



COMPLEXITY

SIMPLIFIED

CA INTER AUDIT May'24

QUESTION BANK

Chapter- 8

Audit Report



PROF. VISHAL





Preface

Greetings students,

As the author of this question bank, I've taken a thoughtful approach to its construction, prioritizing a competitive spirit in your learning journey.

Correct / Incorrect Questions

The Correct and Incorrect questions/answers are intentionally not kept in sequential order. Why? To encourage analytical thinking without the comfort of knowing the topic heading in advance.

Dedication to Holistic Learning

My dedication to creating content knows no bounds. I've meticulously curated questions from over 20 years of ICAI materials, including Study Material Practice Questions, MTPs, RTPs, and Suggested Answers. The sequencing of chapter topics aligns seamlessly with the ICAI study material. For downloading Complete Question Bank click [here](#)

ADDITIONAL INFORMATION ABOUT COMPLETE QUESTION BANK

Insights from Examiner Comments

Moreover, the inclusion of examiner comments adds a unique dimension. Learning from the mistakes highlighted by ICAI examiners can significantly improve your understanding. This book is not just about questions and answers; it's a tool to help you comprehend common mistakes and guide you on how to avoid and rectify them.

Comprehensive Question Selection Strategy

I've gone a step further. Not only have I kept questions directly related to the current study material, but I've also included additional ones related to previous years with some relevance to the current context. These carry relevance, but I advise focusing on them only after thoroughly covering the main syllabus according to the current study material.

VIDEO LEARNING INITIATIVE



And here's an exciting initiative—I've started creating YouTube videos to help you understand any challenging question or topic. All you need to do is message us on WhatsApp or Telegram using the provided link at the bottom of the page, and I'll promptly create a video to address your request.

Closing Note: Embark on Your Learning Journey

So, dive into this question bank with enthusiasm, and remember, I'm here to support your learning journey every step of the way.

Best regards,
Prof. Vishal

If you require further assistance with your study techniques or any other aspect, don't hesitate to contact us.

You can instantly reach out via WhatsApp by clicking this icon,  or join our Telegram group  to pose questions that could also benefit your peers.



<h1>Chapter 8</h1>	<h1>Audit Report</h1>
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Part A – Correct Incorrect

SA 700

Q. 1 State with reasons (in short) whether the following statements are True or False:	
1.	<p>SA-700 deals with modification to the opinion in the Independent Auditor's Report.</p> <p style="text-align: right;">(RTP IPCC May 16)</p> <p>Incorrect</p> <p>SA 700 deal with forming an opinion and reporting of financial statement whereas SA 705 deals with modifications to the opinion in the Independent Auditor's Report.</p>
2.	<p>There is no need of addressee in the Auditor's report.</p> <p style="text-align: right;">(TYK)</p> <p>Incorrect: The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p>

SA 701

3.	<p>The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements.</p> <p style="text-align: right;">(MTP April 2019, 2 Marks)</p> <p style="text-align: center;">OR</p> <p>Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.</p> <p style="text-align: right;">(TYK)</p> <p>Incorrect:</p> <p>Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.</p>
4.	<p>Communicating key audit matters in the auditor's report is a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;</p> <p style="text-align: right;">(RTP IPCC May 19)</p> <p>Incorrect:</p> <p>Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;</p>



5.	<p>Communicating key audit matters in the auditor's report is a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.</p> <p>Incorrect:</p> <p>Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.</p>
6.	<p>Communicating key audit matters in the auditor's report is a separate opinion on individual matters.</p> <p>(Inter Sugg. May 2023)</p> <p>Incorrect</p> <p>As per SA 701, "Communicating Key Audit Matters in the Auditor's Report", the objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period.</p>

SA 705

7.	<p>The auditor shall express a qualified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>(TYK) (RTP IPCC Nov 17)</p> <p>Incorrect</p> <p>The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p>
8.	<p>The auditor shall disclaim an opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p> <p>(RTP IPCC May 19)</p> <p>Incorrect: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p>
9.	<p>An auditor should issue disclaimer of opinion when there is difference of opinion between him and the management on a particular point.</p> <p>(RTP IPCC May 2020)</p> <p>Incorrect</p> <p>The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. In case of difference of opinion, either the auditor will issue qualified report or adverse report and not disclaimer of opinion.</p>
10.	<p>The auditor shall express an adverse opinion when:</p> <ol style="list-style-type: none">The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; orThe auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive <p>(MTP March 2018, 2 Marks) (MTP March 2019, 2 Marks)</p>

	<p>Incorrect</p> <p>The auditor shall express a qualified opinion when:</p> <ol style="list-style-type: none"> The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
11.	<p>The auditor shall modify the opinion in the auditor's report only when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.</p> <p style="text-align: right;">(TYK)</p> <p>Incorrect</p> <p>The auditor shall modify the opinion in the auditor's report when:</p> <ol style="list-style-type: none"> The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
12.	<p>When the auditor has to express an adverse opinion, he need not communicate with those charged with governance as this may have an impact on payment of his audit fees.</p> <p style="text-align: right;">(TYK)</p> <p>Incorrect:</p> <p>When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification</p>
13.	<p>The auditor shall express a qualified opinion when:</p> <ol style="list-style-type: none"> The auditor concludes that misstatements are material but not pervasive to the financial statements; or The auditor is unable to obtain sufficient appropriate audit evidence but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. <p style="text-align: right;">(MTP-Inter Aug 2018, 2 Marks) (MTP Oct-Inter 2018, 2 Marks)</p> <p>Correct:</p> <p>The auditor shall express a qualified opinion when:</p> <ol style="list-style-type: none"> The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
14.	<p>If financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion.</p> <p style="text-align: right;">(MTP Oct 2019, 2 Marks)</p> <p>Incorrect:</p> <p>As per SA 705 "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. However, the auditor shall express qualified opinion when he concludes that misstatement, individually or in aggregate are material but not pervasive.</p>



15.	Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion. <p style="text-align: right;">(TYK)</p> Incorrect: Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised).
16.	The concept of "joint audit" has legal foothold under the Companies Act, 2013. <p style="text-align: right;">(TYK)</p> Correct: Under provisions of section 139(3), the members of a company may resolve to provide that audit shall be conducted by more than one auditor. Hence, the concept of "joint audit" has legal foothold also under Companies Act, 2013.

SA 706

17.	(When the auditor includes an Other Matter paragraph in the auditor's report, the auditor need not include the paragraph within a separate section. <p style="text-align: right;">(RTP IPCC May 19)</p> Incorrect: When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.
18.	Other Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. (MTP March 2019, 2 Marks) (MTP March 2018, 2 Marks) (MTP Aug-Inter 2018, 2 Marks) (MTP Aug 2018, 2 Marks) Incorrect: Emphasis of Matter paragraph is paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
19.	The inclusion of an Emphasis of Matter paragraph in the Auditor's Report affects the auditor's opinion. <p style="text-align: right;">(2 Marks, Nov 2019)</p> Incorrect: When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall indicate that the auditor's opinion is not modified in respect of the matter emphasized. Such a paragraph shall refer only to information presented or disclosed in the financial statements. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion.
20.	Other matter paragraph is paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. <p style="text-align: right;">(MTP-New Oct 2018, 2 Marks)</p> Incorrect: Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
21.	If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall include an Emphasis of Matter paragraph in the auditor's report. <p style="text-align: right;">(MTP May 2020, 2 Marks)</p>

	<p>Incorrect:</p> <p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.</p>
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CARO

22.	<p>Where the firm is appointed as an auditor of the entity the audit report is signed only in the name of audit firm.</p> <p style="text-align: right;">(2 MARKS, MAY 2019 – INTER NEW)</p> <p>Incorrect:</p> <p>Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India along-with registration number for the firm.</p> <p>Examiner Comment - Examinees did not mention that where the firm is appointed as an auditor, the report is signed in the personal name of the auditor and in the name of the audit firm along with the membership number of the signing member and registration number of the firm.</p>
23.	<p>Provision of CARO, 2020 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid-up Capital and Reserves & Surplus of ` 50 lakhs, Secured loan from bank of ` 90 Lakhs and Turnover of ` 5 Crore, for the financial year 2018-19.</p> <p style="text-align: right;">(2 MARKS, NOV 2019 - INTER NEW)</p> <p>Incorrect</p> <p>The CARO specifically exempts a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees 1 crore as on the balance sheet date and which does not have total borrowings exceeding rupees 1 crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding rupees 10 crore during the financial year as per the financial statements.</p> <p>From the above, it is clear that ABC Pvt. Ltd. is a subsidiary of XYZ Ltd. and hence not exempt from CARO, 2020 although it is satisfying the conditions that allow exemption to private limited company which is not a subsidiary or holding company of a public company.</p>
24.	<p>CARO '2015 is also applicable to the audit of branch of a company, except where the company is exempt from the applicability of the order.</p> <p style="text-align: right;">(2 MARKS EACH, MAY, 2008)</p> <p>This question is redundant in view of the provisions of the Companies Act, 2013.</p>
25.	<p>CARO, 2016, is intended to limit the duties and responsibilities of auditors.</p> <p style="text-align: right;">(MTP Aug 2018, 2 Marks)</p> <p>Incorrect:</p> <p>CARO,2016 is not intended to limit the duties and responsibilities of auditors but only requires a statement to be included in the audit report in respect of the matters specified therein.</p>
26.	<p>All the joint auditors are jointly and severally responsible for the work, which is not divided and carried on jointly by all the joint auditors.</p> <p style="text-align: right;">(2 MARKS EACH, MAY, 2008)</p> <p>Correct:</p> <p>As per SA 299 on "Responsibility of Joint Auditors", all the joint auditors are jointly and severally responsible for the audit work which is not divided and carried on jointly by all the joint auditors.</p>
27.	<p>According to Para 3(1)(d) of CARO, 2020, an auditor needs to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer;</p>



	<p>specify the amount of change, if change is 5% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets</p> <p>Incorrect:</p> <p>According to Para 3(1)(d) of CARO, 2020, an auditor needs to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.</p>
28.	<p>Mr. T, the director of A Ltd., has purchased an old car belonging to the company against the cooling equipment belonging to the director, which is given to the company as consideration for the car. The auditor is not required to include this in his CARO report.</p> <p style="text-align: right;">(Inter Sugg. Nov 2022)</p> <p>Incorrect</p> <p>As per CARO 2020, an auditor has to check whether the company has entered into any non-cash transaction with directors or persons connected with him and, if so, whether the provisions of section 192 of the Companies Act 2013 have been complied with. Thus, this transaction will be reported by the auditor in his audit report.</p>



Part B – Descriptive Questions

SA 700

<p>Q. 1</p>	<p>The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally. Explain.</p> <p style="text-align: right;">(Inter Audit RTP/ New/ Old. May, 2021)</p>
	<ul style="list-style-type: none"> ▪ The requirements of this SA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor’s report more relevant to users. ▪ This SA promotes consistency in the auditor’s report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. ▪ Consistency in the auditor’s report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. ▪ It also helps to promote the user’s understanding and to identify unusual circumstances when they occur.
<p>Q. 2</p>	<p>In order to form the audit opinion as required by SA 700, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Explain the conclusions that the auditor shall take into account. Also explain the objective of auditor as per SA 700.</p> <p style="text-align: right;">(MTP-INTER AUG 2018, 5 MARKS)</p> <p style="text-align: center;">OR</p> <p>G & Associates are the Statutory Auditors of R Ltd., a company engaged in the business of manufacturing of blankets. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the F.Y. 2022-2023. CA L, the engagement partner, wants to conclude that whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. What factors he should consider to reach that conclusion? (Refer Pt 2 only)</p> <p style="text-align: right;">(Inter MTP Nov 2023)</p>
	<ol style="list-style-type: none"> 1. The objectives of the auditor as per SA 700 (Revised), “Forming an Opinion and Reporting on Financial Statements” are: <ol style="list-style-type: none"> a. To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and b. To express clearly that opinion through a written report. 2. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. <p>In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.</p> <p>That conclusion shall take into account:</p> <ol style="list-style-type: none"> a. The auditor’s conclusion, in accordance with SA 330, Whether SAAE has been obtained; b. The auditor’s conclusion, in accordance with SA 450, Whether uncorrected misstatements are material, individually or in aggregate; c. The evaluations required by: <ol style="list-style-type: none"> i. The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. ii. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments



Q. 3	<p>“The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.” Explain</p> <p style="text-align: right;">(TYK)</p>
Refer Point. 2 of Qn. 2	
Q. 4	<p>M/s S & Associates are the Statutory Auditors of Real Ltd., a company engaged in the business of manufacturing garments. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the F.Y. 2020-2021. CA K, the engagement partner, wants to conclude that whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. What factors he should consider to reach that conclusion.</p> <p style="text-align: right;">(Inter Audit Suggested / New. 2021) (3 Marks)</p>
Factors to be considered to form an opinion: Refer Point.2 of Qn. 2	
Q.	<p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments. Advise about qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.</p> <p style="text-align: right;">(TYK) (RTP INTER NEW MAY 18)</p>
<p>Evaluations by the Auditor</p> <p>The auditor shall evaluate whether the F.St.’s are prepared in accordance with the requirements of the applicable FRF</p> <p>This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.</p> <p>Qualitative Aspects of the Entity’s Accounting Practices</p> <ol style="list-style-type: none">1. Management makes a number of judgments about the amounts and disclosures in the financial statements.2. SA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.3. In considering the qualitative aspects of the entity’s accounting practices, the auditor may become aware of possible bias in management’s judgments. The auditor may conclude that the cumulative effect of lack of neutrality together with the effect of uncorrected misstatements causes the F.St.’s as a whole to be materially misstated. Indicators of a lack of neutrality include the following:<ol style="list-style-type: none">i. The selective correction of misstatements brought to management’s attention during the audit.<p>Example:</p><ul style="list-style-type: none">▪ Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings.▪ The combination of several deficiencies affecting the same significant account or disclosure (or the same internal control component) could amount to a significant deficiency (or material weakness if required to be communicated in the jurisdiction). This evaluation requires judgment and involvement of audit executives.ii. Possible management bias in the making of accounting estimates.4. SA 540 addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor’s evaluation of whether the F.St.’s as a whole are free from MMs.	
Q. 6	<p>In considering the qualitative aspects of the entity’s accounting practices, the auditor may become aware of possible bias in management’s judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required.</p> <p style="text-align: right;">(TYK) (RTP May 2023) (RTP INTER NEW MAY 2020)</p>
Refer Point. 3 of Q 5	

<p>Q. 7</p>	<p>"The auditor shall evaluate the requirements of the applicable financial reporting framework". Comment. (RTP IPCC NOV 11)</p> <p style="text-align: center;">OR</p> <p>An auditor is required to make specific evaluations while forming an opinion in an audit report." State those specific evaluations. (Refer only Pt i to vi) (MTP May 2023, 3 marks) (MTP Nov 21, 3 Marks)</p>
	<p>Evaluation of the requirements if the applicable financial reporting framework</p> <p>As per SA 700, "Forming an Opinion and Reporting on Financial Statements", the auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.</p> <p>In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:</p> <ol style="list-style-type: none"> i. The financial statements adequately disclose the significant accounting policies selected and applied. ii. The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate. iii. The accounting estimates made by management are reasonable. iv. The information presented in the financial statements is relevant, reliable, comparable and understandable. v. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and vi. The terminology used in the financial statements, including the title of each financial statement, is appropriate.
<p>Q. 8</p>	<p>State the basic elements of the Auditor's Report. (RTP IPCC NOV 14)</p> <p>Basic elements of the Auditor's Report: As per SA 700, "Forming an Opinion and Reporting on Financial Statements", The Auditor's Report shall be in writing (i.e., both hard copy or electronic medium) [Para 20, A.13], and contain the following elements: -</p> <ol style="list-style-type: none"> 1. Title; 2. Addressee; 3. Auditor's Opinion 4. Basis for Opinion 5. Going Concern 6. Key Audit Matters 7. Responsibilities for the Financial Statements 8. Auditor's Responsibilities for the Audit of the Financial Statements 9. Location of the description of the auditor's responsibilities for the audit of the financial statements 10. Other Reporting Responsibilities. 11. Signature of the Auditor 12. Place of signature 13. Date of the Auditor's Report
<p>Q. 9</p>	<p>The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion." The Opinion section of the auditor's report shall also Identify the entity whose financial statements have been audited. Apart from the above, explain the other relevant points to be included in the opinion section. (TYK) (RTP INTER NEW MAY 2020) (RTP IPCC MAY 2020) (Sugg. Jan 21, 4 Marks)</p>



	<p style="text-align: center;">OR</p> <p>While drafting auditor's report of LK Ltd., what are the matters to be included by auditor in Opinion Section paragraph.</p> <p style="text-align: right;">(RTP Nov. 2022)</p>
	<p>The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion." The Opinion section of the auditor's report shall also:</p> <ol style="list-style-type: none">Identify the entity whose financial statements have been audited.State that the financial statements have been audited;Identify the title of each statement comprising the financial statements;Refer to the notes, including the summary of significant accounting policies; andSpecify the date of, or period covered by, each financial statement comprising the financial statements.
Q. 10	<p>The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion". Explain what is included in this "Basis for Opinion" section.</p> <p style="text-align: right;">(MTP Nov 2023) (RTP INTER NEW NOV 19) (RTP IPCC NOV 19)</p> <p style="text-align: center;">OR</p> <p>What an auditor should state in the "Basis for opinion" section of auditor's report? When the auditor modifies the opinion on the financial statements, explain the amendments he should make in this section?</p> <p style="text-align: right;">(Inter RTP Nov 2023)</p>
	<p>Basis for Opinion: The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:</p> <ol style="list-style-type: none">States that the audit was conducted in accordance with Standards on Auditing;Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs;Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
Q. 11	<p>M/s Smart & Associates are the statutory auditors of Hotmeals Ltd. for the FY 2021- 22. How will the auditor address the audit report issued on the financial statements for the FY 2021-22? Also give a title to the report.</p> <p style="text-align: right;">(Illustration)</p>
	<p>Title: INDEPENDENT AUDITOR'S REPORT Address: To the Members of Hotmeals Ltd.</p>
Q. 12	<p>Richa International is a partnership firm dealing in export of blankets. The partners of the firm are Richa and Ashish. Explain how the statutory auditor of the firm will address the auditor's report.</p> <p style="text-align: right;">(Illustration)</p>
	<p>Title: INDEPENDENT AUDITOR'S REPORT Address: To the Partners of Richa International</p>
Q. 13	<p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Explain stating clearly specific evaluations made by the auditor.</p> <p style="text-align: right;">(Inter Audit RTP/ New/ Old May. 2022)</p>

	<p>Refer Qn 7 for the first part of answer. Evaluation</p> <p>Further, when the financial statements are prepared in accordance with a fair presentation framework, the evaluation mentioned above shall also include an evaluation by the auditor as to whether the financial statements achieve fair presentation which shall include consideration of:</p> <ol style="list-style-type: none"> The overall presentation, structure and content of the financial statements; and Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation. <p>The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.</p>
<p>Q. 14</p>	<p>Diamond Shine Ltd. is a company engaged in the manufacture of detergent. M/s Bright & Associates are the statutory auditors of the company. Explain how the paragraph related to the management's responsibility will come in the auditor's report.</p> <p style="text-align: right;">(Illustration)</p> <p>Management's Responsibility for the Standalone Financial Statements:</p> <ul style="list-style-type: none"> ▪ Management's Responsibility for the Standalone Financial Statements The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. ▪ This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error. ▪ In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those Board of Directors are also responsible for overseeing the Company's financial reporting process.
<p>Q. 15</p>	<p>The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain</p> <p style="text-align: right;">(TYK) (4 marks) (MTP May 2023) (RTP INTER NEW NOV 18)</p> <p style="text-align: center;">OR</p> <p>Give a brief description about the management responsibility to be mentioned in the statutory auditor's report.</p> <p style="text-align: right;">(TYK)</p> <p style="text-align: center;">OR</p> <p>The description of management's responsibilities in the auditor's report includes reference to management's responsibilities as it helps to explain to users the premise on which an audit is conducted. Explain.</p> <p style="text-align: right;">(RTP May 2023)</p> <p>Responsibilities for the Financial Statements: The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements."</p>



SA 200 explains the premise, relating to the appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.

This section of the auditor's report shall describe management's responsibility for:

- a. Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
[because of the possible effects of fraud on other aspects of the audit, materiality does not apply to management's acknowledgement regarding its responsibility for the design, implementation, and maintenance of internal control (or for establishing and maintaining effective internal control over financial reporting) to prevent and detect fraud.] and
- b. Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

Q. 16 **M/s Ajay Vijay & Associates are the statutory auditors of Sarovar Ltd. for the FY 2021- 22. The company is engaged in the business of manufacture of water bottles. At the time of finalising the auditor's report, one of the audit team members asked CA Ajay, the engagement partner to advise as to how the auditor's responsibilities can be shown in an appendix to the auditor's report. Draft the auditor's responsibility paragraph so as to advise the audit team member.**

(Illustration)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted.

in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [indicate page number or other specific reference to the location of the description], forms part of our auditor's report.

Q. 17 **The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." Give a brief description about management's responsibilities in the auditor's report as it helps to explain the users the premise on which an audit is conducted.**

Also state the requirement specified in Standard on Auditing 210 for the auditor to agree management's responsibilities.

(Inter Sugg Nov 2023)

Responsibilities for the Financial Statements: Refer above.

Obtain the agreement of Management, that it acknowledges and understands its responsibility -

- i. for the preparation of the Financial Statements in accordance with the applicable Financial Reporting Framework, including their Fair Presentation, where relevant,
- ii. For Design Implementation and Maintenance of such Internal Control as Management determines is necessary to enable the preparation of Financial Statements that are free from material mis-statement, whether due to fraud or error.

	<p>iii. To provide the Auditor with -</p> <ul style="list-style-type: none"> ▪ Access to all information of which Management is aware that is relevant to the preparation of the Financial Statements such as records, documentation and other matters, ▪ Additional information that the Auditor may request from Management for the purpose of the audit, and <p>Unrestricted access to persons within the Entity from whom the Auditor determines it necessary to obtain audit evidence</p>
Q. 18	<p>M/s TUV & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. At the time of finalising the auditor's report, one of the audit team members asked the engagement partner, CA Tarun, to explain as to how the auditor's report will be signed. Help CA Tarun in explaining the same.</p> <p style="text-align: right;">(Illustration)</p> <p>The following is the correct way of signing an audit report.</p> <div style="text-align: right;"> <p>M/s TUV & Associates Chartered Accountants (Firm's Registration No.) Signature (Name of the Member Signing the Audit Report) (Designation) (Membership No. XXXXX) UDIN: 20037320AAAAAH1111</p> </div> <p>Place of Signature</p> <p>Date:</p>
Q. 19	<p>Maithili Thakur, a CA student, was perusing audit report of a company. Her eyes fell on an 18-digit alpha numeric number stated at end of audit report below the signatures of auditor and membership number. Make her understand objective and significance of such a randomly generated number. Is it required to be stated in case of audit reports only?</p> <p style="text-align: right;">(TYU)</p> <p>The 18-digit alpha numeric number noticed by her at end of audit report is Unique Document Identification number (UDIN). It is a system generated unique number. Its basic objective is to curb the malpractices of non-CAs impersonating themselves as CAs. It helps in securing reports and documents issued by practicing CAs.</p> <p>It is required to be stated in case of audit reports and certificates.</p>
Q. 20	<p>CA. Maya Memani has conducted audit of a company. She has asked Sana, a CA student undergoing training in her office, to prepare draft audit report. Sana was part of engagement team conducting the audit. She has been further told to prepare draft report expressing unmodified opinion. After drafting para comprising unmodified opinion, Sana feels no need to provide basis for opinion. Discuss why her thinking is not proper.</p> <p style="text-align: right;">(TYU)</p> <p>"Basis for Opinion" is one of basic elements of an audit report in accordance with SA-700. Even in cases where unmodified opinion is expressed by auditor, "Basis for opinion" has to be provided by auditor. Basis for opinion section provides context about auditor's opinion.</p> <p>Therefore, Sana's thinking is not proper.</p>



SA 705

Q. 21	Discuss the objective of the auditor as per Standard on Auditing (SA) 705 “Modifications to The Opinion in The Independent Auditor’s Report. <p style="text-align: right;">(TYK)</p>
	<p>As per Standard on Auditing (SA) 705 “Modifications to The Opinion in The Independent Auditor’s Report”, the objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:</p> <ol style="list-style-type: none">The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; orThe auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
Q. 22	Explain the difference between Unmodified opinion and Qualified opinion. <p style="text-align: right;">(RTP IPCC NOV 13)</p>
	<p>The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>The auditor shall express a qualified opinion when:</p> <ol style="list-style-type: none">The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; orThe auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
Q. 23	State the circumstances which could lead to any of the following in an Auditor’s Report: <ol style="list-style-type: none">A modification of opinionDisclaimer of opinionAdverse opinionQualified opinion. <p style="text-align: right;">(RTP IPCC NOV 16) (RTP IPCC NOV 17)</p>
	<ol style="list-style-type: none">Modification of Opinion: The auditor shall modify the opinion in the auditor’s report when-<ol style="list-style-type: none">The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; orThe auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.Disclaimer of Opinion: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.<p>The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.</p>Adverse Opinion: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.Qualified Opinion: The auditor shall express a qualified opinion when-<ol style="list-style-type: none">The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; orThe auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Q. 24	<p>Elucidate the circumstances when a modification to the Auditor's opinion is required. Also state the factors for making the decision regarding which type of modified opinion is appropriate.</p>
	<p>(Inter Audit Suggested / New May. 2023) (3 Marks)</p>
	<p>Refer Part.a of Qn23.</p>
Q. 25	<p>As an auditor, comment on the following situation/statements:</p> <p>The auditor of ABC Ltd is unable to obtain sufficient appropriate audit evidence, and also, he draws a conclusion that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.</p>
	<p>(RTP IPCC MAY 13)</p>
	<p>As per SA 705 "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.</p> <p>In other words, if the auditor is not able to obtain sufficient appropriate audit evidence and arrives at a conclusion that undetected misstatements would have material and pervasive effects on the financial statements, then the auditor shall issue a disclaimer of opinion.</p> <p>The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.</p> <p>i. Keeping in view the above, the auditor should issue a disclaimer of opinion in the case of ABC Ltd.</p>
Q. 26	<p>Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2020-21 the company transferred its accounts to computerized system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. The auditor believes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.</p>
	<p>Explain the kind of audit report that the statutory auditor of the company should issue in this case.</p>
	<p>(Inter Audit RTP/ New/ Old Nov. 2021)</p>
	<p>Refer Qn 26 for answer</p>
	<p>In the present case Delightful Ltd, the statutory auditor of the company is unable to extract correct data and reports from the SAP system for conduct of audit. Also, such data and reports are not available manually. Moreover, the auditor believes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.</p> <p>As such, the statutory auditor of Delightful Ltd. should give a disclaimer of opinion.</p>
Q. 27	<p>Distinguish between an adverse opinion and a qualified opinion. Also draft an opinion paragraph for both types of opinion.</p>
	<p>(MTP Nov 2023) (TYK)</p>
	<p>An auditor shall express an adverse opinion, when the auditor having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in aggregate are both material and pervasive.</p> <p>Whereas, when the auditor, having obtained sufficient and appropriate audit evidence, concludes that misstatements are material but not pervasive, shall express a qualified opinion.</p> <p>SA705 – "Modifications to The Opinion in The Independent Auditor's Report" deals with the form and content of both types of report. The following are the draft of the opinion paragraphs of the reports.</p>



a. Adverse Opinion:

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 2021, the consolidated statement of profit and Loss, (consolidated statement of changes in equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 2021, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.

b. Qualified Opinion:

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 2021, and the statement of Profit and Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)) .

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 2021 and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Q. 28 M/s Amitabh & Associates are the statutory auditors of Ringston Ltd. which is a company engaged in the business of manufacture of pen drives. The auditor has started drafting the audit report for the FY 2021-22. CA Amitabh, the engagement partner is of the view that the financial statements of Ringston Ltd. represent a true and fair view. Give the draft of the opinion paragraph of the audit report.

(Illustration)

We have audited the financial statements of Ringston Limited which comprise the Balance Sheet as at 31.03.2022 and the statement of Profit and Loss Account and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31.03.2022 and the Profit & Loss for the year ending on that date

Q. 29 M/s Kite Rite & Associates are the statutory auditors of Prime Deluxe Limited, for the FY 2021-22. At the time of finalising the audit report, one of the engagement team members, Mr. Robin, asked the engagement partner, CA Kite as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA Kite, explained the team in detail and asked Mr. Robin to draft such section for the auditor's report of Prime Deluxe Limited. Help Mr. Robin to draft the Basis for opinion section.

(Illustration)

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Q. 30	<p>Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old & Associates are the statutory auditors of the company for the FY 2021- 22. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material. Explain the type of opinion that should be given by M/s Young Old & Associates in this case.</p> <p style="text-align: right;">(TYU)</p>
	<p>M/s Young Old & Associates should give a qualified opinion as the effect of the misstatement on account of the non-bifurcation of loans into long term and short-term loans, is material but not pervasive</p>
Q. 31	<p>M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2021-22. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2022. Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj.</p> <p style="text-align: right;">(TYU)</p>
	<p>Reporting Requirements:</p> <p>The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the case Porex Ltd., CA Taj found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Such situations are not reflected in the financial statements of the company despite having a material and pervasive impact on the financial statements. As such, CA Taj should give an adverse opinion. Further, CA Taj should also consider the reporting responsibilities under CARO 2020 and section 143(12) of the Companies Act, 2013.</p>
Q. 32	<p>Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2021-22 the company transferred its accounts to computerized system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. Explain the kind of audit report that the statutory auditor of the company should issue in this case.</p> <p style="text-align: right;">(TYU)</p>
	<p>When the statutory auditor of the company is unable to obtain sufficient and appropriate audit evidence, the auditor should give disclaimer of opinion as per SA 705. In the present case, the statutory auditor of the company is unable to extract correct data and reports from the SAP system for conduct of audit. Also, such data and reports are not available manually. As such, the statutory auditor of Delightful Ltd. should give a disclaimer of opinion.</p>
Q. 33	<p>Discuss the factors affecting the decision of the auditor regarding which type of modified opinion is appropriate.</p> <p style="text-align: right;">(TYK)</p> <p>The decision regarding which type of modified opinion is appropriate depends upon:</p> <ol style="list-style-type: none"> The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements



The table below illustrates how the auditor's judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Q. 34 While conducting audit of VED Ltd., you as an auditor are not only prevented in completing certain audit procedures but also are not able to obtain audit evidence even by performing alternative procedures. How you will deal with this situation.

(Inter Audit MTP/ New/ Old. May 2022) (4 Marks)

As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows.

- 1) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- 2) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - i. Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - ii. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.
- 3) If the auditor withdraws, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Q. 35 CA. Sarasbhai Patel, while conducting audit of an entity, feels that there is an atmosphere of non-cooperation all around. He has not been provided with necessary support for attending inventory count process of entity as at year end. Besides, CFO is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality.

He was not able to verify revenues of entity due to lack of complete details. For verifying expenses, he has been asking for bills on a sample basis, but staff has been making lame excuses. The matter was brought to knowledge of higher echelons of management, but of no avail. The auditor feels that there could be misstatements and their possible effects would be material and affecting many aspects of financial statements.

Assuming it is not possible to withdraw from engagement, what type of opinion should be expressed by auditor?

	<p>In the given case, auditor has not been able to obtain sufficient appropriate audit evidence relating to inventories, debtors, creditors, revenues and expenses. The matter has brought to knowledge of management but no result has been achieved. Besides, auditor opines that there could be misstatements and their possible effects could be both material, and pervasive. In such circumstances, he should make disclaimer of opinion in accordance with SA 705</p>
Q. 36	<p>M/s Daisy & Associates are the statutory auditors of Zebra Ltd. for the FY 2021-22. CA Daisy, the engagement partner wants to verify the cash in hand as on 31.03.2022. The cash balance of the company as on 31.03.2022 is ` 1,00,000/- and the turnover of the company for the year is ` 6 crores.</p> <p>The management of the company informs CA Daisy that such cash verification is not possible as the cashier is on leave for his marriage and no other employee of the company is available as all are busy in year ending activities. Explain the relevant provisions to deal with such a situation.</p> <p style="text-align: right;">(Illustration)</p> <p>Limitations Imposed after accepting the audit:</p> <p>If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers is likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation. In the present case CA Daisy, the statutory auditor is unable to verify the cash in hand of Zebra Ltd. as on 31.03.2022.</p> <p>The same is due to a limitation imposed by the management of Zebra Ltd. which is due to the non-availability of the cashier. In such situation, CA Daisy should perform alternate procedures to verify the cash on hand of the company. Further, CA Daisy should consider the impact on the auditor's report and may consider issuing a qualified opinion in this case</p>
Q. 37	<p>M/s Sun Moon & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. Owing to the pervasive nature of material misstatements in the financial statements of the company, CA Moon, the engagement partner decided to give an adverse opinion. Explain the responsibility of CA Moon with respect to communication with those charged with governance</p> <p style="text-align: right;">(Illustration)</p> <p>Communication with TCWG:</p> <p>CA Moon, being the statutory auditor of Venus Ltd. should communicate with those charged with governance about the circumstances that led to the expected modification i.e., an adverse opinion. Further the wording of such modification also needs to be discussed</p>
Q. 38	<p>CA Guru is in the process of preparing the final audit report of JPA Private Limited and would like to disclaim his opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence. How CA Guru shall amend the description of the auditor's responsibilities as required by SA 700 (Revised)?</p> <p style="text-align: right;">(Inter Audit Suggested / New. 2021) (3 Marks)</p> <p style="text-align: center;">or</p> <p>When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700. Explain.</p> <p style="text-align: right;">(Inter Audit RTP/ New/ Old May. 2022)</p> <p>Since the auditor, CA Guru, disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence of JPA Pvt Ltd, the auditor (CA Guru) shall amend the description of the auditor's responsibilities required by SA 700 (Revised) to include only the following:</p> <ol style="list-style-type: none"> A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report; A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements, and <p>The statement about auditor independence and other ethical responsibilities required by SA 700 (Revised).</p>



SA 706

Q. 39	State clearly the objective of the Auditor as per SA 706. Also define emphasis of matter paragraph and other matter paragraph. <p style="text-align: right;">(MTP OCT 2020, 4 MARKS)</p>
	<p>As per SA 706 (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs in The Independent Auditor's Report", the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:</p> <ol style="list-style-type: none">A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; orAs appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. <p>Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.</p> <p>Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</p>
Q. 40	Define Emphasis of Matter paragraph. When the auditor shall include an Emphasis of Matter paragraph in the auditor's report? Also explain how the auditor would include an Emphasis of Matter in the auditor's report? <p style="text-align: right;">(RTP INTER NEW MAY 19)</p> <p style="text-align: center;">OR</p> Define Emphasis of Matter Paragraph and how it should be disclosed in the Independent Auditor's Report? <p style="text-align: right;">(TYK) (RTP Nov 2020)</p>
	<p>Emphasis of Matter paragraph – (Refer above Q24. for definition)</p> <p>Emphasis of Matter Paragraphs in the Auditor's Report</p> <p>If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:</p> <ol style="list-style-type: none">The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; andWhen SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. <p>Separate section for Emphasis of Matter paragraph</p> <p>When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:</p> <ol style="list-style-type: none">Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; andIndicate that the auditor's opinion is not modified in respect of the matter emphasized.
Q. 41	Mention the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. <p style="text-align: right;">(RTP Nov. 2022) (MTP Nov 21, 3 Marks)</p>

	<p>OR</p> <p>What is meant by Emphasis of Matter Paragraph? Give some examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph.</p> <p style="text-align: right;">(4 Marks, MTP Oct.2022)</p> <p>OR</p> <p>Discuss any four examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph in his report.</p> <p style="text-align: right;">(MTP Nov 2023)</p>
	<p>Examples of circumstances to include Emphasis of Matter Paragraph: (Refer above Q24. for definition)</p> <p>Some examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are;</p> <ol style="list-style-type: none"> i. An uncertainty relating to the future outcome of an exceptional litigation or regulatory action. ii. A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report. iii. Early application (where permitted) of a new accounting standard that has a material effect on the financial statements. iv. A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position
Q. 42	<p>Lomaxe Ltd. is a company engaged in the business of manufacture of candles. CA Kamalnath is the statutory auditor of the company for the FY 2021-22. During the year under audit, there was a fire in the company's factory as a result of which, some of the company's plant and machinery was destroyed.</p> <p>The same was disclosed by the company in the notes to accounts annexed to the financial statements for the year ending 31.03.2022. CA Kamalnath decided to communicate this matter in the auditor's report as he is of the view that the matter is of such importance that it is fundamental to the user's understanding of the financial statements. Help CA Kamalnath to deal with this situation in the auditor's report.</p> <p style="text-align: right;">(Illustration)</p> <p>In the present case there is a need to add Emphasis on Matter Paragraph in the Auditor's Report. The draft of the same is as under:</p> <p>Emphasis of Matter – Effects of Fire in Company's Factory</p> <p>We draw attention to Note Y of the financial statements, which describes the effects of a fire in the Company's factory. Our opinion is not modified in respect of this matter.</p>

SA 701

Q. 43	<p>Explain clearly the purpose of communicating key audit matters.</p> <p style="text-align: right;">(RTP INTER NEW NOV 18)</p>
	<p>Purpose of communicating key audit matters</p> <p>As per SA 701, "Communicating Key Audit Matters in the Auditor's Report", the purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements.</p>



Q. 44 As an auditor of listed company, what are the matters that the auditor should keep in mind while determining "Key Audit Matters.

(MTP Nov 21, 3 Marks) (RTP Nov 21) (RTP Nov 20)

OR

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, explain the areas of concern that an auditor should take into account.

(Inter Sugg. Nov 2023)

Determining Key Audit Matters:

As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- i. Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.
- ii. Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- iii. The effect on the audit of significant events or transactions that occurred during the period.
- iv. The auditor shall determine which of the matters determined in accordance with above were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

Q. 45 **Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse.**

(RTP INTER NEW MAY 18), (RTP INTER NEW NOV 19)

OR

Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not considered as a substitute or alternative for a number of important items. What are those items.

(Inter RTP Nov 2023) (Inter Audit MTP/ New/ Old. April 2022) (3 Marks)

As per SA 701, "Communicating Key Audit Matters in the Auditor's Report", communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole

Communicating key audit matters in the auditor's report is not:

- ii. A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
- iii. A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
- iv. A substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
- v. A separate opinion on individual matters.

SA 710

Q. 46 **The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements.**

Explain clearly stating the essential audit reporting differences between the approaches. Also define comparative information and audit procedures regarding comparative information.

(RTP INTER NEW MAY 19)

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

The essential audit reporting differences between the approaches are:

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

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

B. Audit Procedures regarding comparative information

The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.

For this purpose, the auditor shall evaluate whether:

- a. The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- b. The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

Q. 47 **The nature of the comparative information that is presented in an entity's financial statements, depends on the requirements of the applicable financial reporting frame work. There are two broad approaches to the auditor's reporting responsibilities in respect of such comparative information. Mention those two approaches and also mention the essential audit reporting differences between the two.**

(Inter Aug Nov 2023)

The nature of the comparative information:

Refer Above Q.46

Q. 48 **Discuss with reference to SAs: What are the auditor's responsibilities in respect of corresponding figures?**

(RTP IPCC NOV 14)

OR

Write short notes on the following: Auditor's responsibilities regarding comparatives

(RTP IPCC NOV 12)

Auditor's responsibilities in respect of corresponding figures: As per SA 710 "Comparative Information—Corresponding Figures and Comparative Financial Statements", in respect of corresponding figures,

- (Refer Point B Q.46)
- If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560 "Subsequent Events".



	<p>As required by SA 580, "Written Representations", the auditor shall request written representations for all periods referred to in the auditor's opinion. The auditor shall also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.</p>
Q. 49	<p>When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in some circumstances. Explain those circumstances.</p> <p>(MTP-INTER AUG 2018, 5 MARKS) (4 Marks, MTP Sep.2022)</p> <p>When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances.</p> <ol style="list-style-type: none">1. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:<ol style="list-style-type: none">a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; orb) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.2. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.3. Prior Period Financial Statements Not Audited- If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.
Q. 50	<p>NG Ltd. appointed CAN as the statutory auditor for the F.Y. 2021-2022. Previous year's auditor gave a qualified opinion on the Comparative Financial Statements for the year ended 31.03.2021. What will be the reporting responsibility casted on CA N when he forms an opinion and prepares audit report on the Comparative Financial Statements for the F.Y. 2021-2022?</p> <p>(Inter Sugg. Nov 2022)</p> <p>(Refer Point 1. Above Q 49.)</p>
Q. 51	<p>If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, what is required to be stated by the auditor in an Other Matter paragraph.</p> <p>(4 Marks, MTP Sep.2022)</p> <p>If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:</p> <ol style="list-style-type: none">i. That the financial statements of the prior period were audited by a predecessor auditor;ii. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; andiii. The date of that report, unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements.

Audit of branch office

Q. 52	<p>ABC Ltd is a company incorporated in India. It has branches within and outside India. Explain who can be appointed as an auditor of these branches within and outside India. Also explain to whom branch auditor is required to report.</p> <p style="text-align: right;">(TYK)</p> <p>Sub-section (8) of section 143 of the Companies Act, 2013, prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor. Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:</p> <p>It may be noted that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.</p> <p>Further as per rule 12 of the Companies (Audit and Auditors) Rules, 2014, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.</p>
Q. 53	<p>CA. Dicky Yadav is auditor of a company having four branches. The four branches are audited by another auditor CA. Yamini Jain. The reports in respect of accounts of branches examined by her have already been sent to company auditor.</p> <p>During the course of audit, CA Dicky Yadav asks the branch auditor to share with her summary of audit procedures and findings in respect of accounts of branches examined. CA. Yamini Jain feels it as encroachment of her domain. Discuss the issue.</p> <p style="text-align: right;">(TYU)</p> <p>Rights of Principal Auditor</p> <p>As per SA 600 - "Using the Work of Another Auditor", the principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list.</p> <p>Such review of audit procedures and findings can be undertaken if principal auditor feels that it is necessary to apply such procedures to obtain sufficient appropriate audit evidence. It is not an encroachment of another auditor's domain.</p>

Joint audit

Q. 54	<p>Discuss - Advantages and disadvantages of Joint Audit.</p> <p style="text-align: right;">(5 MARKS, NOVEMBER, 2014)</p> <p style="text-align: center;">OR</p> <p>Explain the concept of joint audit. Discuss its advantages and disadvantages.</p> <p style="text-align: right;">(8 MARKS, MAY, 2011) (RTP IPCC NOV 14)</p> <p>Joint Audit: The practices of appointing chartered accountants as joint auditors is quite widespread in big companies and corporations, joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually. It essentially involves sharing of the total work.</p> <p>As per SA 299, "Joint Audit of Financial Statements" joint audit is an audit of financial statements of an entity by two or more auditors appointed with the objective of issuing the audit report. Such auditors are described as joint auditors.</p>
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Advantages and disadvantages of joint audit are as follows-

In specific terms the advantages that flow may be the following

- a. Sharing of expertise.
- b. Advantage of mutual consultation.
- c. Lower work load.
- d. Better quality of work performance.
- e. Improved service to the client.
- f. In respect of multinational companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.
- g. Lower staff development costs.
- h. Lower costs to carry out the work.

A sense of healthy competition towards a better performance.

Disadvantages of Joint Audit

- a. The fees being shared.
- b. Psychological problem where firms of different standing are associated in the joint audit.
- c. General superiority complexes of some auditors.
- d. Problems of coordination of the work.
- e. Areas of work of common concern being neglected.
- f. Uncertainty about the liability for the work done.

Q. 55 The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit.

(TYK) (MTP May 2023, 4 Marks) (RTP INTER NEW NOV 19) (RTP IPCC NOV 19)

For Advantage Refer Q.54

**Q. 56 Discuss on the following:
In Joint Audit, "each Joint Auditor is responsible only for the work allocated to him".**

(5 MARKS, MAY, 2012)

- The principles governing to responsibilities of joint auditor are prescribed in SA 299, "Joint Audit of Financial Statements". As per SA 299, if joint auditors are appointed, in respect of audit work divided among the joint Auditors, each joint Auditor is responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.
- In cases where specific divisions, zones or units are allocated to different joint auditors, it is the separate and specific responsibility of each joint auditor to obtain information and explanations from the management in respect of such divisions/zones/units and to evaluate the information and explanations so obtained by said joint auditor. The joint auditors shall have proper coordination and rationality wherever required.
- It is the individual responsibility of each joint auditor to study and evaluate the prevailing system of internal control and assessment of risk relating to the areas of work allocated to said joint auditor.
- It shall be the responsibility of each joint auditor to determine the NTE of audit procedures to be applied in relation to the areas of work allocated to said joint auditor.
- All the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the NTE of the audit procedures agreed upon among them, proper execution of these audit procedures is the individual responsibility of the joint auditor concerned.

Q. 57 Write a short note on "Responsibilities of Joint auditors".

	<p>Responsibilities of Joint Auditors:</p> <p>SA 299 on Responsibilities of Joint Auditors, require that joint auditors should by mutual discussion divide the audit work among themselves. It further states that, in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures. On the other hand, all the joint auditors shall be jointly and severally responsible for:</p> <ol style="list-style-type: none"> the audit work which is not divided among the joint auditors and is carried out by all joint auditors; decisions taken by all the joint auditors under audit planning in respect of common audit areas; matters which are brought to the notice of the joint auditors by any one of them and there is an agreement among the joint auditors on such matters; examining that the financial statements of the entity comply with the requirements of the relevant statutes; presentation and disclosure of the financial statements as required by the applicable financial reporting framework; ensuring that the audit report complies with the requirements of the relevant statutes, applicable Standards on Auditing and other relevant pronouncements issued by ICAI <p>In case a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit</p>
<p>Q. 58</p>	<p>Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should identify division of audit areas and common audit areas. Explain stating the other relevant considerations in this regard.</p> <p style="text-align: right;">(TYK) (RTP INTER NEW MAY 2020) (RTP IPCC MAY 2020)</p> <p>Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should:</p> <ol style="list-style-type: none"> identify division of audit areas and common audit areas; ascertain the reporting objectives of the engagement; consider and communicate among all joint auditors the factors that are significant in directing the engagement team's efforts; consider the results of preliminary engagement activities, or similar engagements performed earlier. ascertain the nature, timing and extent of resources necessary to accomplish the engagement.

Reporting under CARO, 2020

<p>Q. 59</p>	<p>Discuss the matters to be included in the auditor's report regarding statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders as per CARO, 2020.</p> <p style="text-align: right;">(RTP INTER NEW MAY 18) (RTP IPCC MAY 18)</p> <p style="text-align: center;">OR</p> <p>Discuss the reporting requirements as per CARO, 2020, regarding disputed and undisputed statutory dues (Refer Part A).</p> <p style="text-align: right;">(MTP March 2023)</p> <p style="text-align: center;">OR</p> <p>ABC Ltd. is a public company, which has availed various loans and cash credit facilities from Banks and other financial institutions. The company has defaulted in repayments of such borrowings during the year under audit. What are the reporting requirements in this regard under the Companies (Auditor's Report) Order, 2020? (Refer Part B)</p> <p style="text-align: right;">(3 Marks) (Inter Audit Suggested / New May. 2023)</p>
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Part A

Matters to be included in the auditor's report- statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders (CARO, 2020) –

Clause (vii)

- a. whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;
- b. where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not constitute a dispute).

Part B

Clause (ix)

- a. whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below: -

Nature of borrowing, including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	lender wise details to be provided in case of defaults to banks, financial institutions and Govt..				

- b. whether the company is a **declared willful defaulter by any bank** or financial institution or other lender;

Q. 60 **Discuss the reporting requirements regarding statutory dues and Internal Audit as per CARO, 2020.**
 (3 Marks, MTP Sep.2022)
OR
Discuss the reporting requirements as per CARO, 2020, regarding the internal audit system of the company.
 (MTP May 2023)

Statutory Dues: **Refer Q 59 Part A**

Internal Audit: Clause (xiv)

- a) whether the company has an internal audit system commensurate with the size and nature of its business.
- b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.

Q. 61 **State the matters to be included in the auditor's report as per CARO, 2020 regarding statutory dues.**
 (MTP AUG-INTER 2018, 2.5 MARKS) (MTP MAY 2020, 4 MARKS) (MTP AUG 2018, 3 MARKS)

As per clause (vii) of CARO, 2020, reporting requirements in respect of statutory dues are: Refer Q 59.

Q. 62 **"The company has raised funds by issuing fully convertible debentures. These funds were raised for the expansion and diversification of the business. However, the company utilized these funds for repayment of long-term loans and advances." Advise the auditor regarding reporting requirements under CARO, 2020.**
 (MTP Nov 21, 3 Marks) (4 MARKS, MAY 2018 – INTER NEW)

The auditor is required to report as per **clause x(b)** of paragraph 3 of CARO 2020,

Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;

	<p>In view of the above clause, the auditor would report that funds raised by the company for expansion and diversification of business have not been used for the said purpose rather the company has utilised these funds for repayment of long-term loans and advance.</p> <p>Examiner Comment - Some examinees did not mention the requirements of Companies Act and gave general answer instead of reporting by auditor under CARO relating to use of funds for purpose other than the purpose for which funds were raised. Also, few examinees wrote about qualification in main Audit report instead of Reporting under CARO.</p>
Q. 63	<p>Discuss which class of companies are specifically exempt from the applicability of CARO 2020. (TYK) (6 MARKS, NOV 2016) (MTP OCT 2019, 4 MARKS)</p> <p>OR</p> <p>What are the various types of companies covered under Companies (Auditor's Report) Order, 2020? (RTP IPCC NOV 15)</p> <p>Applicability of CARO, 2020: It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except—</p> <ol style="list-style-type: none"> a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949; an insurance company as defined under the Insurance Act, 1938; a company licensed to operate under section 8 of the Companies Act; a One Person Company as defined under clause (62) of section 2 of the Companies Act; a small company as defined under clause (85) of section 2 of the Companies Act; and a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.
Q. 64	<p>"CARO, 2020 applies to all companies". Discuss. (RTP IPCC NOV 16)</p> <p>Applicability of CARO, 2020: Refer Q 63 From the above it is clear that CARO, 2016 does not apply to all companies.</p>
Q. 65	<p>State the matters to be included in auditor's report as per CARO, 2020 regarding: Fraud by the company or on the company by its officers or employees. (MTP MARCH 2018, 4 MARKS) (MTP MARCH 2019, 4 MARKS) (3 MARKS, NOV 2019)</p> <p>Clause (xi) of Para 3 of CARO, 2020, requires the auditor to report</p> <ol style="list-style-type: none"> whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated; whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government; whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;
Q. 66	<p>State the matters to be included in auditor's report as per CARO, 2020 regarding: "Default in repayment of loan or borrowing to a financial institution, bank etc.</p> <p>The auditor is required to report as per clause (ix) of paragraph 3 of CARO 2020</p> <ol style="list-style-type: none"> whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:



Nature of borrowing, including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

- whether the company is a declared willful defaulter by any bank or financial institution or other lender;
- whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;
- whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated;
- whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;
- whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised

Q. 67 CA. Ravi Patnaik is conducting audit of a company for which reporting requirements under CARO, 2020 are applicable. He finds that cash credit facilities amounting to ` 4 crores were released to the company by branch of a bank for meeting its working capital requirements. He finds that out of above funds, ` 1 crore have been used by company for installing effluent treatment plant to meet State pollution control Board requirements.

Is there any reporting obligation upon him under CARO,2020?

(TYU)

Clause (ix) (d) of CARO, 2020 whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated.

In the given situation, funds have been raised for meeting working capital requirements for ` 4 crores. Cash credit facilities for meeting working capital requirements are, by their very nature, short term borrowings. Out of above, `1 crore have been used by the company for investment in effluent treatment plant which is ostensibly for a long-term purpose.

Hence, the matter needs to be reported in accordance with requirements of Clause (ix) (d) of CARO, 2020.

Q. 68 State the matters to be included in the auditor's report as per CARO, 2020, regarding:

- Private Placement of Preferential Issues.**
- Utilization of IPO and further public offer.**

(MTP April 2019,4 marks) (MAY 2018 – INTER NEW)

1. Refer Qn. 62

- It is duty of the auditor to report as per clause x(a) of paragraph 3 of CARO 2016, whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.

Examiner Comment - Most of the candidates did not have idea of the requirement of reporting under the given clauses and gave only irrelevant points.

Q. 69 Discuss the reporting requirements under CARO 2020, with respect to the moneys raised by the company by way of initial public offer or further public offer and where the company has made any preferential allotment or private placement of shares.

(TYK)

The following are the disclosure requirements as per CARO 2020, with respect to the moneys raised by the company by way of initial public offer or further public offer and where the company has made any preferential allotment or private placement of shares.

- a. whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
- b. whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;

Q. 70 M Ltd. has given certain loans to related parties and also has accepted certain deposits. As an auditor, how will you include the above items in paragraph 3 of CARO, 2020?

(4 MARKS, NOV 2019 – INTER NEW) (Inter Audit MTP/ New/ Old. 2021)(3 Marks)

Loans to related parties - Clause iii of paragraph 3 of CARO, 2020 states

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, LLP's or any other parties, if so,

- a. whether during the year the company has provided loans or provided advances in the nature of loans, if so, indicate -
 - i. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;
 - ii. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates
- b. whether the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;

Loans and advances in the nature of loans

- a. in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest is stipulated, whether the repayment is regular or not.
- b. If the amount is overdue, then state the amount over due for more than 90 days and whether reasonable steps have been taken by the company for recovery of the principal and interest.
- c. whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];
- d. whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013

Public Deposits – Clause v of paragraph 3 of CARO, 2020 states

in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the RBI and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed thereunder, where applicable, have been complied with-



- If not, the nature of contraventions should be stated;
- If an order has been passed by CLB/NCLT/RBI/any court/any other tribunal, whether the same has been complied with or not.
- In the given situation, M Ltd. has given certain loans to related parties and also has accepted certain deposits. Thus, the auditor is required to report the same as per clause (iii) and (v) of Paragraph 3 of CARO, 2016.

Q. 71 Explain the Reporting requirements the auditor should ensure under CARO 2020 related to Plant, Property and Equipment.

(Inter Audit RTP/ New/ Old Nov. 2021) (3 MARKS, MAY 2019 – INTER NEW)

OR

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

(MTP OCT-INTER 2018, 3 MARKS) (MTP OCT 2018, 4 MARKS) (RTP IPCC MAY 19)

OR

State the matters to be included in the auditor's report as per CARO, 2020 regarding – Property, Plant and Equipment.

(MTP AUG-INTER 2018, 2.5 MARKS) (MTP MAY 2020, 4 MARKS) (MTP AUG 2018, 3 MARKS) (Inter Audit RTP/ New/ Old May. 2022)

Reporting for Fixed Assets- Clause (i) of Para 3 of CARO ,2016, requires

a.

A. whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;

B. whether the company is maintaining proper records showing full particulars, of intangible assets;

b. whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

c. whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favor of the lessee) disclosed in the financial statements are held in the name of the company,

If not provides the details thereof in the format below:

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

d. whether the company has revalued its PPE (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

e. whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its F.St.'s;

Examiner Comment - Most of the examinees discussed the three reporting requirements but few examinees failed to explain properly and wrote incomplete answers.

Q. 72	<p>PQR Private limited is incorporated on 1st August 2021. During the year ended 31st March 2022, it had issued shares (fully paid up) of ` 2 lakhs had borrowed ` 53 Lakhs each from 2 financial institutions and its turnover is ` 975 Lakhs. The company claims that CARO will not be applicable.</p> <p style="text-align: right;">(RTP IPCC MAY 12)</p> <p>Applicability of CARO, 2020</p> <p>The Companies (Auditor's Report) Order (CARO), 2020, exempts private limited companies from its application which fulfils all the following conditions:</p> <ol style="list-style-type: none"> PUC & Reserves up to 1 crore as on the B/S date and o/s Borrowings up to 1 crore from any bank or FI at any point of time during the FY and Turnover up to 10 crores as disclosed in S-III of CoA 2013 [including revenue from disclosed operations] during the FY as per Financial Statements. <p>In the case of PQR Private Limited., its paid-up capital is less than ` 1 Crore, turnover is less than ` 10 crores. However, it fails to fulfill the condition relating to outstanding loan because as per the statement on CARO, 2020, issued by the Institute, requires that the amount of outstanding loan taken from bank/financial institution have to be considered on a cumulative basis. PQR Private Limited. has total borrowings of ` 1.06 Crore and thus fails to satisfy all conditions and accordingly CARO, 2020 will be applicable.</p>
Q. 73	<p>M/s Anand Pvt. Ltd. is incorporated on 1st July, 2021. During the year ended 31st March, 2022, it had issued shares (fully paid up) of ` 80 lakhs, had borrowed ` 45 lakhs each from 2 financial institutions and its turnover is ` 875 lakhs. Will Companies Auditors Report Order, 2020 (CARO) be applicable to M/s Anand Pvt. Ltd.?</p> <p style="text-align: right;">(RTP IPCC NOV 11)</p> <p>Refer Q 55</p> <p>In the case of M/s Anand Pvt. Ltd., its paid-up capital is less than Rs.1 Crore, turnover is less than Rs. 10 crores; and, it is also implied from the facts that it has not accepted any public deposits.</p> <p>It also fulfils the condition relating to outstanding loan being lesser than 1 Crore as per the statement on CARO, 2020, issued by the Institute.</p> <p>Hence, M/s Anand Pvt. Ltd. satisfies all conditions and accordingly CARO, 2020 will not be applicable.</p>
Q. 74	<p>XYZ (Pvt.) Ltd. has paid up Capital and Reserves of ` 1.6 Crore and secured Loans of Nationalized Banks having sanctioned limit of ` 1.08 Crore and outstanding balance of ` 93 lacs. The turnover of the company is ` 10.10 crores for the year ended 31.3.2022. A customer returns goods worth 40 lacs on 2.4.2022, out of sales made during the year ended 31.3.2022. The management of the Company is of the opinion that CARO, 2020 is not applicable to the company.</p> <p style="text-align: right;">(RTP IPCC NOV 12)</p> <p>Refer Q 77</p> <p>In the above case, the paid-up capital and reserves are more than ` 1 Crore, cash credit limit exceeds ` 1 Crore (because the Order will apply if on any day during the financial year the loan exceeds ` 1 Crore and not the year-end balance), and the company's turnover exceeds ` 10 crores.</p> <p>Hence, CARO 2020 will be applicable to the company. The contention of the management that out of sales, goods worth ` 40 lacs has been returned by the customer is not tenable. Sales return of next year cannot be reversed or adjusted during the previous year.</p>
Q. 75	<p>As the statutory auditor of Bhim Ltd. (to whom CARO, 2003 is applicable), how would you report on the physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.</p> <p style="text-align: right;">(RTP IPCC NOV 11)</p>



	<p>Physical verification of inventory</p> <p>Para 4 Clause (ii)(a) of CARO, 2020 requires the auditor to state in his report whether physical verification of inventory has been conducted at reasonable interval by the management. Physical verification of inventory is the responsibility of the management which should verify all material items at least once in a year and more often in appropriate cases. The auditor in order to satisfy himself about verification at reasonable intervals should examine the adequacy of evidence and record of verification.</p> <p>In the given case, the above requirement of CARO, 2020 has not been fulfilled as such and the auditor should point out the specific areas where he believes the procedure of inventory verification is not reasonable. He may consider the impact on financial statement and report accordingly.</p>
Q. 76	<p>Discuss the matters to be included in the auditor's report regarding Property, Plant and Equipment and inventories as per CARO, 2020.</p> <p style="text-align: right;">(RTP IPCC NOV 19) (RTP IPCC MAY 2020)</p> <p>Matters to be included in the auditor's report (CARO, 2020) –</p> <p>Property, Plant and Equipment: Clause i states as follows: Refer Q 72</p> <p>Inventory</p> <p>Clause ii(a) states</p> <ol style="list-style-type: none">whether physical verification of inventory has been conducted at reasonable intervals by the management; andwhether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate;whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;
Q. 77	<p>State the matters to be included in auditor's report as per CARO, 2020 regarding - Verification of inventory and working capital limits.</p> <p style="text-align: right;">(Inter Audit MTP/ New/ Old. April 2022)</p> <p>Matters to be included in Auditor's report as per CARO 2020</p> <p>Clause (ii) of Para 3 of CARO, 2020, requires the auditor to report.</p> <ol style="list-style-type: none">whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details
Q. 78	<p>The auditor's requirement to report under clause (xi) of paragraph 3 of the Companies (Auditor's Report) Order, 2020 is restricted to frauds noticed or reported during the year. Explain what auditors may consider for reporting under this clause?</p> <p style="text-align: right;">(3 Marks) (Audit / Nov. 2020)</p> <p>The auditor is required to report under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020,</p> <p>Where the auditor notices that any fraud by the company or on the company by its officers or employees has been noticed by or reported during the year, the auditor should, apart from reporting the existence of fraud, also required to report, the nature of fraud and amount involved. For reporting under this clause, the auditor may consider the following:</p>

	<p>1. This clause requires all frauds noticed or reported during the year to be reported indicating the nature and amount involved. As specified, the fraud by the company or on the company by its officers or employees are only covered.</p> <p>2. Of the frauds covered under section 143(12) of the Act, only noticed frauds shall be included here and not the suspected frauds. While reporting under this clause with regard to the nature and the amount involved of the frauds notice do reported, the auditor may also consider the principles of materiality outlined in Standards on Auditing.</p>
Q. 79	<p>Discuss the reporting requirements as per CARO, 2020, regarding: Deposits accepted by company or amounts which are deemed to be deposits.</p> <p style="text-align: right;">(3 Marks, MTP Oct.2022)</p> <p>Deposits accepted by company or amounts which are deemed to be deposits</p> <p>Clause (v):</p> <p>In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;</p>
Q. 80	<p>As per Rule 11 (g) of the Companies (Audit and Auditors) Rules, 2014 auditor's report should state whether the accounting software used for maintaining its books of account has a feature of recording audit trail (edit log) facility. What are the reporting requirements under Rule 11(g)?</p> <p style="text-align: right;">(Inter Sugg Nov 2023)</p> <p>Under provisions of Section 143(2), the auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11). Further, auditor has to report whether to best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and following matters as prescribed under relevant rules (Rule 11): -</p> <ol style="list-style-type: none"> i. whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement; ii. whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts; iii. whether there has been any delay in transferring amounts, required to be transferred, to the IEPF by the company. iv. Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013. v. Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention
Q. 81	<p>CA E was appointed statutory auditor of XYZ Private Limited in AGM held in the month of August, 2023 for the first time for audit of financial statements of the company from year 2023-24 onwards.</p> <p>Since he is new to the company, he wants to be sure about integrity of accounting records. In this regard, he wants to ensure that software used by company for maintenance of its books of account is capable of tracking user activities and changes made to entries in books of accounts, if any, during the course of year.</p>



Q. 82 What CA E is looking for in the given situation? Discuss the reporting requirements for CA E in this matter to be included in audit report to be issued under the Companies Act, 2013.

(MTP Nov 2023)

In the given situation, the auditor is looking for a feature of "audit trail" in software used by company for maintenance of books of accounts. Under section 143(3) of Companies Act, 2013, it has to be reported by the auditor as under: -

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

Q. 83 As per Sec 143(3)(j) of the Companies Act, 2013, the auditor's report shall also include such other matters as may be prescribed by Rule 11 of the Companies (Audit and Auditors) Rule, 2014. Discuss those matters on which views and comments of the auditor are required.

(RTP Nov. 2023)

Rule 11 of the Companies (Audit and Auditors) Rules, 2014 prescribes the other matters to be included in auditor's report. The auditor's report shall also include their views and comments on the following matters, namely:

- (i) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
- (ii) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- (iii) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
- (iv)
 1. Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;
 2. Whether the management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and
 3. Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (1) and (2) contain any material misstatement.
- (v) Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.
- (vi) Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention

Q. 84 UV\ V Ltd. a biopharma company a global manufacture of select critical care medical products, has been sanctioned working capital limits of t 5 .99 crores from a nationalized bank on the basis of security of current assets. During the year under audit, the statutory auditor of UV\ V Ltd. considers that. inventory is material to the financial statements and performs audit procedures over the company ' s final inventory records to determine whether they accurately reflect actual inventory count and without any major discrepancies for each class of inventory. What are the reporting requirements under CARO 2020 in this case?

(Inter Sugg Nov 2023)

Matters to be included in Auditor's report as per CARO 2020

Clause (ii) of Para 3 of CARO, 2020, requires the auditor to report.

- a) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;
- b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details

Q. 85 State the matters to be included in the auditor's report as per CARO, 2020 regarding:

- (i) Nidhi Company.
- (ii) Transactions with related parties

(MTP Nov 2023)

As per clause (xii) of CARO, 2020, the following matters are required to be included in the auditor's report relating to Nidhi Company

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

As per clause (xiii) of CARO, 2020, the following matter is required to be included in the auditor's report relating to transactions with the related parties:

whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;

Miscellaneous

Q. 86 When does an auditor issue unmodified opinion and what does it include? (From Old Course SA700)

(Suggested May 2008, 4 marks) (RTP IPCC NOV 14)

OR

The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be given and give reasoning.

(MTP MAY 2020, 3 MARKS) (MTP APRIL 2019, 3 MARKS) (RTP May 21)



Unmodified Opinion

1. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
2. An unmodified opinion indicates, implicitly, that any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.
3. An unmodified opinion also indicates that:
 - i. the financial statements have been prepared using the generally accepted accounting principles, which have been consistently applied;
 - ii. the financial statements comply with relevant statutory requirements and regulations; and
 - iii. there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

Q. 87 **“The auditor fails to obtain sufficient information to form an overall opinion on the matters contained in the financial statements.” In the light of the above statement briefly explain the circumstances and opinion expressed by an auditor, where he is unable to obtain sufficient audit evidence.**

(RTP IPCC MAY 12)

Failure to obtain sufficient information:

The auditor is required to obtain necessary information and explanation which he considers essential for performing his duties as an auditor. However, there may be instances when an auditor fails to obtain sufficient information to form an overall opinion on the matters contained in the financial statements.

As per SA 705 “Modifications to the Opinion in the Independent Auditor’s Report”, the auditor’s inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

1. Circumstances beyond the control of the entity;
2. Circumstances relating to the nature or timing of the auditor’s work; or
3. Limitations imposed by management.

The situation may arise when

1. The Entity’s Accounting Records have been destroyed.
2. The Accounting Records of a significant component have been seized indefinitely by Governmental Authorities.
3. Management prevents the Auditor from observing the counting of the Physical Inventory.
4. Management prevents the Auditor from requesting External Confirmation of Specific Account Balances.

An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures.

In view of these situations, the auditor would not be able to obtain sufficient information to reach at any conclusion. Under the circumstances, he would not be in a position to express any opinion on the financial statements.

When the Auditor Disclaims an Opinion due to an inability to obtain SAAE, the Auditor shall -

1. State that the Auditor does not express an Opinion on the accompanying financial statements
2. State that, Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the Auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the FS, and
3. Amend the statement required by SA 700 (Revised), which indicates that the F.St.’s have been audited, to state that the auditor was engaged to audit the financial statements.

Q. 88 **M/s ABC & Associates, statutory auditors of Opaque Ltd., are in the process of finalizing the audit report of the company but in view of their inability to obtain sufficient appropriate audit evidence, they would like to disclaim their opinion on the financial statements.**

Explain reporting responsibilities of Mis ABC & Associates pursuant to SA 700(Revised). How they will address key audit matters section in accordance with SA 701 when they are expressing disclaimer of an opinion on the financial statements?

(Inter Sugg Nov 2023)

A matter giving rise to a modified opinion in accordance with SA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability

to continue as a going concern in accordance with SA 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

- (a) Report on these matter(s) in accordance with the applicable SA(s); and
- (b) Include a reference to the Basis for Qualified Opinion

Failure to obtain sufficient information: Refer Above Q 87

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 Validity- 15 Months (share with your friend / Buy with your Friend)



WhatsApp Chat

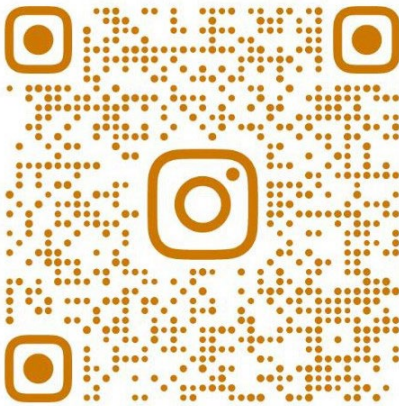


Telegram Chat

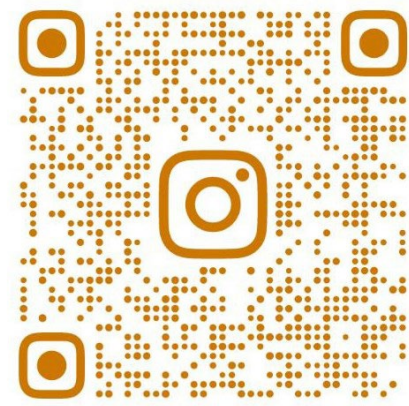


Instagram Pages

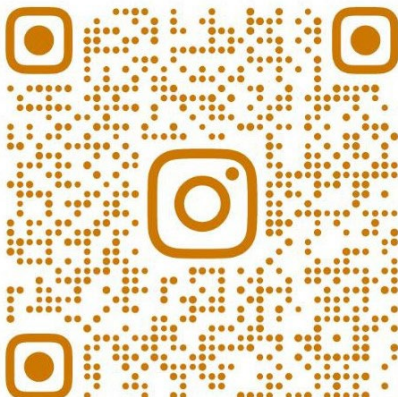
Ca motivation



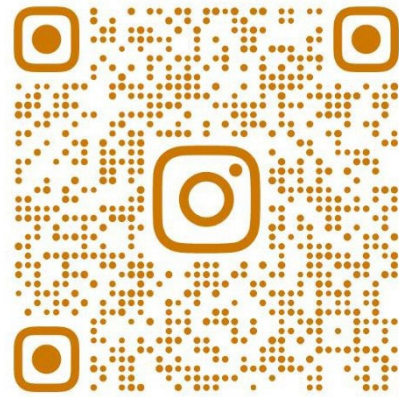
Audit Alchemy



CA in ME



Study Tips



Telegram Discussion Group



Telegram Channel



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