

**CA FINAL
NEW SCHEME - GROUP - I**

**ADVANCED AUDITING,
ASSURANCE AND
PROFESSIONAL ETHICS**

M C Q
Compiler

3rd Edition

Author

CA Aarti N. Lahoti

By India's Most Dynamic Faculty For Audit

 www.aartilahoti.com

Price : Rs. 899/-

Every effort has been made to avoid errors or omissions in this publication. In spite of this, errors may creep in. Any mistake, error or discrepancy noted may be brought to our notice which shall be taken care off in the next edition. It is notified that neither the Author nor the Seller will be responsible for any damage or loss of action to any one, of any kind, in any manner, therefrom. It is suggested that to avoid any doubt the reader should cross-check all the facts, law & contents of the publication with the Institute's publication or notifications.

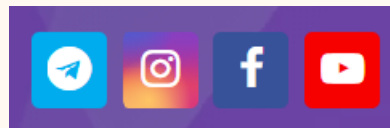
© Exclusive publication, distribution & promotion rights reserved with the Author

All Rights Reserved.

No part of this book shall be reproduced or copied in any form or by any means [graphic, electronic or mechanical, including photocopying, recording, taping, or information retrieval system], or reproduced on any disk, tape, perforated media or other information storage device, etc. without the written permission of the author. Breach of this condition is liable for legal action.

CA Aarti N. Lahoti

Connect to **CA Aarti N. Lahoti** on www.aartilahoti.com,
Telegram, Instagram, Facebook & Subscribe to the YouTube Channel –
Aarti Lahoti



Dear Students,

IT'S ALL ABOUT AUDIT!

It gives me immense pleasure to present before you the 3rd Edition of Advanced Auditing, Assurance & Professional Ethics – MCQ Compiler for CA Final.

I have made an humble attempt to include all theory, Q & A & Amendments released by ICAI through its different mediums viz. Latest Study Material, Suggested Answers, Mock Test Papers & Revision Test Papers in this book.

Any constructive criticism is always welcome. @ aartilahoti9@gmail.com

The greatest strength of this book is its wholistic approach towards the subject - a one stop solution for the entire subject of CA Final Auditing. It covers each & every topic of the syllabus in a tabular & pointwise format & also the myriad varieties of questions in relation to the same.

*Having **CONCEPTUAL CLARITY** about the topics is half the battle won!!! To complete it you need to do a lot of **WRITING PRACTICE**. As a general problem faced by students is that though they understand the concepts but they are not able to put it in words & this happens merely due to lack of writing practice. So never forget that!*

*And one final piece of advice would be to do **CUMULATIVE REVISIONS** of the subject so that you are able to retain the subject better.*

Wishing you all the very best for your exams and for a brightful future!

Happy Auditing!

Regards,

CA Aarti N. Lahoti

www.aartilahoti.com

www.magnetca.com

CA Aarti Lahoti Classes



CH. NO.	CHAPTER NAME	PAGE NO.
INDEX		
1	INTEGRATED CASE STUDIES	1.1 – 1.74
2	CONCEPTWISE CASE STUDIES	2.1 – 2.21
3	SQC 1 & SA 200 SERIES	3.1 – 3.28
4	SA 300 - 400 SERIES	4.1 – 4.18
5	SA 500 SERIES	5.1 – 5.40
6	COMPLETION & REVIEW	6.1 – 6.10
7	CARO, 2020 / SA 700 SERIES	7.1 – 7.52
8	SA 800 SERIES	8.1 – 8.10
9	SRE 2400 SERIES	9.1 – 9.8
10	SAE 3400 SERIES	10.1 – 10.8
11	SRS 4400 SERIES	11.1 – 11.6
12	DIGITAL AUDITING & ASSURANCE	12.1 – 12.4
13	GROUP AUDITS	13.1 – 13.7
14	SPECIAL FEATURES OF AUDIT OF BANKS & NBFCS	14.1 – 14.13
15	OVERVIEW OF AUDIT OF PUBLIC SECTOR UNDERTAKINGS	15.1 – 15.7
16	INTERNAL CONTROL & INTERNAL AUDIT	16.1 – 16.26
17	DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING	17.1 – 17.9
18	SDG & ESG ASSURANCE	18.1 – 18.6
19	PROFESSIONAL ETHICS & LIABILITIES OF AUDITORS	19.1 – 19.10

1

INTEGRATED CASE STUDIES**INTEGRATED CASE STUDY - 1**

Sun Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) & the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Sun Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, & basic chemicals. These products find application in various sectors, from pharmaceuticals & textiles to paints & coatings, construction, & agriculture. RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2033-34 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity.

During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, & accordingly, he requested that management remove such limitation. But the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, Finally, Mr. Rahul with his engagement team, derived on a conclusion that the possible effects on the financial statements of undetected misstatements, could be material & pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation & accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 15th November, 2033. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

1.	What was the responsibility of Mr. Rahul when the management refused to remove the said limitation?	A
(a)	To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.	
(b)	To communicate the matter to those charged with governance & determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.	
(c)	To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.	
(d)	To request for written representation from the management for the matters on which limitation is imposed & also communicate the matter to those charged with governance.	
2.	What was the responsibility of RKM & Co. with respect to the issue of limited review report at the time of resignation?	C
(a)	Limited review report for third Quarter was required to be issued.	
(b)	No further limited review report was required to be issued as already it was issued for the second Quarter at the time of resignation.	
(c)	Limited review report for third Quarter was required to be issued & consequently, after its issue, audit report for the full year is also required to be issued.	
(d)	Limited review report for third Quarter was required to be issued subject to the terms of the audit engagement.	

3.	<p>Whether in the given circumstance withdrawal from engagement was mandatory & if so, what is the responsibility of the auditor with respect to such withdrawal?</p> <p>(a) In the given circumstance withdrawal from engagement was not mandatory & in case of withdrawal, the auditor was required to withdraw from the audit, where practicable & possible under applicable law or regulation.</p> <p>(b) In the given circumstance withdrawal from engagement was mandatory & in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.</p> <p>(c) In the given circumstance withdrawal from engagement was mandatory & in case of withdrawal, the auditor was required to withdraw from the audit, where practicable & possible under applicable law or regulation.</p> <p>(d) In the given circumstance withdrawal from engagement was not mandatory & in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.</p>	B
4.	<p>Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper?</p> <p>(a) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.</p> <p>(b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.</p> <p>(c) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management & refusal to provide reasons for the same & accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.</p> <p>(d) No, the reasons should have been a little lengthier & further the exact reason must be provided to the new auditor to be appointed by the company.</p>	A
5.	<p>Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM & Co. with respect to withdrawal from engagement & issue of limited review report at the time of resignation?</p> <p>(a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review reports for second & third Quarter were required to be issued.</p> <p>(b) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review report for second Quarter was required to be issued.</p> <p>(c) The auditor shall communicate to management & those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review report was not required to be issued.</p> <p>(d) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material & pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation & the limited review report for second Quarter was required to be issued.</p>	B

INTEGRATED CASE STUDY - 2

MN & Associates, a firm of Chartered Accountants, having CA. M & CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 & appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the

management & 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 & evaluation of the results of external confirmation procedures.

CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, & commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. M realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor & obtained the postal acknowledgement.

CA. N provides management consultancy & other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N posted his framed photograph on his website wherein he was receiving the said award from the Institute. Upon hearing about the efficient services provided by MN & Associates Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer & 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 ₹ 501/-.

Based on the abovementioned facts, you are required to answer the following MCQs:

1.	With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates.? (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of ₹ 501/-.	C
	(a) (i) Only	
	(b) (ii) Only	
	(c) Either (i) or (ii)	
	(d) Neither (i) nor (ii)	
2.	MN & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.	B
	(a) CA. IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements as per SA 610.	
	(b) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements. However, CA. IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610	
	(c) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements & in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.	
	(d) MN & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements & in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.	
3.	As per the Chartered Accountants Act, 1949, under which clause CA. N is liable for misconduct?	B
	(a) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.	
	(b) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.	
	(c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.	
	(d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.	

4.	Before signing the tax audit report, CA. M sent a registered post to the previous auditor & obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949?	B
(a)	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.	
(b)	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.	
(c)	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.	
(d)	As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.	

INTEGRATED CASE STUDY - 3

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

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

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

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

Moreover, as a part of the audit procedure, auditors of the ABC Limited also wants external confirmation from the 37 Debtors to confirm the year end balance, however in this process, the management refuses auditors to allow to send the confirmation & after asking the reason for such refusal, auditors came to the conclusion that, such refusal is unreasonable & the auditor is also unable to obtain relevant & reliable audit evidence from alternative audit procedures.

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

Apart from this, XY Private Limited, an associate enterprise of ABC Limited, the company XY Private Limited appoint ZMR & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor of XY Private Limited for the first time for the current financial year. The financial statement of XY Private Limited was audited by its predecessor auditor in the previous financial year. During the audit for the current financial year, ZMR & Co. came across a material misstatement in the opening balance, that affects the current year financial statement. In this regard, the auditor also discusses the said facts with the management. However, the management does not accurately pay

attention to the same & does not either adequately account during the year or disclose or present the same in the financial statement of current year.

The Other Important financial information of XY Private Limited is as below:

(₹ in Crores)

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

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

1.	In the above given case, what should be the next course of action on the part of auditors of ABC Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable & auditor is unable to obtain relevant & reliable audit evidence from alternative audit procedures,?	C								
	<table border="1"> <tbody> <tr> <td>(a)</td> <td>Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.</td> </tr> <tr> <td>(b)</td> <td>Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.</td> </tr> <tr> <td>(c)</td> <td>Auditor shall communicate the matter with TCWG & also determine the implications for the Audit & Auditor's opinion in accordance with SA 705.</td> </tr> <tr> <td>(d)</td> <td>Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.</td> </tr> </tbody> </table>	(a)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.	(b)	Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.	(c)	Auditor shall communicate the matter with TCWG & also determine the implications for the Audit & Auditor's opinion in accordance with SA 705.	(d)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.	
(a)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.									
(b)	Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.									
(c)	Auditor shall communicate the matter with TCWG & also determine the implications for the Audit & Auditor's opinion in accordance with SA 705.									
(d)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.									
2.	Whether PQR & Co. should adhere to the opinion formulated by PK & Co. & XYZ & Co. or explore alternative options.	D								
	<table border="1"> <tbody> <tr> <td>(a)</td> <td>PQR & Co. will have to go with the opinion framed by the majority of auditors.</td> </tr> <tr> <td>(b)</td> <td>PQR & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.</td> </tr> <tr> <td>(c)</td> <td>PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should be prominently highlighted within the emphasis of the matter paragraph.</td> </tr> <tr> <td>(d)</td> <td>PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.</td> </tr> </tbody> </table>	(a)	PQR & Co. will have to go with the opinion framed by the majority of auditors.	(b)	PQR & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.	(c)	PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should be prominently highlighted within the emphasis of the matter paragraph.	(d)	PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.	
(a)	PQR & Co. will have to go with the opinion framed by the majority of auditors.									
(b)	PQR & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.									
(c)	PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should be prominently highlighted within the emphasis of the matter paragraph.									
(d)	PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.									
3.	In the above given case, what should be the course of the action on the part of ZMR & Co., when they found material misstatement which has not been accurately accounted or presented or disclosed in the financial statement of current year?	B								
	<table border="1"> <tbody> <tr> <td>(a)</td> <td>ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.</td> </tr> <tr> <td>(b)</td> <td>ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705.</td> </tr> <tr> <td>(c)</td> <td>ZMR & Co. should take such matter in the written representation received from the management & no need to report such fact in audit report.</td> </tr> <tr> <td>(d)</td> <td>ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.</td> </tr> </tbody> </table>	(a)	ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.	(b)	ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705.	(c)	ZMR & Co. should take such matter in the written representation received from the management & no need to report such fact in audit report.	(d)	ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.	
(a)	ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.									
(b)	ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705.									
(c)	ZMR & Co. should take such matter in the written representation received from the management & no need to report such fact in audit report.									
(d)	ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.									

INTEGRATED CASE STUDY - 4

ABC Limited is a manufacturing company having three manufacturing facilities in India & ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15,000 crore & profit before tax of INR 2,000 crore during FY 2032-33. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promoter & Chief Executive Officer of the company. Mr. B, son of Mr. A, is a company's non-executive director & holds a graduate degree from IIT Bombay & a post-graduate degree from IIM Ahmedabad.

During the audit, it was discovered that the company had acquired two subsidiaries, Maan Ltd. which deals in copper manufacturing & Dhan Ltd. which deals in paper manufacturing. Maan Ltd. & Dhan Ltd. are audited by M/s XYZ & Associates. ABC Ltd. prepared the consolidated financial statements for the current financial year under Indian Accounting Standards, which includes the financial statements of subsidiary Maan Ltd. However, the financial statements of Dhan Ltd. were not consolidated as the company has not yet been able to determine the fair values of certain material assets & liabilities of Dhan Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of ABC Ltd. Had the company consolidated the financial statements of both subsidiaries, there would have been a material impact on important elements of the financial statements. Also, the financial statements of ABC Ltd. for the current financial year include the corresponding figures (without consolidation) of the previous financial year, i.e., FY 2031-32.

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

1.	With respect to the non-consolidation of financial statements of Dhan Ltd. with the financial statements of ABC Ltd., how should the auditor deal with the same in their audit report?	B
	(a) The auditor should give a disclaimer of opinion.	
	(b) The auditor should give an adverse opinion if the impact is material & pervasive in his audit report.	
	(c) The auditor should mention this fact in the emphasis of matter paragraph.	
	(d) The auditor should mention this fact in other matter paragraph.	
2.	With respect to the corresponding figures of the financial year 2031-32 in the current year financial statements, what is the auditor's reporting responsibility for the same?	C
	(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's 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 the 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.	

INTEGRATED CASE STUDY - 5

SED & Associates, a firm of auditors, received an offer letter dated 15th July 2032 to conduct audit of BTM Limited (a listed company) engaged in manufacturing of cement for the first time from year 2032 -33 onwards. The audit was accepted by the firm on the basis of offer letter designating it as "Engagement Letter". The partners of firm have not felt the necessity to keep documents to show that firm has complied with requirements of section 141(3)(d) of Companies Act, 2013. CA E, engagement partner of SED & Associates, is conducting audit of aforementioned company. The company was incurring losses since last few years & it had resulted in erosion in substantial part of its net worth. It had negative working capital & was substantially debt-ridden.

The company had only one plant located in Madhya Pradesh. The plant was found to be in working condition during the course of audit. The Majority of fixed assets of the company were located at this very plant. The engagement partner was also informed during the audit that physical verification of Property, Plant & Equipment (PPE) was carried out by management during the year. However, the internal auditor had pointed out in one of its reports during the

year that management did not physically verify Property, Plant & Equipment items. Having experience as an engagement partner in cement industry, he was of the view that the valuation of PPE was less than the value recorded in books of accounts. However, no such assessment/work was made during the audit.

During the year, the company defaulted in repayment of its loans to the bank & the credit facilities of the company were classified as NPA by the concerned bank. One note forming part of “Notes to Accounts” in financial statements on this matter presented for audit states as follows: -

"The company has not provided for interest on the loan taken from the bank to the extent that the same has remained unpaid as the loan accounts have been classified as NPA by the lender bank & the management is in the final stage of settlement of the liability. Interest, if any, will be recorded in the books when it will be crystallized after settlement/agreement with the lender bank."

Considering the prevailing situation, future plans provided by the management & applying professional Judgment, it has been decided to include an “Emphasis of Matter” paragraph in the auditor’s report relating to going concern matters. It is felt that this matter is of such importance that it is fundamental to users’ understanding of financial statements. The management has also included this matter in Notes to Accounts. However, he has not felt the need for evaluation of future plans provided by management.

During the audit for the year 2032-33, management was requested vide letter dated 20th May 2033 to provide all the information regarding contingent liabilities & credentials for logging in income tax portal, GST portal & other significant online portals. However, management had failed to provide such information, including login credentials, despite the engagement partner’s request.

Therefore, it was decided to sign the audit report on the basis of the information available up to the date of signing of the audit report.

On the basis of the above case scenario, you are required to answer the following MCQs.

1.	The case scenario describes the acceptance of the audit of the aforementioned company by SED & Associates. Which of the following statements is likely to be most appropriate in this regard?	C
(a)	It was proper for auditors to accept an audit of the company on the basis of an offer letter designated as an engagement letter. Further, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements.	
(b)	It was improper for auditors to accept audit of the company on the basis of offer letter designated as engagement letter. It is necessary to accept audit on basis of separate engagement letter. However, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements.	
(c)	It was improper for auditors to accept audit of the company on the basis of an offer letter designated as an engagement letter. It is necessary to accept the audit on the basis of a separate engagement letter. There is a necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.	
(d)	It was proper for auditors to accept an audit of a company on the basis of an offer letter designated as an engagement letter. However, there is the necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.	
2.	What should be an appropriate course of action for the auditors in respect of PPE considering the situation described in this respect in the case scenario?	C
(a)	The auditor should not attach much importance to the internal auditor’s observations as he has found the plant of the company to be in working condition with its major assets intact. However, it should be evaluated whether impairment testing has been performed considering the company’s circumstances.	
(b)	The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor’s report & evidence obtained by him & its effect on other aspects of the audit. However, no evaluation of impairment testing is necessary, considering the company’s circumstances.	

	(c)	The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report & evidence obtained by him & its effect on other aspects of the audit. Further, evaluation of impairment testing is necessary considering the company's circumstances.	
	(d)	The auditor should not attach much importance to the internal auditor's observations as he has found the plant of the company to be in working condition with its major assets intact. Further, evaluation of impairment testing is not necessary considering the company's circumstances.	
3.	The Company has not recognised interest costs on its borrowings as loan accounts have turned NPA during the year under consideration. Which of the following statements is most appropriate in this context?		A
	(a)	The policy followed by management is in contravention of applicable accounting standards to be followed by the company.	
	(b)	The policy followed by management is in accordance with established norms due to the classification of loan accounts as NPA by the concerned bank. As banks do not recognise interest income on NPA accounts, mirror treatment is applicable to the company in question.	
	(c)	The policy followed by management is in accordance with established norms as negotiations are underway with bankers. Interest would be recognised on NPA borrowings upon crystallisation of final settlement with bankers.	
	(d)	The policy followed by management is in contravention of guidelines issued by the Reserve Bank of India.	
4.	The auditor has decided to include "Emphasis of Matter" (EOM) paragraph in auditor's report relating to going concern matters. Which of following statements is true in this regard?		C
	(a)	EOM paragraph can be included in auditor's report depending upon auditor's professional judgment & evaluation of management's plans without maintaining documentation in this regard.	
	(b)	EOM paragraph can be included in auditor's report because going concern matter is fundamental to users understanding of financial statements However, no separate evaluation of management's plans is required.	
	(c)	If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion & the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern".	
	(d)	If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express a modified opinion & the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern".	
5.	Considering the matter of not providing information regarding contingent liabilities, including login credentials by the company as described, which of the following statements is most appropriate?		B
	(a)	The auditor should express unmodified opinion.	
	(b)	The auditor should request management again to provide such information & must determine whether it is possible to perform alternate audit procedures to obtain sufficient appropriate audit evidence. In case of failure to obtain such evidence, implications for audit report should be considered.	
	(c)	The auditor should take written representation from management stating that all such liabilities have been reflected in accordance with SA 580 & unmodified opinion should be expressed.	
	(d)	The auditor's responsibility is fulfilled on commenting appropriately regarding non-furnishing of required information by management regarding disputed statutory dues under clause 3(vii)(b) of CARO, 2020.	

INTEGRATED CASE STUDY - 6

CA. Subhadra is conducting statutory audit of a branch of FNB Bank. The branch is having deposits of ₹ 450 crore & advances of ₹300 crore respectively reflected in its financial statements as on 31st March 2033. While performing audit procedures, she noticed the following: -

- [1] While reviewing advances of the branch, she came across the following particulars of two cash credit accounts: (₹ in crore)

Name of borrower	Sanctioned Limit	Value of primary security	Value of collateral security	Net worth of borrower	Net worth of guarantors
KT Fab	10.00	20.00	15.00	5.00	3.00
PM Decor	15.00	25.00	12.00	7.50	5.00

Following further information is also available in respect of above noted accounts: -

Information pertaining to KT Fab (₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2032	9.00	9.61
31.01.2033	9.25	9.55
28.02.2033	9.50	9.60
31.03.2033	9.50	9.75

The outstanding balance in the account has remained more than ₹9.50 crore beginning from 31st December, 2032 till 31st March, 2033 on all days. Information pertaining to PM Décor (₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2032	12.00	12.50
31.01.2033	12.50	12.25
28.02.2033	12.50	12.40
31.03.2033	12.50	12.50

Both units are working & their financial position is satisfactory. The branch has classified both accounts as Standard Assets.

- [2] On reviewing “Statement of Accounts classified as NPA” as on 31.03.33, she finds that an education loan was granted to son of Mr. X, a customer of bank, for pursuing short duration technical higher studies abroad for ₹50.00 lakh sometime back repayable in 5 years. The loan was granted against security of residential house of Mr. X, valuing ₹60.00 lakh assessed by bank’s empanelled valuer. However, the name of bank’s empanelled valuer has now been removed due to certain irregularities. Later, value of residential house got reassessed from another valuer & he gave a report reflecting realisable value of residential house for ₹20.00 lakh. Meanwhile, the instalments in education loan account are overdue for 110 days as on 31st March, 2033. The account was classified as standard asset till last year i.e., 31st March, 2032.
- [3] While verifying deposits of the branch, she noticed that inoperative accounts for less than 10 years are to the tune of ₹5 crore reflected in the balance sheet of the branch. She plans to focus her audit procedures on this segment too. One of her team members has suggested the following audit procedures in this regard:
- ➔ Verifying whether there exists a system of informing customers on accounts turning inoperative.
 - ➔ Identification of cases where there is significant reduction in balances as compared to last year.
 - ➔ Testing debits in inoperative accounts.
 - ➔ Verifying auto activation of inoperative accounts.