

FINAL COURSE

PAPER : 3

**Advanced Auditing
and Professional Ethics**

**BOOKLET ON MCQs &
CASE SCENARIOS**



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Preface

In certain core papers at the Intermediate and Final levels, 30 marks have been dedicated for objective type questions in the form of MCQs. These questions would be compulsory and there would be no internal or external choice. MCQs carrying 30 marks segment may comprise of case scenarios followed by a few MCQs and Independent MCQs to assess higher order application and analytical skills of students. Each MCQ shall have four options out of which there should be only one correct option. The MCQs would be application-oriented in nature and would arise from the given information in the case scenario. The remaining independent MCQs will be knowledge /application based in nature.

This booklet of CA. Final Paper 3 Advanced Auditing and Professional Ethics is a useful tool while preparing for the examinations. This booklet on Multiple Choice Questions and Case scenarios includes 100 Multiple choice Questions and 30 Case Scenarios including their answers. The Board of Studies, through this release of booklet wishes to create awareness amongst the students about nature of questions based on the Case Scenarios and independent scenario, to have understanding of the subject and developing the skill of applying, the relevant laws, notifications & circulars issued by various Regulating Authorities such as RBI, MCA, SEBI, IRDA, CBDT, CBIC etc., Standards on Auditing, Accounting Standards/IND AS, Statement on Peer Review, Code of Ethics etc., in the given situation.

After attaining conceptual clarity by reading the Study Material, you are expected to apply the concepts and provisions learnt in answering the independent and case scenario based MCQs given in this booklet. You have to read the case scenario and MCQs, identify the provisions involved, apply the provisions correctly in addressing the issue raised/making the computation required in the MCQ, and finally, choose the correct answer.

This process of learning concepts and provisions and solving independent and case scenario based MCQs based thereon will help you attain conceptual clarity and hone your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude

This booklet is relevant for May 2021 Examination and onwards.

Wishing you happy reading!

MULTIPLE CHOICE QUESTIONS

1. PMP Ltd is an associate of PMP Inc, a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures.

The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2019.

For the financial year ended 31 March 2020, the auditors made some changes in their audit team. While the audit partner remained the same, the field incharge has been replaced, as the field incharge who was engaged in the audit of the financial statements for the year ended 31 March 2019 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client.

The audit team commenced the work for audit of the year ended 31 March 2020 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant.

The audit partner without concurrence of the EQCR finalized the audit and issued the audit report.

In the given situation, please advise which one of the following is correct?

- (a) The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).

2 ADVANCED AUDITING AND PROFESSIONAL ETHICS

- (b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner.
 - (c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report.
 - (d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.
2. VKPL & Associates, a firm of Chartered Accountants, have been operating for the last 5 years having its office in Gurgaon. The firm has staff of around 25 persons with 3 Partners.

The firm has been offering statutory audit, risk advisory and tax services to its various clients. The major work of the firm is for taxation services. The audit partners also discussed that the firm needs to work significantly to improve the quality of the services they offer and that would also help the firm to grow its business. Considering this objective, the firm started training programmes for the staff which were made mandatory to be attended.

During one of the training programmes on quality, a topic was discussed regarding the information that should be obtained by the firm before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. It was explained that the following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate (as per SA 220):

- (i) The integrity of the principal owners, key management and those charged with governance of the entity;
- (ii) The qualification of all the employees of the entity;
- (iii) Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- (iv) The remuneration offered by the entity to its various consultants;
- (v) Whether the firm and the engagement team can comply with relevant ethical requirements; and
- (vi) Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

We would like to understand from you which of the above mentioned points are relevant for the topic under discussion?

- (a) i, ii, iv and v.
 - (b) ii, iv, v and vi.
 - (c) iii, iv, v and vi.
 - (d) i, iii, v and vi.
3. ZOV is a private limited company engaged in the business of mining. The company's operations are fairly large and its turnover is INR 4,000 crore on an annual basis. Due to the nature of the business and the size of the company, the company has appointed a firm of Chartered Accountants as its statutory auditors who have the relevant experience of the industry in which the company has been operating.
- During the course of the audit of the financial statements for the year ended 31 March 2020, the audit team had various observations which resulted in many adjustments in the financial statements of the company and that was also appreciated by the CFO of the company.
- At the time of final reviews of the audit team, the audit partner requested working paper on final analytical procedures from the engagement team, however, the engagement team explained that they

4 ADVANCED AUDITING AND PROFESSIONAL ETHICS

performed substantive testing procedures which also resulted in some adjustments and the same was incorporated in the final set of financial statements given to the audit partner for the review and accordingly there was no need to perform final analytical procedures. Audit partner was not convinced with this and requested the engagement team to perform this procedure. Considering that the timeline to conclude the audit was approaching, the audit partner also requested the CFO that the audit team would need some more time to perform final analytical procedures. CFO was very impressed with the engagement team and agreed for the time but he also told the audit partner that work of the team was excellent and hence the audit partner should avoid these additional procedures.

You are requested to give your view in respect of this matter as per SA 520.

- (a) The explanation of the audit team was correct. After doing substantive testing which also resulted in audit adjustments, there was no need to perform final analytical procedures.
 - (b) The suggestion of CFO should have been considered by the audit partner as the CFO was observing the work of the engagement team and hence he could assess that better than the audit partner.
 - (c) The requirement in view of the audit partner was valid. The conclusions drawn from the results of final analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.
 - (d) The audit team did the right thing by not performing final analytical procedures, however, one additional procedure in that case should have been - obtain the document containing the analysis performed by the client on the financial statements. This document is required to be assembled in the audit file.
4. BDJ Private Ltd was established in 2001 and since then the company's operations have grown significantly. The company is based in Kanpur and has branch offices outside Kanpur.

The company is engaged in tours and travels business and because of the nature of the business, it has voluminous transactions. The annual turnover of the company is INR 700 crore.

During the audit of the financial statements of the company for the year ended 31 March 2020, the auditors observed wide variation in various details of sales and various expenses as compared to last year. Various balances of trade receivables, loans and advances, statutory liabilities showed significant increase and many balances were found to be non-moving which were aged for more than 3 years.

On the basis of the materiality and planned procedures, the audit team requested the client for testing of various samples for sales, expenses etc. The client observed that the number of samples that the team has requested increased as compared to last year and asked the team to cut down on the number of samples so that it is the same number of samples which were tested in the previous years.

The audit team did not agree with this and explained various factors which the team had considered for sample selection and the reasons for changes in the samples and also explained the requirements of SA 530 to the client but the client still did not agree.

Now there is a situation of deadlock and you are requested to provide your guidance to resolve this matter.

- (a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.
- (b) The explanation of the audit team is not valid. Referring SA 530 was not correct in this case. The audit team should have explained their entire approach around risk assessment to the client before starting the fieldwork and should have formally shared that with the client in writing.
- (c) In the given situation, the audit team instead of getting into any arguments should cut down the number of samples and should increase their procedures around analytical work. That would resolve the problem.

6 ADVANCED AUDITING AND PROFESSIONAL ETHICS

(d) The audit team should make a formal request in writing for these details from the client and if the client still refuses then they should report this matter to the audit partner. In that case, the auditing standards require audit partner to check some of the documents which may not be provided by the client to the audit team.

5. SKJ Private Ltd is engaged in the business of construction. The company has also got some real estate projects few years back on which it started the work in the last 2 years. The annual turnover of the company is INR 600 crore and profits of INR 40 crore.

The statutory auditors of the company got rotated by another audit firm due to mandatory audit rotation requirements as per the Companies Act 2013.

The new statutory auditors of the company started audit of the financial statements for the year ended 31 March 2020 in May 2020. The audit team also requested the client to provide certain information on the opening balances to perform their audit procedures. Initially the management did not provide any information to the auditors on the opening balances thinking that this is not within the scope of their work, however, after going through the auditing standards, the management agreed and provided the required information.

Later on, the audit team also started requesting information for the period from 1 April 2020 to 31 May 2020. With this requirement, CFO of the company got very upset and angry and set up a meeting with the senior members of the audit team. CFO raised a concern that the audit team has not been doing the work properly and has been asking for unnecessary information like information on opening balances and then the information for the period after 31 March 2020. The audit partner explained to the CFO that everything requested by the audit team has been as per the auditing standards, however, CFO said that in the earlier years, the previous auditors never asked for such information.

You are requested to give your view in respect of this matter.

- (a) The requirement of the auditors for opening balances was valid but for the period after 31 March 2020 is completely wrong as

that is out of their scope for the current year's audit. They can ask for those details during the audit of next year.

- (b) The concern of the CFO was valid. He has seen the previous auditors not performing such audit procedures and hence the new audit team should also follow the same approach which was followed by previous auditors as that would lead to efficient in audit.
 - (c) The audit team should set up a meeting with previous auditors wherein it should be assessed why different approach was followed by the previous auditors. On the basis of that discussion with the previous auditors, next course of action should be decided.
 - (d) The requirement of the auditors for opening balances as well as for the period after 31 March 2020 is valid. After the requirements of SA 510 and SA 560, audit team is required to perform these procedures.
6. M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. for the FY 2019-20. During the year, the company has entered into some related party transactions. CA Ram, the engagement partner has taken a management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions. Is there any further responsibility of CA Ram with respect to the other procedures to be performed for related party transactions?
- (a) No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter.
 - (b) No, there is no further responsibility of CA Ram as the audit firm is responsible for verifying the balances and disclosure of related party transactions. The identification of related party transactions is the responsibility of the management of Venus Ltd.
 - (c) Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately

8 ADVANCED AUDITING AND PROFESSIONAL ETHICS

account for related party relationships, transactions and balances.

- (d) Yes, the auditor has the responsibility to detect fraud and error with respect to the related party transactions.
7. MNO Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Ajay Vijay & Associates have been appointed as statutory auditors of MNO Ltd. for the FY 2019-20. During the course of audit, CA Ajay, the engagement partner asks the management about the email 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 confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of MNO Ltd. also informed CA Ajay that confirmation with respect to two of its trade receivables namely Sports Star Ltd. and Kids Zone Ltd. won't be available as a dispute between MNO Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA Ajay 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 Ajay should not have relied on the explanation provided by the management with respect to the trade receivables namely Sports Star Ltd. and Kids Zone Ltd. and he should perform alternative procedures with respect to such trade receivables.
- (b) CA Ajay 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 Ajay should give a qualified opinion as balance confirmation with respect to two trade receivables is not available.
8. M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2019-20. While conducting the audit, CA Aman, the engagement partner noticed the following:

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

CA Aman should consider the above as indicative of:

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

9. Auditors do not normally examine all the information available to them as it would be impractical to do so and using audit sampling will produce valid conclusions. Random selection ensures that all items in the population have an equal chance of selection, e.g. by use of random number tables or random number generators. Block sampling method includes selection of a block or blocks of continuous items from within the organisation. Which of the following selection can be considered as block sampling method?
- (a) Auditor Mr. A divided the trade receivables into 2 groups as: balances above ₹ 20 lakh and balances between ₹ 10 lakh to ₹ 20 lakh and selected different percentage of items from each group.
 - (b) Auditor Mr. A determined the starting point as 10 for the list of receivables and selected every 10th balance for receivables thereafter as samples to perform the tests.
 - (c) Auditor Mr. A selected sample size as all the high-value balances from the list of trade receivables to ensure that these balances shown are correctly recorded.

10 ADVANCED AUDITING AND PROFESSIONAL ETHICS

- (d) Auditor Mr. A uses a sample of 50 consecutive cheques to test whether cheques are signed by authorised signatories rather than picking 50 single cheques throughout the year.
10. You are the audit senior of Tey & Co are responsible for the audit work to be managed for the fixed assets of the company. Tey & Co has 4 properties amounting to ₹ 12.5 crore. One of the important tasks ahead for you is to confirm the ownership of these properties.
- Which of the following would provide the most persuasive evidence of the ownership?
- (a) To conduct a physical inspection of all the properties located at different areas.
- (b) To ask the management registration documents of these properties and inspect and verify them.
- (c) To check whether all the properties are recorded properly in the fixed asset register and depreciation has been calculated correctly.
- (d) Enquire with the management, if these properties are insured and review the insurance documentation.
11. Professional scepticism is defined as:
- (a) An attitude to avoid significant mistakes which could influence the economic decisions of users taken on the basis of the financial statements.
- (b) The application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
- (c) An analysis of management decisions in terms of failed outcomes.
- (d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

12. Professional judgement is defined as:
- (a) The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
 - (b) An attitude to avoid significant mistakes which could influence the economic decisions of users taken on the basis of the financial statements.
 - (c) Decision making about the requirements of the accounting profession.
 - (d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
13. Judgements about materiality are made in the light of surrounding circumstances, and are affected by:
- (a) The auditor's perception of the financial information needs of users of the financial statements.
 - (b) Both the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement.
 - (c) The size or nature of a misstatement.
 - (d) The company's control environment.
14. The following inherent limitations in an audit affect the auditor's ability to detect material misstatements except:
- (a) Test and sampling.
 - (b) Audit process permeated by judgement.
 - (c) Poor corporate governance.
 - (d) Audit evidence.

12 ADVANCED AUDITING AND PROFESSIONAL ETHICS

15. AK & Co, a firm of Chartered Accountants, have been operating for the last 6 years. Due to the quality of service offered by the firm, it has made its name and is quite renowned especially in Southern India where its head office is located. The firm has a staff size of 240 including graduates, Chartered Accountants, Management Consultants, Company Secretaries and lawyers.

The firm has 3 branches other than head office at Bangalore, Chennai and Pune.

The firm has got many clients for statutory audit over the period and ensures that to maintain the quality of work, proper planning is done by each team before starting any engagement.

One of the engagement team, picked up for statutory audit of Sun Private Ltd, was involved in the process of planning of audit for the financial year ended 31 March, 2020.

The audit for the financial year ended 31 March, 2019 was conducted by a different engagement team. However, the engagement team of Sun Private Ltd for the current year has got the industry experience.

The audit team is confused during the planning work and would like to have your views on following points. Please advise by answering one of them.

- (a) The engagement team should consult the previous year's engagement team during the course of their planning.
- (b) The engagement team should be independent and hence, cannot consult the previous year's engagement team during the course of their planning.
- (c) The engagement team needs to maintain confidentiality and hence, cannot consult the previous year's engagement team during the course of their planning.
- (d) Only the Partner who is going to sign the audit report may consult the previous year's audit team.

16. Kshitij Private Ltd is a company based out of Kochi having operations primarily in Europe. Because of the nature of the operations of the company, it is required to prepare its financial statements as per International Standards for reporting to the local regulatory authorities over there.

Since the business is based in Europe, the audit team is also required to visit the locations wherever the company has offices and is accordingly, required to perform certain audit procedures over there.

During the audit of this company for the financial year ended 31 March, 2020, the auditors, who had planned their work appropriately and had a large team for conducting the audit, were facing lot of challenges at various stages.

They were also required to revisit their materiality level during the course of the work.

However, at the time of final reviews when this was discussed with the Audit Partner (Audit Incharge), he was not convinced with the approach of the audit team wherein they reassessed their plans continuously resulting in waste of time.

In this situation, please advise which one of the following would be correct.

- (a) Audit Partner being the senior most team member is right and same thing should be considered by audit team by documenting it in the audit file.
- (b) Audit Partner's view is not correct as the audit team did the right thing.
- (c) Audit Partner was correct, however, during the course of an audit which required visits at various locations it was mandatory.
- (d) Audit Partner's view is not correct because the materiality was revised by the audit team which is a big thing and same should have been considered by the audit partner.

14 ADVANCED AUDITING AND PROFESSIONAL ETHICS

17. RJ Private Limited having its office at Bangalore and operations spread across Southern India, had a discussion with its statutory auditors regarding the audit plan and the timelines.

In the past years, there have been significant delays in completion of audit work and the management wanted that for the current year, audit should get completed on time. For doing this, the audit team suggested that the information for the purpose of audit should be ready on time and only then the timelines as agreed can be achieved.

On the basis of the discussions with the client & the auditors and internal discussions amongst the audit team members, a detailed audit programme was prepared by the audit team for the current year's audit. But the audit team discussed that they will not document this audit programme till the completion of the audit work because at various stages, the work may require changes. If the audit team documents the audit programme then it would create problems later on at the time of assembling of the audit file wherein the audit team would have to show the changes made by them in the audit programme during the course of the audit.

You are required to share your views in respect of this understanding and approach of the auditor.

- (a) The decision of audit team regarding not documenting the audit programme is very good as this would avoid unnecessary problems of documentation of changes made in the audit programme at the time of assembly of file.
- (b) Instead of considering the audit programme, the audit team could have prepared a checklist. In case of a checklist, such problem will not arise. Because in case of a checklist if any changes are made then the final checklist can be kept in the file along with old working checklist used during the audit.
- (c) The approach of the audit team not to document audit programme is not correct. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations.

(d) The decision of audit team not to document the audit programme is not correct. Their concern that the changes may arise in the audit programme is valid, however, to take care of that, the audit team can take approval from the ICAI later on when those changes will be made. The audit team will have to document the changes and the approval note of the ICAI.

18. KJ Private Ltd has a business of pharmaceuticals and has an annual turnover of INR 1,500 crore. During the last few years, considering the environment in which the company operates, its profit has reduced and are still reducing. Hence, the management has been looking at various ways to cut the costs.

AD & Associates are the statutory auditors of the company and RM & Associates are the internal auditors of the company.

Initially, the company did not want to appoint any internal auditors to save costs, however, at insistence of the statutory auditors, the company appointed the internal auditors.

During the course of the statutory audit for the financial year ended 31 March, 2020, the statutory auditors requested for the detailed working papers of the internal auditors which the internal auditors refused. However, the statutory auditors told the management if the same are not provided then they would qualify their report.

In this situation, please advise which of the following would be correct.

- (a) The statutory auditors should review the detailed working papers but they cannot qualify their report on this ground.
- (b) The statutory auditors may review the detailed working papers and even after that they may qualify their report.
- (c) The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors.
- (d) The statutory auditors may review the detailed working papers of internal auditors but for that purpose they would require prior approval of the ICAI.

16 ADVANCED AUDITING AND PROFESSIONAL ETHICS

19. RIM Private Ltd is engaged in the business of manufacturing of steel having annual turnover of INR 10,000 crore. The company is very capital intensive and has its plants at two locations – Mohali and Hosur.

During the year ended 31 March, 2019, the company carried out a detailed physical verification of its property, plant and equipment and also reassessed their useful lives by engaging a consultant. The consultant submitted its report to the management on 21 April, 2019.

The statutory auditors of the company started their audit work from May 2019 and when this information was given to them regarding the physical verification and the reassessment of the useful lives of property, plant and equipment, the auditors told the management that the consultant should have submitted its report to the auditors also independently. Further, in the absence of this direct communication of the report of the consultant to the auditors, the audit team would have to review the work of the consultant which is not efficient but it cannot be avoided now.

Management did not agree with both the points of the auditors that the consultant should have shared report with the auditors directly and that the auditors need to review the work of the consultant. The management would like to have your views on this matter.

- (a) The view of the management seems to be correct because there is no such requirement that any consultant of the company should share his report directly with the auditor. Also when the consultant has already submitted a detailed report, no further review is required on that.
- (b) Both the management and auditors are not correct. The auditor is not supposed to receive the report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not.
- (c) The auditor's requirements are reasonable because he carries duty in respect of audit of financial statements and by not getting report directly from the consultant, he would not know whether it belongs to that consultant or not. And now only because of this

lack of proper communication the auditor would have to review the work of the consultant.

- (d) Both management and auditors should find a solution to this problem. The management may request the consultant to send the report to the auditor directly now. On the basis of the same, the auditor can avoid unnecessary procedure related to review of report of the consultant.
20. M/s Viaan Viraj & associates are the statutory auditors of ABC Ltd. for the FY 2019-20. The company has a strong internal audit team. During the course of audit, CA Viaan, the engagement partner found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Viaan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Gaurank, the Chief Internal Auditor of ABC Ltd. to provide him a report on the wages expenses across all factories. Which of the following requirements as per SA 610 are required to be fulfilled by CA Viaan prior to using the direct assistance of the Internal Audit Team of the company?
- (a) CA Viaan should obtain written agreement from the management of ABC Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions.
 - (b) CA Viaan should obtain written agreement from Mr. Gaurank that his team will keep the matters confidential.
 - (c) Both a & b
 - (d) CA Viaan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required.
21. An auditor's expert may be either an auditor's internal or an external expert. Which of the following can not be an auditor's internal expert?
- (a) Partner of the Auditor's Firm
 - (b) Temporary Staff of the Auditor's Firm
 - (c) Permanent Staff of Auditor's Network Firm

- (d) A Prospective CA, soon to join the Auditor's Firm as a Partner.
22. CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore, a deviation from the already set audit strategy is felt necessary. In this case, he should
- (a) Continue with the Audit Plan without considering the Audit Strategy.
- (b) Drop the audit and withdraw from the engagement.
- (c) First Modify the audit strategy and thereafter, prepare the audit plan according to the modified strategy.
- (d) Devise a new audit plan and then, change the strategy as per the Revised Plan.
23. M/s MNO & Co. (a CA firm with 3 partners) are the statutory auditors of PCL Limited, a company engaged in real estate business. PCL Limited recently launched a real estate project in Bangalore Whitefield location at an all- inclusive price of ₹ 5,500. PCL Limited also announced that their first 50 customers would be allowed a special inauguration discount of 10%. Mr. M, one of the partners with MNO & Co. and the audit engagement partner for PCL Limited booked one 3 BHK flat and he was offered the all- inclusive price of ₹ 4,950 (after 10% inauguration discount). Another partner- Mr. N also booked one 3 BHK flat at the all- inclusive price of ₹ 5,500. Which of the following statements is correct:
- (a) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client since Mr. N was not offered any discount in the booking price.
- (b) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transactions by Mr. M and Mr. N with PCL Limited since the third partner- Mr. O had not done any business transaction with PCL Limited.
- (c) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transactions by Mr. M and Mr. N with audit client since business transactions with

audit client in the ordinary course of business, are allowed, without any consideration on transaction price.

- (d) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client if Mr. M qualified as among the first 50 eligible customers as per the marketing scheme and it can be demonstrated that PCL Limited has passed on similar 10% inauguration discount to other 49 customers and further, the discount of 10% offered to Mr. M was in the nature of routine commercial transaction, in the ordinary course of business of PCL Limited.

24. Raj Private Limited is engaged in the business of retail and has its retail outlets concentrated towards Northern India. Currently, the company has 59 outlets and the plan of the management is to take this to at least 100 over the next 2 years.

The company is audited by Raj & Associates, a firm of Chartered Accountants, who have been operating for over 20 years, however, they don't have much experience in the retail sector. Because of this fact the audit team decided to plan efficiently for the audit of the financial statements of the company for the year ended 31 March 2020, being their first year of audit.

During the course of risk assessment by the auditors, it was discussed that the company is operating in an industry where the operations are not very complicated and mostly the processes are known to all. Considering the same they decided that assessment of inherent risk should not be done for this company as that would be inefficient. However, the auditors will take due care of the control risks. The same assessment was deliberated upon and after lot of discussions it was finalized like this.

In the given situation, please advise which one of the following would be correct.

- (a) The assessment of audit team is correct.
- (b) The assessment of audit team is wrong considering the fact that this is a private company wherein such assessment is not possible.

- (c) The assessment of audit team is wrong for this company.
- (d) The assessment of audit team is correct considering the fact that this has been thoroughly discussed.

25. Kshitij Private Ltd is a company based out of Noida having operations in India and Dubai. The company's operations in Dubai have increase over the last 2 years and the management is earning very good profits.

Because of the profits, the management also planned that they should now focus on strengthening of internal controls of the company and for that purpose they have discussed with the statutory auditors to carry out the audit for the financial year ended 31 March 2020 very rigorously.

The report on internal financial controls is also applicable to the company and hence the auditors during the course of their work asked for Risk-control matrices from the company. During the year ended 31 March 2019, Risk-control matrix was not available with the company and was prepared in a draft manner and the same was shared with the audit team during that year and the auditors completed their work on the basis of that.

However, for the year ended 31 March 2020, the auditors would like to have robust documentation and are not ready to accept the same Risk-control matrices.

In the given situation, please suggest what should be the course of action.

- (a) The request of audit team is correct and the management should provide that.
- (b) The requirement of audit team is not justified considering the fact that last year same documentation was used by them.
- (c) The requirement of audit team is not justified considering the fact that it's a private company and auditor anyways is required to perform rigorous audit procedures.
- (d) In case of a private company on which internal financial controls report is required, the auditor is not allowed to take any Risk-

control matrix from the management. Seems to be an ethical issue.

26. SK Private Limited is a medium-sized company having operations in Jharkhand. The company manufactures some parts and sells that to various dealers on ex-works basis. The financial statements of the company are prepared as per Ind AS and internal financial controls report is also applicable on the same.

During the course of audit of the financial statements for the year ended 31 March 2020, the management of the company had a detailed discussion with the auditors for audit planning.

Further it was also decided that any observations of the auditors should also be discussed with the management before conclusion by the audit team which was not done in the past years.

Considering this, the auditors started the risk assessment and requested the management to share their documentation for the same on which the management said that they don't have any risks and if the auditors come across any such thing they can discuss that with the management.

But the auditors were not convinced with the view of the management and the same thing has happened in the past years as well.

You are required to provide your inputs to resolve this matter.

- (a) The requirement of the audit team is not correct.
 - (b) The view of the management is correct because of the applicability of Ind AS.
 - (c) The view of the management is correct because of the applicability of internal financial controls reporting.
 - (d) The view of the management is not correct.
27. AJ Private Ltd is in the business of telecom and have significant operations across India predominantly in Northern India.

The statutory auditors of the company have been continuing for the last 3 years and have been issuing clean report.

22 ADVANCED AUDITING AND PROFESSIONAL ETHICS

For the financial year ended 31 March 2021, the statutory auditors commenced their work in March 2021 as per discussions with the management and with a plan to complete the audit by first week of May 2021.

The audit team concluded the work as per the agreed timelines and the financial statements and audit report were signed on 5 May 2021 along with the engagement letter for the financial year ended 31 March 2021.

In the given situation, please advise which of the following would be correct.

- (a) The engagement letter should have been signed before commencing the audit work.
 - (b) The engagement letter should have been signed at least a day before signing the audit report.
 - (c) The engagement letter should have been signed at least a day before signing the financial statements.
 - (d) The engagement letter is optional in case of a private company and hence can be signed anytime.
28. RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. It is a subsidiary of RIM GmbH, based out of Germany.

During the financial year ended 31 March 2019, the company carried out a detailed physical verification of its inventory and property, plant and equipment.

During the year, various other activities were carried out to increase efficiency in operations and reductions of costs.

The statutory auditors of the company started their audit work from April 2019 and requested for a documentation on changes in processes and activities during the year as well as any resultant impact of the same on management controls.

The management of the company told the auditors that all such documentation is maintained by the parent company as this is a closely held private company and even though internal financial controls

reporting is applicable on this company, the parent company is taking due care of each and every process.

The auditors did not agree with the views of the management. Please advise both the management and the auditors.

- (a) The auditors should look for documentation as per Sarbanes Oxley in this case.
 - (b) The auditors are correct in this case and the management should provide the required documentation.
 - (c) The auditors are correct in this case and the management should provide the required documentation. However, in case the parent company is covered by Sarbanes Oxley then it can be ignored by the auditors.
 - (d) The management is correct.
29. XYZ Private Limited is engaged in trading of parts of machineries used in boiler plants. Company has seen growth of 60% in the sales and management expecting similar growth in next 3 financial years and is planning to onboard new dealers in order to achieve management goal. Purchase department also expect to develop new suppliers in order to meet customer demands.
- Internal auditor of the company has identified frequent changes in the bank account and other master details of suppliers. At this expansion planning phase, company has no defined control to provide assurance on said supplier master changes. Management agreed to develop the process of monthly detailed review of supplier master changes done in supplier master by Finance assistant in order to ensure authorized changes in supplier master.
- One of the members from the Management would like to know that above controls falls under which category:
- (a) Automated control.
 - (b) Preventive control.
 - (c) Detective control.
 - (d) Compensating control.

30. The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2019-20. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?
- (a) Are authorized signatories for purchases limited to elected officials?
 - (b) Are payments approved only on original invoices?
 - (c) Does authorized officials thoroughly review the documents before signing cheques?
 - (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?
31. The firm from which you are pursuing your articleship training is the internal auditor of ABC 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.
32. Adequate design and effective implementation of Internal Controls may not lead to the identification of:
- (a) Frauds and errors.
 - (b) Design and Implementation gaps in Processes.
 - (c) Abuse by Process Owners.
 - (d) Segregation of Duties.
33. KPL Private Limited is a large software company based out of Hyderabad. The annual turnover of the company is INR 2,100 crore. The company sells software and is also involved in the implementation of those software for its clients.

The major chunk of the revenue though comes from sale of software only. The company works on a completely paper-less office and accordingly, most of the documents are available in soft copy.

During the financial year ended 31 March 2020, the auditors during the course of their audit obtained various audit evidences some of which were in hard copy but mostly in soft copy.

On conclusion of the audit, the auditors are in a dilemma whether to maintain their documentation entirely in hard copy or soft copy or can it be mixed of both.

After consultations with various persons, the auditors stood that the documentation for this company, being operated in fully automated environment should be in soft copy only.

Please advise whether this understanding is correct.

- (a) This is a matter of documentation of audit evidence for a client working in fully automated environment and hence it should be in soft copy only.

- (b) As per the requirements of auditing standards, this documentation can be in a mix of both soft and hard copy.
- (c) Since the client is operating in a fully automated environment, it would be important to check with them because all this documentation has come from the client only.
- (d) As per the requirements of auditing standards, documentation is not required in case of a client working in automated environment because everything is automated and can be accessed easily at any point of time.

34. KJ Private Ltd is engaged in the business of e-commerce wherein most of the operations are automated. The company has SAP at its ERP package and is planning to upgrade the SAP version.

Currently, the version of SAP being used is fine but the higher version would lead to increased efficiencies and hence the company is considering this plan which will also involve a huge outlay.

KPP & Associates, were appointed as the statutory auditors of this company for the year ended 31 March 2020 and the statutory audit firm has been working in this industry for long but most of the work which the firm did was more of risk advisory or internal audit.

For the first time, this audit will be conducted and that's why the audit team started obtaining understanding of the operations of the company which included understanding of the SAP system of the company.

However, the management of the company was not comfortable with this approach of the audit team particularly because audit team was spending good time on understanding of the IT systems of the company.

The management suggested that the auditors should limit their understanding and should perform audit procedures rather than getting into business/ operations.

But the auditors have a different view on this matter and because of which work has got stuck.

In the given situation, please suggest what should be the course of action.

- (a) The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate.
 - (b) The management's concern regarding the approach of the auditors seems reasonable. The auditors are spending time on understanding of the systems/ business and not performing their audit procedures.
 - (c) This being a private company and that too into the business of e-commerce, the auditors should have knowledge about the operations of the company through their understanding of the industry and hence should not get into this process of obtaining detailed understanding at the client place.
 - (d) The audit team could have planned their work differently. They should involve IT experts who would have knowledge of the systems of the company and hence lot of time can be saved. Further in case of such type of industry, involvement of IT experts is anyways required mandatorily as per the legal requirements.
35. AR Private Limited is a medium-sized company engaged in the business of trading of electronic equipment. The company has various warehouses where all of these equipment are kept and has an inventory levels of generally 2-3 months.

The internal environment of the company is driven by various processes some of them are manual and some automated. Accordingly, the management has also set up various controls both manual and automated and is comfortable with their design and operating effectiveness.

During the course of audit of the financial statements for the year ended 31 March 2020, the auditors raised various queries regarding various processes where the controls were operating effectively. This was because of the fact that auditor was considering either only manual controls or only automated controls in a process.

As per the auditor, the management should have adopted the same approach and hence they would like to increase the substantive audit procedures because they had a view that as per the current approach of the management, controls should be considered as ineffective irrespective of the fact that the testing which the audit team had performed resulted in the controls being effective.

Currently, the concern was regarding the approach on which management was also stuck on their point.

You are required to provide your inputs to resolve this matter.

- (a) The approach of the management doesn't seem to be correct because of the nature of the operations of the company. The current approach which the management has followed can be accepted only in case of manufacturing industry.
 - (b) The management should have discussed their approach with the auditors before appointing them. The Companies Act 2013 provide specific guidance on these matters wherein the management of the company can follow such approach by taking pre-approval from their auditors and in such a case, the report of the auditors is always clean.
 - (c) The approach of the management is completely fine. The auditors need to correct their understanding of the internal controls and the application of internal controls. A process cannot be limited to have either only manual control or automated control.
 - (d) Considering the size of the company, such matters should be ignored by the auditors. Even if the approach of the management is not correct, it would not have any impact on the work of the auditors because all such matters get resolved at the time when auditors perform final analytical procedures.
36. AJ Private Ltd is in the business of construction and infrastructure having an annual turnover of INR 1,100 crore. The operations of the company are run efficiently driven by the well laid out policies and procedures. The processes of the company are very strong and are well documented and properly communicated to its employees, as required.

The management had also done a detailed risk assessment in the earlier years and currently the risk management system of the company is considered to be very effective. The internal controls include both automated and manual.

During the course of the audit of the financial statements of the company for the financial year ended 31 March 2020, the statutory auditors did their risk assessment and also reviewed the general IT controls which were found to be effective.

Considering the same, one of the senior audit team members asked the team to start performing the substantive audit procedures taking the approach that controls are effective.

However, the audit team did not find this approach correct and discussed that they should also check the effectiveness of other manual and automated controls by testing them and then move on to substantive testing.

The audit team recently had a training on the internal controls and hence their understanding was different from the audit senior.

This led to a conflicting situation between the audit senior and remaining audit team.

In the given situation, please advise which of the following would be correct.

- (a) The audit senior is correct because general IT controls were found to be effective and hence no further work may be required on controls.
- (b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls can not be said to be operating effectively.
- (c) The audit senior seems reasonable in his approach because general IT controls were found to be effective. However, it would be more appropriate to also test application controls before concluding on the effectiveness of the controls.

(d) The argument of the audit team looks better because every audit requires significant time to be spent on testing of internal controls and by only covering general IT controls, it would be difficult to justify this requirement later on in the audit file.

37. RIM Private Ltd is engaged in the business of manufacturing of cranes and other construction equipment. The nature of the operations are such that purchases are quite significant even though the sales may or may not be very significant, in terms of number of transactions during the year.

The company's statutory auditors have also obtained certain audit tools to help the audit team on various audit procedures to bring efficiency in various audits.

During the course of the audit of the financial statements for the financial year ended 31 March 2020, the auditors used those audit tools (also known as computed assisted audit techniques) for sampling procedures and data analytics.

The outcome of the tools resulted in some analysis and requirements which the audit team requested from the client. However, the client refused to provide any such information because as per the client all these tools were those of the auditor and any outcome of the same needs to be handled by themselves instead of asking the management.

The auditors have suggested that such an attitude of non-cooperation would not help the either party and would defeat the objective of the audit. The management of the company is, however, ready to provide any other information to the auditors.

In this situation, please advise both the management and the auditors.

(a) Since the management is ready to provide any other information, the auditor should obtain this information as well by not disclosing the management that it is outcome of any audit tool.

(b) The view of the management is correct because audit tools are there to support the auditors and not to lead to increased work for the management.

- (c) The auditors are correct because by using audit tools they are performing their audit procedures.
 - (d) The auditors should ignore all these tools and plan their audit procedures accordingly.
38. In case a registered person is having aggregate turnover greater than 5.00 crore, then-
- (a) He can file only FORM GSTR-9C
 - (b) He can file only FORM GSTR-9
 - (c) He has to file both FORM GSTR-9 and FORM GSTR-9C
 - (d) None of the above if he is subject to audit by tax authorities
39. ABC Private Limited uses in-house developed application system for Accounting. The auditor observed that user ID and password is mandatory to access the application system and felt that this is a good control. What type of control is this?
- (a) IT General Control.
 - (b) Application Control.
 - (c) Detective Control.
 - (d) Preventive Control.
40. XYZ Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third party organization and requests for audit access to such data centre. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organisation is regularly being conducted. What the auditor should do?
- (a) Do not ask for any thing else since the Third Party is ISO certified.
 - (b) Insist on conducting audit in the Third Party.
 - (c) Take the ISO certificate.
 - (d) Take the Service Organisation control audit report to review.

41. Section 130 re-opening of accounts on Court's or Tribunal's orders: of the Companies Act, 2013 states that a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board of India (SEBI), any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that Jain Ltd. has an annual turnover of ₹ 350 crore and has been into losses for the last 2 years. The operations of the company are good. Due to some technology changes, the company started facing competition and hence, started incurring losses. The company plans to revive in the next 1-2 years with the improvements in its processes. During the year ended 31 March, 2020, the management of the company came across certain transactions relating to the financial year ended 31 March 2019 which were erroneously missed to be accounted for. This would result into losses and hence, the management is considering to take this to the right financial year and for that purpose to re-open its accounts for the financial year ended 31 March 2019. Please advise.
- (a) The position of the management is correct.
 - (b) The action of the management is correct, however, the reason behind reopening the accounts of last year does not seem to be correct.
 - (c) The action of the management would have been correct had it been advised by the auditors of the company and for the same management should have taken approval from SEBI.
 - (d) The action of the management is not correct.
42. Rimmi 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 31 March, 2020, the company acquired two companies in India and France in September, 2019 and January, 2020 respectively. The company controls both of

these companies as per the criteria laid down in the Companies Act 2013 as well as the applicable accounting standards.

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

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

43. SKJ Private Ltd has an annual turnover of INR 200 crore and profits of INR 25 crore. The company is engaged in the business of textiles and has fairly stable operations over the years. There has not been much growth in the company in the last few years despite the attempts of the management. Currently the management is more focused towards cost cutting and has been considering all the options to achieve that objective.

The statutory auditors of the company have been auditing the financial statements for the last 3 years and have issued clean reports over these years.

During the financial year ended 31 March 2019, management got a large project from a new customer which resulted in significant increase in the turnover of the company. However, the profitability of the company did not improve much because the margins in the contract were not high.

The statutory auditors during the course of their audit of financial statements for the year ended 31 March 2019 (their fourth year of audit) did not agree with the revenue recognition criteria followed by the

company. Since the matter was significant, lot of discussions/ debates happened between the auditor and the management. But it was finally agreed that the auditors would qualify their audit report.

Auditors wanted that the management should explain this matter in detail in the notes to accounts to the financial statement over which the auditors are qualifying the audit report. However, the management had a different view. Management said that if the auditor is qualifying his report then why should the management also highlight that matter in the financial statement and hence refused to include any note for the same.

On account of the conflict, since audit is not getting concluded. You are required to suggest how the matter get resolved?

- (a) In the given situation, if the management does not agree to give a note in the financial statements then the auditor should not hold the audit report. However, in such a case, the auditor would need to give disclaimer of opinion in his report instead of qualification.
- (b) The argument of the management seems correct. Auditor cannot do both the things i.e. to qualify and then also get that highlighted in the financial statements. That note would not be beneficial for the users of the financial statements.
- (c) In case of such matters related to revenue recognition, it is always better to give detailed explanation in the notes to accounts to the financial statements. If the explanation is satisfactory then the auditor should also consider giving emphasis of matter instead of qualification.
- (d) The requirement of the auditor is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. In that case, auditor while giving the qualification can give reference to the notes to accounts otherwise the entire matter would form part of the audit report. However, the auditor should not hold his

report if the management does not want to give any explanation in the notes to accounts.

44. A significant deficiency exists in the process of flow of approval of travel re-imbursements of the officials. This was communicated in the previous year to those charged with Governance and no remedial action was taken on the same so far. The auditors are of the opinion that it need not be communicated again. Is the opinion of the auditors on NOT to communicate the deficiency in internal control reported in the previous year correct?
- (a) Yes, the auditor is not required to communicate the same again as it is the duty of the management and those charged with governance to maintain the internal control system.
 - (b) No, the current year's communication may repeat the description from previous communication or simply reference the previous communication.
 - (c) Yes, the auditor is not required to communicate the same again as written representation is being obtained from management and those charged with governance that they are responsible for maintaining internal control.
 - (d) No, it needs to be communicated again but an oral reminder to those charged with governance on the matter may suffice.
45. BC Ltd. is the business of manpower consulting. The company has a huge cash and bank balance including fixed deposits with banks. During the course of audit of the financial statements of the company for the year ended 31 March 2021, auditors circulated independent bank balance confirmations. The auditors received all the balance (covering fixed deposits) confirmations independently. Auditors observed that the fixed deposits balances as per the independent balance confirmation did not match with the books balances in some cases. Management produced the fixed deposit certificates to the auditors wherein the balances of fixed assets matched with the balances as per the books. How should the auditor deal with this matter?

- (a) Auditor should qualify the audit report in respect of differences in book balances of fixed deposits vis-a-vis independent balance confirmations.
 - (b) Auditor should consider the fixed deposit certificates produced by the management and basis that any differences in book balances of fixed deposits vis-a-vis independent balance confirmations should be ignored.
 - (c) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should obtain balance confirmations again.
 - (d) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.
46. While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non- consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?
- (a) M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters.

- (b) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.
 - (c) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'
 - (d) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non- consolidation of a subsidiary.
47. In case of GST audit by tax authorities the registered person shall be informed by way of a notice not less than _____working days prior to the conduct of audit. Select the correct option from the following-
- (a) 7 working days.
 - (b) 15 working days.
 - (c) 21 working days.
 - (d) 14 working days.
48. M/s. Jamwant Zims (P) Ltd. is having 4 branches across India. It's branch-wise turnover during the FY 2018-19 is Mumbai ₹ 3.65 crore, Delhi ₹ 1.65 crore, Chennai ₹ 2.00 crore and Calcutta ₹ Nil. The company would be subject to audit under section 35(5) of the CGST Act, select the correct option from the following-
- (a) Only Mumbai and Chennai would be subject to audit.
 - (b) None of the branch would be subject to audit.
 - (c) All the branches would be subject to audit except Calcutta.
 - (d) All the branches would be subject to audit.

49. AV Ltd is in the business of manufacturing of chemicals and has a net worth of INR 700 crore. The company has been preparing its financial statements as per Ind AS. For the purpose of Form 3CD, management did not identify any items which may require adjustments because of the differences between Ind AS and ICDS. However, the tax auditors during the course of their audit identified few items where adjustments are required to be made and accordingly, should be reported under Clause 13(e) of Form 3CD.

Further tax auditors also are of the view that disclosures in respect of ICDS should be made in Clause 13(f) of Form 3CD which the management has not done. In this case, please suggest which of the following would be the correct option.

- (a) If the impact of the adjustments related to ICDS identified by the auditors is material then such adjustments need to be reported in Form 3CD. And disclosures in respect of ICDS should in any case be given in Form 3CD.
 - (b) If the impact of the adjustments related to ICDS identified by the auditors is immaterial even then such adjustments need to be reported in Form 3CD. To give disclosures in respect of ICDS is the management choice.
 - (c) Both the impact of the adjustments related to ICDS identified by the auditors, whether material or immaterial, and disclosures need to be mandatorily reported in Form 3CD.
 - (d) ICDS and Ind AS don't have any differences and hence assessment of the auditor doesn't seem to be correct. Hence no reporting would be required under Clause 13(e) of Form 3CD. If there is no reporting under Clause 13(e) then reporting under Clause 13(f) would also not be required in Form 3CD.
50. OSK Ltd was incorporated on 15 February 2020. The company chose to prepare its financial statements for the purposes of Companies Act 2013 for the period from 15 February 2020 to 31 March 2021 as its first reporting period. The company had a turnover of INR 6 crore for the period ended 31 March 2020 which is expected to increase to INR 50 crore for the period from 1 April 2020 to 31 March 2021. The company

filed its income tax return for the financial year 31 March 2020 before 30 September 2020 i.e. before the due date of filing return of income for the financial year 2019-20 (before considering any extension). The company would prepare its financial statements for the period from 15 February 2020 to 31 March 2021 and would get them audited from its statutory auditors.

In this case, please suggest which of the following would be correct.

- (a) The company would be exempt from tax audit for FY 2019-20. For 2020-21, the company would need Form 3CB under tax audit.
 - (b) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CA for both these years.
 - (c) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CB for both these years.
 - (d) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CB for FY 2019-20 and Form 3CA for FY 2020-21.
51. BCO Private Limited is operating in India for the last 15 years. It has three group companies – one subsidiary in India and the other two in Ireland and France. All these subsidiaries were acquired one by one and investments were made in these companies gradually i.e. initially control was not obtained and after investment for some period, control was obtained. The statutory auditors have evaluated that all the group companies are significant for the purpose of audit of consolidated financial statements.

During the year ended 31 March 2019, the audited financial statements of all the components are available except for French company whose audit got delayed and would not get completed before the release date of CFS of parent company.

For the purpose of consolidation, the parent company has provided the audited financial statements of other components. Please suggest what can be the possible situation in respect of financial statements of French

company for the purpose of consolidation for the purpose of audit of CFS.

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

52. KB Ltd is engaged in the business of construction. It has multiple subsidiaries and associates in India. The company acquired PPP GmbH in Germany on 1 February 2019. The company also obtained control in PPP GmbH on the same date. Its investment in PPP GmbH was of a huge amount. The company has been preparing its CFS over the last few years and this has also become a matter of concern for the company for the year ended 31 March 2019. The management is of the view that consolidation of PPP GmbH would not be required in CFS for the year ended 31 March 2019 because this is the first year of acquisition. However, the auditors have not been agreeing for the same. The timeline of submission of audited financial statements is due in few months time.

In the meantime, the management moved on the consolidation of PPP GmbH taking audited financial statements of PPP GmbH which are available in the GAAP of its local country and GAAP conversion adjustments from its local GAAP to Indian GAAP have been made by the parent company. GAAP conversion adjustments are significant at CFS level. In the meantime, the management has also been consulting whether the consolidation would be required or not also considering the

fact that comparative figures in case of PPP GmbH would not be available.

Further the auditors have also raised observations regarding the GAAP conversion adjustments over which management has a disagreement. As per the management the auditors are not required to comment on GAAP adjustments because audited financial statements of PPP GmbH have been given to the auditors. Please help to resolve these matters.

- (a) Consolidation of PPP GmbH should be done but GAAP conversion adjustments are not required to be audited.
 - (b) Consolidation of PPP GmbH should not be done and accordingly, GAAP conversion adjustments would not arise.
 - (c) Consolidation of PPP GmbH should be done and GAAP conversion adjustments are also required to be audited.
 - (d) Consolidation of PPP GmbH is a choice of management as the accounting standard does not mandate this. However, in case it is done then the GAAP conversion adjustments would be required to be audited.
53. VDN Ltd is a medium-sized company engaged in the business of retail. It has two subsidiaries and one joint venture. Both the subsidiaries are larger in size as compared to the parent company. The accounting policies of the parent company, its subsidiaries and joint venture were same. However, during the year ended 31 March 2019, one of its subsidiary, SMA Pvt Ltd changed the method of depreciation of Property, plant and equipment (PPE) to written down value method which is different from the method followed by the parent company i.e. Straight line method. Further this subsidiary also changed the method of valuation from FIFO to Weighted average method which has become different from parent as the parent follows FIFO method.

These changes were made by the subsidiary because it reflected the better picture of its standalone financial statements. Now for the purpose of CFS, the auditors have asked the management of parent company to ensure that accounting policies of the group companies should align with that of parent in line with the requirements of accounting standard. But the management of parent and subsidiary

company believe that out of three group companies other than parent, only one group company requires this change for the purpose of consolidation and the same should be ignored by the auditors. Please suggest.

- (a) The view of management is correct.
- (b) For CFS, method of depreciation of SMA Pvt Ltd may continue to be different, however, method of valuation of inventory should be aligned with that of the parent.
- (c) For CFS, method of valuation of inventory of SMA Pvt Ltd may continue to be different, however, method of depreciation should be aligned with that of the parent.
- (d) The auditor should get these changes made in the standalone financial statements of SMA Pvt Ltd.

54. AJ Private Ltd is engaged in the business of retail having annual turnover of ₹ 1,800 crore. The company has a plan to get listed on Bombay Stock Exchange next year. The company has 3 associates, 4 subsidiaries, and 1 joint venture. The company prepares its consolidated financial statements on a quarterly basis for the purpose for internal purposes. The quarterly financials are reviewed by the statutory auditors of the company.

The group companies of the parent company have increased in terms of their size looking at the total assets and revenue of the group.

For the purpose of audit of consolidated financial statements for the year ended 31 March 2020, management has request the statutory auditors that it would be able to provide management certified accounts of the joint venture as its audit would not get completed on time and even without joint venture, the auditors would be able to cover 75% of the total assets of the group at consolidated level.

However, the statutory auditors are insisting that they need to cover at least 80% of the total assets of the group at consolidated level as per the requirements of the Auditing Standards and for that financials of the joint venture should also be audited. Please advise.

- (a) Auditors should accept the management certified accounts of joint venture; evaluate implications on audit report as qualification will be required for unaudited components as per SA 705.
 - (b) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Registrar of Companies.
 - (c) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Securities and Exchange Board of India, considering the plan to get listed next year.
 - (d) Auditors should accept management certified accounts of joint venture provided the revenue of the joint venture is less than 10% of the total revenue of the group.
55. Advik Ltd is an unlisted public company. The company acquired few companies in the last 3-4 years which have been assessed as its subsidiaries/ associates/ joint ventures (hereinafter jointly called as 'components'). The company prepares its condensed consolidated financial statements every quarter to review the performance of the group. In the past years, the company used to get the financials of its components reviewed/ audited on a quarterly basis. AJ & Co LLP is the statutory auditor of parent company and KSH & Associates is the statutory auditor of all the components. Quarterly condensed consolidated financial statements of the group are reviewed by the statutory auditors as per the terms of the engagement letter.
- AJ & Co LLP has communicated to Advik Ltd that in line with the requirements of the Companies Act 2013, it would also be required to undertake audit/ limited review of all the components which would be consolidated with those of Advik Ltd and for which KSH & Associates are the statutory auditors currently.
- Management is not agreeing with the same as they don't want to change KSH & Associates as auditors of the components and the requirement mentioned by AJ & Co LLP would lead to duplication of work of auditors as well as the management. Please advise.

- (a) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with SA 600, Using the work of another auditor and hence the requirement of auditor is valid.
 - (b) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with the requirements of the Companies Accounts and Audit Rules 2014 and hence the requirement of auditor is valid.
 - (c) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is not required to re-perform audit/ limited review of the components and hence the requirement of auditor is not correct.
 - (d) Management and the auditor need to decide this mutually as this is based on the contractual arrangement between them.
56. Entity P, is audited by a different auditor than the parent entity Q. The principle auditor i.e. the auditor of entity Q, decides to use the work of auditor of component i.e. entity P, in relation to audit of consolidated financial statements. In doing so, he should comply with requirements of:
- (a) SA 600, "Using the work of Another Auditor".
 - (b) SA 299, "Joint Audit of Financial statements".
 - (c) SA 720, "The Auditor's Responsibilities Relating to Other Information".
 - (d) SRS 4410, "Compilation Engagements".
57. You are the internal auditor of FCD Bank Limited for the year 2019-20 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:

- (a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
 - (b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
 - (c) Discuss the process followed for lien marking with the branch manager.
 - (d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.
58. PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?
- (a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly.
 - (b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions and advise the bank to segregate the PMS transactions from its own investments and provide the certificate of external auditor.
 - (c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.

- (d) Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills re-discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.
59. Your firm has been appointed statutory auditor by a Nationalised Bank for the year 2019-20. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2020. While verifying you observed that one of the accounts was regularised on 28th March 2020, for which the interest and instalment amount was overdue from the quarter ending 30th September 2019. The account was regularised after the repayment of overdue interest and instalment amounts was done on 26th March 2020. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank. As a statutory auditor will you agree with the Bank's policy?
- (a) As the interest charged in the account was overdue for more than 90 days from the end of quarter, it should be classified as NPA and should be considered as sub-standard asset for the balance sheet as on 31st March 2020.
- (b) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA.
- (c) The auditor should not agree with the Bank's policy to regularise the account before balance sheet date as overdue interest indicates more than normal risk attached to the business.
- (d) Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.
60. XYZ bank had an NPA account of M/s Glenpark showing recoverable amount of ₹ 55 lakh in the books. It sold the NPA for ₹ 56 lakh. Please select as to which of the following options is the correct accounting:
- (a) Credit the excess of ₹ 1 lakh to profit on sale of assets.
- (b) Let the amount remain in Glenpark account.

- (c) Credit the excess of ₹ 1 lakh to Provision for loss on sale of NPAs.
- (d) Return ₹ 1 lakh to the party purchasing the NPA.

61. KIC Ltd is a company engaged in the business of general insurance and has been in existence for over 15 years. The company has a subsidiary company, PIC Ltd, which is also engaged in the business of insurance other than general insurance.

The previous statutory auditors of PIC Ltd have completed their tenure as an auditor and accordingly have resigned and the management of PIC Ltd is looking for new statutory auditors.

KB & Associates, a firm of Chartered Accountants, have vast experience of audit of insurance companies and would like to get appointed as auditor of PIC Ltd. KB & Associates is a large firm and have also employed experts – engineers, valuers, lawyers for various client services. The firm is evaluating as to what should be the criteria for get appointed as auditors of PIC Ltd because in the past they have audited only the holding companies and considering a subsidiary company for the first time.

In this context, please help the firm by answering which of the following options would be correct?

- (a) The firm should be appointed by the Board of Directors of PIC Ltd and should ensure that they don't take up audit of more than 2 insurance companies.
- (b) The firm should be appointed by the Comptroller and Auditor General of India and should ensure that they don't take up audit of more than 3 insurance companies.
- (c) The firm cannot take audit of PIC Ltd because they have employed experts which is not permitted by the IRDAI Guidelines.
- (d) The firm can take up audit of PIC Ltd by ensuring that they are eligible to be appointed as per the criteria laid down in the Companies Act 2013 for audit of subsidiary companies and they would need to submit a certificate in this respect to the ICAI.

62. NIC Ltd. is a large company engaged in the business of insurance for the last 9 years. The company has expanded its business considerably over the years and have set up various divisions across India.

The accounting and the operational systems of the company are centralized wherein the accounts of all the divisions, trial balances and their balance sheets are prepared by the Head Office. AJ & Co, a firm of Chartered Accountants, are the statutory auditors of this company and audit all the divisions and the head office. The auditors have completed the audit of the financial statements of the company for the year ended 31 March 2020 and the company's financial statements are approved.

Before the annual general meeting of the company, the company received a notice from the Insurance Regulatory and Development Authority of India (IRDAI) which has asked the company to respond within 7 days as to why this company breached the requirement of IRDAI guidelines by having a single auditor for all the divisions and head office.

The management of the company has been doing this over the years and were never aware of this requirement. To respond to this, the management has consulted many legal experts and also the auditors. They would also like to understand your views as to how to respond to IRDAI in this critical situation. Please advise carefully.

- (a) There has been breach of IRDAI guidelines and accordingly the management should respond.
- (b) The management can request IRDAI to consider relaxation in respect of this provision for the company for the current year as relaxation for the same is permissible as per IRDA Guidelines.
- (c) The management should respond to IRDAI that this provision is applicable to a company only after 15 years of its existence and hence there is no breach of IRDAI guidelines.
- (d) The management should respond to IRDAI that this provision should have been ensured by the auditors only hence they should not be held liable for this breach of provision of the IRDAI guidelines.

63. BIC Ltd is an insurance company looking to expand their operations in the Northern India. The company's operations have been considerable in the Southern India and its head office is also based at Chennai.

The company had strong processes and controls from its starting days and have appointed consultants over the years to ensure their operative effectiveness at various points of time.

Shivam Ltd exercises significant influence over BIC Ltd and the financial statements of Shivam Ltd are prepared as per Ind AS (Indian Accounting Standards) and audited by Shubham & Associates.

Advik & Associates are the statutory auditors of BIC Ltd. For the financial year ended 31 March 2020, BIC Ltd also requested Advik & Associates to certify the Investment Risk Management Systems and Processes of BIC Ltd as per discussions with Shivam Ltd.

Advik & Associates completed this task and also submitted the required certificate which the management has submitted to the required authorities.

After submission, BIC Ltd received notice from the Insurance Regulatory and Development Authority of India (IRDA) that the company has not complied the provisions in respect of submission of certificate.

The company discussed this matter with Shivam Ltd and would also like to have your views on this.

- (a) BIC Ltd, being an associate of a company and because of the fact that Ind AS is applicable on Shivam Ltd, should have appointed another firm of Chartered Accountants along with Advik & Associates for this certification work.
- (b) BIC Ltd should have got this certification work done from their internal auditors as per the required provisions of IRDA.
- (c) BIC Ltd should not have got this certification work done from their statutory auditors.
- (d) The certification work should have been done by Shubham & Associates.

64. Special audit under section 66 of the CGST Act is to be completed within:
- (a) 60 days.
 - (b) 90 days.
 - (c) 120 days.
 - (d) 90 days which is further extendable by another 90 days.
65. AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits, but the same clients had some other firms as their tax auditors. In the current year (FY 2020-21), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits up to the maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed.
- You are requested to advise the firm in this matter.
- (a) There is no limit on no of tax audits in case of LLP.
 - (b) All the partners of the firm can collectively sign 450 tax audit reports.
 - (c) All the partners of the firm can collectively sign 600 tax audit reports.
 - (d) All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.
66. RCE Ltd was set up under the Companies Act 2013 and got itself registered as non-banking financial company with the Reserve Bank of India, fulfilling the required criteria. During the financial year ended 31 March 2020, the company's operations have started. The company's total assets were rupees 298 crore out of which trade receivables, loans receivable in cash, cash and bank balances comprised of rupees 199

crore. During the financial year ended 31 March 2020, the company's operations generated total income of rupees 99.50 crore. The management also did an assessment and observed that income from its financial assets was not much during the year and amounted to only rupees 60 crore. The management is looking at various alternatives to improve its operations, if required, to generate better income in the coming years.

Further, the company during the year also accepted and gave demand deposits which have been very efficient for the company. Management has a plan to significantly increase these deposits in the next 2 years as that would help in the overall functioning of the company.

In the context of the above, please answer which of the following options would be correct.

- (a) The company does not meet the criteria of financial assets and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.
 - (b) The company does not meet the criteria of income and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.
 - (c) The company meets the criteria of financial assets and income. An NBFC can only accept demand deposits but cannot give demand deposits. Hence in this case, the statutory auditors should report regarding the same.
 - (d) The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter.
67. Setir Ltd is a company in which 59% of the paid up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects.

The Punjab Government is also planning to induct funds in the company in future, if required.

Nocri Ltd is a company controlled by Setir Ltd. The business of Nocri Ltd is construction and has an annual turnover of INR 2500 crore approx.

The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2020 got completed but Nocri Ltd observed that during the course of audit, there was lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas.

Further, it also received comments from C&AG on the audit report of the auditors. Nocri Ltd is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid.

In this context, please advise which of the following should be correct?

- (a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&AG.
 - (b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditors.
 - (c) C&AG involvement could have been accepted if this was the audit of Setir Ltd but not in case of Nocri Ltd and hence Nocri Ltd should also reach out to its parent company to get this resolved.
 - (d) Stand of Nocri Ltd is wrong as the C&AG may get involved in the audit of Nocri Ltd.
68. CGN Ltd is a large company engaged in the business of oil exploration in India. The Tamil Nadu Government and the Central Government hold 37% and 20% respectively of the paid-up share capital of this company.

The C&AG appointed the statutory auditors of this company as per requirements of the Companies Act 2013. The company had a concern regarding this appointment because company wanted to appoint another auditors as per their assessment, however, considering the legal hassles which would have got involved, the company decided to go ahead with this.

The audit of the financial statement for the year ended 31 March 2020 got completed by the auditors appointed by the C&AG. Subsequent to this, the C&AG also issued an order to conduct test audit of the accounts of the company which was objected by the management of the company.

The management objected saying that the complete set of financial statements have been audited by auditors appointed by the C&AG and hence this order is not acceptable because this would lead to duplication of work.

Moreover, the management has also written to the C&AG that for the next financial year, the existing auditors should either resign so that the management may bring in their own auditors or the C&AG should have faith in the work of the auditors appointed by them. Please suggest how to resolve this matter.

- (a) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Companies Act 2013.
 - (b) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Indian Penal Code.
 - (c) The management is correct and in this situation they get the right to appoint another auditor considering the fact that the C&AG has lost faith in the work of auditors appointed by them.
 - (d) Such type of matters should be taken to arbitration as per the requirements of the Arbitration Act.
69. NOP Ltd is a joint venture of Central Government and a private company and is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company.

The company is acknowledged for its consumer-friendly practices. Initially it was completely owned by the Government and was running into significant losses but after the joint venture, the aggregate technical and commercial losses of the company showed a record decline.

The operations of the company have improved significantly as claimed by the management of the company.

The C&AG wants to conduct the performance audit of one of the departments of the company through a subordinate office of Indian Audit and Accounts Department.

For this purpose, the audit programme has also been finalized and the Accountant General has intimated the company that the audit would start within a day's time. The company is concerned because the programme which has been received from the Accountant General is quite detailed and would involve significant time. Further the management of the company is quite surprised as to why this audit should be conducted as this is not a company subject to such types of audits as per law.

The management of the company would like to have your inputs in respect of this matter. Please guide.

- (a) The notice for such type of audit should give reasonable time to the management to prepare themselves. Further it should not be a detailed audit requiring significant time of the company.
- (b) The C&AG may conduct such type of audits in respect of NOP Ltd which would get covered in this criteria, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
- (c) In case of a joint venture such type of audit cannot be performed as per the Companies Act, 2013. The company should write to the Registrar of Companies in respect of this matter and till that time no audit can be started.
- (d) In case of a joint venture such type of audit cannot be performed as per the Companies Act, 2013. Further wherever this is applicable that is only for a small period of time. The company

should write to the Ministry of Corporate Affairs in respect of this matter.

70. AJ Petroleum & Refining Ltd is a Maharatna Central Public Sector Undertaking (PSU) in India having its registered office in Uttaranchal.

It is engaged in the business of oil refining, pipeline transportation & marketing, exploration & production of crude oil & gas, petrochemicals, gas marketing and other downstream operations.

The PSU has global aspirations for which its management is working on various plans/ programmes so that the same can be achieved in future. It is also planning to pursue diverse business interests by setting up of various joint ventures with reputed business partners from India and abroad to explore global opportunities.

Considering these objectives and other factors, the C&AG directed the performance audit in respect of its certain activities/ functions which has been in progress. Before starting the audit, the detailed scope and composition of audit team was shared with the management of the company and tentative timelines were also given with which the management was fine. However, during the course of the audit the audit team changed its audit programme to achieve the desired objectives which was approved by the competent authority, however, the management was not happy with those changes.

The management wants the audit team to conclude the audit with the same scope as this is a special type of audit wherein such flexibility cannot be accepted as that would defeat the purpose of the law. However, the audit team has a different view. Please guide.

- (a) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014.
- (b) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014 and the Ministry of Law.

- (c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.
 - (d) The C&AG should get involved in this matter after taking permission from the Central Government and would require to change the audit team if the scope requires any changes as the same should have been properly assessed by the audit team before commencing the audit.
71. In Case of PSU, Direct Reporting Engagement does not include
- (a) Performance audits.
 - (b) Compliance audits.
 - (c) Financial audits.
 - (d) Comprehensive Audit.
72. The Audit Committee should consist of the following:
- (a) minimum of 3 directors with independent directors forming a majority.
 - (b) minimum of 4 directors with only one independent director.
 - (c) minimum 2 directors which are independent.
 - (d) minimum 5 directors with 1 independent woman director.
73. ABC Ltd is one of the top 1000 listed entities on the basis of market capitalisation. The Board of Directors of ABC Ltd does not comprise of any women director. The Statutory Auditor who is certifying Corporate Governance as per SEBI regulations, has to ascertain that –
- (a) the Board of directors will have at least 2 independent woman director.
 - (b) the Board of directors will have at least 1 independent woman director.
 - (c) the Board of directors will have at least 5 independent woman director.

- (d) the Board of directors need not have any independent woman director.
74. The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of –
- (a) not less than 7 directors.
 - (b) not less than 4 directors.
 - (c) not less than 6 directors.
 - (d) not less than 2 directors.
75. The Board of Directors of XYZ Ltd, one of the top 2000 listed entities meets 4 times a year. What should be the quorum of the Board of Directors from 1st April 2020-
- (a) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director.
 - (b) 1/3rd of its total strength or 4 directors, whichever is higher, including at least 1 independent director.
 - (c) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 2 independent director.
 - (d) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 non-executive director.
76. XYZ Ltd. is a Public Limited Company engaged in the manufacturing of TMT Bars. M/s. UV & Associates are the statutory auditors of XYZ Ltd. for the FY 2019-20. The company is listed on National Stock Exchange. CA Udhav, the engagement partner is considering the requirements with respect to Regulation 27 and Schedule II (LODR) for corporate governance compliance of XYZ Ltd. Which of the following is correct in this regard?
- (a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 15 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.

- (b) XYZ Ltd. shall submit a monthly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 15 days from the end of the month. The report shall be signed either by the General Manager of the accounts department of XYZ Ltd.
 - (c) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
 - (d) XYZ Ltd. shall submit the annual compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the year end. The report shall be signed either by the General Manager of the Accounts Department of the Company.
77. A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by
- (a) Public Accounts Committee (PAC).
 - (b) Committee on Public Undertakings (COPU).
 - (c) Estimates Committee.
 - (d) Public sector Committee.
78. You have been given an assignment of audit of IT department of a PSU. A checklist was handed over to you which contained many questions such as,
- ◆ Are separate user names and passwords assigned to individual users?
 - ◆ Are periodical changes of passwords ensured?
 - ◆ Are external (offsite) data backups maintained at a place outside the premises?
- The type of audit being conducted is likely to be:
- (a) Comprehensive audit.

- (b) Propriety audit.
 - (c) Compliance audit.
 - (d) Financial audit.
- 79 Mr. P, a partner of XYZ Ltd. is a statutory auditor of PQR Ltd since 1st April, 2014. Mr. P also provides services of tax audit and represents before tax authorities for various litigation matters. PQR Ltd now wishes to avail internal audit and booking keeping services from Mr.P. Mr. P is required to give his views for whether he can render such services to PQR Ltd. in addition to existing services. You are required to choose an appropriate option from the following alternatives:
- (a) Mr. P can provide additional services by taking approval from Board of Directors of PQR Ltd.
 - (b) Mr. P can provide additional services by taking approval from shareholders of PQR Ltd.
 - (c) Mr. P can provide additional services by informing ICAI and MCA.
 - (d) Mr. P cannot provide additional services.
80. Gama Ltd. is a renowned limited liability partnership firm specialized in retendering services relating to statutory audits, tax audits, consultancy relating to direct and indirect taxes etc. Gama Ltd. is appointed as a statutory auditor for the year ended 31st March, 2020 of Beeta Ltd., a listed Company. Alfa Ltd, Chartered Accountants were retiring auditors of Beeta Ltd.
- You are required to suggest, Gama Ltd. is required to carry out which audit procedures with retiring auditor, Alfa Ltd. before start of audit:
- (a) To obtain no objection certificate from Alfa Ltd before start of the audit.
 - (b) To start the audit and then obtain no objection certificate.
 - (c) No objection certificate is not required to be obtained.
 - (d) No objection certificate has to be obtained from Beeta Ltd.

81. VBN & Associates, chartered accountants are Statutory auditors of Gold Ltd. for the year ended 31st March, 2020. While conducting audit for the year, the auditor have come to know that the fraud amounting to ₹ 2 crore was done by one of the employees. Under Sec 143(12) of Companies Act, 2013, you are required to suggest whether as a statutory auditor, VBN & Associates is required:

- (a) To report fraud to Audit Committee/ Board of Directors of Gold Ltd and in Auditor's Report.
- (b) To report fraud to shareholders of Gold Ltd and no further reporting.
- (c) To report fraud only in Auditor's Report.
- (d) To report fraud to Central Government and in Auditor's Report.

82. OPE Ltd issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31 March 2020. The issue was fully subscribed.

During this year, there was an abnormal rise in the profits of the company for which it was found later on that it was because of manipulated sales in which there was participation of Whole-time director and other top officials of the company. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts.

The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. The auditors were able to prove that they found internal controls to be satisfactory and did not find any circumstance to arouse suspicion.

The company was not able to prove that auditors were negligent in performance of their duties. Please suggest your views on this.

- (a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.

- (b) The approach of the auditors look reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.
- (c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc., the manipulation could have been detected. Hence the auditors should be held liable.
- (d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.

83. Kshitij and a group of persons subscribed to the shares of JNN Ltd. JNN Ltd had issued a prospectus for issuance of shares against which these persons had subscribed the shares.

It was later on found that some information as included in the prospectus was misleading. These persons filed a case against the company covering all the parties who were responsible for the prospectus on the ground that the information contained in the prospectus was misleading and they suffered losses by relying on that information.

The company consulted this matter with its legal consultants in respect of the course of action to be taken and also consulted that if the outcome of the case goes against the company then which all parties may be held liable and what could be the other consequences.

The prospectus included auditor's report who had also given his clearance. Some of the experts were also involved in respect of the information on which the litigation was filed.

Subsequently, it was proved that the contention of Kshitij and those persons was correct. It was held that the directors, promoters of the

company and the experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage.

The auditors of the company were also asked to make good the losses but they refused with an argument that it is limited to directors, promoters and experts.

In this context, please suggest which of the following statement is correct.

- (a) The argument of the auditors is valid. As per the final outcome of the litigation the auditors were not held liable. However, on moral grounds the auditors should contribute towards the losses suffered by any person.
 - (b) The argument of the auditors is valid. Since the final outcome of the litigation did not held them liable, they cannot be asked to contribute towards the losses suffered by any person.
 - (c) The argument of the auditors is not valid. The final outcome of the litigation covers the experts and hence the auditors also get covered to contribute towards the losses suffered by the persons.
 - (d) The outcome of the litigation seems to be completely wrong. The directors and experts were held liable but along with that the statutory auditors, internal auditors, tax auditors, Company Secretary, tax consultants and the legal advisors should also have been held liable. Further the promoters cannot be held liable in such matters.
84. JK Ltd is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of INR 25,000 crore. The operations of the company are increasing constantly, however, the focus of the management is more on cost cutting in the coming years to improve its profitability.

In respect of the financial statements of the company which are used by various stakeholders, some deficiencies were observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders went for a civil action against

the company including all the parties who had the responsibility in respect of those financial statements.

The statutory auditors of the company were also roped in. The statutory auditors went against this civil action and were able to prove that there was no professional negligence on their part.

It was decided that the loss was occasioned through the negligence of directors and the fault of the auditor in failing to verify the asset was considered to be only technical.

On the basis of above mentioned facts, what should be the correct option out of the following?

- (a) A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.
 - (b) Both the auditors and the directors should be held liable in respect of the deficiencies identified. Both of them should compensate these stakeholders in respect of the damages and a further penalty of INR 10 lakh would be imposed on them.
 - (c) Auditors and directors should be held liable in this case. Further because the fault of directors is bigger, they would be subject to a penalty of INR 10 crore or losses suffered by the stakeholders, whichever is higher.
 - (d) Since the fault of the auditor is limited to technical in nature, he cannot be held liable for any penalty or damages. However, he would not be allowed to work for this company and any other company in similar industry for a period of next 5 years as per the requirements of the Companies Act 2013.
85. KKR Ltd is a medium-sized company engaged in the business of e-commerce. The company's operations have remained stable over the years and its profitability has been going down. The company also ventured into different markets over the last few years but that has not helped much in terms of growth of business or increasing the

profitability. The company's immediate plan is to expand its operations with focus on increasing the profitability.

The company was looking for funds to achieve this objective and issued a prospectus to the public to subscribe to its shares.

The financial statements of the company for the year ended 31 March 2020 included in the prospectus showed a very different picture of the company particularly in respect of its profits.

It was later on found that some of the information contained in the prospectus was misstated i.e. it was untrue and misleading to attract the public to subscribe the shares of the company.

Legal action was taken by the stakeholders against the company including its auditors and the company's management/ directors were confident that they would not be required to face any action considering the fact that the financial statements were duly audited by a reputed firm of Chartered Accountants. If at all any problem arises, it would be the responsibility of the auditors.

Please advise whether anyone can be held liable in this matter or not. If yes, what action can be taken against him/them? If no, what should be the corrective action?

- (a) The understanding of the directors is correct and the auditors should be held liable under section 447 of the Companies Act.
- (b) The understanding of the directors is wrong. They would be held liable under section 447 of the Companies Act and not the auditors because responsibility for the prospectus lies with the management.
- (c) This may lead to criminal liability wherein every person who authorises the issue of such prospectus shall be liable under section 447 of the Companies Act.
- (d) This may lead to civil liability wherein every person who authorises the issue of such prospectus shall be liable under section 447 of the Companies Act.

86. Vimal Kumar, a Chartered Accountant by profession, has been into practice for the over 6 years. He developed a specialization in respect of matters related to Income Tax and hence got various clients to whom he was advising.

Other than the taxation work, Vimal was also good in accounting matters but he could not develop his business/ clientele the accounting services over the period.

He used to represent his clients in respect of income tax returns.

For one of his clients, he, as an authorised representative, prepared the return of income and furnished the same and other required documents (the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return) to the Assessing Officer. He had also conducted an examination of those records and submitted a report on the scope and results of his examination.

The assessee in this case was a very old client of Vimal and also used to pay him very good remuneration. In order to provide some benefits to the assessee, Vimal provided certain information to the assessing officer which was found to be false later on.

In the given case, which of the following options should apply?

- (a) Since Vimal only acted as a representative of the assessee, he cannot be held liable. The assessee is the primary person responsible and accordingly the assessee would be liable to rigorous imprisonment which may extend to seven years and to a fine.
- (b) The given matter does not only relate to submission of the return of income but also covers an examination of those records and a report on the scope and results of examination by a Chartered Accountant. Because of the professional responsibilities placed on a CA, it becomes his duty to carry out all the tasks in an objective manner free from any bias. Hence Vimal would be liable to a penalty of Rupees seven crore and imprisonment of seven years.

- (c) Vimal would be liable to rigorous imprisonment which may extend to seven years and to a fine.
 - (d) Vimal and his assessee would be liable to a penalty which may extend to ₹ 1 crore. Further because of the fact that the particulars submitted with the assessing officer belong to the assessee, hence the assessee would also be liable to imprisonment for three years under the Indian Penal Code.
87. The Board of Directors of Young Ltd., a listed company, appointed Mr. Old, a Cost Accountant (not in practice), to conduct an internal audit of the functions and activities of the company. The job of Mr. Old would be of an independent management function, involving a continuous and critical appraisal of the functioning of the company with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the company, including the entity's strategic risk management and internal control system. However, some of the officers of the company are against the appointment of a Cost Accountant who is not in practice as an internal auditor. State whether those officers are correct or not in their viewpoint by referring to the provisions of the Companies Act, 2013?
- (a) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a chartered accountant in practice only.
 - (b) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a cost accountant in practice only.
 - (c) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be an employee of the company only.
 - (d) The view point of the officers is incorrect because as per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.

88. Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with Simony Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?
- (a) Internal audit, as it relates to examining the operational efficiency of the organisation.
 - (b) Management audit, as it is an audit desired by the management.
 - (c) Performance audit so as to assess the performance of the Simony travels appointed by the organisation.
 - (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organisation.
89. D.M. Ltd. appointed M/s K.K. & Co., Chartered Accountants as Statutory Auditors. The Statutory Auditors 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. Ryan. 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. Ryan to help them in some paperwork including audit documentation.

Before the audit was concluded, Mr. Ryan got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Ryan 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 Auditors 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.
90. IMIR Inc is a major technology, engineering, manufacturing and financial services conglomerate, with global operations having its registered office in US. The Company's manufacturing footprint extends across eight countries in addition to US. It has several international offices and a supply chain that extends around the globe.
- HIN Private Limited is a medium-sized Fast-Moving Electrical Goods (FMEG) company and is also involved in power distribution equipment manufacturing. This company is based in India and enjoys a good market share in a wide spectrum of products like Industrial & Domestic

Circuit Protection Devices, Cables & Wires, Fans, Commercial and Industrial Applications.

IMIR Inc (Acquirer) is currently in talks to acquire HIN Pvt Ltd (Target). The initial price has been agreed for the acquisition of business based on net worth and profitability of the target company with an assumption that all contingent liabilities of the target company impacting its future business have been considered. The acquirer appointed a firm to carry out the financial due diligence review of the target company and advised that the firm should strictly work as per the scope.

The firm during the course of its review found some show-cause notices (which have not matured into demands) being issued against the target company. The firm also found that there could be a potential high value labour claim which may arise out of the negotiation which was ongoing between the target company and the labour union and the labour wage agreement has already expired.

The firm discussed all these matters with the management of the target company. The target company confirmed that these matters are under discussion and was confident that these matters would not result into any liability and hence it did not consider the same in the initial price. The firm after its discussion with the target company reported these matters to the acquirer.

In the given situation, please suggest which one of the following should be correct?

- (a) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. Hence the above-mentioned matters relating to show-cause notice and labour claim should be ignored by the firm.
- (b) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. However, since these matters have not been considered by the target company in the initial price, it would be appropriate to consider the impact of matter related to labour claim as that may result in liability in future but the matter related to show-cause notice should be ignored by the firm.

- (c) In the given case, the firm has gone beyond its scope of financial due diligence review. Financial due diligence review covers review of trading results, assets and liabilities and accounting policies and practices of the target company. The management of the target company should talk to acquirer so that the acquirer can ask the firm to limit its work as per the scope agreed.
- (d) In the given case, even though the initial price between the target company and the acquirer is already set but still the firm needs to look at any hidden liabilities which may arise in the two cases – show cause notices and labour claim. Accordingly, the firm has done the right thing by reporting these matters to the acquirer.

91. ARA & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period.

Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.

A team of new partners is in discussion with some of the senior partners, regarding their joining the firm.

The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the form of return on capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.

For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.

At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed that the profits for 2 years were highly erratic and fluctuating. The investigating accountant, therefore, investigated the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm, for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope.

Please advise which of the above-mentioned procedures of investigating accountant is/are not appropriate and what improvements/ changes are required in his approach.

- (a) The investigating accountant should not have asked for the records of the profits of last 7-8 years, as that would be too much of the information for his review. Also, the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.
- (b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.
- (c) The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.
- (d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly

inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.

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

Whether the objection raised by the management of FC Leathers is correct? Give reason.

- (a) The objection raised by FC Leathers is correct, as due diligence doesn't include review of financial projections.
 - (b) The objection raised by FC 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 FC Leathers is correct, as reviewer cannot comment on financial projections in his report.
 - (d) The objection raised by FC Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.
93. CA. D, a chartered accountant in practice, availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct?

- (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
 - (c) Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (d) Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.
94. CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2020, he was awarded 'Best Faculty of the year' as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct?
- (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (b) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
 - (c) Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (d) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
95. Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of articleship. Mr. Witty, the principal, offered him stipend at the rate of ₹ 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on the plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. As per Chartered Accountants Act, 1949, under which clause Mr. Witty is liable for misconduct.

- (a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.
 - (b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
 - (c) Mr. Witty is paying interest thus he is not liable for misconduct.
 - (d) Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
96. CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA Ram. He approached CA Ram to take guidance on some topics of financial management subject related to his course. CA Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 3 days in a week and for 2 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should _____ in order to be able to undertake attest functions.
- (a) not exceed 25 hours a week.
 - (b) not exceed 21 hours a week.
 - (c) not exceed 25 hours a month.
 - (d) not exceed 21 hours a month.
97. RMI Ltd is a listed company in the business of manufacturing and trading of furniture and has annual turnover of INR 1,800 crore. The company's business has declined in the last 2 years. The internal auditors of the company have been very helpful in terms of coming up with observations/

suggestions which have helped the management improve its operations over the years.

The Company set up a plant around 4-5 years ago and the internal auditors have observed that the management needs to strengthen controls around compliance with Minimum Wages Act, 1948 and rules framed thereunder. Following were the observations of the internal auditors:

Weekly offs not provided : As per Minimum Wages (Central) Rules, 1950, Rule 23 (2), "Employee shall not be required or allowed to work in a scheduled employment on the rest day unless he has or will have a substituted rest day for a whole day on one of the five days immediately before or after the rest day, provided that no substitution shall be made which will result in the employee working for more than ten days consecutively without a rest day for a whole day".

However, on review of the attendance records of contractual workers, it was noted that contractual staff worked continuously for more than 10 days, ranging from 13 to 31 consecutive days.

Working hours exceed the maximum limit of 12 hours a day: As per rule 24(2), "The working day of an adult worker shall be so arranged that inclusive of the intervals of rest, if any, shall not spread over more than twelve hours on any day". However, on a sample review of attendance records of workers for the month of April for contractual workers, it was noted that there were 24 exceptions wherein workers have worked more than 16 hours up to 23 hours a day.

Management explained to the auditors that this has been the practice in the area in which the company is operating. Further the management also told that they will review the working schedule of workers and ensure the compliance with the requirement, ensure that weekly offs and extended hours of labour will be as per legal requirements.

Please suggest the internal auditors in respect of this matter.

- (a) This is a good recommendation by the internal auditors which the management plans to implement. However, it should not be reported as an observation.
- (b) If the management agrees to implement the corrective action by the current financial year end, internal auditor should not report this matter in his report.

- (c) Internal auditor observation should be reported in his report along with management comments.
 - (d) Internal auditor should look at the significance of this matter and looking at that can ignore this point.
98. Strong Steel Ltd. has reported a higher turnover of ₹650 crore in the year 2020-21 as compared to earlier years but its sales return has also increased to 10% from only 4% upto the last year. The management is concerned about the high sales returns and feels a need to get the operational audit done for sales and production department of the company. The company is also having an internal audit department in the company. Elaborate the possible reason/s, why management is getting operational audit done when internal audit has already been done for both the departments?
- (i) Because the management is not satisfied with the performance of the internal audit department.
 - (ii) As the operational audit will be done by an independent person and will provide suggestions for improvement.
 - (iii) Because management audit is qualitative in nature and will analyse all aspects of operations as per management policies, objectives and goals.
 - (iv) Because internal audit is restricted to financial accounting and internal controls only.
- (a) (i) only.
 - (b) (ii) &(iii) only.
 - (c) (ii), (iii) & (iv) only.
 - (d) (i), (ii), (iii) & (iv).

99. In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector?

I.	Minaj & Associates, a firm.
II.	CA Mehul.
III.	Rahim Pvt. Ltd, a body corporate.
IV.	XYZ & Partners LLP, a body corporate.

- (a) I, III & IV.
 (b) I only.
 (c) III & IV.
 (d) II only.
100. AOP Pvt. Ltd. is currently engaged in closing its books of accounts for the financial year ended 31 March 2020. The company has always been a compliance-savvy and has also engaged consultants for the same. The business of the company has been stable over the years and profitability has been good over the last 3 years.

The company got registered for GST on time. Since registration the company has been filing statement of returns in GSTR 3B. However, Annual Return in GSTR 9 has not been filed by the company.

Proper Officer issued a notice for failure to file Annual Return within 15 days. Even then, no Annual Return was filed by the company within the time permitted. Please advise.

- (a) In such a case, the company becomes a 'non-filer'.
 (b) In such a case, the company would remain fully compliant.
 (c) The Proper Officer would be required to discuss this matter with the GST auditors of the company.
 (d) GST auditor may resign in this situation.

Answer Key

Question No.	Answer
1.	(a) The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).
2.	(d) i, iii, v and vi.
3.	(c) The requirement in view of the audit partner was valid. The conclusions drawn from the results of final analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.
4.	(a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.
5.	(d) The requirement of the auditors for opening balances as well as for the period after 31 March 2020 is valid. After the requirements of SA 510 and SA 560, audit team is required to perform these procedures.
6.	(c) Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.
7.	(c) Both a and b.

8.	(b) Doubt of non-compliance to laws by PQR Ltd.
9.	(d) Auditor Mr. A uses a sample of 50 consecutive cheques to test whether cheques are signed by authorised signatories rather than picking 50 single cheques throughout the year.
10.	(b) To ask the management registration documents of these properties and inspect and verify them.
11.	(d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
12.	(a) The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
13.	(b) Both the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement.
14.	(c) Poor corporate governance.
15.	(a) The engagement team should consult the previous year's engagement team during the course of their planning.
16.	(b) Audit Partner's view is not correct as the audit team did the right thing.
17.	(c) The approach of the audit team not to document audit programme is not correct. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations.

18.	(c) The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors.
19.	(b) Both the management and auditors are not correct. The auditor is not supposed to receive the report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not.
20.	(c) Both a & b.
21.	(d) A Prospective CA, soon to join the Auditor's Firm as a Partner.
22.	(d) Devise a new audit plan and then, change the strategy as per the Revised Plan.
23.	(d) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client if Mr. M qualified as among the first 50 eligible customers as per the marketing scheme and it can be demonstrated that PCL Limited has passed on similar 10% inauguration discount to other 49 customers and further, the discount of 10% offered to Mr. M was in the nature of routine commercial transaction, in the ordinary course of business of PCL Limited.
24.	(c) The assessment of audit team is wrong for this company.
25.	(a) The request of audit team is correct and the management should provide that.
26.	(d) The view of the management is not correct.
27.	(a) The engagement letter should have been signed before commencing the audit work.

28.	(b) The auditors are correct in this case and the management should provide the required documentation.
29.	(c) Detective control
30.	(d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?
31.	(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.
32.	(c) Abuse by Process Owners.
33.	(b) As per the requirements of auditing standards, this documentation can be in a mix of both soft and hard copy.
34.	(a) The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate.
35.	(c) The approach of the management is completely fine. The auditors need to correct their understanding of the internal controls and the application of internal controls. A process cannot be limited to have either only manual control or automated control.
36.	(b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls can not be said to be operating effectively.
37.	(c) The auditors are correct because by using audit tools they are performing their audit procedures.

38.	(c) He has to file both FORM GSTR-9 and FORM GSTR-9C
39.	(d) Preventive Control.
40.	(d) Take the Service Organisation control audit report to review.
41.	(d) The action of the management is not correct.
42.	(a) Management must prepare the CFS as per the requirements of the Companies Act, 2013.
43.	(d) The requirement of the auditor is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. In that case, auditor while giving the qualification can give reference to the notes to accounts otherwise the entire matter would form part of the audit report. However, the auditor should not hold his report if the management does not want to give any explanation in the notes to accounts.
44.	(b) No, the current year's communication may repeat the description from previous communication or simply reference the previous communication.
45.	(d) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.
46.	(c) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit

	<p>matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'</p>
47.	(b) 15 working days.
48.	(d) All the branches would be subject to audit.
49.	(a) If the impact of the adjustments related to ICDS identified by the auditors is material then such adjustments need to be reported in Form 3CD. And disclosures in respect of ICDS should in any case be given in Form 3CD.
50.	(d) The company would be covered under tax audit for the FY 2019-20 and 2020-21. It would need Form 3CB for FY 2019-20 and Form 3CA for FY 2020-21.
51.	(d) If the auditor does not receive audited financial statements of French company, he should modify his audit report.
52.	(c) Consolidation of PPP GmbH should be done and GAAP conversion adjustments are also required to be audited.
53.	(b) For CFS, method of depreciation of SMA Pvt Ltd may continue to be different, however, method of valuation of inventory should be aligned with that of the parent.
54.	(a) Auditors should accept the management certified accounts of joint venture; evaluate implications on audit report as qualification will be required for unaudited components as per SA 705.

55.	(c) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is not required to re-perform audit/ limited review of the components and hence the requirement of auditor is not correct.
56.	(a) SA 600 "Using the work of Another Auditor".
57.	(b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
58.	(b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions and advise the bank to segregate the PMS transactions from its own investments and provide the certificate of external auditor.
59.	(d) Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.
60.	(c) Credit the excess of ₹ 1 lakh to Provision for loss on sale of NPAs.
61.	(b) The firm should be appointed by the Comptroller and Auditor General of India and should ensure that they don't take up audit of more than 3 insurance companies.
62.	(a) There has been breach of IRDAI guidelines and accordingly the management should respond.

63.	(c) BIC Ltd should not have got this certification work done from their statutory auditors.
64.	(d) 90 days which is further extendable by another 90 days.
65.	(c) All the partners of the firm can collectively sign 600 tax audit reports.
66.	(d) The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter.
67.	(d) Stand of Nocri Ltd is wrong as the C&AG may get involved in the audit of Nocri Ltd.
68.	(a) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Companies Act 2013.
69.	(b) The C&AG may conduct such type of audits in respect of NOP Ltd which would get covered in this criteria, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
70.	(c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.
71.	(c) Financial audits.
72.	(a) minimum of 3 directors with independent directors forming a majority.
73.	(b) the Board of directors will have at least 1 independent woman director.
74.	(c) not less than 6 directors.

75.	(a) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director.
76.	(a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 15 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
77.	(b) Committee on Public Undertakings (COPU).
78.	(c) Compliance audit.
79.	(d) Mr. P cannot provide additional services.
80.	(a) To obtain no objection certificate from Alfa Ltd before start of the audit.
81.	(d) To report fraud to Central Government and in Auditor's Report.
82.	(b) The approach of the auditors looks reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.
83.	(c) The argument of the auditors is not valid. The final outcome of the litigation covers the experts and hence the auditors also get covered to contribute towards the losses suffered by the persons.
84.	(a) A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.
85.	(c) This may lead to criminal liability wherein every person who authorises the issue of such

	prospectus shall be liable under section 447 of the Companies Act.
86.	(c) Vimal would be liable to rigorous imprisonment which may extend to seven years and to a fine.
87.	(d) The view point of the officers is incorrect because as per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.
88.	(d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organisation.
89.	(d) The Statutory Auditors 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.
90.	(d) In the given case, even though the initial price between the target company and the acquirer is already set but still the firm needs to look at any hidden liabilities which may arise in the two cases – show cause notices and labour claim. Accordingly, the firm has done the right thing by reporting these matters to the acquirer.
91.	(c) The procedures of the investigating accountant look completely reasonable considering his scope

	of work. Further, no changes are required in his work approach.
92.	(b) The objection raised by FC 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.
93.	(d) Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.
94.	(a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
95.	(a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.
96.	(a) not exceed 25 hours a week.
97.	(c) Internal auditor observation should be reported in his report along with management comments.
98.	(c) (ii), (iii) & (iv) only.
99.	(d) II only.
100.	(a) In such a case, the company becomes a 'non-filer'.

CASE SCENARIOS

1. MN & Associates, Chartered Accountants are newly appointed as statutory auditors and tax auditors for FY 2019-20 of Gentlemen Distillery Limited. CA. M (Partner of MN & Associates) is the head of statutory and tax audit department.

CA. M assigned the above assignment of both statutory audit and tax audit to team comprising of following team members -

CA. Mukul (Employee); Mr. Rahul (Senior Paid Assistant); Mr. Lalit – (Senior Articled Assistant); Mr. Prashant – (Articled Assistant).

Following issues were reported by Mr. Rahul to CA. Mukul regarding statutory audit:

- Recently the company w.e.f. 01.01.2020 has changed their terms with its major suppliers from Credit period of 60 days to cash on delivery basis for all purchases, mainly on insistence by suppliers as the company could not pay as per credit terms recently.
- The confirmation requests were sent to 18 debtors to confirm year end balance as on 31.03.2020. The requests were designed in the form of positive confirmation. However, the responses were received from only 2 Debtors.
- Grandfather of Mr. M was holding 50,000 shares of face value ₹ 10 per share till 01.09.2019 in the company from past 3 years.
- The trade payables consists of outstanding dues of various creditors as follows – micro enterprises (₹ 60 crore), medium enterprises (₹ 40 crore), small enterprises (₹ 45 crore) and others (₹ 50 crore)
- Further, creditors outstanding for more than 6 months as on balance sheet date are ₹ 40 crore out of above.

Mr. Lalit while doing tax audit (Form 3 CD) of another client Ginasome Ltd seeks the help of his senior Mr. Rahul on the following issues:

- During the FY 2019-20, the company has purchased a plot of land at Sitarganj having stamp duty value of ₹ 31,00,000 at a

consideration of ₹ 30,0,000. The plot has been purchased from Mr. K who is not the related party of Ginasome Ltd.

- The Company has paid state excise duty (due date of payment – 5th of Next Month) on alcohol for the months of August (₹ 5 lakh), September (₹ 3 lakh), October (₹ 4 lakh) and March (₹ 2 lakh) on 05.06.2020. The same is not disputed. The excise duty has been debited to Profit and Loss Account.

Based on the above facts, answer the following:-

- 1.1 Based on the above data, advise as a tax auditor how shall the “purchase of plot at Sitarganj” be dealt in tax audit report in Form 3CD?
- (a) An amount of ₹ 1,00,000 shall be reported under Clause 29.
 - (b) An amount of ₹ 50,000 shall be reported under Clause 29B.
 - (c) An amount of ₹ 1,00,000 shall be reported under Clause 29B.
 - (d) No Reporting requirements will arise in Form 3CD.
- 1.2 As a statutory auditor of Ginasome Ltd, State the aggregate amount which shall be reported under clause (vii) of Para 3 of CARO, 2016 on account of late payment of state excise duty?
- (a) ₹ 5,00,000.
 - (b) ₹ 8,00,000.
 - (c) ₹ 12,00,000.
 - (d) Nil Amount.
- 1.3 What amount of dues of trade payables shall be separately disclosed in the Balance Sheet as per Division 1 of Schedule III?
- (a) ₹ 40 crore (Outstanding for more than 6 months).
 - (b) ₹ 105 crore (Dues of Micro and Small Enterprises).

- (c) ₹ 145 crore (Dues of Micro, Small and Medium Enterprises).
- (d) No separate disclosure is required.
- 1.4 Based on the above data, advice as a Tax Auditor how the reporting under Clause 26 shall be done in Tax Audit Report in Form 3CD regarding state excise duty?
- (a) Amount of ₹ 14 lakh shall be reported under Clause 26(A)(b).
- (b) Amount of ₹ 14 lakh shall be reported under Clause 26(A)(a).
- (c) Amount of ₹ 14 lakh shall be reported under Clause 26(B)(b).
- (d) Amount of ₹ 14 lakh shall be reported under Clause 26(B)(a).

Answer Key

Question No.	Answer
1.1	(d) No Reporting requirements will arise in Form 3CD.
1.2	(a) ₹ 5,00,000.
1.3	(b) ₹ 105 crore (Dues of Micro and Small Enterprises).
1.4	(d) Amount of ₹ 14 lakh shall be reported under Clause 26(B)(a).

2. PQR Ltd., is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of GDP Ltd. The total shareholding of GDP Ltd includes the following:
- ◆ The Government of Puducherry and Government of Delhi each hold 19% of the paid-up share capital,
 - ◆ The Government Gujarat's share is 13.5%.

On 27th August 2020, Mr. JJ, the auditor of PQR Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of FDI & Co. Chartered Accountants as statutory auditors of PQR Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, FDI & Co. agreed to do the following:

- Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company (however Mr. JJ had agreed to charge only ₹ 45,000/-),
- Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd.

The company was having an annual turnover of ₹ 510 crore, and hence it was also liable to tax audit under section 44 AB of Income Tax Act, 1961.

During the current financial year 2020-21, PQR Ltd. had changed its method of accounting compared to the previous financial year (2019-20) and had reported a closing stock of raw material amounting to ₹ 2 lakh only as on 31st March 2021. Also, the company had borrowed a sum of ₹ 10 crore equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to ₹ 75 lakh to the deposit holders through electronic mode.

As far as FDI & Co. Chartered accountants are concerned, Mr. F, who is one of the partners of the firm (*NOTE*- Mr. F does not sign the financials of PQR Ltd.) had borrowed a sum of ₹ 3.89 lakh from GDP Ltd. He had also purchased goods worth ₹ 1.09 lakh from the company which was in ordinary course of business, at arm's length price. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. F. Another partner of the firm, Mr. I, who is also responsible for signing the financials statements of PQR Ltd. was also engaged in the teaching profession during his free time.

Upon hearing about the efficient services provided by FDI & Co. 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 ₹ 101/-.

Based on the above facts, answer the following:-

2.1 To whom should have Mr. JJ informed about his resignation? What could be the possible consequence for his non-compliance?

- (a) He should have informed the registrar and PQR Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 5 lakh.
- (b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than ₹ 50,000/-.
- (c) He should have informed the registrar and FDI & Co. As a consequence of his failure, he is liable to a fine of ₹ 500 per day for each day of failure.
- (d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of ₹ 45,000/-.

2.2 With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of PQR Ltd.?

- (a) It is valid since the indebtedness is within prescribed limits.
- (b) It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakh.
- (c) It is valid since Mr. F is not signing the financials of PQR Ltd.
- (d) It is valid since the indebtedness is not with PQR Ltd.

- 2.3 Which among the below are permitted as per Chartered Accounts Act, 1949?
- (i) Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company.
 - (ii) Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd.
 - (iii) Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession.
- (a) (i) & (ii).
 - (b) (iii) only.
 - (c) (ii) & (iii).
 - (d) (i), (ii) & (iii).
- 2.4 With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.?
- (i) To charge fees as percentage of Net Profits, or
 - (ii) To charge fees of ₹ 101/-.
- (a) (i) Only.
 - (b) (ii) Only.
 - (c) Either (i) or (ii).
 - (d) Neither (i) nor (ii).
- 2.5 Among the below transactions which were undertaken by PQR Ltd., which needs to be reported by the auditors under fiscal laws?
- (i) ₹ 10 crore loan taken, which is exceeding the limit specified u/s 269 SS of Income Tax Act.
 - (ii) Changed its method of accounting from the previous financial year.
 - (iii) Repayment of deposits of ₹ 75 lakh, which is exceeding limit specified u/s 269 T of Income Tax Act.

- (iv) Reporting of Closing stock of raw material worth ₹ 2 lakh only.
- (a) (i), (iii) & (iv).
- (b) (ii) & (iv).
- (c) (i) & (iii).
- (d) (i), (ii), (iii) & (iv).

Answer Key

Question No.	Answer
2.1.	(d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of ₹ 45,000/-.
2.2.	(a) It is valid since the indebtedness is within prescribed limits.
2.3.	(c) (ii) & (iii).
2.4.	(c) Either (i) or (ii).
2.5.	(b) (ii) & (iv).

3. CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around ₹ 50 lakh. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2020-21, the following observations with respect to the company were made by the auditors:
- The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to ₹ 1.50 crore approximately.

- Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2019.

As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.

CA & Co. Chartered Accountants, were also acting as auditors for another company, LS Ltd. and KD Bank Ltd. During the course of audit of LS Ltd, there was a difference of opinion between the management 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) The effect on audit of significant transactions that took place in the financial year.
- (ii) Areas of high risk as assessed and reported by management's expert.
- (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.

During the audit of KD 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:

- 59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ₹ 29 lakh were overdue for more than two years.
- 73 (guaranteed by Government of India) agricultural loan accounts amounting to ₹ 25 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

₹ 25 lakh for each company were overdue for more than three and a half months.

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered the following new assignments:

- A GST assessing officer approached for conduct of special audit under section 66 of CGST Act for a company named MD Ltd. which was having an annual turnover of ₹ 1 crore. He had requested for the special audit as per the opinion that the company had not availed input tax credit within normal limits.
- Offer to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of ₹ 113 crore, of which preliminary expenses of ₹ 17 crore were included.

The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them.

Based on the above facts, answer the following:-

- 3.1 Is the decision of CA & Co. of not reporting the issues of ZXC in CARO justified? If so, under what reason?
- (a) No. CARO is applicable to ZXC and hence the same has to be reported under clause (i) of CARO.
 - (b) Yes. CARO is not applicable to ZXC and hence the same need not to be reported.
 - (c) No. As per SA 240, the auditor has to maintain professional skepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.
 - (d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.

- 3.2 What is the total amount of loans that should be classified as NPA by KD Bank?
- (a) ₹ 79 lakh.
 - (b) ₹ 100 lakh.
 - (c) ₹ 204 lakh.
 - (d) ₹ 104 lakh.
- 3.3 Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?
- (a) Guarantee given by KD Bank on behalf of constituent located in Myanmar.
 - (b) A percentage of the total bills purchased by KD Bank.
 - (c) Claims against the bank acknowledged as debt.
 - (d) Unpaid salary of ₹ 5 lakh to five staffs of KD Bank Ltd., who are currently undergoing a court trail.
- 3.4 What could be the possible reason for not accepting the special audit under section 66 of CGST Act?
- (a) Such audit is applicable only if the turnover of the company exceeds ₹ 5 crore.
 - (b) Such audits need to be conducted by cost accountants.
 - (c) Such audit has to be called upon by assistant commissioner.
 - (d) Such audit has to be called upon by the central government.
- 3.5 Whether CA & Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason?
- (a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India.
 - (b) Yes. The insurance company should have a minimum paid up share capital of ₹ 100 crore which shall exclude the

preliminary expenses.

- (c) No. The insurance company should have a minimum paid up share capital of ₹ 100 crore which also includes the preliminary expenses.
- (d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority.

Answer Key

Question No.	Answer
3.1	(b) Yes. CARO is not applicable to ZXC and hence the same need not to be reported.
3.2	(d) ₹ 104 lakh.
3.3	(a) Guarantee given by KD Bank on behalf of constituent located in Myanmar.
3.4	(c) Such audit has to be called upon by assistant commissioner.
3.5	(b) Yes. The insurance company should have a minimum paid up share capital of ₹ 100 crore which shall exclude the preliminary expenses.

4. Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2020. Total Deposits of the bank on 31.03.2019 was ₹ 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2019-20 are PK & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following:

- (a) The Advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue since November 2020.
- (b) As on 20.04.2020, the ad hoc limit of account of Mr. Y has not been reviewed even though 120 days of date of ad hoc sanction were over.

The above advances have been granted by Meerut Branch. However this branch is not subject to Concurrent Audit.

The Bank has also granted Term Loan of ₹ 20 crore to Samarth Ltd (An Unlisted Company) on 01.02.2020. The sanction letter read as follows:

“The Facility shall be used for Repayment of Unsecured Loans of Promoters – ₹ 10 crore and towards development & construction expenses (Other than Land Cost) of the company’s new office to be situated in Faridabad, Haryana – ₹ 10 crore”.

The company has utilized the facility as follows as on 31st March 2020-

- (i) Land Purchased for New Office: ₹ 4 crore;
- (ii) Development and construction Expenses of New Office: ₹ 11 crore;
- (iii) Repayment of Unsecured Loans of Promoters: ₹ 3 crore;
- (iv) Investment in Fixed Deposit: ₹ 2 crore (Temporarily);

Company’s Total Borrowings from all Banks as on 31st March 2020 is ₹ 60 crore.

Royal Bank of India is the parent organization (100% Holding) of Royal General Insurance Co. Ltd. The Statutory auditors of Royal General Insurance are AK & Co, Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31st March 2020:

- Value of Assets: ₹ 700 crore.
- Amount of Liabilities: ₹ 415 crore.
- Capital: ₹ 200 crore.

The Royal General Insurance has entered into reinsurance contract with ABC Reinsurance Co Ltd against the risk of fire only. ABC Reinsurance Co Ltd is one of the largest reinsurers in India.

Mr. P (Partner in PK & Associates) also acts as Surveyors and Loss Assessors under Insurance Act, 1938. However he has not intimated or taken permission from the Council of Institute of Chartered Accountants of India.

AK and Co, have not included a report on CARO in their statutory auditor report for FY 2019-2020 for Royal General Insurance Co. Ltd.

Based on the above facts, answer the following:-

- 4.1 As Statutory Auditor of Samarth Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2016 on account of utilisation of term loans for the purpose other than for which they were obtained?
- (a) ₹ 4 crore.
 - (b) ₹ 5 crore.
 - (c) ₹ 7 crore.
 - (d) ₹ 2 crore.
- 4.2. As an audit manager of the firm, advice which advance(s) shall be classified as Non Performing Asset?
- (a) Mr. X.
 - (b) Mr. Y.
 - (c) Both Mr. X and Mr. Y.
 - (d) Neither Mr. X nor Mr. Y.
- 4.3 State whether the concept of Rotation of Auditors will be applicable on Samarth Ltd u/s 139(2)?
- (a) Yes, since total borrowings from Banks exceeds ₹ 25 crore.
 - (b) No, since total borrowings from Banks does not exceed ₹ 100 crore.
 - (c) Yes, since total borrowings from Banks exceeds ₹ 50 crore.
 - (d) No, since section 139(2) is applicable only in case of Listed Companies.

- 4.4 Based on above data, state whether Royal General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If No, then state what further action will be done?
- (a) Yes, solvency margin has been maintained therefore no action is required.
 - (b) No, It shall deemed to be insolvent.
 - (c) No, It shall submit a financial plan to the authority.
 - (d) The requirement of Solvency Margin is not applicable in case of general insurance companies.
- 4.5 Whether the acting of Mr. P as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?
- (a) Yes, as specific permission from the council shall be required.
 - (b) No, as general permission from the council has been granted.
 - (c) No, as specific permission from the council can be obtained at any point of time.
 - (d) Yes, as general permission is not granted for above occupation.
- 4.6 Identify the type of reinsurance contract between Royal General Insurance and ABC Reinsurance Co Ltd:
- (a) Treaty Reinsurance.
 - (b) Proportional Treaty Reinsurance.
 - (c) Non Proportional Treaty Reinsurance.
 - (d) Facultative Reinsurance.
- 4.7 Is AK & Co right in not including a report on CARO in their Statutory Auditor Report?
- (a) Yes, since CARO is not be applicable to insurance companies.

- (b) No, since CARO is applicable to public companies.
- (c) No, since CARO is applicable in case of wholly owned subsidiary company.
- (d) No, since, CARO is applicable to insurance companies.

Answer Key

Question No.	Answer
4.1	(c) ₹ 7 crore.
4.2	(a) Mr. X.
4.3	(c) Yes, since total borrowings from Banks exceeds ₹ 50 crore.
4.4	(a) Yes, solvency margin has been maintained therefore no action is required.
4.5	(b) No, as general permission from the council has been granted.
4.6	(d) Facultative Reinsurance.
4.7	(a) Yes, since CARO is not be applicable to insurance companies.

5. M/s Bajaj & Associates have been appointed as the statutory auditors of PNGC Ltd. for the FY 2019-20. PNGC Ltd. is a listed company dealing in the manufacture of iron and steel bars and it is among the top 1000 listed entities. FY 2019-20 is the first year after the incorporation of the company. The company has duly complied with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

When the audit was started, the management of PNGC Ltd. discussed with Mr. Bajaj (the engagement partner) about the strong internal control system of the company. The management discussed about the whistle blowing policy of the company, the HR policies, company code of conduct and ethics policies. Mr. Bajaj was told that the audit team can rely on the information provided to them and the entity level controls without any second thought. The management advised the auditor not to waste time in checking the direct entity level controls and

instead to concentrate on indirect entity level controls during their conduct of audit. Further PNGC Ltd. has constituted its qualified Audit Committee and a Risk Management Committee as per the relevant regulations. Since FY 2019-20 was the first year after incorporation of the company, the meetings of both the committees were held twice during the year based on the company's requirement where all the company's important matters were duly discussed.

The Board of Directors of the company had their meeting four times in the FY 2019-20. Till the second meeting, the company had 5 directors and two more directors joined the company after the first meeting only. The statutory auditors considered its implication while certifying Corporate Governance as per SEBI regulations. The annual remuneration of one of the non-executive directors, Mr. Sushil, exceeds 10% of the total annual remuneration payable to all non-executive directors. The Company however, did not obtain the approval of shareholders by special resolution. Also, the auditors found that one of the independent directors, Ms. Rupali, is already independent director in seven other entities. Out of the seven entities, equity shares of four entities are listed on stock exchange. Further, while conducting the audit, the auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

Since FY 2019-20 is the first year after the incorporation of PNGC Ltd., the company is in the process of exploring the market and venturing towards its expansion plans. The management will be approaching the banks for the purpose of raising funds for its projects. The management accordingly, requested the auditor to mention in their audit report or the compliance certificate about the entity's future viability. Further, in one of the meetings of Audit Committee conducted during the FY 2019-20, the internal control system and auditor's report of PNGC Ltd. were discussed. Mr. Bajaj was also present at the meeting and the Audit Committee called for the comments of Mr. Bajaj, if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

Based on the above facts, answer the following:-

- 5.1 What should be Mr. Bajaj's audit plan regarding the checking of direct entity level controls and indirect entity level controls after considering the management's advise?
- (a) Mr. Bajaj should check the indirect entity level controls in detail and he can skip the checking of direct entity level controls as the company has a strong internal control system.
 - (b) Mr. Bajaj should check the direct entity level controls in detail and he can skip the checking of indirect entity level controls as the company has a strong internal control system.
 - (c) Mr. Bajaj should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures.
 - (d) Mr. Bajaj should check the indirect entity level controls in detail as it relates the business process and account balance and contribute indirectly to the effective operation of direct ELC. Thus, he can skip the checking of direct entity level controls.
- 5.2 Is the company justified in holding meeting of its Audit Committee and Risk management Committee twice in the FY 2019-20?
- (a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings.
 - (b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management

committee can meet once in a year.

- (c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company can hold two meetings of Risk management committee.
- (d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.

5.3 With respect to the meeting of Audit Committee attended by Mr. Bajaj, what all rights can be exercised by Mr. Bajaj?

- (a) Mr. Bajaj has right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd when it considers the auditor's report.
- (b) Mr. Bajaj has right to vote in the meeting of Audit Committee of PNGC Ltd when it considers the auditor's report.
- (c) Mr. Bajaj, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd even if it considers the auditor's report. Such rights vest with the internal auditors of the company.
- (d) Mr. Bajaj has right to be heard in the meeting of Audit Committee of PNGC Ltd when it considers the auditor's report but shall not have right to vote.

5.4 With respect to the annual remuneration payable by PNGC Ltd. to Mr. Sushil, is the company correct in not obtaining the approval of shareholders by special resolution?

- (a) The company is not correct in not obtaining the approval of the shareholders through special resolution.
- (b) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required in this case.

- (c) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required irrespective of the amount of annual salary payable to Mr. Sushil as a percent of total annual salary payable to all non executive directors.
 - (d) The company is correct in not obtaining the approval of the shareholders through special resolution as the salary payable to the directors is a matter of concern to be discussed among all the directors. The shareholders are concerned with the financial position of the company.
- 5.5 What is the responsibility of M/s Bajaj & Associates so far as the Management Discussion and analysis report of PNGC Ltd. is concerned?
- (a) M/s Bajaj & Associates should verify and comment on the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.
 - (b) M/s Bajaj & Associates should verify the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analysing and commenting on the same.
 - (c) M/s Bajaj & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report.
 - (d) M/s Bajaj & Associates can verify and comment on the non financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.
- 5.6 What should M/s Bajaj & Associates do with respect to the management's request to the auditor regarding mentioning about company's future viability?

- (a) M/s Bajaj & associates can mention about the company's future viability in its compliance certificate as auditor's report is not an assurance as to future viability of the entity.
- (b) M/s Bajaj & associates can mention about the company's future viability in its audit report as compliance certificate is not an assurance as to future viability of the entity.
- (c) M/s Bajaj & associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity.
- (d) M/s Bajaj & associates can mention about the company's future viability in either its compliance certificate or auditor's report as both the documents act as an assurance as to future viability of the entity.

Answer Key

Question No.	Answer
5.1	(c) Mr. Bajaj should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures.
5.2	(c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company can hold two meetings of Risk management committee.
5.3	(d) Mr. Bajaj has right to be heard in the meeting of Audit Committee of PNGC Ltd when it considers the auditor's report but shall not have right to vote.
5.4	(b) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required in this case.

5.5	(c) M/s Bajaj & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report.
5.6	(c) M/s Bajaj & associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity.

6. Sarvodya Ltd. is a public company engaged in the business of manufacture of tyres. The company had turnover of ₹ 300 crore during the financial year 2019-20. M/s Sita Gita and Associates have been appointed as statutory auditors of the company for the financial year 2019-20. This audit firm has also been the tax auditor of the company since the FY 2017-18 and continues to be the tax auditors for the FY 2019-20. During the course of audit, M/s Sita Gita and Associates received a notice from the company regarding general meeting to be held to discuss the prospective merger and acquisition by the company. The engagement partner, CA Sita decided not to attend the same by herself and to send CA Rohan (another partner working with her in the firm, having COP and recently joined the firm) to attend the same as her authorized representative. Also, she understood that there is no obligation as such on them to attend such meeting though they have a right to receive such notice. Further, the auditor came across a fraud whereby an accounts officer of Sarvodya Ltd. has made unauthorized payments amounting to ₹ 0.80 crore using bogus cheques. The auditor understands that as per the Companies (Audit and Auditors) Rules 2014 since fraud amount does not exceed ₹ 1 crore, the reporting in this regard is not to be done to the Central Government and only the company is bound to disclose such fraud in the Board's report.

Further, during the financial year 2017-18 Sarvodya Ltd. acquired five companies out of which two were foreign companies. Sarvodya Limited made consolidated financial statements including the three Indian companies while the two foreign companies were not consolidated mistakenly. The management of Sarvodya Ltd. decided to voluntarily revise its accounts of financial year 2017-18 and subsequent year and

discussed the matter with the auditor. Also, when the statutory audit was going on, Sarvodya Ltd. started the process to declare interim dividend for the financial year 2019-20 out of the profits of the same year. However, the company did not transfer any profits to reserves for the financial year. This is not correct as per the auditor. Further, the management of Sarvodya Ltd. did not intend to transfer the amount of dividend so declared to a separate bank account as they have declared interim dividend and according to them, such transfer is required in case of declaration of final dividend only.

During the course of audit, the auditors found that the company has not made provision for tax even though such liability was anticipated at the time of finalizing accounts for the FY 2019-20. When the auditor discussed the same with the management, they were told that since the company has declared dividend out of the current year profits, the company has not made provision for tax liability so anticipated and the same will be duly paid at the time of return filing. During the month of August 2020 i.e. FY 2020-21, the company had sold tyres to a two wheeler manufacturer namely Super X Ltd. valuing ₹ 10 lakh at arm's length price. MDS bank has given guarantee to Sarvodya Ltd. for Super X Ltd. The Branch Manager of MDS bank is Mr. Shyam, son of CA Sita. This may attract disqualification of M/s Sita Gita and Associates as statutory auditor's for the next financial year i.e. FY 2020-21.

Based on the above facts, answer the following:

- 6.1 Whether the understanding of CA Sita regarding their right and duty to attend the general meeting is correct? Further, is she correct in not attending the general meeting by herself and sending CA Rohan to attend the general meeting for which the former has received a notice?
- (a) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to compulsorily attend such meeting. Further she is correct in sending CA Rohan to attend the meeting.
 - (b) Ms. Sita is not correct as the auditors have a right to receive notice of every general meeting; also, it is their

duty to attend such meetings. Further she is not correct in sending CA Rohan to attend the meeting as her authorized representative as she can attend the meeting by herself and not through authorized representative.

- (c) Ms. Sita is not correct as though the auditors have a right to receive notice of every general meeting; they also have a duty to attend such meetings. Further, she is correct in sending Mr. Rohan to attend the meeting as her authorized representative.
- (d) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to attend such meeting. Further she is not correct in sending Mr. Rohan to attend the meeting as her authorized representative.

6.2 With respect to the fraud committed by the accounts officer, is there any other reporting requirement apart from the disclosure in the Board's report?

- (a) M/s Sita Gita & Associates should report the fraud to the Board of Directors and Central Government within 2 days of the knowledge of fraud.
- (b) M/s Sita Gita & Associates should report the fraud to the Audit Committee/Board of Directors within 2 days of the knowledge of fraud.
- (c) M/s Sita Gita & Associates should report the fraud to the Audit Committee within 2 days of the knowledge of fraud which will in turn report such fraud to the Central Government within 45 days of their knowledge.
- (d) M/s Sita Gita & Associates should report the fraud to the Audit Committee and Central Government within 2 days of the knowledge of fraud.

- 6.3 What should CA Sita advise the management regarding the voluntary revision of financial statements related to FY 2017-18 and subsequent year?
- (a) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval of the Tribunal and the order passed by the Tribunal shall be filed with Registrar.
 - (b) The management of Sarvodya Ltd. cannot revise the financial statements.
 - (c) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval from the Ministry of Corporate Affairs and such approval shall be filed with Registrar.
 - (d) The management of Sarvodya Ltd. cannot revise the financial statements of FY 2017-18 but can revise the financial statement pertaining to FY 2018-19.
- 6.4 With respect to the revision of financial statements of FY 2017-18 and subsequent year, can M/s Sita Gita & Associates revise the corresponding tax audit report also for those years if the financial statements are revised?
- (a) M/s Sita Gita & Associates cannot revise the tax audit reports as there is no provision of revision of Tax audit report under the Income Tax Act 1961.
 - (b) M/s Sita Gita & Associates cannot revise the tax audit reports as the accounts of FY 2017-18 & 2018-19 have been adopted in the Annual General Meeting by the company.
 - (c) M/s Sita Gita & Associates can revise the tax audit reports if the accounts are revised by the company and they should specify the reason for such revision with a reference to the earlier reports.
 - (d) M/s Sita Gita & Associates can revise the tax audit reports at their own discretion for any purpose and for as many times as required.

- 6.5 Is management of Sarvodya Ltd. correct in not transferring any percentage of profits to the reserves before it declares the interim dividend out of current year profits of FY 2019-20?
- (a) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is optional.
 - (b) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is required in case of declaration of final dividend and not interim dividend.
 - (c) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as the company has declared the dividend out of current year profits.
 - (d) The management of Sarvodya Ltd. is not correct in not transferring any percent of profits to reserves as such transfer to reserves is mandatory in all cases.
- 6.6 Is the contention of management correct in not transferring the amount of dividend declared to a separate bank account?
- (a) The management of Sarvodya Ltd. is correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend and not in case of interim dividend.
 - (b) The management of Sarvodya Ltd. is correct as the company declaring interim dividend has an option to transfer the amount so declared in separate bank account within 7 days from the date of such declaration.
 - (c) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 7 days from the date of declaration of such dividend.

- (d) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 5 days from the date of declaration of such dividend.
- 6.7 With respect to the non-provision of income tax liability by Sarvodya Ltd., what course of action should M/s Sita Gita & Associates follow in their audit report?
- (a) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability hampers the true and fair view of the state of affairs of the company.
 - (b) M/s Sita Gita & Associates should give an unqualified report as provision of tax liability is the sole discretion of the management of Sarvodya Ltd as the tax amount will be duly paid at the time of filing of the income tax return.
 - (c) M/s Sita Gita & Associates should give an unqualified report as the company has not made the provision of tax for a valid reason given by the management of Sarvodya Ltd.
 - (d) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability leads to over statement of current liabilities and provisions in the balance sheet.
- 6.8 Can M/s Sita Gita & associates be appointed as the statutory auditors of Sarvodya Ltd. for the next financial year, FY 2020-21?
- (a) Yes, M/s Sita Gita & Associates can be appointed as the statutory auditors of Sarvodya Ltd for the next financial year.
 - (b) No, M/s Sita Gita & Associates cannot be appointed as the statutory auditors of Sarvodya Ltd for the next financial year.
 - (c) Yes, M/s Sita Gita & Associates can be appointed as the

statutory auditors of Sarvodya Ltd for the next financial year but only CA Gita can conduct such audit and CA Sita is disqualified from taking such audit assignment.

- (d) Yes, M/s Sita Gita & Associates can be appointed as the statutory auditors of Sarvodya Ltd for the next financial year subject to the approval of C&AG.

Answer Key

Question No.	Answer
6.1	(c) Ms. Sita is not correct as though the auditors have a right to receive notice of every general meeting; they also have a duty to attend such meetings. Further, she is correct in sending Mr. Rohan to attend the meeting as her authorized representative.
6.2	(b) M/s Sita Gita & Associates should report the fraud to the Audit Committee/Board of Directors within 2 days of the knowledge of fraud.
6.3	(a) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval of the Tribunal and the order passed by the Tribunal shall be filed with Registrar.
6.4	(c) M/s Sita Gita & Associates can revise the tax audit reports if the accounts are revised by the company and they should specify the reason for such revision with a reference to the earlier reports.
6.5	(a) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is optional.
6.6	(d) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 5 days from the date of declaration of such dividend.
6.7	(a) M/s Sita Gita & Associates should qualify the audit report as such non- provision of anticipated

	income tax liability hampers the true and fair view of the state of affairs of the company.
6.8	(a) Yes, M/s Sita Gita & Associates can be appointed as the statutory auditors of Sarvodya Ltd for the next financial year.

7. Bhuvan & Co, Chartered Accountants, mainly into statutory audit and tax audit, is now exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:
- (a) One of the clients of Bhuvan & Co. is planning to acquire another company to expand its business. In this regard, due diligence is to be carried out to check if the proposed merger would create operational synergies. Also, a full-fledged financial due diligence is planned to be carried out after a price has been agreed for the business acquisition they want to include, Cash flow, Accounting Policies, Brief history of the target and background of its promoters, Accounting Information System etc. in the scope of the same.
 - (b) During the course of due diligence, an articled assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank.
 - (c) Further, Bhuvan & Co. has also received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under Sec 210 of the Companies Act 2013. With respect to this investigation, Bhuvan & Co. is contemplating on the getting the assistance of an expert with respect to certain matters.
 - (d) During the course of carrying out investigation as above, Bhuvan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India.

From the above facts, answer the following questions by choosing the correct option.

- 7.1. Whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below?
- (a) 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.
 - (b) 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.
 - (c) 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.
 - (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.
- 7.2. Which among the following is **NOT** a matter included in the scope of a full-fledged financial due diligence?
- (a) Cash flow.
 - (b) Accounting Policies.
 - (c) Brief history of the target and background of its promoters.
 - (d) Accounting Information System.
- 7.3. Which among the following is **NOT** an instance of where the Central Government may order an investigation into the affairs of the company under Sec 210?
- (a) On a request from creditors to investigate the affairs of the company.
 - (b) On the receipt of a report of the Registrar or inspector.
 - (c) On intimation by a special resolution passed by a company that the affairs of the company ought to be investigated.

- (d) In public interest.
- 7.4. Can Bhuvan & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?
- (a) Yes, Bhuvan & Co. 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.
 - (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.
- 7.5. What should be the procedure of Bhuvan & Co. to seek evidence from outside India for the investigation?
- (a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation.
 - (b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence.
 - (c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India.
 - (d) Powers of seeking evidence outside India is available only to an investigator under section 212- Serious Fraud Investigation.

Answer Key

Question No.	Answer
7.1.	(a) 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.
7.2.	(d) Accounting Information System.
7.3.	(a) On a request from creditors to investigate the affairs of the company.
7.4.	(a) Yes, Bhuvan & Co. 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.
7.5.	(b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence.

8. ABC Limited is a manufactory company having three manufacturing facilities in India and ranked within top 500 listed companied on stock exchanges in India. Company marked turnover of INR 15000 crore and profit before tax of INR 2000 crore during FY 2019-20. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promotor and Chief Executive Officer of the company. Mr. B, son of Mr. A, who is non-executive director of the company and holds graduate degree from IIT Bombay and post graduate degree from IIM Ahmedabad. ABC Limited already constituted Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee, Risk Management Committee etc. in order to comply with Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations also known as 'LODR Regulation'.

During oversight of financial reporting process and its disclosure by Audit Committee, the Committee noted that Company has disclosed

contingent liability of INR 200 crore on account of retrospective increase in wages of contract labours. Majority of members of Audit Committee were of view that such retrospective increase in wages is certain and company is liable to pay the same in near future and therefore should be provided for rather than disclosing as a contingent liability. Accordingly, Audit Committee requested management to revisit current treatment of retrospective increase wages of contract labours.

Further, report of Internal Auditor of one manufacturing facility was presented in Audit Committee meeting by management. Internal auditor highlighted that the current controls for vendor payment process are not adequate (i.e. weak) and this poses a risk of fraud. Audit Committee members decided to appoint expert consultant to investigate / review internal financial controls for vendor payment process.

Stakeholders Relationship Committee of ABC Limited was responsible for looking into various aspects of interest of the shareholders, debenture holders and other security holders. Stakeholders Relationship Committee authorized Mr. P who is Company Secretary to deal with any queries and concerns of the Stakeholders. Stakeholders Relationship Committee last met on June 2018 and has not met during FY 2019-20 as there were no communication to Stakeholders Relationship Committee for any Stakeholders' concerns.

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

- 8.1 Select best course of action to ensure compliance with Section 177 of Companies Act 2013 in relation to establishing vigil mechanism where directors and employees can report genuine concerns.
- (a) ABC Limited is listed company. Therefore, ABC Limited is required to establish vigil mechanism where directors and employees can report genuine concerns.
 - (b) Vigil mechanism is applicable to government companies only. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns.
 - (c) As per Section 177 of Companies Act 2013, it is not

mandatory to establish vigil mechanism where directors and employees can report genuine concerns. Therefore, ABC Limited may or may not require establishing of vigil mechanism where directors and employees can report genuine concerns.

- (d) ABC Limited is listed company but have not accepted deposits from public from date of incorporation. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns.

8.2 As on April 1, 2020, Board of Director would like to appoint Mr. B as Chairperson of the ABC Limited. You are requested to provide assistance to ABC Limited to determine compliance with Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations?

- (a) Mr. B is eligible to be appointed as Chairperson of the company as he holds relevant degrees along with relevant experience.
- (b) Mr. B is eligible to be appointed as Chairperson of the company as he is non-executive director of the company.
- (c) Mr. B is not eligible to be appointed as Chairperson of the company, as he is non-executive director of the company.
- (d) Mr. B is not eligible to be appointed as Chairperson of the company, as he is relative of Chief Executive Officer of the company.

8.3 ABC Limited Company had not conducted any meeting of Stakeholders Relationship Committee during FY 2019-20 and there was no disclosure provided in the annual report. Company wants to know frequency of conducting meeting of Stakeholders Relationship Committee. Whether it is in compliance with as per LODR Regulations?

- (a) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least once in a year.

Therefore, there was non-compliance as per LODR Regulations.

- (b) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least four times in a year. Therefore, there was non-compliance as per LODR Regulations.
- (c) As Stakeholders Relationship Committee has authorized Mr. P who is Company Secretary to deal with any queries and concerns of the Stakeholders. Further, there were no Stakeholders concerns during FY 2019-20. Therefore, there was no non-compliance of LODR regulation.
- (d) It is voluntary for companies to conduct meeting of Stakeholders Relationship Committee. Therefore, there was no non-compliance as per LODR Regulations.

Answer Key

Question No.	Answer
8.1	(a) ABC Limited is listed company. Therefore, ABC Limited is required to establish vigil mechanism where directors and employees can report genuine concerns.
8.2	(d) Mr. B is not eligible to be appointed as Chairperson of the company, as he is relative of Chief Executive Officer of the company.
8.3	(a) As per Regulation 20 of LODR regulations, Stakeholders Relationship Committee shall meet at least once in a year. Therefore, there was non-compliance as per LODR Regulations.

9. Star Gold Enterprises is an automobile company having multiple branches. The company has local sales, interstate sales as well as export of automobile. During the Financial Year 2020-21, the company appointed M/s Ram Shyam and Associates as their tax auditor as well as GST auditor to conduct audit of Financial Year 2019-20. M/s Ram Shyam & Associates were the tax auditors of Star Gold Enterprises for

the last year also. The auditors started their tax audit and GST audit without signing any new letter of engagement as the scope and fee of GST audit was discussed with the management and the scope of tax audit was the same with a 5% increase in fee amount.

All the branches of company are having aggregate turnover amounting to ₹ 6 crore and all these branches of the company are registered under GST. A new branch was opened during the financial year 2019-20 in Agra and this particular branch has turnover of ₹ 3.2 crore during the FY 2019-20. The management of Star Gold Enterprises has asked M/s Ram Shyam and Associates to conduct GST audit of all the branches exceeding the threshold of ₹ 5 crore except for the Agra branch as its turnover is only ₹ 3.2 crore during the relevant year. The management is sure to achieve the turnover of Agra branch exceeding ₹ 5 crore from the next financial year.

Further, during the current year, the GST officer has issued a notice ordering special audit under section 66 for the financial year 2018-19 in case of Star Gold Enterprises. The management of Star Gold Enterprises has asked M/s Ram Shyam and Associates to take this assignment also for financial year 2018-19 as they were not the GST auditors of Star Gold Enterprise during the financial year 2018-19.

During the course of GST audit for FY 2019-20, M/s Ram Shyam and Associates have determined additional tax liability of GST amounting to ₹ 2.50 lakh payable by Star Gold Enterprises. The management decided to pay ₹ 0.50 lakh as according to them, the shortfall of GST paid by the company will not exceed ₹ 0.50 lakh. During the FY 2019-20, the company exported automobiles to UK based company amounting to Pound 200,000. The exchange rate on the date of shipping bill was

- RBI Reference rate: ₹ 95
- CBEC notified Rate: ₹ 92

The management has booked the sales in the books of accounts at the RBI reference rate i.e. ₹ 95. The same exchange rate is being used for the purpose of filing GST returns. This is not correct as per the auditors.

The company is in the process of collating data for filing GSTR9C for the FY 2019-20. According to the accounts manager of Star Gold

Enterprises, the Company is not required to file GSTR9 and are required to file only GSTR9C as their aggregate turnover exceeded ₹ 5 crore during the FY 2019-20. However, the auditor's contention is not the same in this regard as they believe that the company needs to file both GSTR9 and GSTR9C for the FY 2019-20.

During the FY 2019-20, Star Gold Enterprises has supplied automobiles valued at ₹ 35 lakh to their agent, M/s Ganesh Enterprise. Such supplies are treated as turnover in the books of Star Gold Enterprises and also added in turnover amount for the purpose of filing GST returns and the commission of ₹ 3.50 lakh is shown as cost of goods sold.

During the course of tax audit, M/s Ram Shyam and Associates noticed that Star Gold Enterprises has made a payment of ₹ 5 lakh towards rent of conference hall to wife of one of the directors (Mr. Suresh) of Star Gold Enterprises. The Tax auditors are considering their reporting responsibility in this regard.

Based on the above facts, answer the following:

- 9.1 With respect to the branch in Agra having turnover of less than ₹ 5 crore whether the contention of management of Star Gold Enterprises is correct regarding GST audit applicability?
- (a) The contention of management of Star Gold Enterprises is correct as the turnover of Agra Branch is less than the threshold limit of ₹ 5 crore for the purpose of conduct of GST Audit.
 - (b) The contention of management of Star Gold Enterprises is not correct as the aggregate turnover under the PAN of Star Gold Enterprises is already exceeding the threshold limit of ₹ 5 crore for the purpose of conduct of GST Audit.
 - (c) The contention of management of Star Gold Enterprises is correct and they can start getting the GST audit done for the Agra branch from the financial year in which the turnover of Agra Branch will meet the threshold limit of ₹ 5 crore for the purpose of conduct of GST Audit.
 - (d) The contention of management of Star Gold Enterprises

is not correct GST audit is compulsory for a company, irrespective of its turnover.

- 9.2 For the purpose of conducting the Special Audit under section 66 ordered by the GST officer, for the Financial Year 2018-19, can M/s Ram Shyam & Associates take such assignment on request of the management?
- (a) M/s Ram Shyam & Associates cannot take the assignment as an audit firm cannot take up more than two assignments of a client and they are already conducting the tax audit and GST audit of the company.
 - (b) M/s Ram Shyam & Associates cannot take the assignment as the special audit under section 66 is to be conducted by the expert appointed by Controller and Auditor General.
 - (c) M/s Ram Shyam & Associates cannot take the assignment as the special audit under section 66 is to be conducted by the expert nominated by Commissioner and not the expert appointed by the assessee.
 - (d) M/s Ram Shyam & Associates can take the assignment as they are the tax auditors as well as GST auditors of Star Gold Enterprises and will be in a better position to understand the requirements of the GST officer for conduct of Special Audit.
- 9.3 Is the contention of management of Star Gold Enterprises correct with respect to the filing of GSTR9 & GSTR 9C by the company for the financial year 2019-20?
- (a) The management is correct with respect to the filing of GSTR 9C and GSTR 9 as the company is not required to file GSTR 9 as they have a turnover exceeding ₹ 5 crore.
 - (b) The management of Star Gold Enterprises is not correct as the company registered under GST is required to file GSTR9 and GSTR9C irrespective of the turnover amount of the company.

- (c) The management of Star Gold Enterprises is not correct as GSTR9 is to be filed by all the registered persons and GSTR9C is to be filed where the aggregate turnover exceeds ₹ 5 crore during the financial year and Star Gold Enterprises meets both the criteria.
 - (d) The management of Star Gold Enterprises is correct as they have filed the monthly returns in the form of GSTR3B, GSTR1, GSTR 2A which negates the requirement to file GSTR9 and filing of GSTR9C is required by the company as their aggregate turnover exceeds ₹ 5 crore.
- 9.4 With respect to supplies to the agent, is the turnover of ₹ 35 lakh correctly included in the total turnover in the books of Star Gold Enterprises and for the purpose of filing GST return?
- (a) The turnover of ₹ 35 lakh is correctly included in the turnover amount in the books of Star Gold Enterprises and also to be included in the turnover amount for the purpose of filing GST Returns.
 - (b) The turnover of ₹ 35 lakh should be excluded from the turnover amount in the books of Star Gold Enterprises and also to be excluded for the purpose of filing GST Returns.
 - (c) The turnover of ₹ 35 lakh is correctly included in the turnover amount in the books of Star Gold Enterprises and for the purpose of filing GST returns the same should be included in the turnover subject to written approval from the agent, Mr. Ganesh.
 - (d) The turnover of ₹ 35 lakh is correctly included in the turnover amount in the books of Star Gold Enterprises, however, the same should be treated as part of agent Mr. Ganesh's turnover and not the part of turnover of Star Gold Enterprises for the purpose of filing GST Returns.
- 9.5 With respect to the foreign exchange rate for the export of automobiles to UK based company, what exchange rate should be taken for booking sales in the books of accounts of Star Gold Enterprises and for the purpose of filing GST return.

- (a) The exchange rate for the purpose of booking the sales should be the RBI Reference rate and for the purpose of filing GST return, CBEC notified rate should be taken.
 - (b) The RBI reference rate should be taken as the exchange rate for the purpose of booking the sales and also for the purpose of filing GST return.
 - (c) The CBEC notified rate should be taken as the exchange rate for the purpose of booking the sales and also for the purpose of filing GST return.
 - (d) The exchange rate for the purpose of booking the sales should be the CBEC notified rate and for the purpose of filing GST return, RBI reference rate should be taken.
- 9.6 Which of the following is correct with respect to the engagement letter for the tax audit and GST audit assignment?
- (a) There is no reporting requirement in this regard for the tax auditor as the same is the matter of examination by the statutory auditor while conducting the audit under the Companies Act 2013.
 - (b) The tax auditor should report under clause 23 of Form 3CD which deals with the particulars of payments made to persons specified under section 40A(2)(b) of the Income Tax Act, 1961.
 - (c) There is no reporting requirement for the tax auditor as such. However, M/s Ram Shyam & Associates should take a management representation letter from Star Gold Enterprises stating that such payment is made at arm's length price.
 - (d) There is no requirement to obtain for the tax auditor as such. However, M/s Ram Shyam & Associates should take a management representation letter from Star Gold Enterprises stating that such payment is made at arm's length price.

Answer Key

Question No.	Answer
9.1	(b) The contention of management of Star Gold Enterprises is not correct as the aggregate turnover under the PAN of Star Gold Enterprises is already exceeding the threshold limit of ₹ 5 crore for the purpose of conduct of GST Audit.
9.2	(c) M/s Ram Shyam & Associates cannot take the assignment as the special audit under section 66 is to be conducted by the expert nominated by Commissioner and not the expert appointed by the assessee.
9.3	(c) The management of Star Gold Enterprises is not correct as GSTR9 is to be filed by all the registered persons and GSTR9C is to be filed where the aggregate turnover exceeds ₹ 5 crore during the financial year and Star Gold Enterprises meets both the criteria.
9.4	(a) The turnover of ₹ 35 lakh is correctly included in the turnover amount in the books of Star Gold Enterprises and also to be included in the turnover amount for the purpose of filing GST Returns.
9.5	(a) The exchange rate for the purpose of booking the sales should be the RBI Reference rate and for the purpose of filing GST return, CBEC notified rate should be taken.
9.6	(b) The tax auditor should report under clause 23 of Form 3CD which deals with the particulars of payments made to persons specified under section 40A(2)(b) of the Income Tax Act, 1961.

10. M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2019-20. Delco Ltd. deals in the manufacture of shoes.

During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture

of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates.

Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements.

At the time of finalization of the Audit Report of the company for the year ended March 31, 2020, the auditors are considering their reporting responsibility for non consolidation of the financial statements of Soccer Limited.

The auditors also asked the management to disclose their reason for non consolidation of financial of Soccer Ltd. in the notes to accounts.

Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2018-19.

Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements.

Based on the above facts, answer the following:-

10.1 With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?

- (a) The auditor should give a disclaimer of opinion.
- (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.

- (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.
 - (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.
- 10.2 With respect to the corresponding figures of the financial year 2018-19 in the current year financial statements, what are the auditors reporting responsibility for the same?
- (a) The auditor's opinion should refer to each period for which the financial statements are presented.
 - (b) The auditors need to report on the current year financials only be it comparative or corresponding figures.
 - (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.
 - (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.
- 10.3 What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?
- (a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.
 - (b) The auditors need to report such matter in the other matter paragraph in his report.
 - (c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.
 - (d) Both b & c.

- 10.4 Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility:-
- (a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.
 - (b) The management may undertake to accept such responsibility through an engagement letter itself.
 - (c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".
 - (d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.
- 10.5 If the auditors of Delco Ltd. decides to give a qualified/ adverse opinion in the current financial year with respect to the non consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter:-
- (a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.
 - (b) EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.
 - (c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.
 - (d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.

10.6 If the management discloses the fact of non consolidation of financial statements of Soccer Ltd. in the notes to accounts of current financial year, what will be the impact on the audit report:-

- (a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.
- (b) The auditor can ignore the issue of non consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts.
- (c) The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph.
- (d) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.

Answer Key

Question No.	Answer
10.1	(b) The auditor should give an adverse opinion if the impact is material and pervasive.
10.2	(c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exist in the financial statement of prior period which was not addressed earlier.
10.3	(d) Both b & c.
10.4	(c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".

10.5	(b) EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.
10.6	(a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.

11. ABC Ltd. is in the business of trading garments. Within a span of five years since its incorporation, the company has gained a good market reputation. Last year, in its Kochi warehouse the inventory was less than 1% of total inventory value, so the auditor instead of witnessing or performing the physical count of inventory relied upon the management's inventory confirmation and management in turn relied upon the warehouse keeper's stock register without verifying the actual count. The same year there was some difference between the store register and books of accounts closing balance. The management considered it to be an immaterial amount and wrote it off through "Miscellaneous Profit and Loss Account".

In the current year, while performing analytical procedure, the auditor saw a significant reduction in sales through Kochi warehouse, whereas there was a spike in freight charges to Kochi. Through further examination, the auditor noticed that there was increase in number of shipments to Kochi and increase in number of invoice cancellation instances and sales return instances from the customers of GST unregistered category. However, this year the inventory lying at Kochi is 4.5% as per books.

The Auditor enquired on the periodicity of physical verification and sales process through Kochi warehouse. The management gave the following response to the auditor:

1. The physical verification takes place every six months and the warehouse keeper is responsible for physical verification and sending records back to the head office.

2. Because of low operations in past years the warehouse keeper himself takes care of invoicing and dispatching the goods.
3. Monthly invoice details along with the monthly stock register is sent to the head office.
4. Further, this year too there is a substantial difference among inventory as per books, inventory as per stock register and inventory as per physical verification in descending order.

The auditor decided to visit the Kochi warehouse and conduct the root cause analysis and get the correct closing value of the inventory.

After the visit, the auditor concluded that the warehouse keeper was issuing the stocks with invoices, however on the sales return the credit notes were issued to various customers and the entry was made in the stock register of "Goods received on sales return" but physically the goods were never returned.

The Auditor also doubts that the same instance might have happened last year as well because of which there was a difference between physical stock and the books.

On this information, the management has asked auditor that why this was not brought into notice last year and whether the audit not conducted properly then. Further, a consultant was appointed by the management for the overview of internal controls with regard to verification of inventory and suggest recommendations.

Based on the above facts, answer the following:-

- 11.1 In the view of the above case scenario, which according to you is the correct statement:
- (a) Only the errors can be expected to be identified during the audit.
 - (b) Only the statutory compliance can be expected out of a Statutory Audit.
 - (c) The Auditor contends that last year the inventory levels in Kochi was not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk.

- (d) The Management is of the view that all the frauds and errors must be identified with the statutory audit.
- 11.2 Which components of audit risks are represented in the aforesaid scenario?
- (a) Inherent Risk & Control Risk – – Inherent risk due to its nature of business or operations and Control risk due to inappropriate design and ineffective implementation of internal controls.
- (b) Control Risk & Detection risk- Control risk due to inappropriate design and ineffective implementation of internal controls and audit detection risk due to possibility of auditor not identifying risk of misstatement.
- (c) Fraud risk due to nature and size of operations and high likelihood of fraud due to its significance.
- (d) Risk of Error because there was error in the presentation in the financial statement last year.
- 11.3 Which Internal Control seems to have been compromised as the root cause here?
- (a) Lack in safeguarding the assets of company.
- (b) Lapse in compliance controls leading to non-compliance of sharing inventory level with the GST department.
- (c) Segregation of Duty.
- (d) Inadequate Records and Documents leading to non-recording of correct inventory value.
- 11.4 To ensure that such instances are not taking place in other warehouses as well, the management wants to get an audit done. Which of the following audits is right in the above case scenario:
- (a) Management Audit as there seems to be a lapse at decision making.
- (b) Internal Audit as there seems to be lapse in internal

control system and other such lapses in internal controls can also be identified.

- (c) Operational Audit as there is lapse in general working of operations.
- (d) Tax Audit as the Tax Auditor needs to value the inventory and identify the differences.

11.5 Which Segregation of Duties aspect seems to have been compromised here?

- (a) Authorization, Execution & Record keeping.
- (b) Authorization, Execution & Custodian.
- (c) Execution, Custodian & Record keeping.
- (d) Custodian, Record keeping & Authorization.

Answer Key

Question No.	Answer
11.1	(c) The Auditor contends that last year the inventory levels in Kochi was not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk.
11.2	(b) Control Risk & Detection risk- Control risk due to inappropriate design and ineffective implementation of internal controls and audit detection risk due to possibility of auditor not identifying risk of misstatement.
11.3	(c) Segregation of Duty.
11.4	(b) Internal Audit as there seems to be lapse in internal control system and other such lapses in internal controls can also be identified.
11.5	(c) Execution, Custodian & Record keeping.

12. QRP Lifecare Private Limited, (the 'Company' or 'QRP'), is engaged in the business of pharmaceuticals. The Company is based in Hyderabad and has an annual turnover of INR 400 crore.

One of the directors of the Company did not give declaration to the Company under section 164(2) of the Companies Act 2013 as at 31 March 2020. The auditors of the Company completed their audit of the financial statements for the year ended 31 March 2020 and were awaiting this declaration. But the management was of the view that they will not be able to receive this declaration. All other directors had given the required declarations and the auditors had also verified that.

QRP had given an advance amounting to INR 50 crore to its subsidiary, RPS Ltd (RPS), on 12 January 2016 for carrying out certain projects. The net worth of the subsidiary had eroded substantially as at 31 March 2020 and looking at the future projections there was no certainty regarding profitability of the subsidiary in the future years.

QRP has another subsidiary, SPS Ltd (SPS), in UK. The Company had outstanding trade receivables amounting to INR 10 crore from SPS. QRP observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of QRP but the management had an action plan which they had initiated and on the basis of which management was sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises in future, the impact would be significant for QRP. The auditors of QRP also evaluated this matter by involving a regulatory matters expert and agreed with the management's view.

QRP was using a customized ERP package upto 31 March 2019. However, with effect from 1 April 2019, QRP moved to SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP were of the view that for the financial year ended 31 March 2020, being the first year of SAP implementation, no work on IT controls would be required and they were also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past they had found that the IT controls in the first year of ERP implementation were very weak.

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

- 12.1 How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?
- (a) Auditors may perform alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act.
 - (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality.
 - (c) There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on.
 - (d) Auditors would need to report this matter in their main report.
- 12.2 How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?
- (a) In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS.
 - (b) In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS.
 - (c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.

- (d) In respect of QRP, auditors of QRP would need the management to include a note in the financial statements of QRP explaining about the recoverability of advances from RPS.
- 12.3 Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?
- (a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge.
- (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.
- (c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material.
- (d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company.
- 12.4 QRP has been preparing consolidated financial statements but they do not consolidate financial statements of SPS every year. This is because the financial year followed by SPS is January to December as against April to March followed by QRP. The auditors have also been fine with this position of the management of QRP year on year. Please suggest.
- (a) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.
- (b) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the

auditors need to give emphasis of matter in their report on consolidated financial statements.

- (c) QRP's management's view is right because SPS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India.
- (d) Auditors of QRP should have done materiality assessment in respect of non-consolidation of SPS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same.

12.5 Do you agree with the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report. What would be your suggestion here?

- (a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files.
- (b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.
- (c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation.
- (d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, instead of qualification,

disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation.

Answer Key

Question No.	Answer
12.1	(d) Auditors would need to report this matter in their main report.
12.2	(c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.
12.3	(b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.
12.4	(a) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.
12.5	(b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.

13. MINSAN Ltd, an unlisted company in South India, is engaged in the business of spice oil extraction. Total paid up capital of the company is ₹ 9 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)
31-03-2018	527.21 (Audited)	50.16
31-03-2019	301.37 (Audited)	01.25
31-03-2020	104.13 (provisional)	(10.25)

The company is using conventional method for extraction of oil from 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, Natural Extracts Ltd, had come in the market during the year 2018 and by the end of March, 2019, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows whole range of automated extraction method, thus, minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of MINSAN Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 90 lakh. The company approached SA Bank Ltd for a term loan of ₹ 80 lakh which would be repaid in 5 years. On 28-12-2019, the bank had sanctioned the loan; and disbursed ₹ 40 lakh till 31st March, 2020.

MINSAN Ltd has appointed M/s Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2019 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2019-2020 in February, 2020 and completed the work by the end of May, 2020. The audit team submitted following findings to the engagement partner:

- PX Ltd, one of the material suppliers, filed a case against the company on 12-09-2019 for a compensation of ₹ 3 crore.
- Company has made an estimate for allowance of debtors @5%.
- 70% of the value of inventory was only covered in physical verification during the year 2019-20 due to outbreak of Novel Corona Virus (COVID-19) and subsequent lockdown thereof.
- 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 ₹ 1.02 crore)- fraud committed by the Purchase manager ₹ 85 lakh, by Accounts manager ₹ 15 lakh and by a cashier ₹ 2 lakh.

As an auditor of MINSAN Ltd for the year 2019-20, answer the following questions based on the facts given in the above paragraph:

Based on the above facts, answer the following:

- 13.1 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 MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed?
- (a) Analysis 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) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts.
- 13.2 Company has made an estimate for allowance of debtors @5%. 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 market place.
- (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.

13.3 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.

- 13.4 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.
- 13.5 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 ₹ 25 lakh was earmarked for the purchase of the machinery-Oil Extractor; but the company has acquired an improved model of machinery, viz, Oil extractor with Dryer 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-Oil Extractor, ₹ 25 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.

Answer Key

Question No.	Answer
13.1	(d) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts.
13.2	(a) Judgments about the outcome of pending litigation with PX Ltd against the company.
13.3	(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.
13.4	(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.
13.5	(c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.

14. Papa Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 2 crore, determination of amount of minority interest of ₹ 50 lakh and some intra-group transaction adjustment of ₹ 15 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of 30 lakh.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	2 nd	Thursday
May	9 th	Saturday
June	5 th	Friday
July	31 st	Friday
August	31 st	Monday
September	1 st	Tuesday

October	30 th	Friday
November	1 st	Sunday
December	1 st	Tuesday
January	10 th	Sunday
February	8 th	Monday
March	7 th	Sunday

Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ₹ 200 crore. It includes Margin held for funded facilities of ₹ 3 crore, credit balance for one branch of ₹ 4 crore, adverse balance of nostro Mirror account of ₹ 2 crore and unadjusted deposit for agency business of ₹ 6 crore. Papa Limited has total 12 directors including 3 women directors. Out of them, Mr. Right was non executive chairman as well as promoter of bank. Papa Limited has a total of 5 independent directors in their board.

Wife of CA Das, was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of Papa Limited of ₹ 100 each for ₹ 15,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors.

Based on the above facts, answer the following:

- 14.1 Which of the following statement is true as per given situation?
- (a) For giving the effect of merger, permanent consolidation adjustment of 250 lakh and current period consolidation adjustment of 45 lakh was made.
 - (b) For giving the effect of merger, permanent consolidation adjustment of 280 lakh and current period consolidation adjustment of 15 lakh was made.
 - (c) For giving the effect of merger permanent consolidation adjustment of 295 lakh.

- (d) For giving the effect of merger, permanent consolidation adjustment of 265 lakh and current period consolidation adjustment of 30 lakh was made.
- 14.2 While verifying the compliance of corporate governance, in accordance with Regulation 17 and 17A, was there any non-compliance in composition of board?
- (a) No, as in this scenario there should be at least 1/3 i.e. 4 independent directors.
- (b) Yes, as in this scenario there should be at least 1/2 i.e. 6 independent directors.
- (c) No, as its upto the shareholder to decide the composition of board after complying with section 149(4) of companies act 2013.
- (d) Yes, as in this scenario there should be at least 2/3 i.e. 8 independent directors.
- 14.3 List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?
- (a) January, February and March.
- (b) July, August and October.
- (c) June, July and October.
- (d) May and November.
- 14.4 While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March?
- (a) 191 crore.
- (b) 200 crore.
- (c) 197 crore.
- (d) 185 crore.
- 14.5 Will CA Das be disqualified after his wife purchased 100 shares for ₹ 15,00,000?
- (a) Mr. Das will be disqualified as an auditor of Papa Limited,

as his relative owns shares of more than ₹ 100,000 market value.

- (b) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 20,00,000 market value.
- (c) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value.
- (d) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares in Papa limited irrespective of amount of investment.

Answer Key

Question No.	Answer
14.1	(a) For giving the effect of merger, permanent consolidation adjustment of 250 lakh and current period consolidation adjustment of 45 lakh was made.
14.2	(b) Yes, as in this scenario there should be at least 1/2 i.e. 6 independent directors.
14.3	(c) June, July and October.
14.4	(a) 191 crore.
14.5	(c) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value.

15. M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the year 20XX:
- To conduct the management audit of M/s BR Ltd.
 - To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd.
 - Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of ₹ 15,000 lakh, which includes

preliminary expenses of ₹ 3400 lakh. During the course of audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled.

- The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. At a later point, certain shareholders of the firm opposed the appointment, but the issue was solved afterwards.
- Statutory auditor of M/s FGH (P) Limited company, having paid up capital of ₹ 112 lakh and a negative balance of ₹ 15 lakh in reserves. After a long discussion between the auditors and the management of the company with respect to the applicability of CARO, both of them arrived at a conclusion.

Based on the above facts, answer the following: -

- 15.1 What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd as per section 64VA of the Insurance Act?
- (a) ₹ 50 crore.
 - (b) ₹ 7500 lakh.
 - (c) ₹ 5.8 crore.
 - (d) ₹ 750 lakh.
- 15.2 What could be the possible reason for the objections raised by the shareholders of the listed company?
- (a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment.
 - (b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment.

- (c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment.
 - (d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment.
- 15.3 Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?
- (a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty.
 - (b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.
 - (c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor.
 - (d) They are not guilty of any professional misconduct.
- 15.4 Whether CARO is applicable to M/s FGH (P) Limited? If so, why?
- (a) No. Since as per para 1 of CARO, it is not applicable to any private limited company.
 - (b) Yes. Since the paid-up share capital of the company exceeds ₹ 1 crore, CARO is applicable.
 - (c) Yes. Since the total of paid-up share capital and reserves of the company exceeds ₹ 1 crore in absolute terms.
 - (d) No. Since the total of paid-up share capital and reserves of the company does not exceeds ₹ 1 crore.

Answer Key

Question No.	Answer
15.1	(a) ₹ 50 crore.
15.2	(d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment.
15.3	(b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor.
15.4	(d) No. Since the total of paid-up share capital and reserves of the company does not exceeds ₹ 1 crore.

16. TMRT Retail Limited, (the 'Company' or 'TMRT'), is engaged in the business of retail. The Company follows financial year ending 31 March. The Company also plans to get listed in India in the next 4-5 years.

During the financial year ended 31 March 2018, the management had noted extra-ordinary shrinkages of inventories at one of their stores. Post examination/ analysis by the in-house inventory shrinkage team, the management came to know about fraud of ₹ 19 lakh by the employees of the Company comprising of Head Cashier, Cashier and Public Relations Officer.

TMRT has a joint venture, DT Ltd, which is engaged in the business of trading of goods. DT Ltd appointed new tax auditors for the financial year ended 31 March 2018. DT Ltd follows calendar year i.e. year ending 31 December for statutory reporting after obtaining requisite approvals. The appointment of the new tax auditors was done after 31 March 2018.

For the financial year ended 31 March 2019, TMRT had PQN & Associates as their GST auditors, however, the management of TMRT is not happy with the work of PQN & Associates and hence wants to bring in new GST auditor.

For the reporting year ended 31 March 2020, TMRT's management plans to have BKP & Associates as their internal auditors. BKP & Associates

also happen to be the statutory auditors of TMRT. However, the management has been advised by a consultant that it cannot appoint statutory auditors as their internal auditors because it would lead to the issue of independence. Similar to internal audit, professional ethics do not allow GST auditor to be the statutory auditor of the same entity.

BKP & Associates have been auditing TMRT for the last 3 years and had considered management override of controls as fraud risk and revenue recognition as significant risk for TMRT. BKP & Associates are evaluating whether they should drop both management override and revenue recognition as significant risks for the financial year ending 31 March 2021 considering they did not find any problems/ observations in respect of these two items in the past years and their reports have been clean for the last 2 years.

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

- 16.1 In respect of the fraud identified by the management, what shall be the reporting implications on the part of the auditor?
- (a) Auditors would need to report the fraud in their CARO report. Further they also need to evaluate whether their report on IFC and the main report should be qualified or not.
 - (b) Considering the materiality, the auditors may consider not to report this matter anywhere. This is also because of the fact that management has identified this.
 - (c) Auditors would need to qualify their main report as well as their CARO report.
 - (d) Auditors would need to qualify their main report as well as their CARO report. Further they would also need to report about this matter to the Audit Committee as well as the Central Government.
- 16.2 The management of DT Ltd did not carry out physical verification of inventory for the year ended 31 March 2018. What could be

the reporting implications on the part of the tax auditor in such a case?

- (a) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors should report on the basis of statutory audit report of the same period or last audited period, as applicable.
- (b) It is a common practice to appoint tax auditors after reporting year end and in such a case, the auditors should carry out the physical verification after their appointment and roll back procedures in respect of inventory. Accordingly, no reporting matter arises in such a situation.
- (c) The tax auditors would need to evaluate the nature of the inventory. Further the management should give a note in respect of this matter in the financial statements basis which no reporting implication would arise.
- (d) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors would need to qualify the tax audit report. Tax auditor would also evaluate how the statutory auditor has reported this particular matter in his auditor's report.

16.3 The management of TMRT needs your advise in respect of appointment of common auditor both for statutory auditors and internal auditor for the financial year ended 31 March 2020.

- (a) Management has been advised correctly. Statutory auditors of TMRT cannot become their internal auditors.
- (b) Management has not been advised correctly. Statutory auditors of TMRT can also become their internal auditors.
- (c) Management has not been advised properly. Statutory auditors of TMRT can also become their internal auditors as they are familiar.

- (d) Management has not been advised properly. However, in the given case, statutory auditors of TMRT would not be able to take up internal audit of TMRT because they need to mention the same at the time of giving their consent letter and eligibility certificate at the time of appointment of statutory auditor.
- 16.4 Please advise BKP & Associates whether it would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.
- (a) It would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.
- (b) Management override of controls and revenue recognition should continue to be the significant risks for the financial year ending 31 March 2021 if that continues to be significant risk at inherent level.
- (c) Management override of controls should continue to be the significant risk for the financial year ending 31 March 2021. Revenue recognition may not be considered as significant risk.
- (d) Revenue recognition should continue to be the significant risk for the financial year ending 31 March 2021. Management override of controls may not be considered as significant risk.

Answer Key

Question No.	Answer
16.1	(a) Auditors would need to report the fraud in their CARO report. Further they also need to evaluate whether their report on IFC and the main report should be qualified or not.

16.2	(d) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors would need to qualify the tax audit report. Tax auditor would also evaluate how the statutory auditor has reported this particular matter in his auditor's report.
16.3	(a) Management has been advised correctly. Statutory auditors of TMRT cannot become their internal auditors.
16.4	(b) Management override of controls and revenue recognition should continue to be the significant risks for the financial year ending 31 March 2021 if that continues to be significant risk at inherent level.

17. M/s Venus & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of FDHC Bank., (referred to as 'Bank') for the Financial Year 2019-20.

During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank.

The engagement partner, Mr. A, 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 ₹ 95,50,000/-.
- The balance of Interest rate swaps amounting to ₹ 84,95,000/-.

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: ₹ 25,97,000/-.

Interest Expense: ₹ 15,45,220/-.

Total advances: ₹ 5,00,20,000/-.

Total deposits: ₹ 4,22,00,000/.

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:

- 17.1 The balance of FDHC Bank with the Zurich based Bank should be converted into Indian Currency at the following rate:
- (a) The exchange rate prevailing on the Balance sheet date.
 - (b) The average of opening and closing exchange rates during the year.
 - (c) The exchange rate as prescribed by Reserve Bank of India.
 - (d) The exchange rates applicable on the respective dates of transaction in the account.
- 17.2 What should be the treatment of Interest on deposits accrued but not due amounting to ₹ 95,50,000/- appearing in the financial statements of FDHC 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.
- 17.3 The amount of Interest Rate Swaps amounting to ₹ 84,95,000/- should appear as in the financial statements of the bank :-

- (a) Contingent Liabilities.
 - (b) Other Liabilities and provisions.
 - (c) Current Liabilities.
 - (d) Deposits.
- 17.4 Which of the following is correct statement related to the requirement laid down by the RBI for Venus & Associates while verifying the compliance with the SLR requirements of the bank?
- (a) M/s Venus & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.
 - (b) M/s Venus & 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 Venus & 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 Venus & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.
- 17.5 With respect to the unaudited branches what information is the auditor required to disclose in his audit report?
- (i) Number of unaudited branches.
 - (ii) Quantification of advances, deposits, interest income and interest expense for such unaudited branches.
 - (iii) Quantification of advances and deposits as such amounts exceed ₹ 5 crore and ₹ 2 crore respectively. However, quantification of interest income and expense is not required as such amounts do not exceed the limit of ₹ 30 lakh and 20 lakh respectively.
 - (iv) Quantification of advances and deposits is not required as

the respective amounts are less than ₹ 10 crore. However, quantification of interest income and expense is required.

- (a) (i) & (ii).
- (b) (i) & (iii).
- (c) (i) & (iv).
- (d) Only (i).

17.6 While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:

- (a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.
- (b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.
- (c) Net credit balance in branch adjustment accounts including these relating to foreign branches.
- (d) Margins held and kept in sundry deposits for funded facilities.

Answer Key

Question No.	Answer
17.1	(a) The exchange rate prevailing on the Balance sheet date.
17.2	(d) Both b & c.
17.3	(a) Contingent Liabilities.
17.4	(b) M/s Venus & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.
17.5	(a) (i) & (ii).

17.6	(c) Net credit balance in branch adjustment accounts including these relating to foreign branches.
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18. YS & Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS & Associates get their website developed as www.ysassociates.com from KPY Ltd. The colour of their website was very bright and attractive to run on a "push" technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

CA. Y, 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. Y 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. S, provides management consultancy and other services to his clients. During 2019, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients. Looking at his expertise in financial management, Mr. Tarak, a student of Chartered Accountancy course, is very much impressed with his knowledge. He approached CA. S to take guidance on some topics of financial management subject related to his course. CA. S, on request, decided to spare some time and started providing classes to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hours in a day. However, he has not taken any specific permission for such private tutorship from the Council.

YS & Associates is appointed to conduct statutory audit of XYZ Ltd. XYZ Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. YS & 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.

XYZ Ltd is seeking advice of YS & Associates to appoint CA. IA for conducting GST Audit.

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

- 18.1 YS & 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) YS & 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 YS & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.
 - (b) CA. IA cannot assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, YS & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.
 - (c) YS & 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) YS & 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.

- 18.2 Whether CA S is guilty of professional misconduct in providing private tutorship to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hours in a day in the absence of specific approval.
- (a) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 192A.
 - (b) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 190A.
 - (c) CA. S is guilty of professional misconduct as he has not obtained specific permission for the same.
 - (d) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A.
- 18.3 Before signing the tax audit report, CA. Y sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Y 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. Y 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. Y 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.
 - (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty

of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

- (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

18.4 In view of YS & Associates, whether CA. IA is eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously?

- (a) CA. IA is internal auditor of XYZ Ltd and therefore, is eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously.
- (b) CA. IA is internal auditor of XYZ Ltd and therefore, not eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously.
- (c) Being Internal Auditor CA. IA is appropriate person to carry out Goods and Service Tax (GST) Audit of XYZ Ltd.
- (d) None of the above.

18.5 Whether, website designed for www.ysassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949:

- (a) Yes, website can have names of partners and major clients along with its fess.
- (b) Yes, as the websites can be designed on a "push" technology.
- (c) Yes, as there is no restriction on the colours used in the website.
- (d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator.

Answer Key

Question No.	Answer
18.1	(a) YS & 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 YS & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.
18.2	(d) CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A.
18.3	(c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
18.4.	(b) CA. IA is internal auditor of XYZ Ltd and therefore, not eligible to undertake Goods and Service Tax (GST) Audit of XYZ Ltd simultaneously.
18.5.	(d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator.

19. RS Ltd was set up by Raj and Shanti in 1992. Initially, the name of the company was Rajeev Private Limited. The company is currently into the business of aviation. The company has its head office in Chennai. The company has been in the same business since its incorporation but over the years had to shut down its business 3 times due to operational inefficiencies and resultant losses.

In the year 2012, when the company restarted its operations after shutting that down third time, the company got funding from foreign

investors. The management of the company increased its focus on the processes of the company and various checks and controls to improve the efficiency of the operations. This gradually resulted in improving the overall business culture of the company and gradually the company started earning profits.

In the year 2016, the company got converted into a public company and got its name changed to RS Ltd. After that the company also tried to get listed on the New York Stock Exchange but the market was not favourable and the company instead got listed in India.

The company kept increasing its focus on operational efficiencies which was also extended to all other processes of the company, most importantly, financial reporting which was not focused earlier by the management.

The company also appointed a large firm of Chartered Accountants, KB & Co, as its internal auditors, who have had a specialization in the same sector so that they can help the company to fill the gaps in the processes, wherever required. Some of them are:

- The Standard Operating Procedures (SOP) for the logistics process was not defined from the point of vehicle request received from the sales marketing department up to the bills verification. The management explained that part of this process was developed and the remaining part was expected within the next 3 months.
- It was noted that during a particular period, cash in hand balance was higher than the actual cash requirement at some locations. The ratio of cash expenses to closing cash balance during that period ranged from 7 to 84 times. Further, the insurance cover was also not taken for the cash in hand kept at some locations. The management explained that this occurred only during a specified period and the insurance coverage plan was in place for the next year.
- On review of the procurement process, it was observed that the system was not enabled to show pending delivery of the same material while raising a subsequent purchase order and the guidelines were not defined for review of open purchase orders and

long pending orders. Management explained that this was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality, etc. and they will explore how system driven reporting can be done.

- It was observed that the credit limit assessment was not being performed for all the customers which could result in the possibility of credit being given to customers with weak financial credibility leading to bad debts/ financial losses to the company. Management replied that they started the process of updating of the credit limit in their ERP package which shall be completed in a month's time for major customers and for customers wherever a temporary credit limit was defined. This would cover majority of exposure.

The company also appointed other consultants to improve operations and management functions.

During the financial year ended 31 March 2018, the internal auditors of the company raised some observations which were discussed in detail with the management, primarily because the management was not agreeing to some of the points of the internal auditors.

Subsequently in the financial year ended 31 March 2019, the management decided to set up its in-house internal audit function along with the CA firm, KB & Co. The idea was to do the work in-house and over the period, KB & Co can move out once the management is confident of the in-house internal audit function.

Considering the above-mentioned facts, please provide your suggestions in respect of the following:

- 19.1 Whether reporting for Standard Operating Procedures (SOP) for the logistics process as discussed in scenario is required to be reported?
- (a) This is more of documentation and hence not relevant for the management.
 - (b) Auditor should highlight and report this matter in his report.

- (c) The matter which is already under development should not be considered by the auditor.
 - (d) Management needs to demonstrate the development process further and get this issue closed.
- 19.2 Contention of the management about cash balance and the insurance coverage plan matter is in order. Comment.
- (a) Matter should be reported by the Auditor in his audit report.
 - (b) The management needs to explain the amount involved and if that is low then the auditor should ignore this.
 - (c) The cash balance should not be looked at by the internal auditor as this is more relevant from financial reporting.
 - (d) Internal auditor should only report about non-availability of the insurance coverage to the management.
- 19.3 Explanation given by Management regarding pending delivery status to be shown in system and guidelines was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality, etc. and they will explore how system driven reporting can be done is viable.
- (a) This was an operational challenge and hence out of the purview of the internal auditor.
 - (b) This related to some system constraints and hence may be ignored by the internal auditor.
 - (c) The internal auditor needs to highlight this in his report.
 - (d) The management should draw a proper plan to take care of this. In any case there doesn't appear to be any financial impact due to this and hence the same should be ignored.

- 19.4 Whether internal auditor is required to report regarding credit limit assessment?
- (a) Since the management has already taken remedial action, the internal audit should drop this point.
 - (b) Since this matter related to financials, this should be covered by the statutory auditors and not the internal auditors.
 - (c) The management said that statutory auditors have also raised this point and hence internal auditors should drop this.
 - (d) Internal auditors should report this irrespective of the fact whether statutory auditors covered this or not.
- 19.5 The management's plan to phase out the CA firm by building up an in-house internal audit team has been questioned by the statutory auditors saying this is not acceptable.
- (a) Statutory auditors are correct.
 - (b) Statutory auditors should observe this for a period and if that is working fine then they should have no concern regarding this.
 - (c) The management has discretion regarding this, hence statutory auditors are not correct.
 - (d) The management should take approval from relevant authority like MCA and then statutory auditors would have to accept this.

Answer Key

Question No.	Answer
19.1	(b) Auditor should highlight and report this matter in his report.
19.2	(a) Auditor should report this matter in his report.

19.3	(c) The internal auditor needs to highlight this in his report.
19.4	(d) Internal auditors should report this irrespective of the fact whether statutory auditors covered this or not.
19.5	(c) The management has discretion regarding this, hence statutory auditors are not correct.

20. Shivam & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. The firm has 6 offices in India – Delhi, Noida, Bangalore, Kolkata, Chennai and Chandigarh. The firm has 35 partners across various offices. The staff size of firm is 250 approximately.

The firm is offering various services to its clients and has accordingly set up separate departments for those services which are headed by the Partners. The firm has clients as both listed and unlisted companies to whom services include statutory audit, internal audit, risk advisory, due diligence, tax support etc. The firm also has a Managing Partner who sits in Chandigarh office. All in all one can say it's an all solutions firm as far as services of a CA are concerned.

The firm focuses significantly on its quality and accordingly has set up various controls in place. The firm ensures that the engagements of each partners are reviewed in terms of quality of work by other partner of the firm independently every year. For this purpose, firm has set up a process and one or two engagement files of a partner is selected. Quality assessment also carries weight in terms of assessment of profit sharing of the partners.

The firm has been subject to peer review which was last conducted 3 years back.

During the financial year ended 31 March 2020, the firm got an intimation for the peer review on 1 July 2020, with which it was before time considering that the Review was done only 3 years back and was not due. The firm discussed this matter with the relevant authorities, but the authorities did not change their stand. The process of peer review got started on 1 August 2020 and completed on 15 September

2020 which included the on-site review from 1 August 2020 to 20 August 2020.

Since the firm was not happy with the selection of engagements for review by the Peer Reviewer and also faced some problems during the peer review process, it also consulted another firm of his friend, Shubham, Shubham & Associates. One of the engagements of Shubham & Associates was picked up for quality review by the Quality Review Board and this firm also faced various challenges during that process in terms of the selection criteria and also the observations of the reviewer.

Considering the abovementioned facts, you are required to advise on the following matters:

- 20.1 Shivam & Co LLP submitted a list of its assurance and due diligence services in respect of selection of the engagement for the peer review.
- (a) Peer reviewer may select any sample out of assurance and due diligence engagement.
 - (b) Peer reviewer may select any sample out of assurance engagement.
 - (c) Peer reviewer may select any sample out of due diligence engagement.
 - (d) Peer reviewer may select an engagement on a piecemeal basis covering any service - assurance or due diligence.
- 20.2 The concern of Shivam & Co LLP regarding its selection of peer review arose because it assessed itself as Level II entity which was different from assessment by the Peer Review Board.
- (a) The firm should be Level I based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards.
 - (b) The firm should be Level II based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards.

- (c) The firm should be Level I based on its engagements/services.
 - (d) The firm should be Level II based on criteria of Level 1 and 2 given by ICAI regarding applicability of Accounting Standards and its engagements/services.
- 20.3 Shivam & Co LLP also objected to the time taken by the Peer reviewer on site, however, as per Peer Reviewer, the entire review process got completed within 90 days from the date of notifying the firm about its selection for review.
- (a) The time for onsite review should not have extended beyond 7 to 15 working days.
 - (b) The time for onsite review should not have extended beyond 10 to 20 working days.
 - (c) The time for complete review should be completed within 120 days.
 - (d) The time for complete review should be completed within 60 days.
- 20.4 The peer reviewer did not share any of his observations with Shivam & Co LLP as draft and only the final report was submitted to the firm.
- (a) Peer reviewer need not share any draft report with the firm if there are no observations.
 - (b) Even the final report is not required to be submitted to the firm.
 - (c) Peer reviewer needs to share draft report with the firm before finalisation.
 - (d) There are no reports in case of peer review. On completion, a certificate to that effect is issued.

20.5 In case of Shubham & Associates, the reviewer raised on observation that one of the audit team member (when the team on the audit engagement was large) signed the independence confirmation dated 1 August 2020 when the audit report was signed i.e. 1 August 2020. This was objected by Shubham & Associates because the audit team completed the documentation as required by the auditing standard.

- (a) Observation of reviewer was correct.
- (b) Observation of reviewer was not correct.
- (c) Observation of reviewer was correct but when only one audit member has not complied then it should have been dropped.
- (d) Observation of reviewer was not correct and also the fact that out of a large team, it involved only one audit member.

Answer Key

Question No.	Answer
20.1	(b) Peer reviewer may select any sample out of assurance engagement.
20.2	(c) The firm should be Level I based on its engagements/services.
20.3	(a) The time for onsite review should not have extended beyond 7 to 15 working days.
20.4	(c) Peer reviewer needs to share draft report with the firm before finalisation.
20.5.	(a) Observation of reviewer was correct.

21. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2020. Ten 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 2020-21.

- (i) Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill re-discounting.
- (ii) Allahabad branch which started foreign exchange business from February 2020.
- (iii) Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Sista and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Associates, Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit.

At the Kanpur branch of the bank there were high value cash deposits in one of the current account during April 2020. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2020-21. 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 2020 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.

Answer the below questions based on the above paragraph:

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

- (a) Sista 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) Sista 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) Sista 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) Sista 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.

21.2 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) Sista 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) Sista 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.

- 21.3. You have been asked by your senior to verify the high value cash deposits at the Kanpur branch. What parameters/ documents will you verify as the concurrent auditor of the branch? Select correct option from the following:
- (a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only.
 - (b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc.
 - (c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly.
 - (d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.
- 21.4 How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report? Select 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.

Answer Key

Question No.	Answer
21.1	(d) Sista 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.
21.2	(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.
21.3	(c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly.
21.4	(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.

22. 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 2015.

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 2016.

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 a forensic audit in the financial year 2016-17. 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 31 March 2020, a 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 audit 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.

In the light of the above-mentioned facts, you are required to answer the following questions:

22.1 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.

22.2 The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2020. However, the reviewer asked for financial statements for the year ended 31 March 2019, 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.
- 22.3 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.
- 22.4 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 audit 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 audit 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.

Answer Key

Question No.	Answer
22.1	(b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.
22.2.	(b) Reviewer can ask for documents even for the period for which audit is completed.
22.3.	(a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management.
22.4	(d) The contention of the management is not correct.

23. Mr. I was appointed as statutory auditor of M/s New Limited and M/s Old Limited. Both the companies were having their base in Chennai they had recently listed their shares on the stock exchange. For the financial year 2020-21, Mr. I had signed limited review reports for each quarter, till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased work load, he tendered his resignation to M/s New Limited on 30th January 2021 and asked the company to appoint another auditor to issue audit report for the remaining quarter and the FY 2020-21 as a whole. But the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.

However, Mr. I continued to as act as auditor for M/s Old limited. During the 1st week of March 2021, Mrs. W (wife of Mr. I) had borrowed a sum of ₹ 6 lakh from the company for her personal use. Having come to know about this, Mr. I immediately informed the management that he had been disqualified to act as auditor and told them that he won't issue

audit report for last quarter. But once again, the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.

Apart from the above assignments, Mr. I was engaged in the audits as well:

- Internal audit of M/s ABC (P) Ltd.
- Registration of a 'RCO Trust' which was started on 31st December 2020. He also took the tax audit assignment for the same.
- Statutory audit of M/s CFBN (P) Ltd., a Non- Banking financial company for the FY 2020-21. During the course of audit, there was a difference of opinion between the auditor and the management of the company with respect to inclusion of the following items in the calculation of the net owned funds of the company (however, the issue was settled later)
 - (i) Non-convertible preference share capital of ₹ 10 lakh;
 - (ii) Investment of ₹ 3 lakh in shares of M/s Loan (P) Ltd., a NBFC;
 - (iii) Balance in revaluation reserve of ₹ 6 lakh;
 - (iv) Deferred revenue expenditure of ₹ 3 lakh.

Mr. J, (friend of Mr. I) a CA in practice invited Mr. I 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 JI & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. J informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of Chartered Accountant Act and regulation was accepted by all the four partners.

Based on the above facts, answer the following:-

- 23.1 Is the management (of M/s New Limited) right in asking Mr. I to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? What could be the reason for the same?

- (a) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole.
 - (b) Yes. If the auditor resigns within 45 days from the end a quarter, he is obligated to issue audit report for such quarter.
 - (c) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue audit report for the financial year as a whole if he resigns during last quarter.
 - (d) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.
- 23.2 From the aspect of SEBI LODR regulations and the recent circular on 'Resignation of Statutory Auditors from listed entities', is the management (of M/s Old Limited) right in asking Mr. I to issue audit report for the last quarter? What could be the reason for the same?
- (a) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters.
 - (b) No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable.
 - (c) Yes. The disqualification affects Mr. I from issuing audit report from next quarter only.
 - (d) Yes. If the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter.

- 23.3 Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and regulation?
- (a) JI and Co.
 - (b) JI & Associates.
 - (c) JI and Networks.
 - (d) JI & Affiliates.
- 23.4 Within which date should the registration of RCO Trust should be done and what is the form in which tax audit report for the same should be submitted?
- (a) Registration: Before 31st March 2021; Tax audit report: Form 10 B.
 - (b) Registration: No specific time limit; Tax audit report: Form 3 CB & 3 CD.
 - (c) Registration: Before 31st December; Tax audit report: Form 10 B.
 - (d) Registration: Before 31st March 2021; Tax audit report: Form 3 CA & 3CD.

Answer Key

Question No.	Answer
23.1	(d) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.
23.2	(b) No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable.

23.3	(d) JI & Affiliates.
23.4	(c) Registration: Before 31 st December 2021; Tax audit report: Form 10 B.

24. M/s IM & Co. Chartered Accountants is a newly started firm. Their first assignment was to conduct statutory audit of M/s CD 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 2020 for the financial year (say previous year) ended on 31st March 2020.

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 2020.
- (II) It was suspected that the senior accountant could have indulged in a fraud amounting to ₹ 117 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 ₹ 18 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 IM & Co. shall also act as tax auditors.

After the conclusion of the audit, Mr. I, 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. He contacted Mr. M, his partner, to get clarified about the doubt.

M/s Hire (P) Ltd., a recruitment agency contacted Mr. I regarding a vacancy in one of the leading manufacturing company. Eventually Mr. I resigned as the partner of IM & 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. I 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. M filed a complaint with the Institute of Chartered Accountants of India (ICAI) stating that Mr. I had violated the provisions of the Chartered Accountants Act and is guilty of professional misconduct. Having come to know that Mr. M was the one who had filed a complaint against him, Mr. I decided to take revenge. While thinking for a suitable reason to file a complaint, he recalled the fact that Mr. M was engaged as a Registration Authority for obtaining digital signatures for his clients. Quoting the same, he filed a complaint against Mr. M stating that he was guilty of misconduct for violating the provisions of the Chartered Accountant Act.

Based on the above facts, answer the following:-

24.1 What can you infer from the situation given in **Point I**?

- (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.

- 24.2 Is M/s IM & Co. guilty of professional misconduct for violating any of the provisions of Chartered Accountants Act? If so, as per which clause?
- (a) Clause 1 of Part I of Second Schedule.
 - (b) Clause 8 of Part I of First Schedule.
 - (c) 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.
- 24.3 Is Mr. I guilty of professional misconduct, if so, under what clause?
- (a) Clause 1 of Part I of First Schedule.
 - (b) Clause 2 of Part II of Second Schedule.
 - (c) No. Mr. I is not guilty of professional misconduct.
 - (d) Clause 1 of Part II of First Schedule.
- 24.4 Is Mr. M guilty of professional misconduct, if so, under what clause?
- (a) No. Mr. M is not guilty of professional misconduct.
 - (b) Clause 11 of Part I of First Schedule.
 - (c) Part III of Second Schedule.
 - (d) Clause 1 of Part II of Second Schedule.

Answer Key

Question No.	Answer
24.1	(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.
24.2	(b) Clause 8 of Part I of First Schedule.

24.3	(d) Clause 1 of Part II of First Schedule.
24.4	(a) No. Mr. M is not guilty of professional misconduct.

25. Sankalp 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 F.Y: 2019-20 is as follows:-

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 2019-20, M/s Aagam & Associates were the auditors of the Company. The auditors found out significant deficiencies in internal control and misrepresentation of amounts in the area of Trade Payables. Therefore, Auditor issued qualified Audit Report.

Next year, management did not wish to re-appoint the same auditors, and hence, Board of Director recommended Ms. Aangi as the Statutory Auditor for F.Y 2020-21 to the members of the Company.

After appointment, Ms. Aangi went through previous year financials statements, audit report etc. and emphasised the understatement of Trade Payable balance as a significant audit risk. Auditor set the materiality at ₹ 15,00,000 for conducting audit of the year 2020-21.

Further, Ms. Aangi is in process to select 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 Sankalp 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 31, 2021, 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
Suchi Groundnut Seeds Limited	₹ 15,00,000	₹ 20,00,000
Nishi Sunflower Seeds Limited	₹ 65,00,000	₹ 80,00,000

Suchi 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, 2021.

Nishi 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, 2021 & March 27, 2021 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03, 2021 and therefore, those were not recorded in the financial statement for the year ended March 31, 2021.

Ms. Aangi 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. Samyak, an executive who came as a temporary replacement for one week in the place of

Ms. Hetavi, who is permanent accountant of the company. The mistake was clerical in nature.

Based on the above facts, answer the following:-

25.1 Which items should Ms. Aangi 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 Sankalp 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.

25.2 How can Ms. Aangi 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.

- 25.3 What are the audit procedures that Ms. Aangi should perform to verify whether the payable balances of Nishi Sunflower Seeds Ltd. are correctly recorded in the financial statements.?
- (a) Send a confirmation to Nishi Sunflower Seeds Ltd. to requesting to confirm the outstanding balance as at March 31, 2021.
 - (b) Verify the bank payments for the period of post March 31, 2021 for any evidence of payment of invoice.
 - (c) Review the listing of purchase order to confirm whether it pertains to the current year 2020-21 or it pertains to the next financial year.
 - (d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.
- 25.4 What would be proper course of action to be taken by Ms. Aangi 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. Aangi should ask Sankalp 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.

Answer Key

Question No.	Answer
25.1	(b) ii, iii, & iv

25.2	(c) Input a fake purchase invoice into the client system to see if it is processed accurately.
25.3	(d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.
25.4	(d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

26. CA David was appointed as a statutory auditor of Growth Limited having its headquarter at Mumbai. Growth Limited was involved in retail & packaging business and had branches in 6 states of India; Mumbai being its headquarter. It had a policy to appoint different auditor for each branch in different state and a central auditor for Mumbai headquarter. For the FY ended 31 March 2020, all branch audit reports were received by CA David in a timely manner. There was an increase in sales for all the branches, except for the branch of Kerala where sales declined by 17% in comparison to last year. Hence CA David requested CA Chinnaswami, auditor of Kerala branch, to share audit working papers of Growth Limited's Kerala Branch. Total turnover of Growth Limited was ₹ 17 crore. But turnover of Gujrat branch was ₹ 1.97 crore out of which 1.25 crore was exempt supply under GST laws. CA David is also the GST auditor under the GST laws of Growth Limited's head office and all of its branches. CA David was confused as to whether GST audit will be applicable to Gujrat branch as the turnover is less than ₹ 5 crore. Growth Ltd has exported goods to UK worth GBP 10,000. On the date of filing of shipping bill, exchange rate notified by CBEC was ₹ 98 whereas RBI reference rate was ₹ 99 and at the time of receiving money exchange rate was ₹ 101. All these transactions were appropriately recorded in the books of account and were verified by CA David.

During the year, Growth Limited used its securities premium of ₹ 7 crore for writing off unabsorbed depreciation of ₹ 2.5 crore and issue of bonus shares for ₹ 4.5 crore. All the provisions of section 63 of the Companies Act, 2013 for issue of bonus share and applicable rules in respect of issue of Bonus shares were complied with by Growth Limited. CA David also took a written representation which was certified by the Company Secretary employed by Growth Limited in regard to compliance of

applicable provisions for usage of securities premium and thus, CA David issued unmodified audit report. The company created provision for doubtful debts amounting to ₹ 8 lakh and presented that under head short term provisions under liabilities in its financial statements. CA David was confused with presentation of such provision in accordance with Ind AS 37.

CA David was statutory auditor of Sabka Vikas NBFC as well. For the FY ended 2020, net owned funds of Sabka Vikas were ₹ 300 crore. Out of ₹ 300 crore, ₹ 200 crore were given as loan to different business houses. Mr. Raj, Chairman of Sabka Vikas NBFC, was very close friend of Mr. Shrewd. Mr. Shrewd has 3 companies under his management. Each company was provided a loan of ₹ 40 crore each. While verifying compliance with prudential norms, CA David took written representation from Mr. Raj.

Advocate Tanay was a practicing advocate representing in the court of law. Tanay and CA David agreed that advocate Tanay will recommend CA David in case of matters relating to finance & other matters and CA David will recommend advocate Tanay in case of matters relating to tax litigations. Further they also decided to share profits with each other in relation to such assignments. With the increased quantum, CA David has to increase his office capacity. He purchased 10 office chairs, tables and other office furniture from Growth Limited. The same were purchased with huge 90% discount under clearance sale. The purchase amounted to ₹ 9 lakh which was not more than statutory audit fees of CA David. CFO of Growth Limited contented that, as a result of this purchase, there exist a business relation between Growth Limited and CA David, hence CA David will be disqualified under section 141(3) of the Companies Act, 2013.

Based on the above facts, answer the following:-

- 26.1 In your opinion, will Gujrat branch of Growth Limited be liable for GST audit under GST laws?
- (a) No, as the total supply of Gujrat branch is less than ₹ 5 crore.
 - (b) No, as the taxable supply of Gujrat branch is less than

- ₹ 1 crore and Growth limited is not directed by the Commissioner to get its books audited.
- (c) Yes, as the overall turnover of Growth Limited is more than ₹ 5 crore.
 - (d) Yes, Gujrat branch will be liable only if it has the same GST registration number as GST registration number of Mumbai Branch otherwise it will not be liable for GST audit.
- 26.2 Was the opinion formed by CA David in respect of usage of securities premium correct?
- (a) No, as securities premium cannot be used by company for adjusting unabsorbed depreciation.
 - (b) No, as securities premium cannot be used for issuing bonus shares.
 - (c) Yes, as CA David has taken written representation signed by the Company Secretary. Hence CA David will not be liable to check the compliance of applicable provision.
 - (d) Yes, as per section 52 of the Companies Act, 2013, premium can be used for adjusting unabsorbed depreciation and for issuing bonus shares.
- 26.3 In case of Growth Ltd, what will be the amount of adjustments to be made in turnover due to foreign exchange fluctuations in Reconciliation statement in Form GSTR 9C prescribed in terms of Rule 80(3) of CGST Rules, 2017?
- (a) 20,000.
 - (b) 10,000.
 - (c) 25,000.
 - (d) No adjustment required.
- 26.4 In your opinion, was the presentation of provision for doubtful debts correct in accordance with Ind AS 37?
- (a) Yes, as Ind AS 37 specifies that such provision should be

- presented under short term provision.
- (b) No, as Ind AS 37 specifies that such provision should be presented net of trade receivables.
 - (c) Yes, because Ind AS 37 doesn't specify anything for presentation, hence we will have to follow practices which require that such provision should be presented under short term provision only.
 - (d) Yes, as it won't make any impact so it is at the discretion of Growth Limited whether to present it under short term provision or net it off from trade receivables.
- 26.5 What is the validity of CFO's contention for disqualification under section 141(3) and will CA David be disqualified?
- (a) The contention of CFO is valid and CA David will have to vacate office as he has purchased his office furniture at 90% discount.
 - (b) The contention of CFO is valid but CA David will not have to vacate office as the purchases are less than audit fees as there exist business relation.
 - (c) The contention of CFO is invalid but CA David will have to vacate office as he has purchased his office furniture at 90% discount.
 - (d) The contention of CFO is invalid and CA David will not have to vacate office as no business relation exists there.

Answer Key

Question No.	Answer
26.1	(c) Yes, as the overall turnover of Growth Limited is more than ₹ 5 crore.
26.2	(a) No, as securities premium cannot be used by company for adjusting unabsorbed depreciation.
26.3	(b) 10,000.

26.4	(b) No, as Ind AS 37 specifies that such provision should be presented net of trade receivables.
26.5	(d) The contention of CFO is invalid and CA David will not have to vacate office as no business relation exists there.

27. CA Dev was involved in practice of statutory audit from last 27 years. He is the statutory auditor of 19 public limited companies out of which 7 are listed. He is also statutory auditor of 6 one person companies. Out of 19 public companies, 7 are PSU's (Public Sector Undertakings), 4 are involved in banking business, 2 are life insurance companies and others are private sector companies. His friend, Mr. Suyog was MD of health life insurance company and wants to appoint CA Dev as statutory audit of Health life insurance company. There is quite a diversification of clients of Mr. Dev. Few are from insurance, tea business and FMGC as well. CA Dev still wants to increase the area of his practice.

Mintcoin Ltd was involved in the business of assisting startups to raise funds from venture capitalists. It had a huge network of venture capitalists which was very helpful in serving the clients. But Mintcoin Ltd lacked a finance expert who can present the financial statements of startups to venture capitalist. Mintcoin Ltd contacted CA Dev who was a practicing chartered accountant. But as he holds COP (Certificate of Practise), he cannot work as full time employee of Mintcoin Ltd. So, it was agreed that rather than fixed salary, CA Dev will charge 2% of the amount raised as consultancy fee and will continue with his practice. It was also agreed that he will not be an employee of Mintcoin Ltd and will provide direct fund raising services to startups in collaboration with Mintcoin Ltd.

CA. Dev was statutory auditor of Safety Limited. It was an insurance company having fire, and marine insurance products. In case of marine insurance, it had a risk of nearly ₹ 100- 120 crore and in case of fire insurance, 70% of its fire insurance premium was received from Star Hotels. Safety Ltd has a policy that in case of marine insurance, it will not hold risk of more than ₹ 50 crore, hence Safety Ltd signed a contract for 5 years with Help Ltd, which was involved in the business of reinsurance, to cede risk above ₹ 50 crore for 40% of marine insurance

premium. Because of change in business environment, Safety Limited entered a separate contract with Help Ltd to reinsure fire insurance of Star Hotels where Help Ltd will bear 40% risk in returns of 40% of premium from Star Hotels. Net premium used for calculation of unexpired risk reserve of marine hull insurance is ₹ 70 crore and marine cargo insurance is ₹ 40 crore. Total net premium of fire insurance was ₹ 80 crore at the end of the year. CA Dev was confused as to how to calculate unexpired risk reserve.

CA Dev is statutory auditor of Tata Tea Ltd as well. It has set up its manufacturing plant in the backward areas of West Bengal. It has been set up under production linked investment scheme of government. The turnover of immediately preceding financial year of the company is ₹ 60 crore. Along with manufacturing of tea, Tata Tea Ltd also produces electricity from its own solar plant, whose electricity is only used by Tata Tea Ltd in its manufacturing activities.

CA. Dev is statutory auditor of FMCG giant Premium Ltd as well. Premium Ltd is a listed company and 47th largest company of India in terms of market capitalization. The promoter of the company is Mr. Hari but he doesn't hold any management position in this company. His brother, Mr. Taari, is a non-executive chairman of Premium Ltd. There sits a total of 16 directors including Mr. Suyog on board of Premium Ltd. The BOD (Board of Directors) are considering to form an audit committee consisting of 9 directors. Mr. Taari seeks advice from CA Dev as to number of independent directors to be part of audit committee of this company.

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

- 27.1 Is the act of CA Dev of charging 2% consultancy fees for amount raised by startups a professional misconduct? Please answer specifying the relevant clause.
- (a) No, it is not a misconduct if a specific permission is granted by the ICAI in this regard under regulation 190A.
 - (b) No, it is not a misconduct. Regulation 192 allows CA to charge percentage based fees in case of fund raising services.

- (c) Yes, it is a misconduct under clause 10 Part (1) of First Schedule.
 - (d) Yes, it is a misconduct under clause 3 Part (1) of First Schedule.
- 27.2 Can CA Dev accept the appointment of statutory auditor of Health life insurance company? Give the reason for your opinion.
- (a) Yes, as the total number of audits a CA can perform is 20, hence CA Dev can accept 1 more statutory audit.
 - (b) Yes, as the total number of audits of life insurance company a CA can perform is 3, hence CA Dev can accept 1 more statutory audit of Health life insurance.
 - (c) Yes, as the total number of audits a CA can perform is 20 and total life insurance companies; audits a CA can perform is 3, hence CA Dev can accept 1 more statutory audit of Health life insurance company.
 - (d) No, as the total number of audits of life insurance company a CA can perform is 2, hence CA Dev cannot accept 1 more statutory audit of Health life insurance company.
- 27.3 What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Marine business?
- (a) Surplus proportional treaty reinsurance.
 - (b) Quota share proportional treaty reinsurance.
 - (c) Facultative reinsurance.
 - (d) Non- proportional treaty reinsurance.
- 27.4 What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Star hotel's assets?
- (a) Facultative reinsurance.
 - (b) Proportional treaty reinsurance.
 - (c) Quota share proportional treaty reinsurance.

- (d) Surplus proportional treaty reinsurance.
- 27.5 Which of the following statements is correct for Tata Tea Ltd in regard to section 148 of the Companies Act, 2013 read with Rule 4 on Applicability of cost audit?
- (a) Tata Tea Ltd will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than ₹ 50 crore.
- (b) Tata Tea Ltd will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than ₹ 35 crore.
- (c) Tata Tea Ltd will have to maintain cost records but would not be subject to cost audit.
- (d) Tata Tea Ltd is not required to maintain cost records.
- 27.6 In relation to Corporate Governance and in compliance of Regulations 17 and 17A, what should be the minimum number of independent directors on the board of Premium Ltd?
- (a) 8.
- (b) 6.
- (c) 11.
- (d) 2.
- 27.7 What should be correct statement from below in regard to number of independent directors for audit committee of Premium Ltd?
- (a) There should be at least 5 independent directors in audit committee and 5 directors should have knowledge to read the financial statements.
- (b) There should be at least 5 independent directors in audit committee and 9 directors should have knowledge to read the financial statements.
- (c) There should be at least 6 independent directors in audit committee and 9 directors should have knowledge to read

the financial statements.

- (d) There should be at least 6 independent directors in audit committee and 6 directors should have knowledge to read the financial statements.

Answer Key

Question No.	Answer
27.1	(b) No, it is not a misconduct. Regulation 192 allows CA to charge percentage based fees in case of fund raising services.
27.2	(d) No, as the total number of audits of life insurance company a CA can perform is 2, hence CA Dev cannot accept 1 more statutory audit of Health life insurance company.
27.3	(a) Surplus proportional treaty reinsurance.
27.4	(a) Facultative reinsurance.
27.5	(c) Tata Tea Ltd will have to maintain cost records but would not be subject to cost audit.
27.6	(a) 8.
27.7	(c) There should be at least 6 independent directors in audit committee and 9 directors should have knowledge to read the financial statements.

28. Speak Ltd is an industry providing telecommunication services and is operating in a completely automated environment. It uses software such as 'Call Data Record package' for capturing revenue from telecommunication services, 'HRMS package' for processing pay of employees and Sanchar soft for capturing special transactions on franchisee transactions. All these software data culminate into the SAP software used for financial accounting and reporting.

Speak Ltd, as an industry is subjected to various risks such as technology risks, security risks, operational risks etc. which may prevent the company from achieving its business objectives. The entity may also be subject to risk pertaining to the use of IT systems.

The auditor of the company during the course of the audit has found the following issues:

Issue1: Speak Ltd has issued material for tower works worth ₹ 30 crore on 10th October 2019 and this entry made by a staff is approved by the assistant store manager and the store manager. The very next day the staff who entered the data found that there is some clerical error and store worth only 29.8 crore was issued. He made the changes immediately and the system accepted the same without the approval of assistant store manager and store manager.

Issue2: Speak Ltd is showing a commission expense of ₹ 2 crore during the month of October 2019. The auditor has made an effort to understand the business process that makes up this financial statement line item as to how it is initiated, recorded, approved, posted and reported. During this exercise, he finds that there is a difference of ₹ 1,50,000/- in the commission recorded as per the Sanchar Soft software (source) and commission as reflected in SAP accounts. (destination).

Issue 3: While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup.

With the above information, answer the following questions by choosing the correct option?

- 28.1. What is the terminology for the formal program or framework that is implemented across an enterprise or company for enabling risk management?
- (a) Risk assessment process.
 - (b) Enterprise Risk Management.
 - (c) Corporate Risk Management.
 - (d) Automated environment risk management.

- 28.2. What kind of a risk in the automated environment is observed by the auditor in "issue 1"?
- (a) It is an entity level risk related to governance, organisation and management of IT.
 - (b) It is a risk in the IT processes and procedures being followed in terms of unauthorised access.
 - (c) There is no material risk involved in the issue observed by the auditor.
 - (d) It is a manual internal control risk and not connected to any automated controls in the system.
- 28.3. What is the kind of risk assessment carried out by the auditor in case of " issue 2"?
- (a) It is an evaluation of risks and controls at process level.
 - (b) It is a direct entity level control evaluation.
 - (c) It is an indirect entity level control evaluation.
 - (d) There is no risk assessment as such carried out by auditor in issue 2.
- 28.4. What should the auditor do about the difference identified in" issue 2"?
- (a) The auditor should carry out further procedure of inquiry, obtain additional evidence on the matter and discuss with management before deciding on the audit reporting requirement.
 - (b) The auditor should issue an adverse opinion on deficiency on internal control directly as it is a clear difference.
 - (c) The amount is not material considering the business volume and hence the auditor may inform the management orally.
 - (d) The auditor should issue a qualified opinion on deficiency of internal control directly as it is a clear difference.

28.5. How should the auditor deal with "issue 3"?

- (a) The auditor should issue a qualified opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence.
- (b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion.
- (c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls.
- (d) The auditor can rely on the SAP data and there is no need for qualification of report.

Answer Key

Question No.	Answer
28.1	(b) Enterprise Risk Management.
28.2.	(b) It is a risk in the IT processes and procedures being followed in terms of unauthorised access.
28.3.	(a) It is an evaluation of risks and controls at process level.
28.4.	(a) The auditor should carry out further procedure of inquiry, obtain additional evidence on the matter and discuss with management before deciding on the audit reporting requirement.
28.5.	(b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion.

29. AB & Co, Chartered Accountants are having 4 partners- Mr. A, Mr. B, Mr. C and Mr. D respectively. Head office is situated at New Delhi with 2 branch offices at Mumbai and Kolkata. The Firm was founded in the year 1983.

Mr. A looks after Internal Audit assignments. Mr. B and Mr. C head Income Tax Audits and consultancy and GST Audits and consultancy respectively. Mr. D specializes in Company Audits and Bank Audits.

Firm is empanelled with the Comptroller Auditor General of India (CAG), Reserve Bank of India (RBI) and the Income Tax Department for conducting Special Audits

During the statutory audit of PQR Ltd (a Listed company) for FY 2019-2020, following observations were noted by Mr. Z (an articled assistant):

- ❖ The company's accounts have been prepared on IND-AS Basis as specified by The Companies Act, 2013
- ❖ There was a major fire at the plant on 3rd April 2020 which destroyed stocks worth ₹ 40 lakh, approximately equal to 35% of the total stock in hand.
- ❖ The company acquired 53% shares of Subsidiary Ltd on 1st March 2020 However it sold all shares on 15th October 2020.
- ❖ The Company is having 1 crore Equity Shares @ ₹ 10 as its Paid up Capital.
- ❖ During the Year Company declared dividend of ₹ 1 per share out of current year profits.
- ❖ It is brought to notice that dividend to 4 shareholders holding 10000 Shares each has not been paid within 30 days of declaration of dividends to the following persons:
 - Dividend to Mr. K could not be paid since there was a dispute about the right to receive the dividend;
 - Dividend to Mr. L was adjusted against the amount due from him to the company;
 - Mr. M had given instructions to pay the dividend to a new bank account but the amount remitted was received back due to incorrect details. This fact was informed by the company to him;
- ❖ Mr. Z was offered 0.5% of Total Profits of AB & Co. for performing very well in the audit of PQR Ltd by Mr. D as a token of appreciation.

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

- 29.1 Whether preparation of Consolidated Financial Statements is required for FY 2019-2020 for PQR Ltd?
- (a) No, since the control is temporary as the shares are held for disposal in near future, the consolidation is not required as per IND AS 110.
 - (b) No, since the control is temporary as shares are held with a view for disposal in near future and it should be presented as asset held for sale under IND AS 105.
 - (c) No, since as per section 129(3) of the Companies Act, 2013, only disclosure in notes shall be sufficient.
 - (d) Yes, it is required under IND AS 110.
- 29.2 Regarding the loss by fire, what is the correct course of action for the financial statements for 2019-20 as per IND AS 10?
- (a) Disclose the loss by fire in the notes, do not adjust the financial statements.
 - (b) Write off the stock lost by fire totally as on 31.03.2020.
 - (c) Make a provision for loss by fire on 31.03.2020 and pass actual write off entry on 3.04.2020, the date of fire.
 - (d) Neither adjust the loss nor disclose in the notes as the loss does not relate to FY 2019-20.
- 29.3 Is Mr. D liable for professional misconduct by sharing profits with Mr. Z? If yes, under which clause?
- (a) No, as the profits were given as a token of appreciation
 - (b) Yes, under clause (2) Part I of First Schedule..
 - (c) Yes, under clause (2) Part I of Second Schedule.
 - (d) Yes, under clause (1) Part II of Second Schedule.

Answer Key

Question No.	Answer
29.1	(d) Yes, it is required under IND AS 110.
29.2	(a) Disclose the loss by fire in the notes, do not adjust the financial statements.
29.3	(b) Yes, under clause (2) Part I of First Schedule.

30. Kaai (P) Ltd. is involved in the wholesale business of vegetables across various cities of India. The company delivers all the orders using its own vehicles. However, during peak season, the company would hire vehicles to deliver its orders. M/s PAZH & Co. Chartered Accountants were the auditors of the company for past two years. For the year ended 31st March 2020, the statutory & tax audit was conducted by the firm, and following were the observations made:

Observation - 1: During the year, the company had made payment for three invoices of (I-1) ₹ 17,500/-, (I-2) ₹ 18,750/-, (I-3) ₹ 11,250/- to M/s Rent Vehicles Ltd. for services of hiring vehicles (I-1&2 above) and for wages for the driver sent by them (I-3 above). All payments were settled by way of cash on 15th March (I-1) and 23rd March (both I-2&3)

Observation – 2: On 31st March the company had taken insurance (value insured = ₹ 1 lakh) for its new godown and the premium was to be paid on next day. However, on the night of 31st, a huge fire accident took place and goods worth ₹1.5 lakh were lost. The company informed the insurance agent about the incident and included the loss value as receivables in its financials.

Observation – 3: With respect to the expenditure made by the company, the following were to be disclosed in tax audit report, but the management did not accept the decision of the auditor.

- (i) The company had incurred ₹ 40,000/- towards advertisement expenditure on a brochure/ pamphlet published by a private educational institution in Pune.

- (ii) The company reimbursed ₹ 18,000/- to its employees who had incurred the expenses on entrance fees paid to a club.
- (iii) The company had an idle land near to one of its godown. It had employed 5 farmers to cultivate rice and had made an income of ₹ 13 lakh by selling the output. The salary paid to the 5 employees and other costs amounting to ₹ 2 lakh were debited to the profit & loss account of the company.

Observation – 4: The company was operating with same share capital which it had since inception (i.e. ₹ 95 lakh). During the year, it had made a turnover of ₹ 158 lakh and its borrowings stood at ₹ 58 lakh as on 31st March, which was after settling a loan of ₹ 43 lakh taken from SBI on 24th March. The amount of ₹58 lakh was the balance of term loan taken in the earlier year and after repayment of instalments in the current year as and when due.

After completion of the above audit, the firm received the following assignments:

- (i) Offer to be appointed as internal auditor of HH Ltd.
- (ii) Offer to be appointed as statutory auditor of HH Employees Provident Fund.
- (iii) Offer to be appointed as internal auditor for YY Ltd. and simultaneously, they were also appointed to perform GST Audit for the company.
- (iv) To act as financial advisor to M/s NBE Mutual Fund Ltd. for a professional fee of ₹ 1 lakh per annum.

The audit firm feared that it would attract professional misconduct and regulatory issues if it takes up all the assignments and hence gave up all the offers.

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

- 30.1 With regards to tax audit of Kaai (P) Ltd., what should the auditor do with respect to **observation - 1**?
- (a) He need not report anything as the cash payments as well within limits specified in Income tax Act.
 - (b) Disallow ₹ 17,500/- and give the details of the same under clause 21 of tax audit report.
 - (c) Disallow ₹ 18,750/- & ₹ 11,250/- and give the details of the same under clause 21 of tax audit report.
 - (d) Disallow ₹ 11,250/- and give the details of the same under clause 21 of tax audit report.
- 30.2 Regarding **observation - 2**, what should be the right value to be recognised by the company as receivables from the insurance company?
- (a) Zero.
 - (b) ₹ 1 lakh.
 - (c) ₹ 1.5 lakh.
 - (d) ₹ 50,000/-.
- 30.3 From the observation - 4, can you suggest whether CARO is applicable to the company or not? What is the reason?
- (a) No, as per para 1 of CARO, private limited companies are exempt.
 - (b) Yes. Since the paid-up capital of the company exceeds the specified limits, CARO is applicable.
 - (c) Yes. Since the turnover of the company exceeds the specified limits, CARO is applicable.
 - (d) Yes. Since the borrowings of the company exceeds the specified limits, CARO is applicable.

- 30.4 Which among the points under observation – 3 should be reported by the auditor in the tax audit report?
- (a) (i) & (ii).
 - (b) (ii) & (iii).
 - (c) (i) only.
 - (d) (ii) only.
- 30.5 Does the act of being appointed as financial advisor to M/s NBE Mutual Fund Ltd attract professional misconduct? What is the reason?
- (a) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as equity research advisor it would attract professional misconduct.
 - (b) Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a mutual fund company and receive fees from them.
 - (c) No. Only if the firm acted as financial advisor to NBFC or Insurance company, it would attract professional misconduct
 - (d) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as financial advisor for commission income, it would attract professional misconduct
- 30.6 Among the assignments (i), (ii) and (iii) given in the scenario which PAZH & Co. received, undertaking which would have led to professional misconduct?
- (a) (ii) only.
 - (b) Both (i) & (ii).
 - (c) (iii) only.
 - (d) (i) only.

Answer Key

Question No.	Answer
30.1	(d) Disallow ₹ 11,250/- and give the details of the same under clause 21 of tax audit report.
30.2	(a) Zero.
30.3	(d) Yes. Since the borrowings of the company exceeds the specified limits, CARO is applicable.
30.4	(b) (ii) & (iii).
30.5	(b) Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a mutual fund company and receive fees from them.
30.6	(c) (iii) only.