 7, 8, 9
- (B) Step 1, 2, 4, 3, 5, 7, 6, 8, 9
- (C) Step 1, 2, 3, 5, 4, 8, 6, 7, 9
- (D) Step 1, 2, 5, 3, 4, 8, 7, 6, 9

(02)

ANSWERS

5. (A)

6. (B)

7. (C)

8. (D)

INTEGRATED CASE SCENARIO III

M/s GDP Associates, a renowned firm of Chartered Accountants consisting of 15 partners was appointed as statutory auditors for the Financial Year 2024 - 25 of SYNC Technology Ltd., a technology focused engineering company engaged in turnkey electronics manufacturing services, specializing in precision manufacturing for diverse end-use industries including the automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries. The company's portfolio includes memory, SSDs, motherboards, power adapters, and systems integration.

In conducting an initial audit engagement, the objective of the M/s GDP Associates is to obtain sufficient appropriate audit evidence about whether Opening balance contain misstatements that materially affect the current period's financial statements; and appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. The company's prior year financial statements were audited by M/s JK Associates, but the predecessor auditor's report was modified due to the non-disclosure of certain liabilities. The opening balances include significant provisions and carry forward adjustments.

M/s GDP Associates decides to use sampling to test compliance with internal controls over revenue recognition. As part of the audit of SYNC Technology Ltd., M/s GDP Associates is performing sampling for tests of controls and substantive procedures. At the end of the sampling process, the auditor needed to conclude on whether the sampling results provided a reasonable basis for conclusions about the population tested.

During testing, the following scenarios arose:

- (1) A selected item could not be tested because supporting documentation was unavailable. The auditor is unable to apply the designed audit procedures since documentation relating to sales is lost, like the sales order record, sales invoice, document for dispatch.
- (2) A deviation was identified in the sample that could potentially indicate a misstatement in the population.
- (3) The auditor found an item that seemed anomalous but required further procedures to confirm it was not representative of the population.

As part of audit, to confirm the accounts receivable balances with customers, M/s GDP Associates sends confirmation requests to SYNC Technology Ltd.'s top 50 customers, whose account balances represent 80% of the company's total receivables. The auditor sends confirmation requests to confirm balances of cash held in bank accounts and outstanding loans with the bank. The auditor also sends confirmation requests to 200 small suppliers with low-value account balances.

The following events occur during the confirmation process:

- (1) Out of the 50 positive confirmation requests, 10 responses indicate agreement with the balances, 5 responses indicate discrepancies, and 35 do not respond.
- (2) One response to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead and inconsistent information.
- (3) The 100 negative confirmation requests receive no responses.
- (4) In the case of non-response, the audit firm examined subsequent cash disbursements, email correspondences, and other records like goods received notes.

Further M/s GDP Associates engaged an external IT expert to evaluate the entity's cyber security framework, a significant area of risk identified during risk assessment. M/s GDP Associates and the expert held discussions to finalize the terms of the engagement, which included:

- (1) The expert's role in assessing the robustness of SYNC Technology Ltd.'s cyber security systems.

- (2) The communication protocol, specifying that the expert would provide interim oral reports during the engagement and a formal written report upon conclusion.
- (3) The need for confidentiality agreements, as the entity requested additional restrictions on the disclosure of sensitive cyber security information.
- (4) The identification of specific audit team members responsible for liaising with the expert and facilitating communication between the expert and the entity.

During the audit, the following issues arose:

- The expert delayed submitting the formal report, citing unclear communication about the expected scope of work.
- The entity expressed concerns about the confidentiality provisions not being adequately addressed.
- The expert had limited interaction with the auditor, leading to misalignment on the interim findings.

On the basis of the above details, you are required to answer the following questions (Q. Nos. 9 to 12):

9. Based on SA 530, which of the following is the most appropriate response for the auditor in handling these situations while performing sampling tests and procedures?

- (A) If the audit procedure is not applicable to the selected item, then the auditor shall perform only the alternative procedure but not on a replacement item.
- (B) In case when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is representative of the population.
- (C) Rely solely on the results of the sample and assume that any deviations identified are immaterial to the population.
- (D) If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a misstatement, in the case of tests of details.

(02)

10. Which of the following is the most appropriate for M/s GDP Associates in response to the events that occurred when performing external confirmation procedures to obtain relevant and reliable audit evidence in accordance with relevant Standard on Auditing?

(A) The failure to receive a response to a negative confirmation request explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.

(B) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is in their favour, and less likely to respond otherwise.

(C) Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

(D) The auditor shall use negative confirmation requests as the sole substantive audit procedure when he is aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

11. M/s GDP Associates are concerned with SA 620, which deals with the auditor's responsibilities regarding the use of external IT expert when that work is used to assist the auditor in evaluating cyber security framework. Which of the following is incorrect option in relation to agreement with the auditor's expert?

(A) When the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, only a formal written report at the conclusion of that expert's work may be appropriate while oral reports as the work progresses are not required.

(B) Ensure that the nature, scope, and objectives of the expert's work are agreed upon in writing, including the timeline for deliverables.

(C) Identification of specific partners or staff, who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

(D) It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert. (02)

12. Considering the factors influencing audit procedures for opening balances, which of the following is the most appropriate course of action under relevant Standard on Auditing?

(A) Perform audit procedures in prior period to obtain evidence relevant to opening balances or evaluate whether prior period's closing balances have been correctly brought forward.

(B) Evaluate the effect of the matter giving rise to modification in the predecessor auditors M/s JK Associates' report, with respect to the current period's financial statements.

(C) Assume the opening balances are immaterial since the predecessor auditors, M/s JK Associates issued a modified opinion and focus only on current year's transactions.

(D) Accept the accounting policies applied to the opening balances based solely on management's assertion, provided they appear consistent with current period's policies. (02)

13. Secure Bank Ltd., a mid-sized financial institution, prides itself on offering secure digital banking services to its customers. Recently, the bank became a target of a sophisticated malware attack that exposed multiple vulnerabilities in its IT systems.

(I) **Incident 1:** An employee of Secure Bank received an email from what appeared to be a reputable software vendor, offering a "free system optimization tool". Believing it to be legitimate, the employee downloaded and installed the tool. However, it was a cyber-attack, disguised to appear as harmless software. Once installed, it created a backdoor that allowed attackers to access the bank's internal network.

(II) **Incident 2:** The attackers leveraged to target employees' smartphones. This malware was introduced through phishing SMS (smishing), which prompted employees to click on malicious links. The malware exploited out dated operating systems on the devices to extract sensitive corporate information.

(III) **Incident 3:** The attackers executed a malware on the bank's systems by exploiting legitimate tools such as PowerShell and Windows Management Instrumentation (WMI), the attackers initiated a series of commands to explore and manipulate the bank's network.

(IV) **Incident 4:** A critical server was encrypted by a cyber-attack, disrupting operations for three days. This encrypted all critical financial data, rendering the system inoperable. Investigations revealed that the attack originated from a phishing email sent to an employee. The email contained a link that exploited an unpatched vulnerability in the server.

From the above which of the cyber-attack incident that Secure Bank Ltd. became victim of, is described as "Ransomware?"

(A) Incident 4	(B) Incident 3
(C) Incident 2	(D) Incident 1

(02)

14. Uranus Pvt. Ltd., a partially-owned subsidiary of Saturn Ltd., a manufacturing company, has been operating as an unlisted company in India. The company's shareholders, including non-voting members, have been informed in writing about the company's decision not to present consolidated financial statements. None of the members have objected, & the company holds proof of delivery for these communications.

Saturn Ltd., the ultimate holding company of Uranus Pvt. Ltd., files its consolidated financial statements with the Registrar in compliance with the applicable Accounting Standards. Saturn Ltd. is listed on the National Stock Exchange (NSE) and adheres to Ind AS for its reporting requirements.

Pluto Ltd., is another subsidiary of Saturn Ltd. manages funds from various investors, with a stated business objective of earning returns through capital appreciation and

investment income. It evaluates its investments on a fair value basis, reporting these changes through profit or loss. Pluto Ltd. holds 75% shares of Neptune Ltd. and 60% shares of Eris Ltd.

During a regulatory review, issues arose regarding the applicability of Consolidated Financial Statement (CFS) requirements and the exemptions provided under the Companies Act, 2013, and Ind AS 110.

Which of the following statements is most appropriate regarding the applicability of Consolidated Financial Statements (CFS) requirements and the exemptions provided under the Companies Act, 2013, and Ind AS 110.

- (A) Uranus Pvt. Ltd. must prepare consolidated financial statements as it is a subsidiary of a listed company that files its consolidated statements.
- (B) Pluto Ltd. must present consolidated financial statements for all entities it controls as it measures its subsidiaries at fair value through profit or loss.
- (C) Saturn Ltd. must consolidate all entities it controls, excepting Pluto Ltd. and its subsidiaries as the requirement of preparation CFS shall not apply to Pluto Ltd.
- (D) Saturn Ltd. must consolidate all entities it controls, including Uranus Pvt. Ltd., Pluto Ltd. and its subsidiaries.

(02)

15. M/s DG & Co. is a firm of Chartered Accountants, consisting of two partners, CA D and CA G. The firm operates its main office in Delhi and has established branch offices in Gurgaon, and Shimla. M/s DG & Co. had applied for exemption with respect to the Shimla Office, due to its hill area location. The permission was granted to them allowing a temporary office in Chandigarh during winter months. The temporary office in Chandigarh displayed its name board year-round and used the address on firm stationery.

The firm is concerned with the compliance of provisions of Section 27 of the Chartered Accountants Act, 1949. Exemption has been given to members practicing in hill areas.

You are required to identify the correct condition(s) from the following:

ANSWERS

9. (B/C) 10. (C) 11. (C) 12. (B)

11. (C) 12. (B)

13. (D) 14. (C)

15. (A)

NOVEMBER 2024

INTEGRATED CASE SCENARIO 1

XYZ & Associates LLP, is a firm of Chartered Accountants, consisting of 12 partners has been allotted Central statutory audit of Maha Bank Limited, a schedule commercial bank.

(i) During the course of audit, you, as the Engagement partner, have been asked by the GM to calculate CRAR. For this purpose, you have referred to the Master circular on “Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF)”, which provides the guidelines to be followed by banks for capital adequacy.

You are informed that the basic approach of capital adequacy framework is that a bank should have sufficient capital to provide a stable resource to absorb any losses arising from the risks in its business. You have observed that Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument. For supervisory purpose capital is split into two categories: Tier I and Tier II, representing different instruments' quality as capital.

You have calculated Eligible total capital funds comprising-

1. Tier I capital of Share capital ₹ 200 Crore and disclosed Reserves ₹ 20 Crore.
2. Tier II capital of Other Reserves ₹ 30 Crore and subordinated debt ₹ 20 Crore.

The Risk weighted assets constitute ₹ 25 Crore; while Off-balance sheet items are ₹ 5 Crore.

(ii) As a part of the scope, the audit firm has been asked to find out the correct position of Demand and Time liabilities of Maha Bank.

DTL balance as on 30th September, 2024 was ₹ 50,000 Crore which included the following:-

	₹ Cr.
(i) Paid up capital	27,000
(ii) Reserves	1,650

(iii)	Credit balance in Profit & Loss account	1,210
(iv)	Loan taken from RBI	575
(v)	Refinance taken from EXIM bank and NHB	480
(vi)	Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii)	Net credit balance in branch adjustment accounts	105
(viii)	Interest accrued but not accounted for in books	90
(ix)	Margins held and kept in sundry deposits for funded facilities	80

(iii) During the FY 2024-25, XYZ & Associates LLP is appointed as Statutory auditors of APP Ltd., an NBFC, which was set up under the Companies Act 2013 and got itself registered as non-banking financial company NBFC with the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31st March, 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification and regulation like Capital requirements, Government standards, Prudential regulations, etc. based on four layers that are defined based on their size, activity and perceived riskiness. During the FY 2024-25 APP Ltd. has accepted deposits of ₹ 900 Crore. while its asset size is ₹ 990 Crore. It has also undertaken following activities-

- (i) Standalone Primary Dealers (SPDs)
- (ii) Infrastructure Debt Fund
- (iii) Housing Finance
- (iv) Infrastructure Finance

The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit check-list.

(iv) XYZ & Associates LLP has been appointed as auditors of Heavy Electrical Corporation, a Public sector undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time

schedule, well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.

On the basis of above details, you are required to answer the following questions. (Q. Nos. 1 to 4):

7. Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM) -

A. Audit programme B. Evidence
C. Audit Questions D. Data collection and Analysis Method (02)

2. Based on facts given in para (ii), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30th September, 2024.

A. 18,000 crore B. 19,360 crore
C. 18,790 crore D. 18,880 crore (02)

3. Based on facts given in para (i), you are required to arrive at the correct percentage of Capital Risk Adequacy Ratio for the Maha Bank Limited

A. 9% B. 10.80%
C. 8.33% D. 10% (02)

4. Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -

A. Top Layer B. Upper Layer
C. Middle Layer D. Base Layer (02)

5. For conducting the statutory audit for the financial year 2024-25, CA P has been appointed by SEA Ltd., which is on the verge of becoming sick unit and has accumulated losses but the said losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24. The audited accounts for

the year 2021-22, 2022-23 were showing liability for payment of undisputed audit fees payable to predecessor auditors but were settled completely during last F.Y. 2023-24.

In terms of Council General guidelines, 2008, Chapter 7, read with relevant proviso of the said guideline, which of the following statement is correct in respect of the aforesaid scenario?

- A. CA P shall be deemed to be guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which had not paid undisputed audit fee for the year 2021-22 and 2022-23 of predecessor auditor, though settled in F.Y. 2023-24.
- B. CA P would not be held guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is on the verge of becoming sick unit but whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-2024.
- C. CA P would not be held guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is not a sick unit, whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24 and there are no unpaid undisputed audit fees of predecessor auditors.
- D. CA P shall be deemed to be guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is on the verge of becoming sick unit and it had not paid undisputed audit fee of predecessor auditor though settled in subsequent year.

(02)

- 6. KALI Ltd. is India's one of the largest FMCG Company with 50-year heritage in the country. In terms of compliance of reporting under Business Responsibility and Sustainability Report (BRSR), for the F.Y. 2023-24, CEO & MD of the company reports that "At KALI Ltd. our BRSR adheres to the nine principles of the SEBI framework on sustainability reporting, informing stakeholders of our sustainability endeavours." While giving principle wise performance the following core elements associated with the respective principle need to be covered in the report:

- (i) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
- (ii) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling and disposal of their products, and ways to eliminate over consumption.
- (iii) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.
- (iv) The entities are responsible to educate and make aware their consumers and clients about their rights.

From the above information, identify which core elements are related to Principle-9?

A. (i) & (iv)	B. (i), (ii) & (iii)
C. (i), (iii) & (iv)	D. (ii), (iii) & (iv)

(02)

7. M/s DEF & Associates have been appointed as the statutory auditor of JKL Ltd., a PSU engaged in generation of electricity from solar power. The Committee on Public undertakings with a view to examining PSU's physical and financial performance is examining the reports and accounts of public undertaking and also audit findings of the C & G. Following are some of the functions of specialised committees.

- (i) to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament;
- (ii) to examine the estimates to report what economies, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;
- (iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
- (iv) to examine public enterprises through comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

From the above functions, which are the functions of Committee on Public Undertakings (COPU)?

A. (i) & (iv)	B. (ii) & (iii)
C. (i) & (ii)	D. (iii) & (iv)

(02)

INTEGRATED CASE SCENARIO - II

M/s HVM & Co. is a firm of Chartered Accountants based in Chennai. CA M, CA V and CA H are the partners of the firm. The firm is engaged in various assignments including Audits and its engagement partners who were handling their respective assignments for the financial year 2023-24 dealt with the following issues raised during and after the course of their respective audits.

M/s HVM & Co. are appointed as statutory auditors of AST Ltd. for the financial year 2023-24. CA V, the engagement partner while conducting audit of AST Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of AST Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA V wants to communicate this and other circumstances as additional information in his report with those charged with the governance.

Financial statements of VED Ltd. for the year ended on 31st March, 2024 were signed by CA H, the engagement partner on 15th May 2024. The AGM was decided to be held during the month of August 2024. On 17th May 2024 the company had received a communication from the Central Government that an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 which was kept in abeyance would be released to the company by 15th June 2024. Accordingly the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the Financial statements of the company for the Financial Year ended on 31st March, 2024 and requested CA H to consider this matter.

During the course of audit of SIM Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain Machineries. The management gave a certificate to prove the existence and value of Machinery as appearing

in the books of account. The certificate from the registered valuer shows a value which is inconsistent with the written representation of management.

HT institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professional. CA M of M/s HVM & Co. is an alumnus of the institution and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the HT institute of professional studies is highly satisfied with his teaching skills and level of knowledge he possesses. Due to his capabilities, the management offers CA M to take up the assignment of statutory audit of their institute for the financial year 2023-24.

Based on the above facts, answer the following Questions (Q. Nos. 8 to 11):

8. In response to the management offer, guide CA M, whether to take up the assignment of statutory audit of HT institute of professional studies for the financial year 2023-24.

Select the correct option in terms of professional code of conduct.

- A. CA M can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.
- B. CA M cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.
- C. CA M can accept the statutory assignment as he does not have any substantial interest in the HT Institute of professional studies.
- D. CA M cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949. (02)

9. In view of the Board of Directors of the VED Ltd. agreeing to include an amount of 8500 crore on account of incentives in respect of F.Y. 2021-22 in the financial statements of the company for the Financial Year ended on 31st March, 2024 by amending the accounts, CA H shall consider the following procedures. Identify the incorrect procedure from the following:

- A. Carry out the audit procedures necessary in the circumstances on the amendment.
- B. Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.
- C. Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.
- D. Modify the opinion as required by SA 705 and then provide the auditor's report.

(02)

10. CA V, engagement partner, in the course of audit of AST Ltd., wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required.

Help CA V in getting identified incorrect circumstance from the below mentioned circumstances.

- A. when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.
- B. when the auditor consider it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.
- C. when a material uncertainty related to going concern is reported in accordance with SA 570.
- D. when there are no key audit matters to be communicated in accordance with SA 701.

(02)

11. Since there arose a doubt on the management representation and considering the responsibilities of M/s HVM & Co to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:

- A. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
- B. The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.
- C. In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.
- D. The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230.

(02)

INTEGRATED CASE SCENARIO III

Tom Ltd. is in to the business of manufacturing and distributing of Toys for the past 25 years. Since inception, the company is having its own in-house dedicated internal audit department, having team of competent & qualified chartered accountants, headed by the Chief Internal Auditor, who with systematic and disciplined approach monitors various Internal Controls laid down at all levels of the functional areas. M/s Deva & Co., Chartered Accountants, have been newly appointed as the statutory auditors of the company for the F.Y. 2024-25.

- M/s Deva & Co. want to use the work of the internal audit function in respect of testing of the operating effectiveness of controls and in respect of substantive procedures involving limited judgement. Due to time constraints and the extensive scope of statutory audit, M/s Deva & Co. want to take direct assistance of internal auditors in the areas of Physical verification of fixed assets, inventory verification

and Goodwill impairment assessment. Accordingly, M/s Deva & Co. are in the process of determining in which areas and to what extent internal auditors can be used and in which areas statutory auditors shall not use internal auditors to provide direct assistance to perform procedures.

- M/s Deva & Co. during the course of identifying and assessing the risks of material misstatement through understanding the entity and its environment and during the course of performing the audit procedures finds that the company is holding significant bank accounts and having branch operations in tax-haven jurisdictions for which there appears to be no clear business justification. Also, there were significant related party transactions which do not appear to be in the normal course of business.
- The audit report of Tom Ltd. for the last F.Y. 2023-24, audited by predecessor auditor, contained a qualification regarding non provision of doubtful debts. In F.Y. 2024-25 also, the company does not want to make provision for doubtful debts. The statutory auditors, M/s Deva & Co., in their auditor's report on the current period's financial statements want to report the same.
- Pursuant to the reporting requirements under CARO, 2020 in respect of the company's regularity in depositing undisputed arrears of outstanding statutory dues to the appropriate authorities, M/s Deva & Co. are considering to take a view on the following issue observed during the audit of Tom Ltd.

The company in view of voluminous pay roll data consistently follows the method of making lump sum deposit of estimated amount of ESI collections and adjust the excess or deficit against next following months' deposit and the difference of the said amount always remains insignificant.

Based on the above facts, answer the following Questions (Q. Nos. 12 to 15):

12. Out of the following which view of M/s Deva & Co. is the correct one for complying the reporting requirement under CARO, 2020 as regards lump-sum deposit of estimated ESI collections and its adjustment against next months' deposit leaving the insignificant difference of ESI amount?

- A. the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported.
- B. depositing of ESI collections and the arrears of ESI dues cannot be considered as statutory dues under CARO 2020 and hence not to be reported.
- C. lumpsum deposit of estimated ESI amount and adjusting excess/deficit against following months' deposit shall be considered as dues payable and hence to be reported under CARO 2020.
- D. even though the difference between the total dues of ESI and lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited and hence to be reported under CARO 2020.

(02)

13. Issue identified by Deva & Co., with regard to holding significant bank accounts and having branch operations in tax-haven jurisdictions and significant related party transactions is a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?

- A. The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting.
- B. The risk factor creates an incentive/pressure for the fraud and results in a misstatement due to misappropriation of assets.
- C. The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to fraudulent financial reporting.
- D. The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to misappropriation of assets.

(02)

14. M/s Deva & Co. assigned the following procedures to internal auditors to provide direct assistance.

- (i) that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited.

(ii) that relate to work with which the internal auditors have been involved and which will not be reported to management or those charged with governance by the internal audit function.

(iii) that relate to decisions the statutory auditor makes in accordance with SA.

From the above, identify the appropriate procedure(s) that can be assigned to internal auditors:

A. (i), (ii), (iii) B. (ii) only C. (ii) & (iii) D. (iii) only (02)

15. M/s Deva & Co., in their auditor's report on the current period's financial statements wants to report that Tom Ltd. does not want to make provision for doubtful debts in F.Y. 2024-25. Identify the correct action to be resorted out of the following:

- A. As per SA 710, can modify their report for previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
- B. As per SA 710, can modify their report for current year's figures of financial statements but need not refer to the previous year's modification.
- C. As per SA 710, will have to modify their report for both current and previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
- D. As per SA 710, cannot modify their report but need to refer to the earlier year's modification.

(02)

ANSWERS

1. (A)	2. (D)	3. (A)	4. (C)	5. (C)
6. (B)	7. (D)	8. (B)	9. (D)	10. (D)
11. (B)	12. (A)	13. (C)	14. (B)	15. (C)

FINAL AUDIT – RTPS MCQ

JANUARY 2026

INTEGRATED CASE SCENARIO

Mr. Vivek was appointed as the engagement partner on behalf of Reliant & Co., a Chartered Accountant Firm, to conduct statutory audit assignment of Zenith Components Limited, an unlisted public company engaged in the manufacturing of electrical equipment. During the audit, CA Meenal, one of the senior engagement team members, was given the responsibility to audit the matters as per requirements of CARO, 2020. Her major observations included:

- One of the buildings owned by Zenith Components Ltd. was revalued during the year based on a valuation report from a registered valuer, increasing the aggregate carrying value of Property, Plant & Equipment (PPE) from ` 12.5 crore to ` 14.5 crore.
- Zenith Components Ltd. was sanctioned a cash credit limit of ` 5.25 crore by Unity Bank based on the security of current assets which was reduced to ` 4.95 crore after 6 months. In this connection, the company submitted quarterly stock statements to the bank which were in agreement with the books of accounts.

Meanwhile, Reliant & Co. was also appointed to conduct the audit of a State Housing Department. During the course of audit, Office of the Comptroller & Auditor General of India (C&AG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit.
- Buildings with a total area surpassing a threshold limit.

However, it was noted that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Further, CA Karan, another partner, was engaged in the audit of EcoTherm Power Ltd., a listed company operating in the thermal energy generation sector. As a part of Business Responsibility and Sustainability Reporting (BRSR), the company disclosed data on its total greenhouse gas emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years.

CA Nisha, an independent Chartered Accountant who had recently completed a Certificate Course on Sustainability Reporting, was approached by CA Karan for informal guidance on improving the company's sustainability disclosures. Impressed by her knowledge, CA Karan later recommended her name for the Board of Management of Navlok Co-operative Bank, a Primary (Urban) Co-operative Bank, which was also one of their audit clients. CA Amit, another professional colleague, advised Nisha to refrain from accepting the post as it could amount to professional misconduct.

Based on the above facts, answer the following MCQs:

1. As per the provisions of CARO 2020, what should be the auditor's reporting responsibility with regard to revaluation of Property, Plant and Equipment done by Zenith Components Ltd.?
 - (a) No reporting is required as the revaluation is based on a registered valuer's report.
 - (b) Reporting is required under Clause (i)(d) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset.
 - (c) Reporting is required under Clause (i)(c) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset.
 - (d) Reporting is not required under Clause (i)(d) of Paragraph 3 as the amount of change does not exceed 10% of the net carrying amount of each class of asset.
2. Whether reporting is required under CARO, 2020 in case of sanctioned cash credit limit i.e., working capital limits?
 - (a) Yes, reporting is required under Clause (ii)(b) of Paragraph 3, as the company was sanctioned working capital limits in excess of ₹ 5 crore.

(b) No reporting is required under CARO, 2020.

(c) No, reporting is not required under Clause (ii)(b) of Paragraph 3, because the working capital limit was later reduced below ₹ 5 crore.

(d) Yes, reporting is required under Clause (iii)(a) of Paragraph 3, since the company has been sanctioned working capital limits in excess of ₹ 5 crore.

3. The report of audit of State Housing Department by the C&AG is likely to be submitted to:

(a) The Board of the Authority directly

(b) The Governor of State

(c) The Central Government

(d) The Ministry of Housing and Urban Affairs

4. With respect to EcoTherm Power Ltd., which of the following statements correctly categorizes the sustainability reporting indicators?

(a) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and need to be mandatorily disclosed in the BRSR.

(b) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.

(c) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.

(d) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.

5. Whether CA Nisha would be held guilty of professional misconduct if she accepts the offer to become a member of the Board of Management of Navlok Co-operative Bank (Primary Urban Co-operative Bank)?

(a) It is permissible for a CA in practice to become a member of the board of management in primary (rural) co-operative banks. Hence, CA Nisha would be held guilty of professional misconduct if he accepts the offer.

(b) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Nisha would not be held guilty of professional misconduct if he accepts the offer.

(c) Yes. CA Nisha would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Nisha is getting this offer as a reciprocation for helping Reliant & Co.

(d) Yes. As per clause 11 of Part I of First Schedule CA Nisha would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

6. During the audit of loan accounts of Worthy Bank for the year ended 31st March 2025, you come across a borrower account of Star Limited with an outstanding loan of ₹ 1.70 crore, which was classified as NPA in December 2024. The borrower made a partial repayment of ₹ 70 lakh in March 2025, however, remaining amount ₹ 1 crore is still overdue. Despite this, the bank has upgraded the account to Standard as of 31st March 2025 in its books. As statutory auditor of Worthy Bank, what should be your observation regarding the classification of this loan account?

(a) The account is correctly upgraded, as partial repayment of ₹ 70 lakh was received before the balance sheet date.

(b) The account can be classified as Standard based on management's judgment of the borrower's repayment capacity.

(c) The account should continue to be classified as NPA, since the entire overdue principal and interest were not settled before 31st March 2025.

(d) The classification can be adjusted retrospectively if the full repayment is received in April 2025.

7. During the audit of Beta Infrastructure Ltd. for the year 2024-25, auditor CA Ramesh observed that the company had lost significant accounting records including invoices and supporting documents related to purchases and revenue due to fire. He performed additional audit procedures to obtain alternative audit evidence, however, he was unable to obtain sufficient appropriate audit evidence through such procedures.

Consequently, he could not obtain adequate audit evidence regarding several material items in the financial statements. The auditor CA. Ramesh should:

- (a) Express a Qualified Opinion since the records are incomplete.
- (b) Express an Adverse Opinion as the financial statements are unreliable.
- (c) Include an Emphasis of Matter paragraph highlighting the system failure while giving an unmodified opinion.
- (d) Express a Disclaimer of Opinion, as auditor was unable to obtain sufficient appropriate audit evidence relating to material items.

8. EcoSmart Technologies Ltd. is preparing its Integrated Report for the year 2024-25, focusing on its sustainability and ESG initiatives. The report highlights the following:

- The company has installed solar panels and rainwater harvesting systems at all its manufacturing plants to reduce carbon footprint and conserve water resources.
- It has developed an AI-based production optimisation software that improves operational efficiency, reduces energy consumption, and supports data-driven decision-making.
- Employees are provided with specialised training programs on sustainability practices, renewable energy management and digital technologies to enhance skills and promote a culture of innovation.

Which combination of integrated capitals is primarily represented in the initiatives described above?

- (a) Natural Capital, Intellectual Capital, Human Capital.
- (b) Financial Capital, Manufactured Capital, Social Capital.
- (c) Human Capital, Financial Capital, Manufactured Capital.
- (d) Intellectual Capital, Social Capital, Financial Capital.

ANSWERS

1. (b)	2. (a)	3. (b)	4. (d)
5. (b)	6. (c)	7. (d)	8. (a)

SEPTEMBER 2025

INTEGRATED CASE SCENARIO

M/s BNM & Associates, Chartered Accountants, are in the completion phase of the statutory audit of M/s FES Limited, a technology company, for the financial year ended 31st March 2025. Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (I) During last quarter of the year, company's income was significantly affected by fluctuations in foreign exchange rates, with inadequate hedging arrangements. The auditors had to evaluate the impact of these transactions on financial statements.
- (II) It was observed that the server maintenance work of company was likely prone to external access, which was an area of high risk as assessed and reported by management's expert committee.
- (III) The auditor had to make important judgments in areas where the management of the company also used significant judgment. One key point was that the company depended heavily on a few major clients. While management believed that the market of the company was growing and would bring in more new clients, the auditors had to carefully consider this difference in view while reviewing the financial statements.

Following discussions, a mutual understanding was reached, and the audit of FES Limited was concluded smoothly.

Subsequently, BNM & Associates came to know about a tender floated by the Dwarka Municipal Corporation for computerization of its records, requiring an earnest deposit of ₹ 85,000. BNM & Associates has one of its partners residing in Dwarka, hence he persuaded the firm to apply for the tender and paid the earnest deposit. However, another partner of the firm was of the view that such an act would lead to professional misconduct and insisted on withdrawing the tender application. The firm decided to approach an experienced CA before withdrawing the tender application and went on focusing on other assignments.

BNM & Associates also commenced the statutory audit of Cash Limited, a banking company headquartered in India. During the audit, the following observations were made:

- (i) The staff and officers of the bank were frequently transferred from one position to another, without prior notice.
- (ii) Cash was test-checked daily and counted in full occasionally by another officer of the bank, apart from the cashier.
- (iii) Physical custody of cash was solely maintained by the senior-most officer at the branch.
- (iv) Unpaid cheques received through outward clearing were securely stored in the bank's lockers.

After a detailed discussion and review of internal controls and practices, the firm finalised and issued the audit report for the financial year.

CA M, a partner at BNM & Associates, firmly believed that one should always pursue their passion, regardless of their profession or business. Driven by this belief, he engaged in the following activities beyond his Chartered Accountancy practice:

- (1) Part-time employment with a Non-Profit Organisation based in Noida.
- (2) Involved in agricultural activities on his personally owned agriculture land located outside Bangalore.
- (3) Tutorship as a part-time faculty member at a private educational institute in Chennai.
- (4) Holding an honorary office leadership in a charitable educational organisation in Trivandrum.

Based on the above facts, answer the following MCQs:

1. As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", which of the above-mentioned areas should the audit committee and the auditors consider while determining the 'Key Audit Matters'?
(a) (I) & (III) (b) (II) only (c) (I) & (II) (d) (I), (II) & (III)
2. Assuming the role of the auditor of Cash Limited, based on the above observations, which aspects would you report as control failures, and what would be your rationale for considering them as such?

(a) (i) & (ii) - The frequent transfer of staff without prior notice suggests a lack of adequate control within the HR department. Similarly, permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling.

(b) (i) only - The frequent transfer of staff without prior notice indicates that the HR department is not having a proper control in its functions.

(c) (ii) & (iv) - Permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling. Further, any unpaid cheques received in outward clearance needs to be thrashed by the bank as they cannot be held by the bank in its custody.

(d) (iii) & (iv) - Cash should always be maintained under the joint custody of two authorised officers, as entrusting it to a single individual poses a significant control risk. Additionally, any unpaid cheques returned during outward clearance should either be dispatched to the customers at their recorded addresses or the customers should be appropriately notified to collect them from the bank.

3. Among the various passion-driven activities undertaken by CA M as discussed in the case, which of these are generally permitted by the Institute of Chartered Accountants of India (ICAI)?

(a) (1) & (3) (b) (3) only (c) (2) & (4) (d) (1), (2) & (3)

4. According to the provisions of the Chartered Accountants Act, 1949, under which clause would CA M be guilty of professional misconduct?

(a) Clause 10 of Part I of First Schedule
(b) Clause 2 of Part IV of First Schedule
(c) Clause 11 of Part I of First Schedule
(d) Clause 1 of Part III of Second Schedule

5. Is there any professional misconduct involved in the submission of the municipality tender application by BNM & Associates under the Chartered Accountants Act, 1949?

(a) Yes. As per Clause 6 of Part 1 of the First Schedule, a CA in practice shall be guilty of professional misconduct if he responds to any tender.

(b) No. As per the Guidelines under the Act, a member can respond to any tender where the matter relates to anything other than audit. Further members can make earnest deposits in respect of a nonexclusive area for chartered accountants.

(c) Yes. Even though the Guidelines under the Act permit a member to respond to any tender where the matter relates to anything other than audit, he is not permitted to make any money deposit. Hence, the act of the firm is professional misconduct.

(d) No. As per Guidelines under the Act, a member can respond to any tender which is requested by the Central government, State government or local government. Hence, there is no professional misconduct in this case.

INDEPENDENT MCQS

6. During the audit of Tripti Chemicals Ltd., the auditors, Dishu & Co., identified unusual fluctuations in revenue while performing analytical review procedures. Upon further inquiry, they detected a misstatement in revenue recognition, which appeared to have been intentionally made by senior finance personnel. Although management contended it was a one-time error, the auditors suspected of potential fraud. In accordance with the Standards on Auditing, what would be the most appropriate course of action for the auditor?

(a) Rely on management's assurance and proceed with issuing an unmodified audit opinion.

(b) Perform additional analytical procedures only if the misstatement is material.

(c) Evaluate whether the misstatement indicates fraud, reassess the risk of material misstatement due to fraud, and consider implications for audit evidence and management representations.

(d) Immediately withdraw from the audit engagement without performing further procedures.

7. VMC & Co., a firm of Chartered Accountants, has been auditing the financial statements of Reyox Ltd., a listed company, for the past 10 years. CA Rajat, an engagement partner, has led the audit team throughout this period. A recent quality control review raised concerns regarding a familiarity threat, as CA Rajat had developed a close relationship with key management personnel of the client. Which of the following would be the most appropriate course of action for VMC & Co. to mitigate the threat of independence and objectivity in this case as per SQC 1 in this scenario?

- (a) Continue with the same engagement partner, as long as documentation evidences independence in mind and appearance.
- (b) Appoint a second partner to assist CA Rajat, but allow him to continue as the lead engagement partner.
- (c) Rotate the engagement partner and appoint another qualified partner to lead the audit engagement.
- (d) Request Reyox Ltd. to change their finance team to reduce familiarity threats from the client's side.

8. While conducting the statutory audit of a large manufacturing company with multiple warehouses in remote locations, the audit team faced challenges in performing physical stock counts due to logistical constraints. The team decided to adopt an emerging technology that uses sensors and high-resolution cameras to carry out inventory verification without being physically present at the site. Which of the following technologies is most appropriately suited for this purpose?

- (a) Blockchain
- (b) Drone Technology
- (c) Internet of Things (IoT)
- (d) Robotic Process Automation (RPA)

ANSWERS

1. (a)	2. (d)	3. (c)	4. (c)
5. (b)	6. (c)	7. (c)	8. (b)

MAY 2025

INTEGRATED CASE SCENARIOS

WYZ Ltd., incorporated during the year 2002-03, is a leading unicorn startup and top manufacturer of silicon wafers, with two advanced plants and over 6,000 employees. As a pioneer in its industry to be listed on the stock exchange, WYZ Ltd. underscores its longstanding and influential presence in the financial market. The company consistently complies with SEBI's Listing Obligations and Disclosure Requirements Regulations of 2015, ensuring regulatory adherence and maintaining credibility among investors and stakeholders.

Considering the nature, size and extent, the company has appointed M/s KAP & Co. and M/s BMS & Co. as their joint auditors. Both the Firms divided the work in accordance with the SA 299, shared the allocation of task to Those Charged with Governance and started conducting the audit procedures.

During the audit engagement, M/s KAP & Co. was assigned to verify the Property Plant & Equipment (PPE) Register. Mr. K, the engagement partner of M/s KAP & Co., carried out the verification process, however, he did not maintain any documentation of the same. Additionally, he did not perform impairment testing on the PPE at the end of the financial year.

Mr. B, the engagement partner of M/s BMS & Co., was responsible for verification of procure to pay process (P2P). However, he was informed by management that Mr. E, their Internal Auditor, has already verified P2P Process and carried out relevant audit procedures and thereby he relied on the work of Mr. E. He neither conducted any independent audit procedure to evaluate the work of the internal auditor nor documented his conclusion regarding the evaluation of the adequacy of work of internal auditors.

Moreover, looking at the increase in the scale of business, the management of WYZ Ltd. took the decision to implement ERP in its business during the year and gave contract to INFO Ltd. to develop an ERP suitable for its business. The development of ERP was completed on Aug 12th, 2023. The management started adoption of ERP and replacing its old practices. The adoption took a span of 4 months and was successfully completed

on Dec 3rd, 2023. The previous software did not have an audit trail feature and the audit trail was operational from Dec 3rd, 2023. However, the auditors of the company have not reported anything on the above matter relating to the audit trail in their main audit report.

In addition to the above, the WYZ Ltd., has one Indian wholly owned subsidiary, ABC Private Ltd., who is in the business of acquisition of shares and securities. M/s PQR & Co. are the auditors of ABC Private Ltd.

The important financial information of ABC Private Ltd. is as under:

Sr. No	Particular	Amount (₹)
1.	Paid-up Capital	₹ 67 Lakhs
2.	Loans and Borrowings from Financial Institution	₹ 72 lakhs
3.	Turnover	₹ 154 lakhs
4.	Reserve and Surplus	₹ 18.36 lakhs

Based on the above case scenario, answer the following MCQs:

1. Mr. K, the engagement partner of M/s KAP & Co, failed to maintain any documentation of the whole verification process and did not perform impairment testing on the PPE at the end of the financial year. Select the appropriate option as per SA 299.
 - (a) Mr. K is severally responsible for his own actions and the said work was his responsibility.
 - (b) No, Mr. B & Mr. K are jointly responsible as they both were joint auditors.
 - (c) Mr. K is responsible as well as Mr. B is responsible, since Mr. B was compulsorily required to verify the work of Mr. K and he has not verified the same.
 - (d) Neither Mr. K nor Mr. B is liable for the actions of Mr. K
2. The management of the company has adopted a new ERP system and accordingly, the audit trail was maintained from Dec 03rd, 2023 only in the new ERP System. Whether the action of auditors with respect to reporting requirement of audit trail was justified?

(a) Yes, the action of auditors was justified as it was the first year of implementation of ERP. Hence the auditors are not liable to report the same.

(b) Yes, the action of auditors was justified as the audit trail was operational during the year and hence the auditors are not liable to report the same.

(c) No, the action of the auditors was not justified as the audit trail was not operational throughout the year and hence it is the duty of the auditors to report the same in the main audit report.

(d) Yes, the action of the auditors was justified as the audit trail need not to be reported in the main audit report.

3. Mr. B, engagement partner of M/s BMS & Co., was responsible for verifying Procure to Pay Process, he did not perform any procedure and relied upon the work of Internal Auditor, without keeping any documentation. Which of the following is correct as per SA 610?

(a) Mr. B can rely on the work of the Internal Auditor. However, he must first discuss with internal audit function and also evaluate the adequacy of work of Internal Auditor and must document the same regarding the evaluation of work of Internal Auditor.

(b) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work without any further audit procedure and documentation.

(c) Audit procedure and the scope of Internal Audit are altogether different from Statutory Audit and therefore, the Statutory Auditor cannot use the work of Internal Auditor.

(d) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work of Internal Auditor after evaluating his work. However, Statutory auditor is not required to document the same.

4. Considering the above case, whether reporting under CARO, 2020 will be applicable to ABC Private Ltd.?

INDEPENDENT MCQS

6. Suban Engineering, a borrower of the branch, had fully utilized its sanctioned cash credit limit of ₹ 400 Lacs, with an outstanding balance of ₹ 413 Lacs as of March 31, 2024. The bank classified the account as a Sub-standard Asset.

During an inspection, the DGM observed that the borrower's premises were damaged, with no machinery, stock, or other assets present. The borrower was unreachable, and an independent verification of assets confirmed that no mortgaged security was available, except for a piece of land with a realizable value of ₹ 33 Lacs. The bank accepted this report and made a provision considering the account as a Sub-standard Asset.

Whether correct classification and provisioning norms have been applied in the account of Suban Engineering?

- (a) The account is correctly classified, but provision should be made for hundred percent of the unsecured portion besides making specified provision on secured portion.
- (b) The account should have been classified as Doubtful asset and besides making required provision on secured portion, provision should have been made for hundred percent of the unsecured portion.
- (c) The account should have been classified as Loss asset and full provision should have been made in the books of accounts.
- (d) The account should have been classified as Doubtful asset and full provision should have been made in the books of accounts.

7. CA Praveen is appointed by KSN Ltd. for the year 2023-24. While verifying payroll data of the company, it has come to his notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers. With respect to the auditor's observation relating to the matter of child labour, which is the most appropriate course of action for him to proceed in this matter?

- (a) CA Praveen should ignore the matter as it will not affect financial statements.
- (b) CA Praveen must report the matter to the concerned government department.
- (c) CA Praveen should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.
- (d) CA Praveen should express a modified opinion in the audit report.

8. Mohini Ltd. paid their arrears of undisputed statutory dues just a day before the date of the audit report. After this, now the auditor believes that only disputed dues need to be reported under the CARO, 2020 as undisputed dues are paid before the date of the audit report. Which of the following is the most appropriate course of action for the auditor in this situation?

- (a) The auditor is required to report the disputed statutory dues only in accordance with clause (viii)(b) of Para 3 of CARO, 2020, as there is no requirement to report undisputed statutory dues if they are paid on or before the date of the audit report.
- (b) The auditor is required to report both disputed and undisputed statutory dues in accordance with clause (vii)(a) & (b) of Para 3 of the CARO, 2020.
- (c) The auditor should consult with legal counsel to determine the specific reporting requirements for disputed and undisputed statutory dues under CARO, 2020.
- (d) The auditor should discuss the matter with management and obtain their agreement to report both disputed and undisputed statutory dues in the CARO, 2020 report.

ANSWERS

1. (a) 2. (c) 3. (a) 4. (c) 5. (d) 6. (c) 7. (c) 8. (b)

NOVEMBER 2024

INTEGRATED CASE SCENARIO

ComTeK Limited, a top 1000 listed entity on the BSE by market capitalization for the past two years, sells IT and related equipment directly to consumers through its website.

One day, the CFO of the company received a video call from the Managing Director (MD) instructing him to transfer ₹ 90 lakhs to the bank account of NxT Limited. When questioned by the CFO, the Managing Director explained NxT's products are fast moving and contribute 30% of the company's revenue. Further, the amount of payment is within the approved limit and can easily be remitted without any further approval. Satisfied with the explanations, the CFO made the necessary transfer.

At the end of the month, while preparing the bank reconciliation statement, the CFO realised that five incremental payments of ₹ 90 lakhs each had been made to NxT Limited. These payments were unreconciled and does not have any corresponding entry in the books of account. The CFO explained the situation to the MD, reminding him about the video call that had instructed him such payments. However, the MD denied making any such video call.

The CFO and Managing Director engaged a forensic expert, who observed that the company had cyber-attack using sophisticated AI tools. Investigation further revealed that the video call to the CFO was fake and made from the laptop not owned by the company. The hackers had gained access to the CFO's laptop and have obtained bank details and its authorisation information. The company filed a police complaint and reported the incident to the appropriate authorities.

During the risk assessment process, the auditor of the company determined that the IT environment poses a significant risk. The auditor assessed that the principal financial systems used in the preparation of the financial statements were compromised during the cyber-attack. The auditor also focused on the judgements made by management related to the known security incidents. The auditor made inquiries with Risk Management team and with the Chief Information Officer to understand their assessment of the cyber-

security risk and the measures in place to mitigate this risk, focusing on the principal financial systems used in the preparation of the financial statements. The auditor also communicated with those charged with governance about the cyber incident. After completion of necessary procedures, the auditor felt that it had incurred additional efforts to the tune of 20%. The auditor reviewed, with the assistance of specialists, management's assessment of the potential impact on the principal financial systems used in the preparation of the financial statements.

The management of the company was impressed about the level of detail and diligence employed by the auditor while dealing with the cyber security incident. They particularly appreciated the in-depth knowledge of the auditor, timely involvement of IT specialist by the auditor and experience in dealing with cyber-security incidents. The management felt that the auditor would be the right fit for conducting a thorough audit of the IT systems of the company. In order to leverage the auditor's expertise, the management proposed to engage the auditor to conduct a system audit.

The stakeholders of the company believe that Integrated Reporting, as prescribed by the International Integrated Reporting Council, should be prepared by the management. The primary purpose was to explain to providers of financial capital how the company creates, preserves or erodes value over time. The Integrated Report would provide relevant information, both financial and other for the benefit of all stakeholders interested in a company's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

On the basis of the above mentioned facts, you are required to answer the following MCQs:

1. In the given case, cyber-attack encountered by the company is known as:
(a) Spoofing (b) Denial of Services Attack
(c) Malware (d) Identity Based Attack
2. The engagement partner is confused as to whether the audit report would be impacted by the cyber-attack instance. What is the appropriate reporting implication:
(a) No implication in the audit report since the financial loss has already been recognised in the financial statements.

(b) Qualify audit opinion as the amount of loss due to cyber-attack is incremental and does not emanate from its operating activity.

(c) Include an Emphasis of Matter paragraph as cyber security incidents are by default fundamental to the attention to the users of the financial statements.

(d) Report as a Key Audit Matter since the cyber incidence was of most significance in the audit of the financial statements of the current period.

3. The company wants to prepare an Integrated Report as contained in the International Integrated Reporting Council and endorsed by SEBI. The Company Secretary is of the view that Integrated Report is mandatory for a listed entity. Which of the following is correct in this regard?

(a) The view of Company Secretary is correct since the company meet the qualifying threshold i.e. Top 1000 listed entity by market capitalisation at the end of the previous year.

(b) The view of company Secretary is incorrect as Integrated Reporting is voluntary for the top 500 listed entities.

(c) The view of Company Secretary is correct as the company meet the qualifying threshold i.e. Top 1000 listed entity by market capitalisation at the end of the current year.

(d) The view of Company Secretary is incorrect since Integrated Reporting is voluntary for the top 1000 listed entities.

4. Integrated Reporting comprises 6 categories of capital. The company observed that it has capitalised intangible assets (patent) and roof top solar equipment in the balance sheet. In the Integrated Report patents and solar equipment should be disclosed respectively as:

(a) Financial Capital and Manufactured Capital

(b) Natural Capital and Financial Capital

(c) Intellectual Capital and Natural Capital

(d) Human Capital and Intellectual Capital

5. Can the auditor accept the system audit as offered by the Com TeK Limited?

(a) Yes, the statutory auditor can accept the assignment of system audit, provided it did not involve any scrutiny/review of financial data and information.

(b) Yes, the statutory auditor can accept the assignment of system audit, provided it involves any scrutiny/review of financial data and information.

(c) Yes, the statutory auditor can accept the assignment of system audit, provided the fee for system audit is not more than the audit fee.

(d) No, the statutory auditor cannot accept the assignment of system audit since it did not involve any scrutiny/review of financial data and information.

INDEPENDENT MCQS

6. CA Vijay qualified as CA in November 2022 started his professional practice in Delhi. Since he has enough time to devote on other activities, he is considering the following four options:

- Part-time tutorship under the coaching organisation of the Institute.
- Editorship of journals other than professional journals.
- Acting as recovery consultant in the banking sector.
- Owning agricultural land and carrying out agriculture activity.

Do you think CA Vijay needs to take any specific and prior permission from the Council for any or all of the above mentioned activities?

(a) Specific and prior permission is required for editorship of journals other than professional journals.

(b) Specific and prior permission is required for part-time tutorship and acting as recovery consultant.

(c) Specific and prior permission is required for acting as recovery consultant and owning agricultural land and carrying out agriculture activity.

(d) Specific and prior permission is required for editorship of journals other than professional journals and carrying out agriculture activity.

7. CA RK, the auditor of Shipra Limited resigned from the post due to personal reasons. CA SP was appointed as the subsequent auditor of the company by the

Board of Directors. During the conclusion of the audit for the 2023-24, should CA SP mention CA RK's resignation in the Companies (Auditor's Report) Order 2020?

(a) No. CARO 2020 does not state any requirements to report resignation of auditor. However, the same needs to be mentioned by CA SP in the Audit Report under Other Matter Paragraph, as per SA 706.

(b) Yes. As per clause (xviii) of para 3 of CARO, CA SP should report the resignation of CA RK and state if he has taken into consideration the issues or objections raised by CA RK.

(c) No. Since the resignation of CA RK is due to his own personal reason, the same need not be reported under CARO.

(d) Yes. As per clause (xxi) of para 3 of CARO, CA SP should report the resignation of CA RK and state if he has taken into consideration the issues or objections raised by CA RK.

8. SMN Limited is a management consultancy firm and in operation for the last 15 years. The company's financial reporting process is sound, and its statutory auditors has issued clean report on the audit of the financial statements of the company since inception. Due to mandatory audit rotation under the Companies Act 2013, MNO & Associates was appointed as the new auditor for the financial year ending 31 March 2024. During the audit, MNO & Associates performed procedures on both the current year's financials and the opening balances. No significant issues have been observed during the audit and the auditors intended to issue a clean report, they included an "Other Matters" paragraph in the draft report, noting that the previous year's financials were audited by a different auditor. The management requested this reference be removed since MNO & Associates audited the opening balances also and such a reference is not required. However, the auditors did not agree with the management. Please advise the auditor or the management whoever is incorrect with the right guidance.

(a) The contention of the management is valid. After performing all the audit procedures, an auditor should not pass on the responsibility to another auditor by including such references in his audit report.

(b) Any auditor has two options, either to perform audit procedures on opening balances or give such reference of another auditor in his report. An auditor cannot mix up the things like this auditor has done. It is completely unprofessional.

(c) In the given situation even if the auditor wants to give such reference, the management and the auditor should have taken approval from the previous auditor at the time of appointment of new auditor. In this case, it cannot be done.

(d) The report of the auditor is correct and is in line with the Standards on Auditing. An auditor is required to include such reference in his report under Other Matter Paragraph which require referencing the previous auditor when applicable.

ANSWERS

1. (a)	2. (d)	3. (b)	4. (c)	5. (a)
6. (a)	7. (b)	8. (d)		

MAY 2024

INTEGRATED CASE SCENARIO

Mr. Ayush, the proprietor of BCD & Co Chartered Accountants, was appointed to audit the financial statements of Amrita Industries Private Limited for the Financial Year 2022-23. These financial statements were prepared in accordance with the Dutch GAAP and the terms & conditions specified in the contract between Amrita Industries Private Limited and Dutch Industries b.v. (Pvt. Ltd is known as b.v. in Dutch). One of the terms and conditions of the contract was to get the financial statements audited from an independent auditor. The contract also stipulated auditors to take into account misstatements of € 5000 or more while framing their report. Any misstatements identified below this threshold did not require correction or adjustment in terms of stipulation in contract. While planning audit, the audit team had also determined performance materiality at € 10000 and overall materiality at € 200000.

The following information extracted from general purpose financial statements of Amrita Industries Pvt. Ltd. prepared in accordance with provisions of the Companies Act, 2013 is given as under: -

(Figures in ₹ crores)

Particulars	FY 22-23	FY 21-22
Turnover	300	250
Borrowings from bank	100	75
Paid up capital	25	25

The borrowings from bank consisted of working capital credit facilities only. The company had been enjoying such credit facilities with a sanctioned amount of ₹75 crore in Financial Year 21-22. The credit facilities were enhanced to ₹ 100 crore at beginning of Financial Year 22-23. Outstanding balance in above credit facilities has never crossed sanctioned limits at any time during each of the above years.

Mr. Shubham, partner at BB & Associates, Chartered Accountants firm, was appointed as engagement partner for audit of general-purpose financial statements of Amrita Industries Private Limited for FY 2022-23. Before finalising audit plan, BB & Associates asked for internal audit reports. However, management informed him that there was no internal audit team or function in the organization.

During the course of audit of general-purpose financial statements, Mr. Anand, an audit executive performed risk assessment procedures, test of controls and substantive procedures. He performed a trend analysis to compare the purchases of raw materials in various months. He also performed purchase- production-sale cycle analysis to understand inventory holding. Besides going through the company's internal control manuals and visiting company's plant, inquiries were also made with company's information system personnel to provide information about control failures. Diligent inquiries were also made from company's marketing personnel regarding contractual arrangements with customers. Inquiries were also made from company's in-house legal counsel and communications were also made with company's external legal counsel by sending a letter of inquiry.

While issuing the report, BCD & Co inserted an Other Matter Paragraph in the Audit Report specifying the use of a special purpose financial reporting framework for preparing and presenting the financial statements. On the other hand, BB & Associates decided to issue an adverse opinion on all financial statement except for cash flow statement and an unmodified opinion on cash flow statement. As per BB & Associates, the cash flow statement was prepared as per the required method, and hence, it did reflect the appropriate figures.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

7. The audit team of BCD & Co were not sure which materiality to choose to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements in order to form an opinion and to 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. You are required to guide the audit team by selecting the appropriate option from below:
 - (a) In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
 - (b) In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified

during the audit will not be corrected or otherwise adjusted. The existence of such a threshold is sufficient to comply with the requirement of determining materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

- (c) In the case of special purpose financial statements, misstatements based on consideration of the financial information needs of the intended users are considered material and pervasive. However, the auditor needs to follow the threshold limit provided in terms of the contract, and such thresholds should be considered as the performance materiality for planning and performing the audit.
- (d) The auditor is required to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional and the condition does not exist. In the case of an audit of special purpose financial statements, the requirements of SA 320 are not applicable in entirety.

2. Mr. Manish, the audit manager of BCD & Co., objected to the insertion of the Other Matter Paragraph in the audit report. According to him, there is no such requirement to insert Other Matter Paragraph to disclose the use of a Special Purpose Framework. Whether contention of Mr. Manish is in order?

- (a) The auditor's report on special purpose financial statements shall include an Other Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.
- (b) To avoid misunderstandings, the auditor shall mention that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose in Management's Responsibility section. Adding an Other Matter Paragraph for this will result in duplication of the matter, and the same should be avoided.
- (c) The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users and may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph.

(d) The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

3. Mr. Chitrang, the audit manager at BB & Associates Chartered Accountant, is seeking your guidance in drafting separate opinions on the cash flow statement and Other Financial Statements. Guide the audit manager by selecting the appropriate option from below:

- (a) When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement.
- (b) The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position is allowed. In this case, the auditor has expressed a disclaimer of opinion on the financial statements as a whole and separate opinion on cash flows.
- (c) The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under the same financial reporting framework is permissible.
- (d) An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not limit the auditor's responsibility to issue an unmodified opinion on identified matters that would not require a modification of the auditor's opinion.

4. The company has violated provisions of the Companies Act, 2013 by not appointing an internal auditor. Which of following statement is likely to be correct reason necessitating appointment of internal auditor and for matters relating to appointment of internal auditor for the financial year 2022-23 in described situation in accordance with provisions of law?

(a) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary condition relating to turnover during financial year 2021-22. Such an internal auditor may have been either an individual or a partnership firm only.

(b) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled all necessary conditions relating to turnover, borrowings from banks and paid up capital during financial year 2022-23. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.

(c) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary condition relating to turnover during financial year 2021-22. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.

(d) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary conditions relating to turnover and borrowings from banks during financial year 2022-23. Such an internal auditor may have been either an individual or a partnership firm.

5. Mr. Anand, an audit executive, has performed various procedures during the course of audit. Which of the following procedure/combinations of procedures is/are not likely to be considered as risk assessment procedures?

(a) Performing trend analysis, going through company's internal control manuals and visiting company's plant

(b) Inquiries from company's marketing personnel and with in-house legal counsel

(c) Communication with company's external legal counsel by sending a letter of inquiry

(d) Inquiries made with company's information system personnel to provide information about control failures and going through company's internal control manuals

6. Safe Health Insurance Limited is a company working in the field of health insurance sector. It is now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it. The details are verified by the system against data present in it. Such

system has allowed faster processing of claims, error-free data validation and increased customer satisfaction.

In respect of situation regarding working of insurance company in health insurance sector, which of following technologies has likely been used?

- (a) Internet of things
- (b) Data analytics
- (c) Robotic process automation
- (d) Power BI

7. Bansal Arora & Co., a Chartered Accountants firm, is currently performing an audit for Wool Ltd., a sizable manufacturing company. Mr. Bhavesh Bansal, an experienced audit engagement partner, holds the responsibility of ensuring that the audit engagement aligns with the professional standards, adheres to regulatory requirements, and complies with the legal obligations. His duties encompass the overall supervision, direction, and the final issuance of the audit report.

While conducting the audit, the engagement team encounters a complex issue pertaining to the valuation of the company's inventory. Within the team, there are difference of opinions on how to address this matter, resulting in a contentious situation.

What is Mr. Bhavesh's responsibility in this situation?

- (a) Mr. Bhavesh shall adhere to the firm's policies only for addressing and resolving differences of opinion.
- (b) Mr. Bhavesh should secure management's representation concerning the valuation and proceed with further audit procedures.
- (c) Mr. Bhavesh should ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm.
- (d) Mr. Bhavesh should communicate the issue to the client's management for resolution.

8. ALEXA Private Limited has been operating in India for the past 15 years with three group companies - one subsidiary in India and the other two in Singapore and Germany. The acquisitions of these subsidiaries were gradual, with control obtained after initial investments. The statutory auditors have determined that all

group companies are significant for the audit of consolidated financial statements. For the year ending March 31, 2023, the audited financial statements of all components are available, except for the German company, whose audit has been delayed and won't be completed before the release date of the consolidated financial statements (CFS) of the parent company.

The financial statements of the German company for the consolidation audit of CFS, what could be the possible situation?

- (a) Since the audit of the German company is in progress, its financial statements subject to audit can be considered by the auditor of the parent company. Audited and signed financials can be provided to auditors even after the release of audited CFS, as this is a matter of documentation only.
- (b) If the auditor does not receive audited financial statements of the German company, he should modify his audit report.
- (c) The management should provide management accounts to the auditors of CFS, and the auditor can mention this point in the "other matters" paragraph in his audit report, which is an acceptable approach.
- (d) The auditor should exclude the financial statements of the German company from the CFS.

ANSWERS

1. (a)	2. (d)	3. (a)	4. (c)
5. (c)	6. (c)	7. (c)	8. (b)

FINAL AUDIT – MTPS MCQ

SEPT 2025 PART – I

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Worthy Bank Ltd., a mid-sized financial institution, prides itself on offering secure digital banking services to its customers. Recently, the bank became a target of a sophisticated malware attack that exposed multiple vulnerabilities in its IT systems wherein the attackers leveraged to target employees' smartphones. This malware was introduced through phishing SMS (smishing) and the use of unsecured Wi-Fi, which prompted employees to click on malicious links. The malware exploited outdated operating systems on the devices to extract sensitive corporate information. In the given case, cyber-attack encountered by the company is known as:
(a) Fileless Malware (b) Mobile Malware (c) Ransomware (d) Trojan
2. CA. Rishi, statutory auditor of KMC Ltd., identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA. Rishi. Guide CA. Rishi on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?
(a) In accordance with SA 710, CA. Rishi should give unmodified opinion, but include Other Matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.
(b) In accordance with SA 710, CA. Rishi should seek legal opinion.
(c) In accordance with SA 710, CA. Rishi should qualify current period audit report with respect to corresponding figures only.
(d) In accordance with SA 710, CA. Rishi should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of Matter paragraph.
3. Rajul and Associates, Chartered Accountants, were appointed as the stock auditors by the Bank's audit committee for ten branches for year 2024-25. The Bank's

management appointed and fixed the remuneration of Rajul and Associates, Chartered Accountants as the statutory auditors also for the year 2024-25, for the same ten branches for which they were given the assignment of stock audit. Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting?

- (a) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.
- (b) Rajul and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.
- (c) Rajul and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.
- (d) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.

CASE SCENARIO I

Innovate Robotics Pvt. Ltd. (IRPL) engaged in the business of manufacturing advanced robotic machinery and developing proprietary automation software appointed M/s Gaur & Associates, Chartered Accountants, as the statutory auditor for the financial year 2024-25. The financial highlights of IRPL for the year were as follows:

Particulars	Balance as at 31st March 2024)
Total Turnover (Previous Year: ₹ 85 crores)	₹ 120 crores
Borrowings from banks and financial institutions	₹ 35 crores
Paid-up Share Capital	₹ 20 crores
Profit Before Tax	₹ 15 crores

During the audit, Engagement Partner CA. Gaurav and his team observed the various issues which are given as under:

(i) While conducting substantive procedures, the audit team noticed a significant increase in sales during the last quarter of the financial year. A major portion of this increase, amounting to ₹ 8 crores, was attributed to sales made to a new customer, TechSynergy Solutions Pvt. Ltd., which was incorporated on 1st October, 2024. The audit team's inquiries revealed that the payment for these sales was received on 5th April, 2025, just before the audit commenced. Upon further investigation, Anjali, an audit assistant, discovered that one of the directors of TechSynergy Solutions was the husband of the daughter of IRPL's Chief Financial Officer (CFO), Mr. Alok. When CA. Gaurav brought this information to Mr. Alok's attention, the CFO dismissed it as a mere coincidence and insisted that the transaction was conducted at arm's length. He also argued that since the payment was fully received, there was no risk of a misstatement. Management also refused to disclose this relationship in the financial statements, contending that it was not a related party transaction as per the applicable financial reporting framework, and that doing so would unnecessarily complicate matters. It was also observed that approval by way of resolution was also not obtained by management before entering into the contract with TechSynergy for sale of goods.

(ii) During the physical verification of Property, Plant, and Equipment (PPE), the audit team & management could not locate a highly specialised robotic arm, which was recorded in the fixed asset register with a written down value of ₹ 2.5 crores. Later, management provided a verbal explanation that the asset had been sent to a facility in Germany for immediate calibration in February 2025 and was in transit. However, they failed to provide any supporting documentation such as gate pass, dispatch challan, or insurance documentation for this movement. This matter remained unresolved at the time of finalisation of the audit report.

(iii) IRPL holds 60% equity shares in a subsidiary, AutoBots Ltd. The statutory auditors of AutoBots Ltd., in their audit report for FY 2024-25, expressed a qualified opinion due to non-provision of doubtful debts amounting to ₹ 1.5 crores, which the auditor considered materially misstated.

During the final phase of the audit, on 15th April 2025, IRPL's CEO offered a position of 'Head of Software Development' to CA. Gaurav's wife, a highly qualified software engineer. CA. Gaurav subsequently discovered that his father purchased 1,00,000 equity shares of ₹ 10 each in AutoBots Ltd., a subsidiary of IRPL on 27th June, 2025 i.e., after issuance of audit report. The total paid-up capital of AutoBots Ltd. is ₹ 5 crores. In the final meeting on 25th April 2025, IRPL's management strongly contended that the unresolved matters were minor in the context of their overall profitable operations. They urged CA. Gaurav to issue an unmodified audit opinion, warning that any modification could jeopardize a crucial funding deal for the company.

Based on the above facts, answer the following:

4. With reference to the ₹8 crore sales transaction with TechSynergy Solutions Pvt. Ltd., and management's refusal to disclose the relationship with the entity, how should CA. Gaurav assess this matter in accordance with SA 240?
 - (a) CA. Gaurav should accept the CFO's explanation and conclude that the transaction does not pose a significant risk, as the payment was fully received subsequent to the year-end, which mitigates the risk of financial loss.
 - (b) CA. Gaurav should treat the transaction as indicative of a significant risk of material misstatement and consider the implications for the audit, including the reliability of management's representations, regardless of the subsequent payment.
 - (c) CA. Gaurav can rely on the management's assertion that the transaction was at arm's length and that the relationship does not meet the technical definition of a related party, thereby concluding that no further action is necessary.
 - (d) CA. Gaurav should only request a written representation from management confirming the nature of the transaction and their assertion that no related party relationship exists and then proceed to issue an unmodified opinion.
5. What is the reporting responsibility of CA. Gaurav under para 3(i) of CARO 2020, regarding the undisposed robotic arm with a written down value of ₹ 2.5 crores that was not physically located?

(a) Since the management has provided a verbal explanation that the asset is in transit for calibration, CA. Gaurav should accept it and is not required to report any discrepancy in the CARO report.

(b) The discrepancy is not considered material as it represents only a small portion of the company's total turnover of ₹ 120 crores, and therefore, no reporting under CARO 2020 is necessary.

(c) CA. Gaurav should state in his CARO report that a material discrepancy of ₹ 2.5 crores was noticed during the physical verification of Property, Plant, and Equipment, and this has not been properly dealt with in the books of account.

(d) CA. Gaurav should qualify his main audit report for this matter but can choose not to mention this specific discrepancy in the CARO report to avoid redundancy.

6. Assuming that CA. Gaurav's father purchased the shares with a face value of ₹ 10 lakhs in AutoBots Ltd., the subsidiary company, on 1st April, 2025, what is the implication on the audit engagement of IRPL under the Companies Act, 2013 and the Chartered Accountants Act, 1949?

(a) There is no implication, as the shares are held in the subsidiary company (AutoBots Ltd.) and not in the holding company (IRPL).

(b) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, and continuing the engagement constitutes professional misconduct.

(c) Since CA. Gaurav was not aware of his father's investment at the time of accepting the audit, he is not in violation, provided he now obtains a declaration from his father confirming it is not a material investment.

(d) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, but the disqualification can be retrospectively corrected if his father sells the shares within 60 days of CA. Gaurav becoming aware of the holding, thereby avoiding any misconduct.

7. What is the most appropriate type of audit opinion that CA. Gaurav should express for IRPL's financial statements in accordance with SA 700 regarding multiple unresolved issues, specifically the ₹ 8 crore revenue transaction, the missing ₹ 2.5 crore asset and the impact of the subsidiary's qualified opinion?

- (a) An adverse opinion, because the collective impact of the identified misstatements is so material and pervasive that the financial statements as a whole are misleading.
- (b) A qualified opinion, as the issues identified are material but are confined to specific elements of the financial statements and are not pervasive.
- (c) A disclaimer of opinion, because the inability to physically verify a key asset constitutes a significant limitation on the scope of the audit.
- (d) An unmodified opinion with a Key Audit Matters (KAM) paragraph describing the revenue recognition and asset verification issues as high-risk areas.

8. If CA. Gaurav surrenders to the pressure from IRPL's management and issues an unmodified audit report for the year ended 31st March 2025, despite the unresolved issues regarding the revenue transaction with TechSynergy and the unverified robotic arm, he would be guilty of professional misconduct. Which of the following clauses of Part I of the Second Schedule to the Chartered Accountants Act, 1949, would be applicable?

- (a) Clause 5 and 9
- (b) Clause 6 and 4
- (c) Clause 5 and 8
- (d) Clause 5, 6 and 7

CASE SCENARIO II

SCL is a prominent, listed Non-Banking Financial Company (NBFC) (non-deposit taking NBFCs with an asset size of ₹ 1,000 crore and above) primarily engaged in providing corporate loans and retail financing. Mehta & Shah Associates (MSA), a partnership firm with two partners, CA. Karan Mehta and CA. Arjun Shah, was appointed as the statutory auditor of SwiftFin Capital Ltd. (SCL) for the financial year ended 31st March, 2025.

During the audit, MSA team led by CA. Mehta, began reviewing SCL's compliance with RBI's Master Directions for NBFCs. They discovered that three large corporate loan accounts, with a total outstanding balance of ₹ 15 crores, had principal and/or interest payments overdue for a period ranging from 95 to 110 days as at the balance sheet date. However, these accounts were still classified as 'Standard Assets' in the company's records. The management of SCL argued that these were long-standing, "blue-chip" clients with whom they were in advanced restructuring negotiations. They contended that classifying these accounts as Non-Performing Assets (NPAs) would trigger cross-default clauses in other agreements of those clients and permanently damage valuable business relationships. They insisted that the non-classification was a temporary measure based on commercial judgment.

While reviewing the board minutes, the audit team came to know about a lawsuit filed against SCL in January 2025. A group of retail customers alleged that the company had provided loans by charging interest rates that were not transparently disclosed and were in violation of the RBI's Fair Practices Code. SCL's internal legal department had prepared a note for the board estimating a financial outcome of up to ₹ 5 crores if the judgment went against the company. However, the financial statements contained no provision or disclosure for this matter.

Management asserted that their legal advisors believed the probability of an unfavourable outcome was "remote".

In April 2025, impressed with the firm's diligence, the management of SCL also offered the tax audit engagement under Section 44AB of the Income-tax Act, 1961, to MSA for the Assessment Year 2025-26. CA. Mehta reviewed the firm's workload for the assessment year. As on that date, CA. Mehta had already signed 55 tax audit reports, and his partner, CA. Arjun, had signed 60 tax audit reports.

Based on the above facts, answer the following:

9. Considering the requirements of SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" and the specific context of an NBFC audit, what is the most appropriate course of action for CA. Mehta regarding the non-classification of loan accounts worth ₹ 15 crores as NPAs?

(a) CA. Mehta should accept management's commercial judgment, as advanced restructuring negotiations are in progress, and disclose the matter in an "Emphasis of Matter" paragraph to ensure user awareness.

(b) CA. Mehta should inform the management that this non-classification constitutes a material misstatement due to non-compliance with RBI's mandatory prudential norms. If management refuses to correct this by reclassifying the assets and making provisions, he must modify the audit opinion.

(c) CA. Mehta's primary responsibility is to report this specific instance of non-compliance with IRAC norms to the Department of Supervision of the RBI, and he can issue an unmodified opinion on the financial statements.

(d) CA. Mehta should obtain a specific written representation from management confirming the future recoverability of the loans and based on this representation, he can agree to the existing classification and issue a clean report.

10. With reference to the tax audit engagement offered by SCL and assuming that the CA. Arjun is finalised as the signing on behalf of the firm Mehta & Shah Associates (MSA), can the firm legally accept this new Tax Audit assignment for the Assessment Year 2025-26 as per the guidelines issued by the Council of ICAI?

(a) No, the firm cannot accept the engagement because the total number of tax audits conducted by the partner CA. Arjun (60) is very close to the limit, and accepting one more would be a violation.

(b) Yes, the firm can accept the engagement, but the audit report must be signed by CA. Mehta, as CA. Arjun has already reached his permissible limit of 60 audits.

(c) No, the firm cannot accept the engagement because the specified limit of 60 tax audits applies to the firm as a whole, and the partners' individual counts are irrelevant.

(d) Yes, the firm can accept the engagement because the specified limit of 60 tax audits applies to each partner individually, and the firm can still take five more Tax Audits before reaching its 120 Tax Audit limit.

11. CA. Mehta has identified the matter regarding NPA classification and the non-disclosure of the lawsuit as the two most significant issues of the entire audit. He wishes to highlight these matters prominently in his report as Key Audit Matters. Considering the nature of matters, which of the following is the only appropriate method for CA. Mehta to communicate these in his audit report?

- (a) Describe both issues in detail in the "Key Audit Matters" (KAM) section, as they represent the areas of highest risk and significant auditor judgment.
- (b) Describe both issues in an "Emphasis of Matter" (EOM) paragraph, as they are fundamental to understanding the company's financial position and risks.
- (c) Describe the issues giving rise to the misstatements in the "Basis for Modification" paragraph, which will support a qualified or adverse opinion.
- (d) Describe the issues in an "Other Matter" (OM) paragraph, as they are relevant to the users' understanding of the conduct of the audit & management's integrity.

12. Apart from making inquiries with management wherein the management's assessment of the lawsuit is "remote," which audit procedures should be designed and performed by CA. Mehta?

- (a) He should discuss the matter with audit committee, expressing concern that management's representation is unreliable and insists on making a provision of ₹5 crores required in the financial statements based on the available evidence and his independent assessment.
- (b) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared and sent by management, requesting the entity's external legal counsel to provide a necessary update on the litigation.
- (c) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.
- (d) After seeking direct communication with the entity's external legal, he should independently engage a forensic accountant at the firm's own cost to obtain the evidence against the lawsuit, which should be admissible in the court of law.

CASE SCENARIO III

Verma & Associates, Chartered Accountants, a firm majorly engaged in statutory audits and tax audits, is in the process of exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:

- (a) One of the clients of Verma & Associates, AstraTech Industries is planning to acquire a mid-sized manufacturing company, BluelWave Solutions to strengthen its supply chain and enter new markets. As part of the preliminary assessment, a due diligence exercise is to be undertaken to evaluate whether the proposed acquisition would create operational and strategic synergies. A comprehensive financial due diligence is planned and scheduled after agreement on the purchase price. The scope of this exercise includes an analysis of the target company's cash flow position, accounting policies, brief business history and promoter background, accounting information systems, and other relevant financial metrics.
- (b) During the due diligence engagement, an articled assistant raised a query with the engagement partner regarding the extent of review required. The assistant specifically sought clarification on whether a 'letter of comfort' issued by BluelWave Solutions to a bank fall within the scope of the due diligence review.
- (c) Additionally, Verma & Associates has received a written order from the Central Government directing it to conduct an investigation under Section 210 of the Companies Act, 2013, in relation to one of its audit clients, Rajul Ltd. In relation to this investigation, the firm is considering to take assistance of an expert to obtain professional input on certain specialised matters.

Based on the above facts, answer the following:

13. Whether letter of comfort given to banks by the BluelWave Solutions needs to be reviewed as part of the financial due diligence?

- (a) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.
- (b) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.

(c) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.

(d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.

14. Which among the following is not a matter included in the scope of a full-fledged financial due diligence?

(a) Accounting Information System

(b) Cash flow

(c) Accounting Policies

(d) Brief history of the target and background of its promoters.

15. Whether Verma & Associates can take the assistance of experts while conducting the investigation? Select the most appropriate option.

(a) Yes, SA 620 - Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.

(b) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.

(c) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

(d) Yes, Verma & Associates should consider whether assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.

ANSWERS

1. (b)	2. (c)	3. (d)	4. (b)	5. (c)
6. (b)	7. (a)	8. (d)	9. (b)	10. (d)
11. (c)	12. (c)	13. (c)	14. (a)	15. (d)

SEPT 2025 PART – II

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Mr. Suraj reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Alpha Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the statutory auditor is required with reference to the position of the Company as at 31st March and not based on each month's position. Kindly guide Mr. Suraj with respect to the requirement under Master Direction.

(a) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.

(b) Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as at 31st March.

(c) Only NBFC-MFI shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.

(d) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as at the end of each month.

2. Navya & Associates are the statutory auditors of MNO Ltd. for the financial year 2024-25. While conducting the audit, CA Nemi, the engagement partner noticed the following:

- ❖ Investigations by regulatory organisations and government departments or payment of fines or penalties.
- ❖ Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- ❖ Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. ❖ Unusual payments towards legal and retainership fees.
- ❖ Unusual transactions with companies registered in tax havens.
- ❖ Payments without proper exchange control documentation.

CA Nemi should consider the above as indicative of:

- (a) Doubt on the accounting system of MNO Ltd.
- (b) Doubt on Internal Controls of MNO Ltd.
- (c) Doubt on the going concern assumption of MNO Ltd.
- (d) Doubt of non-compliance to laws by MNO Ltd.

3. DPT bank had an NPA account of M/s Sahil and Sons showing recoverable amount of ₹ 40 lakh in the books. It sold the NPA for ₹ 45 lakh. Please select as to which of the following options is the correct accounting:

- (a) Let the amount remain in M/s Sahil and Sons account.
- (b) Credit the excess of ₹ 5 lakh to profit on sale of assets.
- (c) Credit the excess of ₹ 5 lakh to provision for loss on sale of NPAs.
- (d) Return ₹ 5 lakh to the party purchasing the NPA.

CASE SCENARIO 1

Supriya is a practicing Chartered Accountant and a partner in SPR Associates, a CA firm engaged in various assignments across audit, advisory, compliance, and management consultancy for clients in the banking, education, co-operative, and public sectors. Recently, the firm received the following engagement request:

- Supriya, who is the statutory auditor of one of her major clients, Cosy Textiles Ltd., has been requested by the management to assist in compilation of financial information into a proper format for presentation to prospective investors in accordance with SRS 4410.
- She was approached by a hospitality chain for conducting a mystery audit at their 17 branches to evaluate service quality and compliance with SOPs for fee of ` 85,000.
- Supriya holds the position of Director Simplicitor in Fair Private Limited. The Company is now requesting her to digitally sign ROC forms due to her professional qualification.
- Additionally, to expand her practice, she is planning to use a messaging application to inform business groups about her firm's services and highlight the specialised areas and expertise.

Based on the above facts, answer the following:

4. Which of the following is correct with regards to CA Supriya approached by a hospitality client for conducting mystery audit?
 - (a) She cannot accept the assignment, as it falls outside the scope of audit services.
 - (b) She can accept the assignment since mystery audit is a permitted service.
 - (c) She can accept the assignment only if the client is not an existing audit client.
 - (d) She can accept the assignment only if approved by ICAI in writing.
5. What should CA Supriya do in case of Cosy Textiles Ltd.?
 - (a) Accept the assignment, as compilation is not an assurance service.
 - (b) Decline the assignment, as auditors cannot perform compilation engagements for audit clients under SRS 4410.
 - (c) Accept the engagement after disclosing it in the audit report.
 - (d) Accept the engagement if permitted by the audit committee.
6. Can CA Supriya digitally sign the ROC Forms for Fair Private Limited?
 - (a) Yes, she may sign since she is a qualified Chartered Accountant.
 - (b) Yes, she may sign if she does not receive any remuneration.
 - (c) Yes, she may sign if she is not the auditor of the company.
 - (d) No, she cannot sign, as it creates a conflict with the auditor's role.

7. Does CA Supriya is correct in using a messaging application?

- (a) Yes, it is permitted as long as the recipients are known contacts.
- (b) Yes, it is permissible with a disclaimer.
- (c) No, it is not permissible as it amounts to solicitation.
- (d) Yes, it is permissible if only educational content is shared.

CASE SCENARIO II

While auditing consolidated financial statements of Kisan Industries Limited for the year 2024-25, a manufacturing company whose financial statements are required to be prepared in accordance with Division II of Schedule III of the Companies Act, 2013, CA Kartik notices that:

- (A) The notes to accounts in respect of consolidated financial statements disclose additional information pertaining to the holding company and its subsidiaries. It provides disclosure regarding percentages of consolidated net assets; consolidated profit and loss; and total comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries.
- (B) The financial statements of one foreign subsidiary included in consolidated financial statements are drawn up to 31st December, 2024 in accordance with legal requirements in US. He feels it to be weird and is of the view that consolidated financial statements of group could present a distorted picture. The management, in turn, informs him that it is not practicable to draw the financial statements of foreign subsidiary to 31st March, 2025.
- (C) During the year 2024-25, goodwill of ₹ 60 crore had arisen on account of the acquisition of a subsidiary during the year and there is no impairment loss as on the balance sheet date. Besides, adjustments have been made in consolidated financial statements with respect to intra-group indebtedness and those related to harmonizing different accounting policies being adopted by parent and its subsidiaries.
- (D) It is noticed by him that one subsidiary was acquired on 21-06-24. He is in a dilemma as regards to the correctness of consolidation of its financial statements in group financial statements.

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

Based on the above facts, answer the following:

8. Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct?
 - (a) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.
 - (b) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.
 - (c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.
 - (d) The said disclosure is proper.
9. What should be auditor's proper course of action pursuant to situation highlighted in para (B) relating to financial statements of a foreign subsidiary?
 - (a) The auditor should insist for drawing up of financial statements of foreign subsidiary to 31st March, 2025. The reason for impracticality is a mere excuse. In case of failure to redraw, he can modify his opinion in accordance with SA 705.
 - (b) The auditor can accept management's version.
 - (c) The auditor should modify his opinion by quantifying the financial effects of such an inconsistency.
 - (d) The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2025 and 31st March, 2025.
10. Which of the following statements is correct in respect of goodwill and other matters described in the case scenario?

(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.

(b) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

(c) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.

(d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current-period consolidation adjustments.

11. Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 21.06.24?

(a) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.

(b) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.

(c) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

(d) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

12. As regards reporting under reporting CARO, 2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law?

- (a) A separate report providing Clause by Clause reporting under CARO, 2020 is required in respect of specified matters pertaining to parent and all subsidiaries incorporated in India.
- (b) It would be sufficient if report under CARO, 2020 in respect of standalone financial statements is supplemented with additional information in respect of all subsidiaries incorporated in India.
- (c) A separate report under CARO, 2020 in respect of all subsidiaries incorporated in India together is required. It should be annexed with report under CARO, 2020 in respect of standalone financial statements.
- (d) Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

CASE SCENARIO III

ADM & Associates, a medium-sized audit firm, has recently been appointed as the statutory auditor of Muonic Ltd, a listed pharmaceutical company involved in complex global operations and intensive R&D activities.

The audit is being led by CA Rajul, an engagement partner. The company was previously audited by a Big 4 firm, which withdrew citing limitations in audit scope. During planning, CA Rajul observes that while her team has good experience with standard manufacturing audits, they lack exposure to pharmaceutical sector audits, especially in relation to R&D accounting and global regulatory requirements.

Despite this concern, the Managing Partner insists that the team follow their standard procedures to ensure the audit is completed on time, especially due to the company's obligations under listing regulations. CA Rajul is concerned about whether the firm possesses the capability and competence to deliver a high-quality audit in line with professional standards.

Based on the above facts, answer the following:

13. As per SQC 1, what is the most appropriate action for CA Rajul to take after assessing that her audit team lacks experience in pharma R&D?
 - (a) Proceed with the audit using standard checklists and procedures.
 - (b) Raise a concern internally and consider involving external experts or specialists.
 - (c) Ignore the concern as the client expects timely reporting.
 - (d) Delegate responsibility to junior staff familiar with manufacturing audits.
14. The fact that the previous Big 4 auditor resigned due to scope limitations should prompt which of the following actions by ADM & Associates?
 - (a) Assume the limitations are resolved as the client appointed a new auditor.
 - (b) Proceed after understanding the nature of scope limitations and documenting the evaluation.
 - (c) Consider it irrelevant since resignation is a common occurrence.
 - (d) Use the previous auditor's work to complete current year audit.
15. Under SA 220, what is CA Rajul's responsibility as the engagement partner regarding audit quality?
 - (a) To ensure only documentation is maintained
 - (b) To ensure appropriate direction, supervision, and review of the audit work.
 - (c) To delegate all key decisions to the audit manager.
 - (d) To report only to the audit committee.

ANSWERS

1. (b)	2. (d)	3. (c)	4. (b)	5. (b)
6. (d)	7. (c)	8. (a)	9. (d)	10. (b)
11. (d)	12. (d)	13. (b)	14. (b)	15. (b)

MAY 2025 PART- I

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Mukund Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter, it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. Which basic system of control has been violated?
 - (a) Proper Authorization of Transactions.
 - (b) Segregation of Duties.
 - (c) Physical Control over Assets.
 - (d) Independent Internal Verification.
2. KNC Bank Ltd. was having 20 branches all over India by the year ending 31st March, 2024. At the Mumbai branch of the bank there were high value cash deposits in one of the current accounts during June 2023. Your firm has been appointed as the concurrent auditors for the Mumbai branch for the year 2023-24. The cash collected by the branch was remitted to the currency chest on the very same day but, during the concurrent audit for the month of April 2023 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to the currency chest for the cash remittance.

How the discrepancy of not preserving the intimations of cash remittances to currency chest by Mumbai branch of the bank should be dealt by the concurrent auditor in his audit report? Select the correct option from the following:

- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
- (b) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

(c) The auditor should verify the details from e-mail sent to currency chest and close the matter.

(d) As it is a minor irregularity the auditor can ignore the same.

3. MLP & Co., a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2023-24 for the company RST Ltd. CA. Kushal was the engagement partner for the said assignment. During the ongoing engagement of the audit, at the end of the third quarter, two limited review reports were issued by MLP & Co. Before the issuance of the third quarter's limited review report, the management of the company imposed a limitation on the scope of the audit that CA Kushal considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitations. However, the management refused to remove the said limitation.

What was the responsibility of MLP & Co. with respect to the issue of limited review report at the time of resignation?

(a) Limited Review Report for third quarter was required to be issued.

(b) Limited Review Report for third quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued.

(c) No further Limited Review Report was required to be issued as it was already issued for the second quarter at the time of resignation.

(d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement.

CASE SCENARIO 1

Simran Edible Oil Limited is a public company which has the business of manufacturing cooking oil. The company is in this particular business since last 25 years. The financial results of the company for the previous year FY 2022-23 are as under:

Sr. No.	Particulars	Amount
1.	Aggregate Outstanding Loans, debentures and deposits	₹ 10 crore
2.	Turnover of the company	₹ 100 crore
3.	Paid-up capital of the company	₹ 50 crore
4.	Net Profit (after tax) of the company	₹ 5 crore

For the year 2022-23, M/s Pesh & Associates were the auditors of the Company. The auditors found significant deficiencies in internal control and misrepresentation of amounts in the area of Trade Payables. Therefore, the Auditor issued qualified Audit Report.

Next year, management did not wish to re-appoint the same auditors, hence, Board of Director recommended Ms. Mansi as the Statutory Auditor for FY 2023-24 to the members of the Company.

After the appointment, Ms. Mansi went through previous year financials statements, audit report etc. and emphasised the understatement of Trade Payable balance as a significant audit risk.

The auditor set the materiality at ₹ 15,00,000 for conducting audit of the year 2023-24.

Further, Ms. Mansi is in process of selecting the samples for testing so as to get the samples on which Vendor Balance Reconciliations can be performed, she is considering the following for the same:

- (i) Major Vendors where the confirmation balances agrees to General Ledger.
- (ii) Vendors which have high volume of business with Simran Edible Oil Limited.
- (iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.
- (iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.

As at March 31st, 2024, the balance of two vendor as per company's General Ledger and as per the balance of the External Confirmation which are received from vendors are as under:-

Vendor Name	Balance as per General Ledger	Balance as per External Confirmation
Pakhi Groundnut Seeds Limited	₹ 15,00,000	₹ 20,00,000
Krishi Sunflower Seeds Limited	₹ 65,00,000	₹ 80,00,000

Pakhi Groundnut Seeds Ltd.:

The difference in the balance is due to one of the order received by the Company. This order is under dispute as the Company claims that the received raw material is of sub-standard quality. The consignment received was sent back to the vendor on March 30, 2023.

Krishi Sunflower Seeds Ltd.:

The difference in the balance is due to the reason of two invoices of ₹ 10,00,000 and ₹ 5,00,000 dated March 25, 2024 & March 27, 2024 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03rd, 2024 and therefore, those were not recorded in the financial statement for the year ended March 31st, 2024.

Ms. Mansi took the samples to verify Trade payable balances, which covered 30% of population.

During the Audit, she came across 2 errors amounting to ₹ 12,00,000:

- ₹ 4,00,000 was due to one invoice not being recorded due to weak inefficient control mechanism; and
- ₹ 8,00,000 error was made by Mr. Dhruv, an executive who came as a temporary replacement for one week in the place of Ms. Kamini, who is permanent accountant of the company. The mistake was clerical in nature.

Based on the above facts, answer the following:

4. Which items should Ms. Mansi select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed?
 - (i) Major Vendors where the confirmation balances agrees to General Ledger.
 - (ii) Vendors which have high volume of business with Simran Edible Oil Limited.
 - (iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.

(iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.

(a) *i* & *iii* (b) *ii*, *iii*, & *iv* (c) *i* & *ii* (d) *i*, *ii* & *iii*

5. How can Ms. Mansi audit the operating effectiveness of internal control around the accounting of Trade payables?

(a) Recalculating ageing of Trade Payables to identify the balances which may not be agreeing with the audit evidence.

(b) Select samples from the supplier balance based on scientific Random Sampling approach & verify the third-party evidence.

(c) Input a fake purchase invoice into the client system to see if it is processed accurately.

(d) Calculate Trade Payables' days to use in the analytical procedures.

6. What are the audit procedures that Ms. Mansi should perform to verify whether the payable balances of Krishi Sunflower Seeds Ltd. are correctly recorded in the financial statements?

(a) Send a confirmation to Krishi Sunflower Seeds Ltd. to request to confirm the outstanding balance as at March 31, 2024.

(b) Verify the bank payments for the period of post March 31, 2024, for any evidence of payment of invoice.

(c) Review the listing of purchase order to confirm whether it pertains to the current year 2023-24 or it pertains to the next financial year.

(d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.

7. What would be proper course of action to be taken by Ms. Mansi for two errors amounting to ₹ 4,00,000 and ₹ 8,00,000 in the given scenario?

(a) The total amount of error is below the materiality and therefore it should not be considered or further work upon.

(b) Ms. Mansi should ask Simran Edible Oil Ltd. to adjust ₹ 12,00,000 in the Payable balance and rectify the same.

- (c) Different set of samples representing the same amount should be selected to check whether same errors are getting repeated, if it is not, then the observation should be waived off.
- (d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

CASE SCENARIO II

Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments - printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange.

The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment.

The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2020.

The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2021.

Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out forensic accounting in the financial year 2021-22. During the audit, certain transactions were identified highly risky, on which the management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner.

For the financial year ended 31st March 2024, Due Diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself. At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.

The company had various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from professionals and renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

At the time of investigation, the reviewer asked about the background of the promoters of the company. The management explained that there was no need for this investigation. Further, the management explained that the company has already gone through the processes of due diligence and forensic accounting in the previous years and there was no doubt raised on promoters of the company. So, the background of promoters cannot be shared with the reviewer.

Based on the above facts, answer the following:-

8. The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years. Which of the following statement should be correct?

- (a) The contention of the management was correct.
- (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.
- (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer.
- (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.

9. The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2024. However, the reviewer asked for financial statements for the year ended 31st March 2023, which was already audited by the statutory auditors of the company and the management of the company declined this request.

- (a) The management is correct.
- (b) Reviewer can ask for documents even for the period for which audit is completed.
- (c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards.
- (d) Reviewer has no right to review the financial statements of the period other than the period under review.

10. The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

- (a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management.
- (b) The company should not have provided the documents as those are confidential.
- (c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant.
- (d) Tax and legal matters are not a part of review of due diligence exercise.

11. The management may refuse to share the details of promoters. Comment on this.

- (a) Since the company has already went through due diligence and forensic accounting in the previous years, the management may refuse to provide promoters details to the reviewer.
- (b) As the background of promoters has no bearing on the financials of the company, the reviewer should not ask for the details of promoters and the management may refuse to provide the same.

- (c) Since the company went through processes of forensic accounting in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters.
- (d) The contention of the management is not correct.

CASE SCENARIO III

CA Harman, a practicing Chartered Accountant, intends to fill out the Multi-purpose Empanelment Form (MEF) to be included in the panel for the statutory audit of bank branches for the financial year 2023-24, as hosted by the Professional Development Committee (PDC) of

ICAI. The application process requires the submission of XML files of personal income tax returns along with the computation of income. During the relevant financial year for which the information is sought, CA Harman had engaged in currency and commodity derivatives transactions, declaring the resulting income under "Business Income" in her tax return.

Additionally, Pitch Private Limited approached CA Harman to digitally sign and upload a resignation form related to Mr. Rohit, one of its directors, on the Registrar of Companies (ROC) portal. However, the signature of Mr. Rohit had been copied and pasted by another director of the company. Without verifying the authenticity of the resignation letter, CA Harman digitally signed the form, which was then uploaded to the ROC portal.

Subsequently, CA Harman's actions were brought under scrutiny when the Director (Discipline) of the Institute of Chartered Accountants of India (ICAI) received complaints regarding alleged misconduct. Upon investigation, he was found guilty of misconduct, and the competent authority imposed the appropriate penalty in accordance with the provisions of the Chartered Accountants Act, 1949.

12. Whether CA Harman will be held guilty for reflecting income from currency and commodity derivatives as "Business Income". If yes, under which clause?

15. What is the minimum punishment that could have been imposed on CA Harman under the Chartered Accountants Act, 1949?

- (a) Reprimand the member.
- (b) Removal of name from the register of members permanently or for a specified period and fine up to ₹ 5,00,000.
- (c) Suspension of practice for up to 3 months.
- (d) Warning and fine up to ₹ 50,000.

ANSWERS

1. (b)	2. (b)	3. (b)	4. (b)	5. (c)
6. (d)	7. (d)	8. (b)	9. (b)	10. (a)
11. (d)	12. (a)	13. (b)	14. (c)	15. (a)

MAY 2025 PART- II

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Shrenik Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion, but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31st March, 2024, the company acquired two companies in India and France in September, 2023 and January, 2024 respectively. The company controls both of these companies as per the criteria's laid down in the Companies Act, 2013 as well as the applicable accounting standards.

The management started discussions with the auditors regarding the audits wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements, if they want. Management needs your advice on the same.

- (a) Management must prepare the consolidated financial statements as per the requirements of the Companies Act, 2013.
- (b) Management has a choice not to prepare consolidated financial statements but should go for that, considering that its true performance and financial position can then be demonstrated.
- (c) Management could have prepared consolidated financial statements if the acquired companies would have completed at least one year post acquisition.
- (d) Management must prepare consolidated financial statements, but it should include only the company acquired in India.

2. The firm from which you are pursuing your articleship training is the internal auditor of Sukh Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material. You will:

- (a) Accept the explanation and the bills
- (b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.
- (c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit.
- (d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.

3. JIN Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire OM Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition JIN Ltd. wants to get a due diligence review to be done of OM Leathers. JIN Ltd. appointed S & S Associates for conducting overall due diligence of OM Leathers. During review, the accountant asked OM Leathers to provide financial projections of the company for the next five years, but OM leathers refused to provide the same and claimed that financial projections are not part of due diligence review. Whether the objection raised by the management of OM Leathers is correct? Give reason.

- (a) The objection raised by OM Leathers is correct, as due diligence doesn't include review of financial projections.
- (b) The objection raised by OM Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.
- (c) The objection raised by OM Leathers is correct, as reviewer cannot comment on financial projections in his report.
- (d) The objection raised by OM Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.

CASE SCENARIO I

Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar & Co. respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2023-24 of Anitya Ltd. They were having difference of opinion with regards to the following points:-

S No.	Reasons for Differences in Opinion
1	<i>Manohar & Co.</i> wanted to refer to the work of the auditor's expert, <i>Mr. Tanmay</i> in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.
2	<i>Certain misstatements affected information to be included in 'Management Discussion and Analysis' of <i>Anitya Ltd.</i>'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the <i>Llyods & Co.</i>, there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements.</i>
3	<i>For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and <i>Llyods & Co.</i> wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.</i>
4	<i>Manohar & Co.</i> had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, <i>Manohar & Co.</i> wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.

The differences in opinion in the case of *Tink & Co.* and *Llyods & Co.* were resolved but there remained disagreement with the one of the opinions of *Manohar & Co.* due to which *Manohar & Co.* expressed its opinion in a separate audit report.

Further, *Manohar & Co.* resigned and filed the required statement with respect to its resignation with *Anitya Ltd.* as well as the Registrar, respectively.

The Board of Directors of *Anitya Ltd.* appointed *Namo & Co.* as a joint auditor in place of *Manohar & Co.* which was later approved by members in the general meeting of the company.

Namo & Co. before getting appointed, as aforesaid, had:-

- (i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks "Office Found Locked".
- (ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

Based on the above facts, answer the following:

- 4. Whether the opinion of Manohar & Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?
 - (a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.
 - (b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement.
 - (c) No, as such reference was not required by any law or regulation.
 - (d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.
- 5. Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?
 - (a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.
 - (b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.
 - (c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.
 - (d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.

6. Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?

- (a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701
- (b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.
- (c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.
- (d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.

7. Whether Namo & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?

- (a) No, as the communication through registered post acknowledgment due could not be done, Namo & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.
- (b) Yes, as it would be deemed that such post was delivered.
- (c) No, because in such a case Namo & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.
- (d) No, however, Namo & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.

CASE SCENARIO II

CA Kamlesh was appointed as the engagement partner on behalf of Dutta & Associates for conducting the statutory audit for 3 rd consecutive year of Pramat Limited, an unlisted public company, with a turnover of ` 35 crore during F.Y. 2022-23.

From F.Y. 2023-24 onwards, Pramat Limited had voluntarily adopted to prepare its financial statements as per Division II of Schedule III of the Companies Act, 2013, due

to which Dutta & Associates had revised the terms of audit engagement for the current audit engagement. As per the revised terms, it was decided that the auditor's report on the financial statements will incorporate a paragraph in accordance with SA 706, drawing users' attention to the additional disclosures. Moreover, it was decided that management will also present appropriate disclosures in the financial statements with respect to this change.

While auditing the entity, CA Kamlesh came across a business policy of Pramat Limited that required to invest some portion of its money earned in its business in securities of different blue-chip companies and due to this reason, almost 55% of Pramat Limited's total assets consisted of such investments. These securities transactions were handled by its broker company, River Securities Private Limited (RSPL). RSPL was also performing necessary investment account reconciliations and was also preparing the MTM gain and loss calculation for the entity. Pramat Limited used to rely upon the calculations performed by RSPL and based on that they pass the MTM entry for their current investments every month. Pramat Limited relying on the controls presents in RSPL for the preparation of this entry. They also listed controls present in RSPL in their Risk Control Matrix as key controls.

The engagement quality reviewer, CA Tushar, recommended CA Kamlesh to obtain a Type 2 report from the management of RSPL to which CA Kamlesh said that it was not required to do so as management was already comfortable with the controls present in RSPL.

Further while conducting the audit, CA Kamlesh observed that investments in certain securities were sold at a price less than at which they were acquired and he didn't report on such matter as per Section 143(1) of the Companies Act, 2013, without even considering to inquire into the propriety aspect of the same.

While finalising the audit report, CA Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance and Audit Committee of the entity. This letter was prepared in addition to the audit report. The audit team was of the view that for the above-mentioned letter the audit team is required to generate UDIN.

Based on the above facts, answer the following:

8. While finalising the audit report CA Kamlesh decided to present the early adoption of IND AS under the “Other Matter Paragraph” as in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report. Kindly guide CA Kamlesh with respect to correct reporting in the Audit Report as per SA 706:
 - (a) No disclosure is required as it is voluntary adoption of Division II of Schedule III of the Companies Act, 2013.
 - (b) The Audit team should report the change in the “Emphasis of Matter Paragraph” because, in the auditor’s judgment, it is of such importance that it is fundamental to users’ understanding of the financial statements.
 - (c) The Audit team should report the change in the “Other Matter Paragraph” because, in the auditor’s judgment, it is of such importance that it is fundamental to users’ understanding of the financial statements.
 - (d) The Audit team should qualify as per SA 705 the said change as it was not required to be implemented and this will create unnecessary confusion for the read.
9. CA Kamlesh’s risk assessment includes an expectation that controls at the service organization are operating effectively and he contended that there was no requirement to obtain a Type 2 report. Kindly guide CA Kamlesh with respect to the requirement of SA 402.
 - (a) CA Kamlesh’s contention is correct as Management has comfort over the controls at service organization for the transactions and activities which are processed there.
 - (b) When the user auditor’s risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report.
 - (c) It depends upon the auditor’s judgment and the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA Kamlesh’s decision will be considered correct and appropriate.

(d) As no services are outsourced to the broker company and hence there is no need to obtain the type 2 report.

10. Whether it is justifiable that CA Kamlesh didn't report on the matter with respect to sale of investments even without inquiring for the same?

- (a) No, as at least CA Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were *bonafide*.
- (b) Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.
- (c) No, he should have at least consulted CA Tushar before doing so.
- (d) Yes, as the relevant clause for the reporting is not applicable in case of Pramat Limited.

11. CA Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics and findings for discussion. Kindly guide CA Kamlesh with respect to UDIN requirements for this letter.

- (a) Separate UDINs are to be generated for the Statutory audit report and Letter to Those Charged with Governance.
- (b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.
- (c) One single UDIN is required to be generated for all items for this Client. UDINs are required to be generated Client wise instead of report-wise.
- (d) One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management and Those Charged with Governance.

CASE SCENARIO III

CA Mridul, a practicing Chartered Accountant, has been appointed as the statutory auditor of PQT Limited, a reputed listed company engaged in manufacturing electronic products, as per the provisions of the Companies Act, 2013. In addition to his audit responsibilities, he is actively involved in advising the government on proposed legislation aimed at attracting investments and advanced technology in the electronic products sector. He has publicly advocated the proposed policy in TV debates, articles in business

newspapers, and advisory submissions to the government. In all such public appearances, he has disclosed his role as the auditor of PQT Limited.

Meanwhile, CA Mridul is also the statutory auditor of Fincorp Limited, non-banking financial company, for the financial year 2023-24. While reviewing the financial statements, he observes that the company has made the following provisioning in compliance with the Reserve Bank of India (RBI) Prudential Norms for Asset Classification as of 31st March 2024:

Asset Category	Balance Outstanding (₹ crores)	Provision for FY 2023-24 (₹ crores)
Standard Assets	200	NIL
Sub-standard Assets (Fully secured)	15	1.00
Doubtful Assets (1-3 years) (Fully secured)	8	2.00
Loss Assets	2	2.00
Total Provision for NPA		5.00 crores

Upon review, CA Mridul is of the opinion that the company has not done the provisioning correctly and expresses concerns regarding non-compliance with RBI guidelines. Based on the above facts, answer the following:

12. Which of the following statements is likely to be correct in regard to PQT Limited?

- The described situation can involve self-interest threats to the independence of the auditor.
- The described situation can involve familiarity threats to the independence of the auditor.
- The described situation can involve advocacy threats to the independence of the auditor.
- The described situation can involve self-review threats to the independence of the auditor.

13. Is the provision for Loss Assets of ₹ 2 crores correct as per RBI norms?

- Yes, because the provision should be 100% of the outstanding amount.
- No, the provision should be only 50% as it is secured.
- No, the provision should be NIL if the asset is secured.
- Yes, but only if the RBI has classified it as a fraud-related asset.

14. Fincorp Limited has classified ₹15 crores of loans as sub-standard assets. As per RBI norms, what should be the minimum provision required for this category?

- (a) ₹ 1.50 crores
- (b) ₹ 3.00 crores
- (c) ₹ 0.75 crores
- (d) ₹ 1.00 crores

15. Fincorp Limited has ₹ 8 crores in doubtful assets (one to three years) and has provided ₹ 2.00 crores. What is the shortfall in provisioning as per RBI norms?

- (a) ₹ 0.40 crores
- (b) ₹ 1.00 crores
- (c) ₹ 0.80 crores
- (d) No shortfall

ANSWERS

1. (a)	2. (b)	3. (b)	4. (a)	5. (d)
6. (b)	7. (b)	8. (b)	9. (b)	10. (d)
11. (b)	12. (c)	13. (a)	14. (a)	15. (a)

NOVEMBER 2024 PART- I

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

7. Mr. Rajan, the CEO of a mid-sized company, has received an email requesting him to urgently update his account details due to a supposed security breach. The said email, appears to be received from the Company's bank accounts, looks official due to use of bank's logo and branding. Such email also includes a link to a website that resembles the bank's login page. Concerned about the security of the company's finances, Mr. Rajan clicks on the link and enters his login credentials.

Later, the company's IT department detects unauthorized access to the company's financial accounts and identifies that the CEO's credentials were compromised. Identify the type of cyber-attack that Mr. Rajan fell victim to:

3. M/s Pihu & Associates are the statutory auditors of Brick Ltd. for FY 2023-24. During the audit, CA Arpit, the engagement partner noticed the following:

- Notices received from various regulatory authorities.
- Payments of various fines and penalties.
- Unusual cash payments.
- Payments to various government employees not supported by any document.
- Heavy payments to legal counsels.

CA Arpit should consider the above as indicative of:

- (a) Doubt on Internal Controls of Brick Ltd.
- (b) Doubt of non-compliance with laws by Brick Ltd.
- (c) Doubt on the accounting system of Brick Ltd.
- (d) Doubt on the going concern assumption of Brick Ltd.

CASE SCENARIO 1

MNO Ltd., incorporated in the financial year 1980-81, is a distinguished company specialising in the manufacturing of nickel-based batteries. As one of the oldest manufacturing companies in this sector, MNO Ltd. operates with two manufacturing plants and a comprehensive distribution network that spans across India. Remarkably, MNO Ltd. was among the first companies to be listed on the stock exchange, underscoring its longstanding presence in the market. The company has consistently adhered to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards.

M/s KP & Co. were the statutory auditor in the previous year and resigned from the role of statutory auditor. M/s JKL & Co. has been appointed as a statutory auditor of MNO Ltd. in the FY 2023-24. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of preceding period.

During the audit, the auditor observed that the company is unable to pay its creditors on time. The company is also not able to properly comply with the terms of the loan agreement with the banks. Moreover, several key ratios are also adverse. In view of the above, the auditor asked management to provide assessment of going concern, however the management did not provide the same. Despite following up, the management did

not provide the requested assessment. As a result, the auditor documented the request and follow-up regarding the going concern assessment in the working papers.

Apart from the above, the company has one accounting software for maintaining its books of accounts, which does not have any feature of edit log (Audit Trail). Accordingly, the auditor reported the said fact of not having the facility of edit log under the heading Other Legal & Regulatory Requirements-Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 in the main audit report.

Apart from above facts, the several important financial information of MNO Limited during the year ended 31st March 2024 are tabulated as below: (₹ In Crore)

Sr. No	Particular	Amount (₹)
1.	Paid Up Share Capital	10
2.	Deficit balance in Profit & Loss Account	11.47
3.	Turnover	85
4.	Inventory*	15
5.	Cash Loss	2.95
6.	Operating Loss	1.97

*Out of Total inventory as above, inventory amounting to ₹ 12.35 Crore are lying with third party.

Based on above facts, answer the following MCQs

4. As per the requirement of SA 570, how auditor should deal in the matter of unwillingness of management to provide for the assessment relating to going concern?
 - (a) Auditor should report such matters in the section of Key Audit Matter.
 - (b) The auditor should properly document evidence relating to asking management and its subsequent follow up with the management for assessment on going concern and accordingly should express unmodified opinion.
 - (c) Auditor should report such matters in Emphasis of Matter Paragraph Section.
 - (d) Auditor should express modified opinion in his audit report.
5. As per SA 501, what is the correct audit procedure to be followed regarding the existence and condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?
 - (a) The auditor should rely on the management explanation regarding the inventory lying with the third party.

(b) The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate.

(c) The auditor should verify the inventory lying with the company.

(d) The auditor should take written representation only from the management regarding the inventory lying with the third party.

6. State the amount required to be reported by the auditor of MNL Ltd., under clause 3(xvii) of Para 3 of CARO, 2020 on account of losses during the year under consideration.

(a) ₹ 4.92 Crore (b) ₹ 1.97 Crore (c) ₹ 2.95 Crore (d) ₹ 11.47 Crore

7. According to SA 510, which of the following audit procedures can be implemented by M/s JKL & Co. to obtain sufficient and appropriate audit evidence on the opening balances about whether it contain any material misstatement that could affect financial statements of current year?

(i) Closing balances of the preceding period have been correctly brought forward to the current period.

(ii) Performing specific audit procedures to obtain evidence regarding its opening balances.

(iii) Determining whether the opening balances reflects the application of appropriate accounting policies.

(a) Only (i)

(b) Only (iii)

(c) Only (i) and (iii)

(d) (i), (ii) and (iii)

CASE SCENARIO II

EFG Ltd., incorporated in 1984-85, has distinguished itself as one of the most rapidly growing non-banking financial companies (NBFCs) having principal business of granting loans. Its head office is situated in Pune, a city renowned for its dynamic financial and industrial sectors. Remarkably, EFG Ltd. holds the notable achievement of being among the first

NBFCs to be listed on the stock exchange, which underscores its longstanding and influential presence in the financial market. Over the years, the company has demonstrated an unwavering commitment to regulatory compliance by consistently adhering to the Securities and Exchange Board of India's (SEBI) Listing Obligations and Disclosure Requirements Regulations of 2015. This steadfast adherence ensures that all its operations align with the rigorous standards set by regulatory authorities, thereby reinforcing its credibility and trustworthiness among investors and stakeholders.

M/s SDS & Co. thoroughly obtained the knowledge and background of the company, including an understanding of the legal and regulatory requirements applicable to the company.

During the audit of the financial statements, auditor observed that, the company has violated one of the prudential guidelines of RBI as applicable to the company relating to the acceptance of public deposit. Since the company was non deposit taking, and in one case during the year under consideration, the company had accepted the public deposit. In this regard, the management has also provided a detailed note in the financial statements and subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important and required attention of the users of the financial statements.

The auditor of EFG Ltd. sent confirmation requests to 14 debtors (to whom loan has been granted) to confirm the year-end balances as per SA 505. The said requests were designed in such a way that debtors will directly respond to the auditor only when they disagree with the same.

Based on above facts, answer the following MCQs

8. Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: -

- (i) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934
- (ii) In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

(iii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

(iv) Whether the company has provided any loans, guarantee or provided security to any other entity.

(a) Only (i) and (iii)

(b) Only (i), (ii) and (iii)

(c) Only (i) and (ii)

(d) Only (i), (ii) and (iv)

9. What is the auditor's responsibility when the audit of EFG Ltd. for the previous year has not been conducted by the current auditor i.e. M/s SDS & Co.?

(i) The auditor needs to report such matters in the other matter paragraph in the main audit report.

(ii) The auditor needs to report such matter in the emphasis of matter paragraph.

(iii) The auditor shall be responsible for obtaining sufficient and appropriate audit evidence that the opening balances does not contain any material misstatement.

(a) Both (i) & (iii)

(b) Both (ii) & (iii)

(c) Only (ii)

(d) Only (i)

10. In the given case, what is the reporting requirement in relation to SA 250, on the part of auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?

(a) The auditor is required to report such matters in the main audit report under the head other matter paragraph section only.

(b) The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only.

(c) Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.

(d) Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.

CASE SCENARIO III

CA Ram and CA Lakshman are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative, however, the person declined the same informing that this act was against professional ethics and will lead to disciplinary action from ICAI.

The partner of M/s AK & Associates is a close friend of CA Ram. The firm was involved in an audit of a listed company which was required to submit Business Responsibility and Sustainability Report (BRSR). The company being audited was into thermal energy production business in India. They had submitted details about the total emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years. Since CA Ram had undergone a course on Sustainability Reporting, he was approached for getting advice on what needs to be reported in the BRSR of the company. As a gesture for helping the firm, the partner of the firm suggested CA Ram's name to the post of becoming a member in the Board of Management of KYC Co-operative Bank, a Primary (Urban) Co-operative Bank and a client of AK & Associates. Upon hearing the same, CA Lakshman requested Ram not to take up the post as it would lead to professional misconduct.

CA Ram was acting as an internal auditor of PL Technologies Private Limited. The company decided to raise more funds for expanding its business across the country by including new age technological services such as AI. Ram was observing the business model and the way in which the company was operating for quite some time, and he was keen on investing in the company. As a result, he decided to invest in the company's shares and ended up acquiring 9.75% of the shares (total face value of the shares acquired was ₹ 4.75 lakhs) of the company during the financial year. CA Lakshman got to know about this information, and he immediately urged Ram to resign from the being the internal auditor of PL Technologies Private Limited, for the reason that an internal auditor cannot hold any shares in the company, and it will lead to professional misconduct and also failure

to comply with the provisions of the Companies Act, 1949. However, Ram did not accept the argument of Lakshman, and he said that nothing will happen because of him acquiring 9.75% shares in the company and continuing to act as its internal auditor.

CA Lakshman was the statutory auditor for GH Finance Private Limited, a NBFC head quartered in India. The company's treasury department had undergone changes in the recent past and the current set of team members did not have much experience in handling the treasury functions. Due to this situation, the company reached out to their auditor CA Lakshman who was also into equity research advisory apart from CA practice, to support the company and the members of its treasury department for a brief period by giving Investment Advisory Services, to ensure efficient utilization and management of the funds of the company. Before committing anything on the offer, CA Lakshman wanted to consult with CA Ram as to whether the service requested by the NBFC can be performed by him.

7.1 Whether the act of conducting joint training session on GST by CA Ram & Lakshman and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?

- (a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Ram & Lakshman are guilty of professional misconduct.
- (b) Yes, CA Ram & Lakshman will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949.
- (c) Yes, this is a case of solicitation of client whereby, CA Ram can influence clients of CA Lakshman and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule.
- (d) No, as per the recent decisions of Ethical Standards Board, it is permissible for 2 or more CA in practice collectively to have joint training session for their clients on GST, and share the fee collected from the clients thereof.

12. With regards to the BRSR reporting on the data of total emissions & the future energy consumption plans of the company, how do you treat them?

- (a) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.
- (b) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and needs to be mandatorily disclosed in the BRSR.
- (c) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.
- (d) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.

13. The futuristic plan which the company has for its energy consumption can be categorized under which principle of National Guidelines on responsible business conduct?

- (a) Principle 1 - Ethics, Transparency and Accountability
- (b) Principle 6 - Protection and Restoration of Environment
- (c) Principle 4 - Respect for Stakeholder's Interests and Responsiveness
- (d) Principle 7 - Influence on Public and Regulatory Policy

14. By accepting the offer to become a member of the Board of Management of KYC Co-operative Bank, do you think that CA Ram would be held guilty of professional misconduct?

- (a) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
- (b) It is permissible for a CA in practice to become a member of the board of management in primary (Rural) co-operative banks. Hence, CA Ram would be held guilty of professional misconduct if he accepts the offer.
- (c) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Ram would not be held guilty of professional misconduct if he accepts the offer.

(d) Yes. CA Ram would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Ram is getting this offer as a reciprocation for helping AK & Associates.

15. In the given case, it is mentioned that CA Lakshman is a practicing CA and is also engaged as an Equity Research Advisor. Do you think that CA Lakshman will be held guilty of professional misconduct as per the provisions of the Chartered Accountant Act, 1949?

(a) No. A CA in practice may be an equity research advisor, but he cannot publish retail reports as it would amount to other business or occupation. Thus, if CA Lakshman doesn't publish any reports, he will not be held guilty of professional misconduct.

(b) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

(c) A CA in practice cannot be an Equity Research Advisor, for his existing clients or for any other person. Hence, CA Lakshman will be held guilty of professional misconduct.

(d) Yes. As per clause 11 of Part I of First Schedule read with Part III of Second Schedule, CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

ANSWERS

2. (c)	2. (b)	3. (b)	4. (d)	5. (b)
6. (c)	7. (d)	8. (b)	9. (a)	10. (c)
11. (d)	12. (a)	13. (b)	14. (c)	15. (a)

NOVEMBER 2024 PART- II (MTP)

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. PIHU Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Mohan Sohan & Associates have been appointed as statutory auditors of PIHU Ltd. for the FY 2023-24. During the course of audit, CA Mohan, the engagement partner asks the management about the e-mail addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The management of the company asked its sales supervisor to send a confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of PIHU Ltd. also informed CA Mohan that confirmation with respect to two of its trade receivables, namely Moon Ltd. and Sun Ltd. won't be available as a dispute between PIHU Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA Mohan with all the balance confirmation. With respect to the balance confirmation request, which of the following is warranted as per the requirement of the relevant SA?

(a) CA Mohan should not have relied on the explanation provided by the management with respect to the trade receivables, namely Moon Ltd. and Sun Ltd. and he should perform alternative procedures with respect to such trade receivables.

(b) CA Mohan should have obtained direct response from all other trade receivables instead of sales supervisor receiving direct responses from trade receivables and providing them to the auditor.

(c) Both (a) and (b).

(d) CA Mohan should give a qualified opinion as balance confirmation with respect to two trade receivables is not available.

2. CA Rajveer is conducting an audit of a manufacturing company. To streamline the audit process, he uses a sampling tool to select a representative sample of transactions from a large dataset of sales records. He also employs a BOT to cross-check the

company's compliance with statutory payments like GST and TDS. While reviewing the financial statements, Rajveer relies on Excel to automate calculations such as variance analysis and trend reports, ensuring the audit is completed on time and meets regulatory requirements. Which type of audit is being described in the above?

- (a) Digital Auditing.
- (b) Auditing Digitally.
- (c) Manual Auditing with technological assistance.
- (d) Traditional Audit.

3. TK Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2023-24. It consists of two partners CA T & CA K. CA T is brother of the father of the finance director of the company BAC Ltd. CA K is an old friend of the finance director of the company BAC Ltd.

What kind of ethical threat is associated with appointment of TK Associates as an auditor of BAC Ltd.?

- (a) Self Interest Threat
- (b) Advocacy Threat
- (c) Familiarity Threat
- (d) Self-Review Threat

CASE SCENARIO 1

GROSS Ltd., an unlisted company in Jamshedpur, is engaged in the business of spices. Total paid up capital of the company is ₹ 10 Crore. Details of annual turnover and profit of the company for the last 3 years are given below:

Year ended	Turnover (₹ in crore)	Profit (loss) before tax (₹ in crore)
31-03-2022	475.20 (Audited)	65.75
31-03-2023	278.35 (Audited)	01.32
31-03-2024	108.25 (provisional)	(06.25)

The company is using conventional method for preparing spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.

A new competitor viz, Spice Herbs Ltd., had come in the market during the year 2022 and by the end of March, 2023, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of GROSS Ltd. has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 75 lakh. The company approached IDN Bank Ltd. for a term loan of ₹ 70 lakh which would be repaid in 5 years. On 28-12-2023, the bank had sanctioned the loan; and disbursed ₹ 35 lakh till 31st March, 2024.

GROSS Ltd. has appointed M/s Hook & Crook, Chartered Accountants, as auditors of the company at its AGM held on 15-08-2023 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2023-24 in February, 2024 and completed the work by the end of May, 2024. The audit team submitted following findings to the engagement partner:

- PX Ltd., one of the material suppliers, filed a case against the company on 10-08-2023 for a compensation of ₹ 2.5 crore.
- Company has made an estimate for allowance of debtors @ 8%.
- 65% of the value of inventory was only covered in physical verification during the year 2023 due to fire.
- Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule.
- Three incidences of fraud noticed (Total ₹ 1.25 crore) - fraud committed by the Purchase manager ₹ 90 Lakh, by Accounts manager ₹ 75 Lakh and by a cashier ₹ 20 Lakh.

Based on the above facts, answer the following MCQs:

4. Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether GROSS Ltd. is a going concern or not, which of the following audit procedures should not be performed?

- (a) Analyse and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.
- (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.
- (c) Evaluating management's future plan and strategy to increase market share of product.
- (d) Analyse and discuss the company's cash flow and profit of the previous years with the projected accounts.

5. Company has made an estimate for allowance of debtors @ 8%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?

- (a) Judgments about the outcome of pending litigation with PX Ltd. against the company.
- (b) Estimates made for inventory obsolescence that are frequently made and updated.
- (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in marketplace.
- (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors' review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.

6. The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the

conclusions reached by the management and this matter is fundamental to the reader of financial statements?

- (a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.
- (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.
- (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.
- (d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.

7. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?

- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
- (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.
- (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
- (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.

8. The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned, an amount of ₹ 35 lakh was earmarked for the purchase of the machinery - Spice Grinder; but the company has acquired an improved model of machinery, viz, Spice grinder and mixer instead. State which of the reporting option would be correct.

- (a) State the fact in CARO report that out of term loan taken for machinery-spice grinder, ₹ 35 Lakh was not utilized for acquiring the machinery for which it was sanctioned.
- (b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.
- (c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.
- (d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive.

CASE SCENARIO II

The UNCO Bank Ltd. was having 145 branches all over India by the year ending 31st March 2023. Twelve branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2023-24.

- (i) Udaipur branch which deals in treasury functions like investments and interbank borrowings but not in bill re-discounting.
- (ii) Varanasi branch which started foreign exchange business from February 2024.
- (iii) Chandigarh branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Globe and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for four branches for year 2022 - 23. The Bank's management appointed and fixed the remuneration of Globe and Associates, Chartered Accountants as the statutory auditors also for the year 2022 - 23, for the same five branches for which they were given the assignment of stock audit.

At the Kolkata branch of the bank there were high value cash deposits in one of the current accounts during April 2023. Your firm has been appointed as the concurrent auditors for the Kolkata branch for the year 2023-24. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2023 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.

Based on the above facts, answer the following MCQs:

9. *Globe and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the four branches, so whether Globe and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select correct option from the following:*

- (a) *Globe and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors.*
- (b) *Globe and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.*
- (c) *Globe and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit.*
- (d) *Globe and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.*

10. *Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following:*

- (a) *Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.*
- (b) *Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.*
- (c) *Globe and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.*
- (d) *Globe and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.*

77. How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kolkata branch of the bank should be dealt by the concurrent auditor in his audit report? Select the correct option from the following:

- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
- (b) The auditor should verify the details from e-mail sent to currency chest and close the matter.
- (c) As it is a minor irregularity the auditor can ignore the same.
- (d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

CASE SCENARIO III

M/s AIM & Co. Chartered Accountants is a newly started firm. Their first assignment was to conduct a statutory audit of M/s DM Crackers Ltd. (a cracker manufacturing company). Since it was their first audit, the partners immediately accepted the work, without paying attention to the relevant procedures. They started their audit work from 25th May 2023 for the financial year (say previous year) ended on 31st March 2023.

During the course of the audit,

- (I) The auditors requested for the financials of the preceding previous year, along with the details of transactions till 25th May of the current year. The management, however, argued that both the details are out of the scope of audit and hence told that they can't provide the details. However, after repeated request from the auditors, they finally provided in September 2023.
- (II) It was suspected that the senior accountant could have indulged in a fraud amounting to ₹ 115 lakh. However, on further investigation by management it was found that there was a gross mistake on part of the accountant, who had wrongly debited and credited certain accounts by mistake, which amounted to ₹ 17 lakh. The company provided proper and correct evidence for the balance amount; hence the auditors were strongly convinced that no fraud had taken place. Due to the absence of an audit committee, the auditors suggested to the director (finance) to replace the existing accountant as he was poor in basic accounting skills.

Initially, the company thought of handing over the tax audit work to the previous auditor. However, since they had a bad experience last year, in form of an argument regarding the contents to be included in the tax audit report, especially with respect to the disclosure of key ratios, it was decided that the AIM & Co. shall also act as tax auditors.

After the conclusion of the audit, Mr. Shyam, one of the partners of the firm, was confused as to whether the firm could be held guilty of professional misconduct for a plausible violation of any of the provisions of the Chartered Accountants Act, 1949. He contacted Mr. Ghanshyam, his partner, to get clarified about the doubt.

M/s Hire (P) Ltd., a recruitment agency contacted Mr. Shyam regarding a vacancy in one of the leading manufacturing company. Eventually Mr. Shyam resigned as the partner of AIM & Co. and joined the company. The agency raised an invoice for the service rendered by them, which amounted to 0.2% of the CTC offered. Mr. Shyam agreed to pay the amount. However, since his friend was a manager at the agency, he received full discount on the invoice.

Angered by the act of resignation, Mr. Ghanshyam filed a complaint with the Institute of Chartered Accountants of India (ICAI) stating that Mr. Shyam had violated the provisions of the Chartered Accountants Act and is guilty of professional misconduct. Having come to know that Mr. Ghanshyam was the one who had filed a complaint against him, Mr. Shyam decided to take revenge. While thinking for a suitable reason to file a complaint, he recalled the fact that Mr. Ghanshyam was engaged as a Registration Authority for obtaining digital signatures for his clients. Quoting the same, he filed a complaint against Mr. Ghanshyam stating that he was guilty of misconduct for violating the provisions of the Chartered Accountant Act.

Based on the above facts, answer the following MCQs:

12. What can you infer from the situation given in Point 1?

- (a) Management was right. Both the details asked by the auditors were out of the scope of audit.
- (b) The auditors have the right to ask only the details of preceding previous year and not the details of transactions till 15th May of current year.

(c) Both the auditors and the management have the right to ask both the details and the right to not provide both the details.

(d) The auditors have the right to ask both the details. The management's contention that it is out of the scope of audit is wrong.

13. Is M/s AIM & Co. guilty of professional misconduct for violating any of the provisions of the Chartered Accountants Act, 1949? If so, as per which clause?

(a) Yes, as per Clause 1 of Part I of Second Schedule.

(b) Yes, as per Clause 8 of Part I of First Schedule.

(c) Yes, as per Clause 2 of Part II of Second Schedule.

(d) No. The firm has not violated any of the provisions and hence not guilty of professional misconduct.

14. Is Mr. Shyam guilty of professional misconduct, if so, as per which clause?

(a) Yes, as per Clause 1 of Part I of First Schedule.

(b) Yes, as per Clause 2 of Part II of Second Schedule.

(c) No. Mr. Shyam is not guilty of professional misconduct.

(d) Yes, as per Clause 1 of Part II of First Schedule.

15. Is Mr. Ghanshyam guilty of professional misconduct, if so, under which clause?

(a) No. Mr. Ghanshyam is not guilty of professional misconduct.

(b) Yes, as per Clause 11 of Part I of First Schedule.

(c) Yes, as per Part III of Second Schedule.

(d) Yes, as per Clause 1 of Part II of Second Schedule.

ANSWERS

1. (c)	2. (b)	3. (c)	4. (d)	5. (a)
6. (d)	7. (c)	8. (c)	9. (d)	10. (a)
11. (d)	12. (d)	13. (b)	14. (d)	15. (a)

MAY 2024 PART- I (MTP)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carries 2 Marks each.

1. Rohita & Co. Chartered Accountants, mainly into statutory audit and tax audit, has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation. Rohita & Co. is contemplating getting the assistance of an expert with respect to certain matters.

Can Rohita & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?

- (a) Yes, Rohita & Co. should consider whether the assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.
- (b) Yes, SA 620 - Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.
- (c) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.
- (d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

2. During the audit of Good Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

- 79 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ₹ 26 lakh were overdue for more than two years.
- 93 (guaranteed by Government of India) agricultural loan accounts amounting to ₹ 32 lakh were overdue for more than two years.
- 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to ₹ 29 lakh for each company were overdue for more than three and a half months.

What is the total amount of loans that should be classified as NPA by Good Bank?

- (a) ₹ 58 lakh.
- (b) ₹ 145 lakh.
- (c) ₹ 113 lakh.
- (d) ₹ 174 lakh

3. Sam Ltd. appointed M/s Ajeet & Co., Chartered Accountants as Statutory Auditor. The Statutory Auditor found the Internal Audit function reliable and effective. The Statutory Auditor assigned the task of assessing the inventory levels of a few branches where the Statutory Auditor believed that there might be some risk of material misstatement to one of the Internal Auditor Mr. Krushna. Since the Internal Auditor had recently done such assessment as a part of their Internal Audit program, therefore, the Statutory Auditor believed that they could rely on the former's report. Besides this, because of the paucity of time the Statutory Auditors also requested Mr. Krushna to help them in some paperwork including audit documentation.

Before the audit was concluded, Mr. Krushna got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Krushna was not complete. Accordingly, Statutory Auditor further checked the inventory work delegated to the Internal Auditor, however, it was found to be satisfactory.

In view of the above case scenario, state which of the following statement(s) hold true:

- (a) The working of Internal Audit function was reliable and satisfactory; therefore, the allocation of inventory level work was within the authority of the Statutory Auditor. This was further confirmed by the satisfactory work of Internal Auditor, as found out later.
- (b) The documentation would be considered complete as far as the Statutory Auditor's responsibility is concerned as the missing documentation was because of the oversight of the Internal Auditor.
- (c) Since the Internal Audit had conducted the similar inventory level checking activity recently, therefore, because of familiarity with the audit the Statutory Auditor was right in delegating the same to the Internal Auditor.

(d) The Statutory Auditor should not have delegated the inventory level checking to the Internal Auditor, as the risk assessed was material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain confidentiality during all the stages of the audit. Therefore, it was wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.

CASE SCENARIO I

ABC Limited is a public company listed on the National Stock Exchange, having its registered office in Delhi. The company is primarily engaged in the manufacturing of pharmaceutical products. During the preceding financial year, the company recorded a remarkable turnover of ₹ 5000 crores, accompanied by a net profit of ₹ 805 crores. Additionally, the company has secured a loan facility from the State Bank of India amounting to ₹ 1000 crores.

PQR & Co., a firm of chartered accountants based in Delhi, has been appointed as a joint auditor along with PK & Co. and XYZ & Co., an esteemed chartered accountant's firm in the same location i.e. Delhi. ABC Limited has already completed the appointment-related formalities as well as they have also signed engagement letters. The engagement letter contains the details on the objective and scope of the audit, responsibilities of the auditors, management, and identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 50 Crore as the materiality threshold, calculated at 1% of turnover.

Now, during the audit, PK & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 201 Lakhs.

Additionally, as a part of the audit procedure, the auditor has also sent confirmation requests to 100 suppliers to confirm the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, in this regard the confirmation responses were received only from 37 Suppliers.

Moreover, as a part of the audit procedure, auditors of the ABC Limited also wants external confirmation from the 37 Debtors to confirm the year end balance, however in this process, the management refuses auditors to allow to send the confirmation and after asking the reason for such refusal, auditors came to the conclusion that, such

refusal is unreasonable and the auditor is also unable to obtain relevant and reliable audit evidence from alternative audit procedures.

In addition, while forming an opinion, PQR & Co. had a different opinion on the valuation of inventories, but PK & Co. and XYZ & Co. had the same opinion and accordingly, given their majority stance, both PK & Co. and XYZ & Co. assert that PQR & Co. must endorse a Common audit report aligned with their opinion.

Apart from this, XY Private Limited, an associate enterprise of ABC Limited, the company XY Private Limited appoint ZMR & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor of XY Private Limited for the first time for the current financial year. The financial statement of XY Private Limited was audited by its predecessor auditor in the previous financial year. During the audit for the current financial year, ZMR & Co. came across a material misstatement in the opening balance, that affects the current year financial statement. In this regard, the auditor also discusses the said facts with the management. However, the management does not accurately pay attention to the same and does not either adequately account during the year or disclose or present the same in the financial statement of current year. The Other Important financial information of XY Private Limited is as below:

(₹ in Crores)

Sr. No.	Particulars	Current Year	Previous Year
1.	Paid up Share capital	2.00	2.00
2.	Credit Balance of Profit & Loss Account	1.75	0.75
3.	Turnover	35.00	25.00
4.	Borrowing from Banks & Financial Institution	3.50	2.50

On the basis of the above-mentioned facts, you are required to answer the following MCQs,

4. In the above given case, what should be the next course of action on the part of auditors of ABC Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable and auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures?
 - (a) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.

(b) Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.

(c) Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.

(d) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.

5. Whether PQR & Co. should adhere to the opinion formulated by PK & Co. and XYZ & Co. or explore alternative options.

(a) PQR & Co. will have to go with the opinion framed by the majority of auditors.

(b) PQR & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.

(c) PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should be prominently highlighted within the emphasis of the matter paragraph.

(d) PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.

6. In the above given case, what should be the course of the action on the part of ZMR & Co., when they found material misstatement which has not been accurately accounted or presented or disclosed in the financial statement of current year?

(a) ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.

(b) ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).

(c) ZMR & Co. should take such matter in the written representation received from the management and no need to report such fact in audit report.

(d) ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.

CASE SCENARIO II

MN & Associates, a firm of Chartered Accountants, having CA. M and CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. M realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. N provides management consultancy and other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N posted his framed photograph on his website wherein he was receiving the said award from the Institute.

Upon hearing about the efficient services provided by MN & Associates Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 50/-.

Based on the abovementioned facts, you are required to answer the following MCQs:

7. With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates?

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 50/-.

(a) (i) Only.

(b) (ii) Only.

(c) Either (i) or (ii).

(d) Neither (i) nor (ii).

8. MN & Associates sought direct assistance from CA- IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.

(a) CA- IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.

(b) MN & Associates cannot ask CA- IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA- IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.

(c) MN & Associates cannot ask CA- IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

(d) MN & Associates can ask CA- IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

9. As per the Chartered Accountants Act, 1949, under which clause CA- N is liable for misconduct?

a. Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

b. Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

c. Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

d. Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

10. Before signing the tax audit report, CA. M sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949?

(a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.

(b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

(c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.

(d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

CASE SCENARIO III

Sun Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Sun Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, and basic chemicals. These products find application in various sectors, from pharmaceuticals and textiles to paints and coatings, construction, and agriculture.

RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2023-24 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity. During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitation. But the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, Finally, Mr. Rahul with his engagement team, derived on a conclusion that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 15th November, 2023. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

7. What was the responsibility of Mr. Rahul when the management refused to remove the said limitation?
 - (a) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (b) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.
 - (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.

12. What was the responsibility of RKM & Co. with respect to the issue of limited review report at the time of resignation?

- (a) Limited review report for third Quarter was required to be issued.
- (b) No further limited review report was required to be issued as already it was issued for the second Quarter at the time of resignation.
- (c) Limited review report for third Quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued
- (d) Limited review report for third Quarter was required to be issued subject to the terms of the audit engagement.

13. Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal?

- (a) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
- (c) In the given circumstance withdrawal from engagement mandatory was and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.

14. Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper?

- (a) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.
- (b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.

(c) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management and refusal to provide reasons for the same and accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.

(d) No, the reasons should have been a little lengthier and further the exact reason must be provided to the new auditor to be appointed by the company.

15. Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM &Co. with respect to withdrawal from engagement and issue of limited review report at the time of resignation?

(a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third Quarter were required to be issued.

(b) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second Quarter was required to be issued.

(c) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.

(d) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second Quarter was required to be issued.

ANSWERS

1. (a)	2. (c)	3. (d)	4. (c)	5. (d)
6. (b)	7. (c)	8. (b)	9. (b)	10. (b)
11. (a)	12. (c)	13. (b)	14. (a)	15. (b)

MAY 2024 PART- II (MTP)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. An auditor was auditing the quarterly financial results prepared in accordance with Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The financial results are prepared using recognition and measurement norms of Ind AS 34 and include disclosures as prescribed by SEBI. These financial results would be hosted on the website of the entity and the stock exchange. Should the auditor include Key Audit Matters in the audit report on such financial results?
 - (a) No, SA 701 applies to audit of complete set of general-purpose financial statements of a listed entity.
 - (b) Yes, SA 701 applies to audits of any entity.
 - (c) No, SA 701 applies to review of the complete set of general-purpose financial statements of any entity.
 - (d) Yes, SA 701 applies to any audit of listed entity.
2. CA. Arvind and CA. Deepak were jointly appointed as auditors of Pullcord Ltd. to ensure efficient audit and reporting, Arvind and Deepak took the following steps:
 - i. After identification and allocation of work among themselves, the work allocation document was signed by both of them. Since in any case they were jointly responsible, they did not think it necessary to inform those charged with governance about the allocation.
 - ii. They decided to obtain a common engagement letter since their appointment was common.
 - iii. Since their area of work was different, they decided to obtain a separate management representation letter so as not to mix up the matters.Which of the above were not correct in view of SA 299?
 - (a) i, ii and iii
 - (b) i and iii
 - (c) i and ii
 - (d) ii and iii

3. Mr. L, (friend of Mr. M) a CA in practice invited Mr. M to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s LM & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. L informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of the Chartered Accountant Act, 1949 and Regulation was accepted by all the four partners.

Which among the name shall be suitable to the newly started 'Network Firm'?

- (a) LM and Co.
- (b) LM & Associates.
- (c) LM & Affiliates.
- (d) LM and Networks.

CASE SCENARIO 1

Maulik and Javeri Associates is a Firm of Chartered Accountants that provides assurance services to many companies, including listed companies. The Firm have offices across many locations in India, with subject matter experts in most of these locations. The firm has established a comprehensive quality management system covering leadership responsibilities for quality within the firm, ethical requirements, acceptance, and continuance of client relationships and specific engagements based on the SQC 1 issued by the ICAI. During the current year, the audit engagement of a listed company was picked up for an inspection by an appropriate authority. The inspection covered various aspects of the audit of financial statements and included an assessment of the firm's quality control system. The reviewer decided to discuss the following with the audit team members:

1. The reviewer enquired about the roles and responsibilities of CA Maulik. CA Maulik explained that the engagement team is comprised of him as the engagement partner and other professionals, including the engagement in-charge. CA Javeri was the engagement control quality reviewer. As the engagement

partner, he was responsible for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and the auditor's report being appropriate in the circumstances take responsibility for reviews being performed in accordance with the Firm's review policies and procedures. He also explained that he has already completed 7 years as an engagement partner and has decided to continue as an engagement partner for the next year as well. The Firm's policy permits that an engagement partner can continue consecutively for 15 years.

2. The reviewer enquired about the roles and responsibilities of CA. Javeri, the engagement control quality reviewer. CA. Javeri explained that the EQCR plays an important role in the quality control process of an audit and is key to safeguarding audit quality. The Firm has established a comprehensive system that prescribes the eligibility of EQCR, the need to maintain objectivity by EQCR, and considerations for carrying out effective EQC reviews. Specifically, in this engagement, CA. Javeri explained that he has rich experience in handling direct and indirect tax matters and was selected by CA. Maulik. There was no formal letter confirming his selection as EQCR. The listed company had significant GST litigations. CA. Javeri ensured that he was involved in forming the audit team's judgments relating to these litigations, including making relevant provisions. CA. Javeri confirmed that the EQC review was conducted in periodic intervals, and the engagement team had resolved all the observations raised during the EQC review.
3. The reviewer enquired about the areas that require discussion with management/ those charged with governance or areas that require significant efforts. CA. Maulik explained that during the current year, the engagement team observed material prior errors in recognition of revenue, including errors in recognition of revenue on a gross basis instead of a net basis. These errors were identified after the year end and required significant judgement and efforts by the engagement team. After many deliberations, the management agreed to correct the material prior to the period errors by restating the comparative information as per applicable GAAP. Relevant internal controls were accordingly modified after the year end. Considering the complexities involved, the measurement of revenue was identified as a key audit matter.

4. The reviewer enquired about the rational for material difference between the amount of revenue stated in the financial statements and the corresponding amount in the Board report included as a part of the Annual Report. CA. Maulik explained that auditors are required to comment on the true and fair view of the financial statements and are not required to comment on the Annual Report. He also explained that the Board Report was not provided to the auditor till the date of the audit report. Accordingly, after considering the requirements of SA 720, a specific statement was made in the audit report regarding the non-availability of the Board Report and that the auditor is not responsible to consider the Board Report which is expected to be received the date of the audit report. Thus, any discrepancy between the Board Report and the audited financial statements does not require any consideration. However, as good governance, CA. Maulik has obtained a reconciliation of the amount of revenue between the Board Report and the financial statements.

Based on the abovementioned facts, you are required to answer the following MCQs

4. Whether the selection of EQCR is as per the requirements of SQC 1?

- (a) No. EQCR's objectivity was not maintained since it was selected by the engagement partner, and no formal communication was made regarding such selection.
- (b) Yes. CA. Javeri is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to the company's tax litigations.
- (c) No. The EQCR's objectivity could not be maintained since it was selected by the engagement partner and made decisions for the engagement team.
- (d) Yes. CA. Javeri is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to tax litigation. The EQC review was conducted in a timely manner before the issuance of the audit report.

5. In the given situation, which threat will be created if CA. Maulik serves for the assurance engagement over a long period of time?

- (a) Self-interest threat.
- (b) Self-review threat.
- (c) Familiarity threat
- (d) Intimidation threat

6. Can CA. Maulik serve another year as the engagement partner?

- (a) Yes. Companies Act, 2013 do not provide for mandatory rotation of engagement partner.
- (b) No. SEBI Listing Regulation require mandatory rotation of engagement partner after completion of 5 years each.
- (c) Yes. Since permitted as per Firm policies.
- (d) No. Existing engagement partner of a listed company cannot serve as engagement partner beyond 7 years.

7. The reviewer is of the view that the audit opinion on internal controls under section 143(3)(i) of the Companies Act 2013 should have been modified as material weakness existed in the comparative information. Do you agree with the reviewer?

- (a) Yes. Restatement of comparative information due to error is a strong indicator of material weakness in internal controls. Also, relevant internal controls were not corrected by the end of the year.
- (b) No. All prior-period errors were corrected as per applicable GAAP by restating the comparative information.
- (c) No. Judgemental matters, where divergent views are possible, are not indicative of material weakness.
- (d) No. Internal controls were corrected by the date of the audit report.

8. Whether CA. Maulik should consider the Board Report or not as the audit report was already issued:

- (a) The Board Report should not be considered as auditors don't have any obligation to consider Other Information obtained after such date.

- (b) The Board Report should be considered since auditors' responsibility in relation to Other Information is uniform irrespective of the point of their availability.
- (c) The Board Report should be considered since subsequent events are required to be assessed.
- (d) The Board Report should not be considered to align with the audit report, which specifically excludes Other Information obtained after the date of the audit report.

CASE SCENARIO II

Meera Films Ltd. is a distributor of movies in the state of West Bengal. The Company has a significant interest in other operating segments and operates through multiple subsidiaries. At the consolidated level, major operating segments comprise of movie distribution, selling tea from self-owned tea gardens at Darjeeling, real estate development for commercial purposes and investment in start-up entities. The Group was founded jointly by Mr. Madan Mohan (the Group Managing Director) and Mr. Kishore Kumar, an old confidant of Mr. Madan Mohan.

Unfortunately, Mr. Madan Paul met with an accident and expired. His untimely death rattled the entire Group and disrupted the business operations of the Group. The Board of the Parent Company decided to induct his son - Mr. Manish Paul - as the Managing Director of the Parent Company and the Group. The appointment of Mr. Manish Paul enraged Mr. Kishore Kumar, and he filed an application of oppression of mismanagement with the National Company Law Tribunal alleging various wrongdoings, including inappropriate related party transactions, siphoning off funds through connected entities and manipulation of financial statements. Considering the gravity of the allegations, the existing auditor of the Parent Company tendered its resignation. The Board appointed Mukesh and Rafi LLP as the new auditors. Mukesh and Rafi LLP informed the previous auditor over the phone and accepted the appointment.

After 5 months, Mukesh and Rafi LLP sent an email to the previous auditor as a professional courtesy stating that the appointment was for the auditor. The previous auditor replied by stating 'Received'.

To deal with these allegations, the Board of the Parent Company initiated a forensic investigation covering all the major operating segments through an independent professional services firm. The conclusion of the investigation significantly delayed the submission of financial statements for the current year of the Parent Company. The outcome of the forensic investigation included the following:

1. SaltLake Ltd.—a subsidiary—is the real estate arm of the Group and has significant receivables from various Partnership Firms/ LLPs. The investigation revealed that these advances, which have been outstanding for more than a decade, were given for the purchase of land. Further, the identity of these entities could not be traced as no PAN/ GST details were available with the subsidiary company. Any attempt to contact these entities proved futile.

It was also noted that the auditors of SaltLake Ltd. had already completed the audit under the Companies Act 2013. Hemant and Manna LLP - the auditor of SaltLake Ltd. - informed the investigator that, in their view, the allegations do not affect the financial statements of SaltLake Ltd. and accordingly have issued an unmodified audit opinion on the financial statements of the current year. The financial statements and the audit report were adopted by the shareholders in the AGM.

2. Meera Films Ltd. - the parent company historically purchases music rights from Gaana Ltd., which is approximately INR 20 crores per annum. Gaana Ltd. is controlled by Mr. Kishore Kumar. At the beginning of the current year, an advance of INR 50 crores was given to Gaana Ltd. for the purchase of music rights. Any amount remaining unadjusted would be repaid over a period of 5 years. The advance amount is highly disproportionate to the expected purchase amount to be made, and the credit period is not in line with normal credit terms. The investigation revealed that the advance was given to provide financial support to Gaana Ltd. as it was undergoing financial distress. At the end of the year, INR 30 crores remained unadjusted. No interest was charged on the unadjusted amount.
3. Darjeeling Tea is a cash-generating unit of Chai Ltd., a subsidiary company. The unit generates negative cash flows and is expected to do so in the future. Accordingly,

it should have been impaired. However, the cash flow projection was fabricated to avoid recognition of impairment expenses in the previous years.

There was a disagreement between the subsidiary management and its auditor. The auditor in the audit report under the Companies Act 2013 issued a qualified opinion stating that impairment loss was under-recorded. From the context, the consolidated financial statements understatement of impairment expense would reduce the consolidated:

- Net Profit by 1%
- Total assets by 0.5%
- Net worth by 2%

9. Is Mukesh and Rafi LLP guilty of professional misconduct for accepting the audit of Meera Films Ltd.?

(a) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. The email response of the previous auditor does not include reasons for their resignation.

(b) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should have intimated its appointment as auditor to the previous auditor through registered post (instead of sending an email).

(c) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should not have intimated its appointment by telephone.

(d) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should have communicated to the predecessor auditor via email before accepting appointment.

10. Management of Meera Films (Parent Company) reconciled its balances with the customers and vendors at an interim period. Mukesh and Rafi LLP also decided to send independent requests to the customers and vendors to confirm their balances as of the year's end. With the risk of material misstatement assessed to be low, the top 15 parties, comprising 5% of customers and 7% of vendors, were selected to obtain external confirmations. Is the sampling strategy appropriate?

(a) Inappropriate. Sample size appears to be insufficient. Method of sample selection does not allow each item in the population a chance of selection.

(b) Inappropriate. Sampling method is judgmental and not statistical based.

(c) Inappropriate. Considering the underlying audit risk, external confirmation from all customers and vendors should have been obtained.

(d) Inappropriate. Rely on confirmations obtained by management and perform roll-forward procedures to arrive at the year-end balance.

11. Would the advance for purchasing music rights to the extent remaining unadjusted as at the year-end (i.e. INR 30 crores) require reporting under Clause 3(iii) of CARO 2020 (i.e. grant of loans, etc.)?

(a) No. Advance for purchase of goods is not a loan/ advance in the nature of loans. Thus, it is not covered under the above clause.

(b) No. In the absence of interest charges, the advance would neither qualify as a loan nor be an advance in the nature of a loan. Thus, it is not covered under the above clause.

(c) Yes. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan.

(d) Yes. Advance for purchase of goods is covered under the above clause.

12. Mukesh and Rafi LLP considered the qualification of the auditor of Chai Ltd. They conclude that the audit opinion on the consolidated financial statements of the Group should be:

(a) Unmodified as the effect of misstatement is not material to the Group.

(b) Unmodified as the effect of misstatement is not material. However, the subsidiary auditor's issued qualified opinion should be highlighted in the audit report through an Emphasis of Matter paragraph.

(c) Qualified as the subsidiary auditor has issued a qualified opinion.

(d) Qualified to the extent it relates to the subsidiary and unmodified to the extent it relates to the remaining part of the Group.

CASE SCENARIO III

M/s Vrinda & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of ICCB Bank, (referred to as 'Bank') for the Financial Year 2022-23.

During the course of the audit, the auditor found that the bank has a balance with a Swiss based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank.

The engagement partner, Mr. Mitansh, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.

Amount of interest accrued and not due on deposits amounting to ₹ 87,75,000/- The balance of Interest rate swaps amounting to ₹ 81,26,500/-.

Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements. The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team. The details with respect to unaudited branches are as under:

Interest Income: ₹ 27,86,000/- Interest Expense: ₹ 13,38,220/- Total advances: ₹ 5,10,22,000/- Total deposits: ₹ 3,38,00,000/-

The auditors also discussed the following with the audit staff and the bank management during the course of the audit:

Computation of Demand and Time Liabilities. Computation of Tier I & Tier II capital of the Bank. Based on the above facts, answer the following:

13. What should be the treatment of Interest on deposits accrued but not due amounting to ₹ 87,75,000/- appearing in the financial statements of ICCB Bank.

- (a) The amount should be included in deposits amount.
- (b) The amount should not be included in amount of deposits.
- (c) The amount should be shown under the head other liabilities and provisions.
- (d) Both b & c.

14. The amount of Interest Rate Swaps amounting to ₹ 81,26,500/- should appear as in the financial statements of the bank :-

- (a) Contingent Liabilities
- (b) Other Liabilities and provisions
- (c) Current Liabilities
- (d) Deposits

15. Which of the following is correct statement related to the requirement laid down by the RBI for Vrinda & Associates while verifying the compliance with the SLR requirements of the bank?

- (a) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.
- (b) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.
- (c) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays.
- (d) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.

ANSWERS

1. (a)	2. (b)	3. (c)	4. (c)	5. (c)
6. (d)	7. (a)	8. (b)	9. (d)	10. (a)
11. (c)	12. (a)	13. (d)	14. (a)	15. (b)