



# CA Test Series

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**NOTE'S**

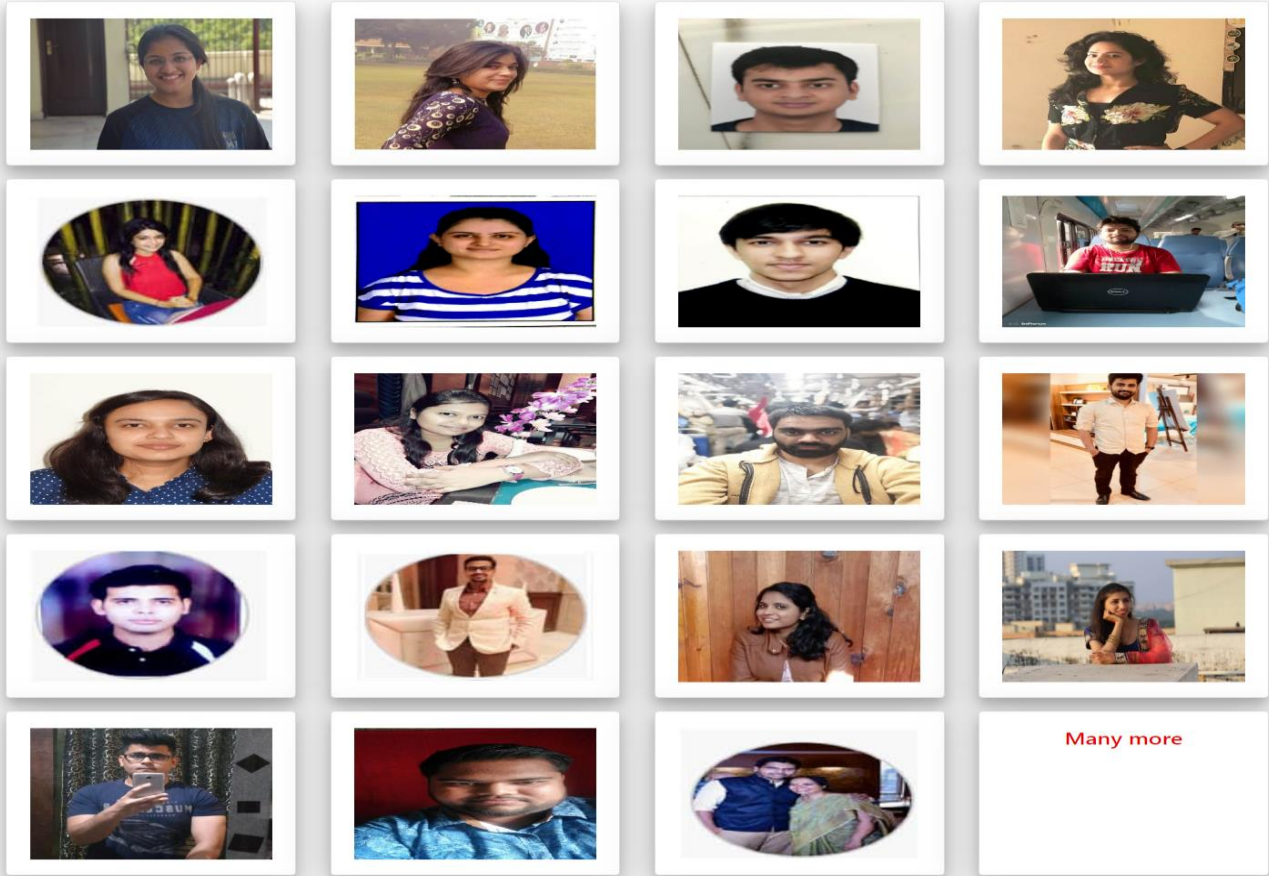


**CASE STUDY  
BASED MCQ'S  
CA INTER AUDIT**

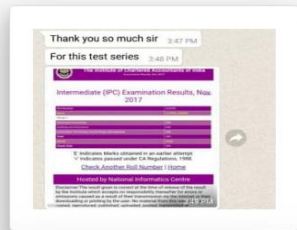
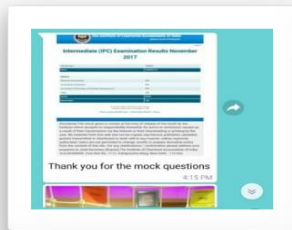
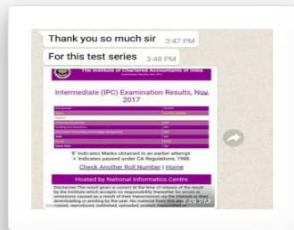


**CA Final Inter IPCC Foundation  
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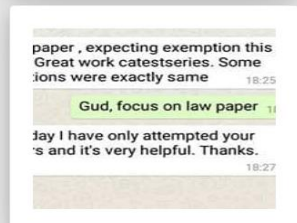
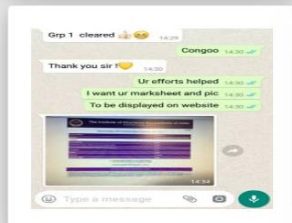
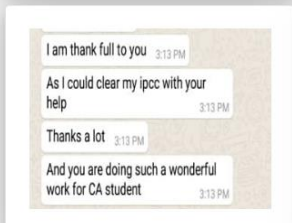
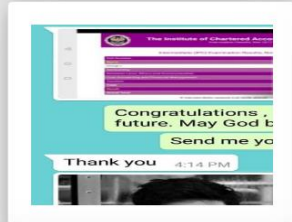
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Accounting	053
Cost and Audit	052
Professional Ethics	045
046	199
	PASS
Accounting	041
Cost and Audit	043
042	041
041	041
	PASS
	4004



Accounting	041
Cost and Audit	043
042	041
041	041
	PASS
	4004



**CASE STUDY MCQs FOR PRACTICE  
(OTHER THAN ICAI)**

**CASE STUDY -1**

X Ltd. had a net worth of Rs. 1,600 cr because of which Ind AS became applicable to them. The company had various derivative contracts like options, forward contracts, interest rate swaps etc., which were required to be fair valued. The company got the fair valuation done through an external third party.

The statutory auditors involved an auditor's expert, Mr. Raju, to audit valuation of derivatives. Auditor and auditor's expert were new to each other but developed a good bonding during the course of audit. The auditor had obtained information on the competence, capability & objectivity of the expert before appointing him. In order to complete the audit within time, the auditor did not enter into any agreement with the auditor's expert.

X Ltd has an employee Mr. Kaju, who being a Chartered Financial Analyst is an expert in valuation of derivatives. The auditor was of the opinion that it would be beneficial to use the services of Mr. Kaju as per SA 620 since he was already aware of the company's business. Mr. Raju submitted his valuation report to the auditor within 7 days of his appointment. After evaluating the report, the auditor concluded that Mr. Raju's work was not adequate for his purpose. The auditor was neither able to engage any other expert due to time constraint nor he could resolve the matter through further audit procedures.

The auditor was in the dilemma of the type of opinion to be given & whether to refer the name of Mr. Raju (auditor's expert) in his audit report. Referring the above case answer the following:

I. Before appointing Mr. Raju as an expert, the auditor needs to obtain information on the competence, capability & objectivity of the expert. Which of the following is not the source of such information?

- a) Published papers or books written by the expert.
- b) Discussion with that expert.
- c) Discussion with management of X Ltd. about the expert.
- d) Discussion with other auditors who are familiar with that expert

**II. Whether any agreement is required between the auditor & auditor's expert? If yes, then in which form?**

- a) Yes, such agreement can be in any form.
- b) Yes, such agreement shall be in the form of written representation
- c) Yes, such agreement shall be in the form of Engagement letter
- d) No, agreement is not required

**III. Can the auditor use Mr. Raju's (employee of X Ltd.) services as per SA 620? Comment**

- a) Auditor's expert should not have relation with auditee.
- b) Auditor's expert can be anyone who is an expert in a field other than accounting & auditing.
- c) Auditor's expert can be anyone with whom he has a formal agreement.
- d) Auditor's expert can be anyone whose work is used by the auditor in obtaining sufficient & appropriate evidence.

**IV. What should the auditor do when the expert's work is inadequate for the auditor's purpose & auditor cannot resolve the matter through further audit procedures?**

- a) Express modified opinion as per SA 705. (Answer)
- b) Ignore the expert and give an unmodified opinion.
- c) Communicate with those charge with governance about the inadequacy
- d) None of the above

**X. Suppose the auditor gave an unmodified opinion. Can he refer the name of the auditor's expert (Mr. Raju) in the auditor's report?**

- a) Yes, reference can be made as per his wish.
- b) Yes, reference should be made to make modification more clear.
- c) Yes, only if it is required as per law & regulation (Answer)
- d) No, reference is not required

### ANSWER 1

I. c

II. c

III. a

IV. a

V. c

### CASE STUDY 2

2 .Bharat Ltd. is an Indian state government owned oil and gas company headquartered in New Delhi. It is the largest commercial oil company in the country, with a net profit of INR 19,110 crore for the financial year 2017–18. It ranked 21st in Fortune India 500 list for year 2018 and 117th in Fortune Global 500 list of world's largest companies in the year 2019. As of 31 March 2019, Bharat Ltd.'s employee strength is 30,145, out of which 19,545 are in the officer cadre. It is India's largest downstream oil company, with a work force of more than 33,000 employees, a turnover of Rs. 4,96,513 crores and a net profit of Rs. 20,355 crores in FY 2019-20.

Bharat Ltd.'s business interest overlaps the entire hydrocarbon value-chain, including refining, pipeline transportation, and marketing of petroleum products, exploration and production of crude oil, natural gas and petrochemicals.

Bharat Ltd has ventured into alternative energy and globalization of downstream operations. It has subsidiaries in Sri Lanka, Mauritius, and the Middle East.

In May 2020, Bharat Ltd. became India's most profitable state-owned company for the second consecutive year, with a record profit of ₹20,355 crores in 2019-20, followed by Oil and Natural Gas Corporation, whose profit stood at ₹18,941 crores. The company had a customer base all over the world. In order to serve the huge client base, the company required huge amount of investment in fixed asset & had to maintain stock of refined oil at multiple places.

Bharat Ltd. accounted for nearly half of India's petroleum products market share, 35% national refining capacity (together with its subsidiary), and 71% downstream sector pipelines through capacity. The Bharat Group owned and operated 11 of India's 23 refineries with a combined refining capacity of 80.7 MMTPA (million metric tonnes per annum). Indian Oil's cross-country pipeline network, for transportation of crude oil to refineries and finished products to high-demand centers, spans over 13,000 km. The company had a throughput capacity of 80.49 MMTPA for crude oil and petroleum products and 9.5 MMSCMD for gas.

The company has appointed Ishan & Co. as the internal auditor & Shalu & Co. as the statutory auditor of the company. CA Ishan conducted the physical verification of inventory & fixed asset at the year-end, and handed over the report of such verification to CA Shalu. CA Shalu was in dilemma whether she could rely on the report of internal auditor for the statutory audit

Further CA Shalu is of the opinion that internal auditor could be used to provide direct assistance for the purpose of statutory audit. She wanted the internal auditor to perform audit procedures under her direction, supervision & review. However, she was not sure about the areas & the extent of work of internal auditor which can be used.

**I. Which of the following is not included in the scope of internal audit function?**

- a) Activities relating to risk management.
- b) Activities relating to internal control.
- c) Activities relating to preparation of financial statements
- d) Activities relating to governance.

**II. Can CA Shalu rely on the physical verification report given by the internal auditor CA Ishan**

- a) No, she cannot rely.
- b) Yes, only after detailed check.
- c) Yes, only after performing sufficient audit procedures on the internal auditor's work.
- d) Yes ,but the internal auditor will continue to be responsible for such work.

**III. If using internal auditors to provide direct assistance is not prohibited by law & the external auditor wants such direct assistance, the external auditor shall evaluate**

- a) The level of competence of internal auditors.
- b) The existence & significance of threats to objectivity of the internal auditors
- c) (a) & (b)
- d) (a) or (b)

**IV. CA Shalu can use direct assistance from CA Ishan with respect to which work-**

1. Complex in nature
2. Requires significant judgements
3. Risk of material misstatement is high
4. None of the above

**V. CA Shalu shall not use the work of CA Ishan, if she determines that-**

- 1) The internal audit function's organisational status & relevant policies & procedures do not adequately support the objectivity of internal auditor.
  - 2) The internal auditor lacks competency
  - 3) The internal auditor does not apply a systematic & disciplined approach
- a) Only 1
- b) 1 & 2
- c) 2 & 3
- d) 1, 2 & 3

**ANSWERS 2**

**I. c**

**II. c**

**III. c**



IV. d

V. d

### **CASE STUDY 3**

3. Sharma Group is an Indian conglomerate founded by Anuj Sharma in Mumbai in 1949. Sharma Group is one of the oldest and largest conglomerates based in Mumbai, Maharashtra. The group comprises 30 companies and its flagship company (also the parent company) Sharma Automotive Ltd. is ranked as the world's seventh largest two- and three-wheeler manufacturer. Some of the notable branches the group are Sharma Finserv Ltd, Hercules Hoists Ltd, Sharma Electricals, Sharma Hindustan Ltd and Sharma Holding & Investment Ltd. Hercules Hoists Ltd is the only foreign branch of the group located in Nepal.

Sharma Group is also involved in a variety of welfare activities, which are carried out with the support of its companies and trusts. The social and welfare objectives of the Sharma Group are being fulfilled through the many Trusts and Foundations it has established. Spending up to ₹10 crore every year.

The parent company, Sharma Automotive was desirous of appointing RGV & Co. as the principal auditor of the whole group. RGV & Co. has expertise in auditing companies of automobile industry. Sharma Group is involved in various industries that include automobiles (2- and 3-wheelers), home appliances, lighting, iron and steel, insurance, travel and finance. The partners of RGV & Co. had a meeting where they considered the factors regarding whether their own participation would be sufficient to be able to act as principal auditor. They concluded that work of the component auditors would be required to be used, since they were expert in auditing companies of automobiles industry only. Further RGV & Co. was informed about the auditor of Hercules Hoists Ltd, who was an accountant graduated from the Institute of Nepal.

The component wise breakup of revenue of Sharma Group was-

Components % of Revenue

**Sharma Automotive Ltd. (Parent Co.) 60%**

**Hercules Hoists Ltd (Foreign Branch) 10%**

**Other Branches 30%**

Before using the work of other auditors, the principal auditor, RGV & Co. performed procedures to obtain sufficient & appropriate audit evidence that the work of other auditors is adequate for the principal auditor's purposes. RGV & Co. conducted a meeting with the other auditors for the same. They also requested the other auditors to provide a written summary of their procedures & findings.

For the foreign branch, Hercules Hoists Ltd, RGV & Co. concluded based on his procedures that the work of the component auditor cannot be used. Moreover they were not able to perform further sufficient additional procedures for the same. RGV & Co. was in a dilemma regarding the type of opinion to be given in such case.

**I. The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose, auditor should check.**

- 1) The materiality of the portion of financial information audited by principal auditor.**
- 2) The performance of additional procedures as set out in SA 600 regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.**
- 3) The risk of material misstatement in financial information of the components audited by the other auditor.**
- 4) The principal auditor's degree of knowledge regarding the business of the components.**

- a) Option 1,2,3 &4
- b) Option 1, 2 & 3
- c) Option 1 & 2
- d) Option 3 & 4

**II. As per SA 600, what should be considered by the principal auditor in the context of the component auditor if he is not a member of the ICAI?**

- a) Experience
- b) Professional competence
- c) Independence
- d) None of the above

**III. RGV & Co. requested the other auditors to provide a written summary of their procedures & findings. Such written summary may be in the form of**

- a) Questionnaire
- b) Check-List
- c) Written representation
- d) (a) or (b)

**IV. RGV & Co. concluded based on their procedures that the work of the component auditor cannot be used & also they were not able to perform sufficient additional procedures regarding the same. Which type of opinion should be expressed in such case?**

- a) Adverse Opinion
- b) Disclaimer of Opinion
- c) Qualified Opinion
- d) (b) or (c)

**V. Hercules Hoists Ltd was being audited by an accountant in Nepal. RGV & Co. was confused about who would be responsible for the reporting of financial information of the entity?**

- a) The accountant in Nepal

- b) RGV & Co.
- c) Either (a) or (b)
- d) Management will decide.

### **ANSWER 3**

I. a

II. b

III. d

IV. d

V. b

### **CASE STUDY 4**

4. Vodafone India is the Indian subsidiary of UK-based Vodafone Group plc and is a provider of telecommunications services in India with its operational head office in Mumbai. As of March 2018, Vodafone India has a market share of 21% and with its merger with Idea, the collective Vodafone Idea network has approximately 375 million subscribers and is the largest mobile telecommunications network in India. Since 2011, Vodafone launched 3G network using 900 MHz and 2100 MHz. The first city to receive 3G service was Lucknow in Uttar Pradesh. On 28 June 2012, Vodafone launched a new international roaming package under which the users shall have not to pay multiple rentals in the countries they are visiting.

On 19 May 2015, TRAI announced that Vodafone had been awarded spectrum in 9 circles for 3G coverage, bidding around 11617.86 million (the second highest amount in the auctions) for the spectrum. On 8 December 2015, Vodafone announced the roll out of its 4G LTE coverage in India on 1.8 GHz and 2.1 GHz bands starting from Kochi. The service became available to customers in India nationally in 2017, with plans for further expansion. Vodafone now starts 2100 Mhz and 2500 MHz for 4G by which customers will get superior 4G speed

than previous. Vodafone India had started rolling its 4G Volte services in the country under the tag Vodafone Super Volte. Gujarat was the first circle to receive that service.

The Telecom Regulatory Authority of India (TRAI) is the authority in India, which regulates telecom services, including fixation/revision of tariffs for telecom services. TRAI requires the telecom companies to provide circle-wise Profit & Loss in a specific format, which is suitable for decision making of license fees. In earlier years, many telecom companies did not comply with this requirement, because of which TRAI was unable to take correct decisions. No changes or deletions were allowed in such format. Thus Vodafone India had to prepare two financial statements, one to be presented in Annual General Meeting & other for TRAI.

Vodafone India also wanted to show the number of male & female employees working for them & their average salary at the year-end. The auditor refused to show such information along with the audit report as it is not an integral part of financial statements & is not related to it. However, management was firm that it wanted such information to be presented along with audit report.

Further TRAI also required the telecom companies to verify the exact figure of Average Revenue per User (ARPU) as on the year-end. Vodafone India approached their auditor for providing a written confirmation of accuracy of figures of ARPU. The auditor was in dilemma which type of statement he should provide in such a case.

**I. TRAI had asked for circle wise profit and loss in a specific format, which is suitable for decision making of license fees. This relates to which financial reporting framework.**

- a) General purpose financial reporting framework
- b) Special purpose financial reporting framework
- c) Government purpose financial reporting framework
- d) Specific purpose financial reporting framework

**II. State whether true or false:**

**Compliance Framework gives permission,**

**1. For additional Disclosures or**

**2. To amend requirement of Financial Reporting Framework, for better financial presentation**

- a) True, as compliance framework does permits the same.
- b) False, as only fair presentation framework permits the same.
- c) True, as docility Framework does permits the same.
- d) False, as only equitable presentation framework permits the same.

**III. Identify the expected wording of Compliance Framework:**

- a) Whether financial statements give true & fair view.
- b) Whether financial statements are as per compliance framework.
- c) Auditor did not receive any information which suggests material misstatement exist.
- d) None of the above

**IV. Identify the correct one:**

- a) Supplementary Information is the additional information which is not required as per financial reporting framework but is included voluntarily or as per law.
- b) Supplementary Information is the additional information which is required as per financial reporting framework or voluntarily or as per law.
- c) Supplementary Information is the additional information which is required as per financial reporting framework and not voluntarily or not as per law.
- d) None of the above

**V. Which from the following is a written confirmation of accuracy of facts?**

- a) Audit Report
- b) Certificate
- c) Review Report

d) None of the above

## ANSWERS

I. b

II. b

III. b

IV. a

V. b

## CASE STUDY 5

5 A company “Central Power Distribution Company Ltd” provided the extract of its financial results as follows-

During the year under review, the company earned an aggregate income of Rs 15,898.12 crore. The financial performance of the Company is as follows:

S.No	Particulars	2019-20 (RS i n Crores)	2018-19 (Rs in Crores)
1	Revenue from Sale of Power	11,185.62	9,532.35
2	Fuel Surcharge Adjustment [FSA]	1,666.67	2,258.44
3	Revenue from Subsidies and Grantss	1,778.88	2,620.77
4	Other Income	1,068.73	550.41
5	Withdrawal of Depreciation on CC Assets	198.22	170.22

	<b>Total Income</b>	<b>15,898.12</b>	<b>15,132.19</b>
<b>6</b>	<b>Power Purchase Cost</b>	<b>15,235.31</b>	<b>12,675.67</b>
<b>7</b>	<b>Employee Benefit expense</b>	<b>766.15</b>	<b>830.52</b>
<b>8</b>	<b>Operation and Other Expenses</b>	<b>340.26</b>	<b>275.44</b>
<b>9</b>	<b>Interest and Finance Charges</b>	<b>1,181.64</b>	<b>935.50</b>
<b>10</b>	<b>Depreciation</b>	<b>452.79</b>	<b>390.35</b>
<b>11</b>	<b>Other Expenses</b>	<b>0.53</b>	<b>16.77</b>
<b>12</b>	<b>FSA Written off</b>	<b>948.17</b>	<b>-</b>
<b>13</b>	<b>Fixed Assets RESCOs- Write Off</b>	<b>17.17</b>	<b>-</b>
<b>14</b>	<b>FSA and Other Provisions</b>	<b>901.17</b>	<b>-</b>
<b>15</b>	<b>Provision for Govt. Receivables</b>	<b>3,877.87</b>	
	<b>TOTAL EXPENSES</b>	<b>23,721.06</b>	<b>15,124.26</b>
<b>16</b>	<b>Profit/(Loss) Before Tax</b>	<b>( 7,822.94)</b>	<b>7.92</b>
<b>17</b>	<b>Provision for Income Tax</b>	<b>-</b>	<b>1.28</b>
<b>18</b>	<b>Deferred Tax Income Provision</b>	<b>104.65</b>	<b>2.60</b>
	<b>Net Profit/(Loss)</b>	<b>(7,718.29)</b>	<b>4.05</b>

During the Financial Year 2019-20, company has incurred a Business Loss of Rs. 7,718.29 Crore which include operational loss of Rs. 2,078.04 crores. The operational loss is due to increased power purchase costs, and the Government of Andhra Pradesh (GoAP) has not subsidized in



total the Expensive Power purchases and the interest paid for Rs. 790.13 Crores on Short Term Loan drawn for purchase of Expensive Power during the Financial Year 2019-20 which also resulted in loss for the current financial year 2019-20. Apart from the above the Company had written off unapproved Fuel Surcharge Adjustment [FSA] by Honourable APERC for FY 2016-17 to 2018-19 amounting to Rs. 948.17 Crores. During the year, the company had also made provisions towards unbilled and uncollected FSA of Rs. 637.81 Crores for the period 2016-17 to 2018-19 (1st Quarter) due to stay on FSA billing and collections as per the Orders of Honourable High Court, and Government receivables to the extent of Rs.181.23 crores which were due towards Single Bulb subsidy, Tatkal Subsidy and Subsidy receivable from Government in support of Third Transfer Scheme in respect of taking over of REC Loan and Vidyut bonds. The Government receivables towards addition power subsidy of Rs. 3,877.87 Crores have been provided as doubtful. The above provisions have been made due to noncommitment by GoAP, non-receipt of subsidy from GoAP and there being no provision in budgetary support for Government subsidy towards additional power during F.Y. 2020-21.

M/s Sharad & Associates, Chartered Accountants were appointed by Comptroller and Auditor General of India (C&AG) as the Statutory Auditors of the Company for the financial year 2019-20. M/s. Narasimha Murthy & Co, Chartered Accountants were appointed as Cost Auditors of the Company for the financial year 2019-20.

The statutory auditor gave disclaimer of opinion in its report regarding the following matters-

1) Purchase of power: In Terms of GO. Ms. 53, Energy (Power III), April 28, 2015, more specifically defined in the Note No. 4 of Notes forming part of Financial Statements the Government of Andhra Pradesh has reallocated the power sharing among the all DISCOM's with retrospective effect from June 9, 2012, however no adjustments are carried out for the transactions already incorporated in the books of accounts till March 31, 2015 at the original ratio of allocation. The impact of such revision, if any, on the power purchase cost and its corresponding liabilities/receivables could not be ascertained.

2) Balance conformation: The Company has not obtained confirmations of balances from Sundry Creditors, Loans & Advances and Current Liabilities. Balances under these heads are subject to reconciliation and review. The impact, if any that may result on reconciliation and review of the balances under various heads in Assets and Liabilities could not be determined.

The statutory auditor gave qualified opinion in its report regarding the following matters-

1) Tangible assets and depreciation thereof:

(a) It was observed that defective meters which were being replaced with new meters are not being devoluted from the SAP accounting system and there is no subsequent tracking of such devoluted meters, these results in asset being carried in the books in spite of nonexistence.

Furthermore, it was observed that new meters installed in lieu of the defective meters are reduced from the stock but the same is not being capitalized, thus resulting in non-adherence to the Accounting Standard 10 – “Accounting for fixed assets”. The impact on the carrying value of asset and the on sequential effect on the depreciation and the loss was material but not pervasive.

(b) Capitalization of employee cost of Rs 58.70 Crores (Previous year Rs. 49.92 Crores) and Administrative and General expenses of Rs.10.35 crores (Previous year Rs. 8.80 crores) is being carried out at 10% on the cost of capital works, more specifically detailed in Note No.

3 (vi)(a) of Notes forming part of Financial Statements, instead of capitalizing the directly attributable costs in accordance with Accounting Standard – 10, ‘Accounting for Fixed Assets’. The impact on the carrying value of asset and the consequential effect on the depreciation and the loss was material but not pervasive.

**Before modifying the opinion, the auditor had communicated with those charged with governance in accordance with the Standards of Auditing issued by ICAI.**

**I. Pervasive effects on the financial statements are those that, in the auditor’s judgment:**

- a) are not confined to specific element
- b) if confined, represent a substantive portion in financial statement
- c) are disclosure which are fundamental to user understanding
- d) All of the above

**II. What kind of opinion will be given by auditor in the following circumstance ?**

**Sufficient and appropriate audit evidence is not available but it's not pervasive.**

- a) Disclaimer of opinion
- b) Qualified opinion
- c) Adverse opinion
- d) Unmodified opinion

**III. When auditor expects to modify the opinion in the audit report, the auditor shall communicate to "those charged with governance".**

- a) True, SA 705 specifies the same
- b) False, SA 705 does not specify the same
- c) True, SA 706 specifies the same
- d) False, SA 706 does not specify the same

**IV. Suppose if any limitation is imposed on the auditor's scope of work after acceptance, which is likely to result in qualification or disclaimer, the auditor shall request management to remove such limitation. If management refuses, auditor should go to those charged with and shall perform alternate audit procedures. If the auditor is not able to obtain sufficient and appropriate audit evidence and its pervasive, the auditor shall give a (if its early stage):**

- a) Disclaimer of opinion
- b) Qualified opinion
- c) Adverse opinion
- d) Resign from engagement

**V. If any limitation is imposed on the auditor's scope of work after acceptance, which is likely to result in qualification or disclaimer, the auditor shall request management to remove such limitation. If management refuses, auditor should go to those charged with governance and**

shall perform alternate audit procedures. If the auditor is not able to obtain sufficient and appropriate audit evidence and its pervasive, the auditor shall give a (if it is an advanced stage):

- a) Disclaimer of opinion
- b) Qualified opinion
- c) Adverse opinion
- d) Resign from engagement

#### ANSWERS 5

I. d

II. b

III. a

IV. d

V. a

#### CASE STUDY 6

6. AN Batliboi & Co. LLP was the auditor of Chirag Forge Limited. Following is the extract of audit report for the FY 2019-20.

Independent Auditor's Report

To The Board of Directors of Chirag Forge Limited,

We have audited the accompanying consolidated financial statements of Chirag Forge Limited ("the Company") and its subsidiaries, associates and joint ventures (collectively referred to as "the Group"), which comprise the consolidated Balance Sheet as at March 31, 2020, and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2020;

(b) in the case of the consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and

(c) in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

#### Emphasis of Matter

We draw attention to the following emphasis of matter paragraph included in the audit reports as under:

ALSTOM Chirag Forge Power Limited vide report dated May 6, 2020 issued by an Independent firm of Accountants, reproduced by us as under:

“We draw your attention regarding the uncertainty arising out of the stay imposed by the Hon’ble High court of Gujarat on the development and construction work being carried out by the joint venture ALSTOM Chirag Forge Power Limited and Kalyani ALSTOM Power Limited to set up a manufacturing facility at Adani Port and Special Economic Zones (APSEZ) prior to the developer of the SEZ obtaining clearance from the ministry of environment and forests. The future outcome of the matter cannot presently be determined and hence no impact thereof has been considered by the management in the preparation and presentation of these consolidated financial statements.

Our opinion is not qualified in respect of this matter.”

#### Other Matters

We did not audit the financial information of all the overseas subsidiaries whose financial information, as stated in notes of consolidated financial statements, have been prepared under accounting principles other than accounting principles generally accepted in India (“Indian GAAP”), and which, in the aggregate, reflect total assets of Rs. 19,014.74 Lakhs as at year ended December 31, 2019 and March 31, 2020 as applicable, revenues of Rs. 39,397.04 Lakhs and net

cash outflows of Rs. 188.27 Lakhs, for the year ended December 31, 2019 and March 31, 2020 as applicable. We also did not audit the financial information of an overseas associate whose financial information reflects net income of Rs. Nil Lakhs. Such financial information have been audited by other auditors who have submitted their audit opinions, prepared under International auditing standards, to the management of the respective companies, copies of which have been provided to us by the Company. The management of the Company has converted these audited financial information and financial statements as the case may be of the Company's subsidiaries to Indian GAAP, for the purpose of preparation of the accompanying consolidated financial statements. Our opinion, insofar as it relates to these subsidiaries and associates is based solely on the reports of the other auditors and the review of the aforesaid conversion undertaken by the management. Our opinion is not qualified in respect of this matter.

The internal auditor was of the opinion that if any matter is provided in Emphasis of Matter paragraph, the statutory auditor shall modify his opinion.

**I. \_\_\_\_\_ is used by the auditor to refer the matter appropriately presented in financial statement, with the intention to highlight the matter statement, with the intention to highlight the matter.**

- a) Other Matter Para
- b) Emphasis of Matter Para
- c) Opinion para
- d) None of the above

**II. Examples where other matter para will be used:**

- a) Prior period item.
- b) Amalgamation
- c) Subsidiary is not audited by the auditor
- d) (a) & (c)

**III. When auditor expects to include emphasis of matter para or other matter para in the audit report, the auditor shall communicate to \_\_\_\_\_, the fact and the expected wordings of this para.**

- a) those charged with governance
- b) management
- c) management &
- d) any of the above

**IV. The auditor shall include Other Matter Paragraph in the auditor's provided**

- a) It is not prohibited by law or regulation.
- b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.
- c) (a) & (b)
- d) (a) or (b)

**V. EOM para is included in case of modified opinion ?**

- a) Yes, since only those matters are provided in EOM para where auditor considers it necessary to draw user's attention, due to which the auditor modifies his opinion.
- b) No, since only those matters are provided in EOM para where auditor considers it necessary to draw user's attention & the auditor would not be required to modify his opinion.
- c) Yes, since only those matters are provided in EOM para where auditor considers it necessary to draw user's attention which are material & pervasive.
- d) None of the above

**ANSWERS 6**

**I. b**

**II. c**

III. a

IV. c

V. b

### **CASE STUDY 7**

7 You are an audit senior of JOY& Co and are responsible for planning the audit of Pritam for the year ended 31 March 20X8.

Pritam is a charity which was established over five years ago. The charity's aim is to provide support to children from disadvantaged backgrounds who wish to take part in sports such as tennis, badminton and football.

Pritam has a detailed constitution which explains how the charity's income can be spent.

The constitution also notes that expenditure relating to the administration of the charity cannot exceed 10% of the charity's income in any year. Pritam currently employs three permanent members of staff. At present, 100 volunteers work for Pritam: some commit up to three days a week and others help out on an ad hoc basis. The organisation, including its finance department, is primarily run by volunteers.

The charity's income is derived wholly from voluntary donations. Sources of donations include the public in the form of cash collected in buckets by volunteers in shopping areas, and from generous individuals.

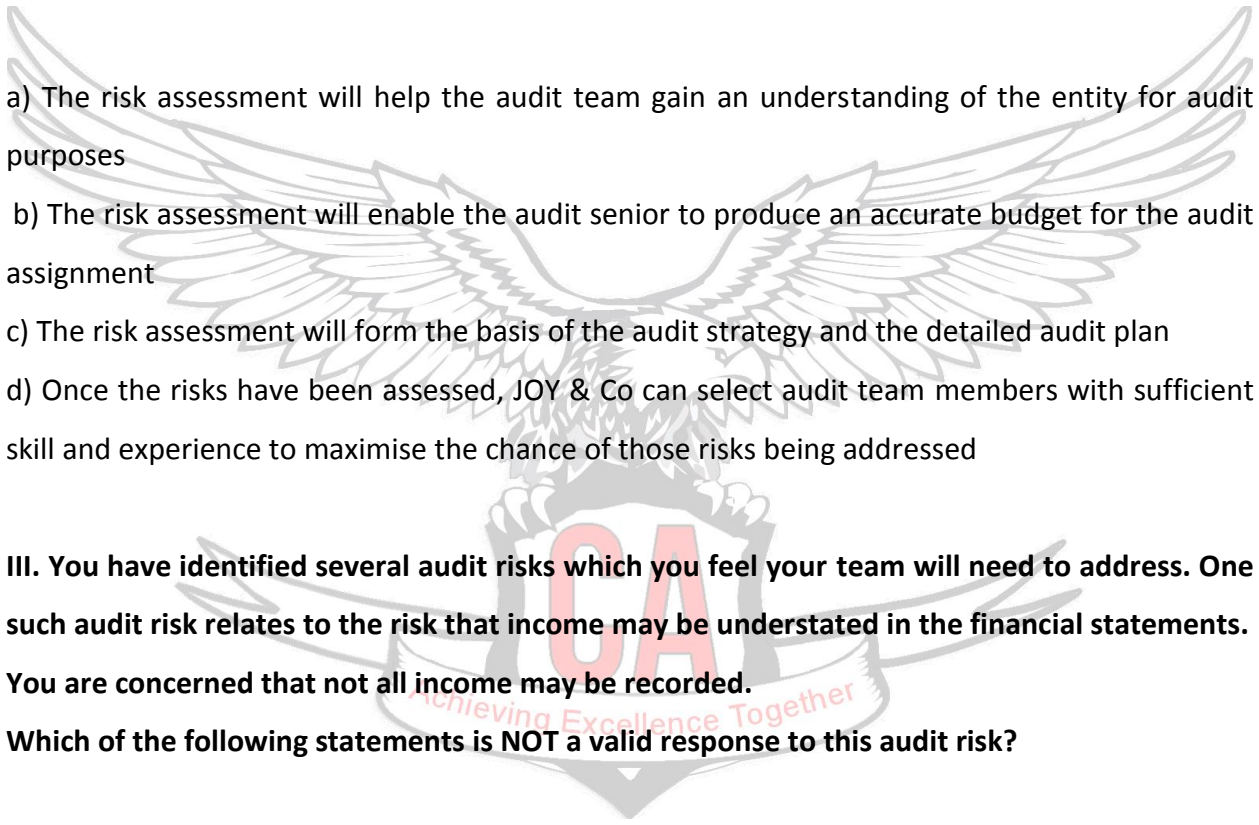
**I. Based on your understanding of the nature of Pritam you have identified that income is primarily in the form of cash. Which element of audit risk is increased by this fact?**

- a) Detection risk
- b) Inherent risk
- c) Control risk
- d) Business risk



**II. Your audit partner has highlighted to you that it is imperative that JOY & Co acts in line with SA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment. This means it must identify and assess the risks of material misstatement at both the financial statements level and at the assertion level, for classes of transactions, events and their related disclosures, and account balances and their related disclosures.**

**Which of the following statements is NOT an explanation of why SA 315 requires a risk assessment to be carried out at the planning stage?**

- 
- a) The risk assessment will help the audit team gain an understanding of the entity for audit purposes
  - b) The risk assessment will enable the audit senior to produce an accurate budget for the audit assignment
  - c) The risk assessment will form the basis of the audit strategy and the detailed audit plan
  - d) Once the risks have been assessed, JOY & Co can select audit team members with sufficient skill and experience to maximise the chance of those risks being addressed

**III. You have identified several audit risks which you feel your team will need to address. One such audit risk relates to the risk that income may be understated in the financial statements. You are concerned that not all income may be recorded.**

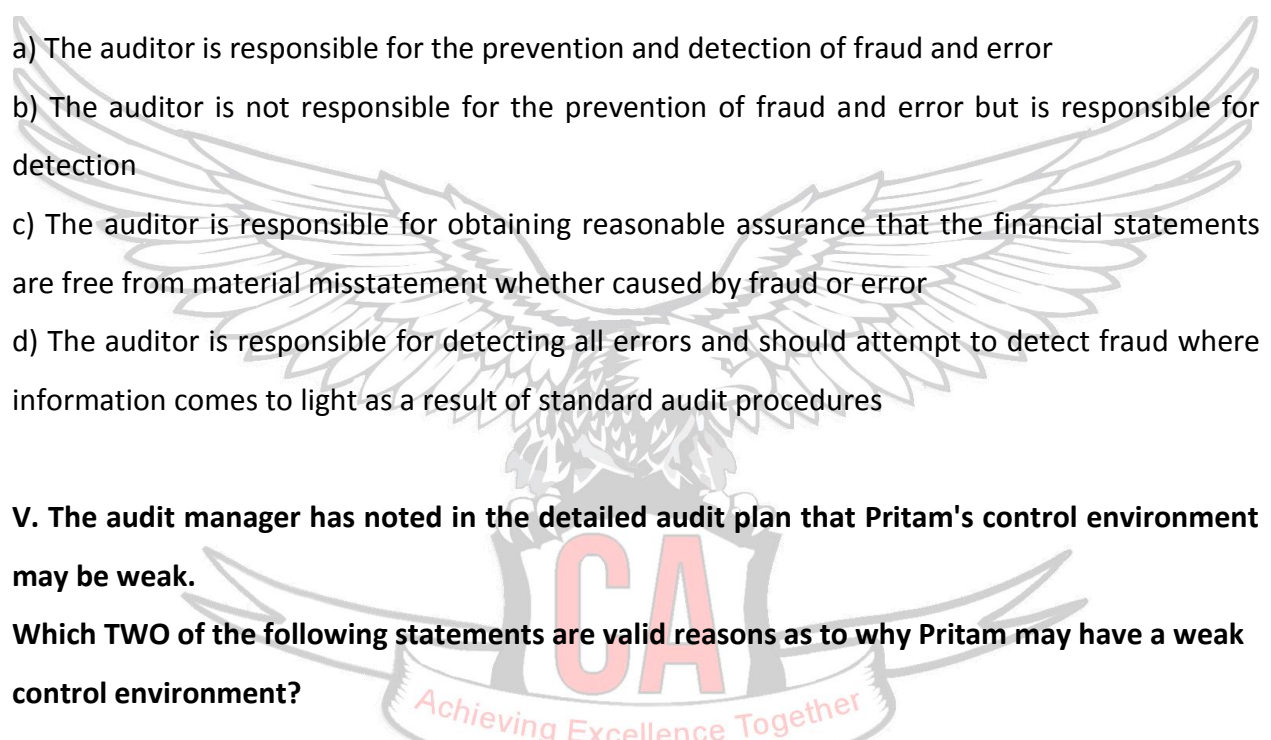
**Which of the following statements is NOT a valid response to this audit risk?**

- a) Obtain a breakdown of the income recorded from the cash that was collected in buckets, and vouch a sample of entries back to the volunteer in order to determine which volunteer collected the relevant donations
- b) Perform analytical procedures on the level of donations in shopping areas per volunteer
- c) Review the internal controls relating to cash collected in buckets to determine whether buckets are sealed, sequentially numbered and signed in and out by Pritam's volunteers
- d) Observe the counting and recording of proceeds from collections, to determine whether

appropriate segregation of duties is in place

**IV. Another identified audit risk is the susceptibility of Pritam's business to fraud due to the high levels of cash involved.**

**Which of the following statements correctly describes the auditor's responsibilities in accordance with SA 240 The auditor's responsibilities relating to fraud in an audit of financial statements?**

- 
- a) The auditor is responsible for the prevention and detection of fraud and error
  - b) The auditor is not responsible for the prevention of fraud and error but is responsible for detection
  - c) The auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error
  - d) The auditor is responsible for detecting all errors and should attempt to detect fraud where information comes to light as a result of standard audit procedures

**V. The audit manager has noted in the detailed audit plan that Pritam's control environment may be weak.**

**Which TWO of the following statements are valid reasons as to why Pritam may have a weak control environment?**

- a) Pritam has a detailed constitution which explains how the charity's income can be spent b) Pritam's finance department relies on volunteers who may not have accounts experience
- c) A high proportion of the income of Pritam is cash
- d) Understaffing in the finance department at certain times is due to the ad hoc nature of volunteer working hours

**ANSWERS 7**

**I. b**

II. b

III. a

IV. c

V. d

## CASE STUDY 8

8. You are the audit manager of Kishor & Co. Your client is Santosh Kitchen Designs Co (Santosh), who is a kitchen manufacturer. The company's year-end is 31 March 20X2.

Santosh has had a challenging year. Gajendra Co, a major customer of Santosh who owes Rs.0.6 cr is experiencing financial difficulties. However, the balance is included within the financial statements. The sales director has recently left Santosh and has yet to be replaced. As a result, Santosh has struggled to win any new business in the last six months.

The monthly cash flow has shown a net cash outflow for the last two months of the financial year and is forecast as negative for the forthcoming financial year

You have performed some analytical procedures on the draft financial statements and have calculated the following ratios:



	20X2	20X1
	Draft	Actual
Inventory turnover days	95	97
Receivables days	65	49
Payables days	120	86

Due to its poor cash flow, Santosh missed a loan repayment and, as a result of this breach in the covenants, the bank has asked that the loan of Rs.4.8 cr be repaid in full within six months

**I. Which of the following are potential indicators that Santosh is not a going concern?**

**(1) The breach of the loan covenants**

- (2) The departure of the sales director**
- (3) The fall in inventory turnover days**
- (4) The negative cash flow figures**

- a) 1, 2 and 3
- b) 2, 3 and 4
- c) 1, 3 and 4
- d) 1, 2 and 4

**II. You are reviewing the management's assessment of Santosh's ability to continue as a going concern. What period must management's assessment cover?**

- a) At least 12 months from the date of the auditor's report
- b) At least 12 months from the date of the financial statements
- c) A maximum of 12 months from the date of the auditor's report
- d) A maximum of 12 months from the date of the financial statements

**III. You are concerned that the debt due from Gajendra Co may not be recoverable and believe that this would have a significant effect on the viability of Santosh. Which of the following would provide you with the most reliable evidence regarding the recoverability of this debt?**

- a) A management representation confirming its recoverability
- b) The response from the customer to your circularisation performed earlier in the audit confirming the amount owed
- c) Identification during your subsequent events review of a cash receipt for the full amount
- d) Correspondence between Santosh's lawyer and Gajendra Co's lawyers confirming that the amount will be paid

**IV. You have raised your concerns with management regarding the ability of Santosh to repay the Rs.0.6 cr loan in six months. The directors have assured you that this will be possible as they have a contingency plan.**

**Which of the following courses of action by the directors would provide you with the most assurance that Santosh will be able to meet this commitment?**

- a) Plans to dispose of a property valued at Rs.5.2cr in July 20X2
- b) The reopening of negotiations regarding the terms of the loan with the current provider
- c) Plans to substantially cut production costs by moving production to Asia
- d) Agreement by an alternative financial institution to lend Santosh Rs.4.8cr in August 20X2

**V. You have concluded that Santosh is not a going concern.**

**If the directors refuse to amend the financial statements which of the following correctly describes the impact on the auditor's report? Audit opinion Explanation of circumstances**

- a) Adverse opinion Basis for adverse opinion
- b) Qualified opinion Basis for qualified opinion
- c) Adverse opinion Material Uncertainty Related to Going Concern section
- d) Qualified opinion Material Uncertainty Related to Going Concern section

#### **ANSWERS 8**

- I. d**
- II. b**
- III. c**
- IV. d**
- V. A**

#### **CASE STUDY 9**

9. Gunjan Co specialises in manufacturing equipment which can help to reduce toxic emissions in the production of chemicals. The company has grown rapidly over the past eight years and

this is due partly to the warranties that the company gives to its customers. It guarantees its products for five years and if problems arise in this period it undertakes to fix them, or provide a replacement product.

You are the manager responsible for the audit of Gunjan and you are performing the final review stage of the audit and have come across the following issues.

Receivable balance owing from Yogesh Co. Gunjan has a material receivable balance owing from its customer, Yogesh Co. During the year-end audit, your team reviewed the ageing of this balance and found that no payments had been received from Yogesh for over six months, and Gunjan would not allow this balance to be circularised. Instead management has assured your team that they will provide a written representation confirming that the balance is recoverable.

Warranty provision

The warranty provision included within the statement of financial position is material. The audit team has performed testing over the calculations and assumptions which are consistent with prior years. The team has requested a written representation from management confirming the basis and amount of the provision are reasonable.

Management has yet to confirm acceptance of this representation.

Other information

You have reviewed a financial summary which is to be included in the annual report and have found that the details are inconsistent with the financial statements. Your investigations have shown that the error is in the summary and not the financial statements.

**I. Assuming you received the written representations as described above for both the receivables balance and the warranty provision, in respect of which balances is the auditor most likely to conclude that sufficient appropriate evidence has been obtained?**

- a) Receivables balance only
- b) Warranty provision only
- c) Receivables balance and warranty provision
- d) Neither the receivables balance nor the warranty provision

**II. Which of the following audit procedures could the audit team carry out to obtain evidence relating to the recoverability of the debt from Yogesh?**

- 1) Review correspondence with Yogesh regarding the late payment**
- 2) Trace a sample of goods despatched notes for Yogesh to sales invoices**
- 3) Trace the entries in Yogesh's account in the receivables ledger to invoices and remittances**
- 4) Perform a review of post year-end cash receipts**

- a) 1 and 2
- b) 1 and 4
- c) 2 and 3
- d) 2 and 4

**III. Management has now stated that it is not prepared to confirm that the basis and amount of the warranty provision are reasonable.**

**In accordance with SA 580 which of the following actions must you take?**

- 1) Discuss with management why they have refused to provide the representations requested**
- 2) Re-asses the integrity of management and consider the implications for any other representations**
- 3) Seek legal advice**
- 4) Resign as auditors**

- a) 1 and 2
- b) 3 and 4
- c) 1 and 3
- d) 2 and 4

**IV. You have discussed the matter with management but they are still not prepared to provide the representations you have requested. What type of modified opinion would be issued and what would be the basis for this modification?**

**Audit opinion Reason**

- a) Qualified Material misstatement
- b) Disclaimer Inability to obtain sufficient appropriate evidence
- c) Adverse Material misstatement
- d) Qualified Inability to obtain sufficient appropriate evidence

**V. You have notified the directors of the error in the summary financial statements.**

**Which of the following correctly summarises the impact on the auditor's report if the directors do not correct this error?**

**Audit opinion Disclosure**

- a) Modified - Other Information section stating that there is nothing to report
- b) Modified - Other Information section would not be required as there is nothing to report
- c) Unmodified -Other Information section including a description of the uncorrected misstatement
- d) Unmodified -Other Matter paragraph including a description of the uncorrected misstatement

**ANSWERS 9**

**I. a**

**II. b**

**III. a**

**IV. d**

**V. C**



## CASE STUDY 10

10. You are the audit manager of Sanskar & Co. It is a busy time of year for you as you have several ongoing audit clients at the moment and you are in the process of dealing with a number of outstanding issues and queries from members of your audit teams.

Chetan Co (Chetan)

Chetan is a pharmaceutical company. The fieldwork has been completed and you are currently reviewing the audit file. The audit senior is not sure how to deal with the following issue. Chetan has incurred research Rs.2.1cr and development expenditure of Rs.3.2cr during the year, all of which has been capitalised as an intangible asset. Profit before tax is Rs.26.3cr.

Damodar Co (Damodar)

The fieldwork on this audit is also complete with the exception of the following issue which the audit senior has been unable to deal with

Damodar's computerised wages program is backed up daily, however for a period of two months the wages records and back-ups have been corrupted, and therefore cannot be accessed. Wages and salaries for these two months are Rs.1.1 cr. Profit before tax is Rs.10 cr. You have just received a phone call from one particular audit senior who is unsure about the steps to take in relation to uncorrected misstatements

**I. Which of the following statements correctly describe the auditor's responsibility in respect of misstatements?**

- a) SA 450 states that the auditor only has a responsibility to accumulate material misstatements identified during the audit
- b) Where misstatements are not material the auditor should request that management to the misstatements in the following accounting period
- c) If management refuses to correct some or all of the misstatements, the auditor should consider the implications of this for their audit opinion
- d) A written representation should be requested from management to confirm whether they believe that the effects of the unadjusted misstatements are immaterial, both individually in aggregate, to the financial statements as a whole

**II. Which of the following audit procedures should be performed in order to form a conclusion on whether an amendment is required to Chetan's financial statements in respect of the research and development expenditure?**

- 1) Discuss the requirements of AS 38 with the directors in order to determine whether they the required accounting treatment of research and development expenditure**
- 2) Obtain a breakdown of the Rs.5.3 cr capitalised as an intangible asset and agree to supporting documentation to determine the nature of the projects to which the expenditure relates**
- 3) Review minutes of Board meetings to determine whether the expenditure was authorised**
- 4) Visit the laboratory where the current research is being undertaken and to confirm occurrence of the research expenditure**

- a) 1 and 2
- b) 1 and 4
- c) 2 and 3
- d) 3 and 4

**III. Which of the following options correctly summarises the impact on the auditor's report for Chetan if the issue remains unresolved?**

- a) Unmodified opinion with key audit matters paragraph
- b) Qualified opinion with key audit matters paragraph explaining the issue
- c) Qualified opinion
- d) Adverse opinion

**IV. Which of the following correctly summarises the effect of the issue relating to the wages balance in the financial statements of Damodar?**

**Material Financial statement impact**

- a) No Liabilities to tax authorities may be understated
- b) No Profit may be overstated
- c) Yes Wages may be materially misstated
- d) Yes Proper accounting records have not been kept

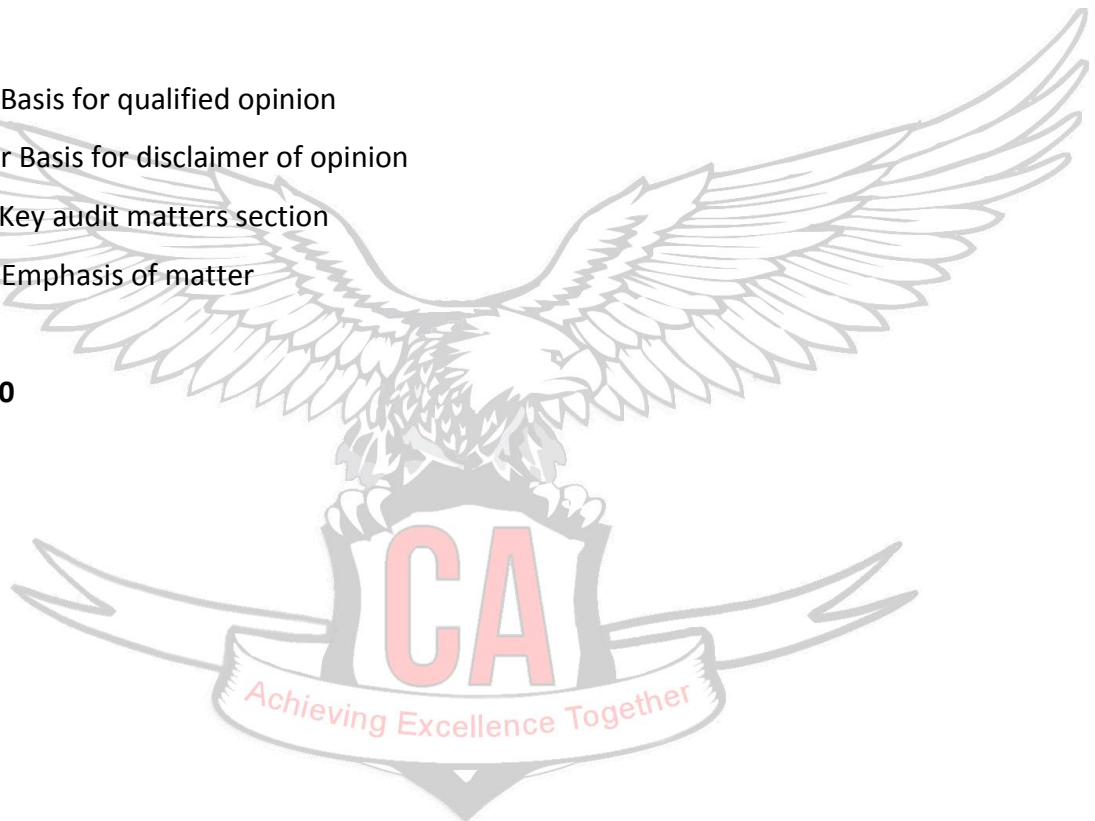
**V. Based on the above information which of the following options correctly summarises the impact of the wages and salaries issue on the auditor's report for Damodar?**

**Audit opinion Disclosure in the auditor's report**

- a) Qualified Basis for qualified opinion
- b) Disclaimer Basis for disclaimer of opinion
- c) Qualified Key audit matters section
- d) Qualified Emphasis of matter

**ANSWERS 10**

- I. c
- II. a
- III. c
- IV. c
- V. a



**CASE STUDY 11**

11.CHOPDA. is a website design company whose year-end was 31 March 20X4. The audit is almost complete and the financial statements are due to be signed shortly. Profit before tax for the year is Rs 38 lakhs and revenue is Rs.11.2 cr.

The company has only required an audit for the last two years and the board of directors has asked your firm to provide more detail in relation to the form and content of the auditor's report.

During the audit it has come to light that a key customer, Pirlo Co, with a receivables balance at the year-end of Rs. 2.85 lakhs has just notified CHOPDA.com that they are experiencing cash flow difficulties and so are unable to make any payments for the foreseeable future. The finance director has notified the audit team that he will write this balance off as an irrecoverable debt in the 20X5 financial statements.

**I. To explain to the board, the content of the audit report, the audit partner has asked you to provide details as to why certain elements are included within an unmodified report. Which of the following explains the purpose of the ADDRESSEE element of the unmodified audit report in line with SA 700?**

- a) It demonstrates the point at which sufficient appropriate evidence has been obtained
- b) It clarifies who may rely on the opinion included within the report
- c) It explains the role and remit of the audit
- d) It sets out the location where the auditor practices

**II. The audit assistant assigned to the audit of CHOPDA.com wants a better understanding of the effect subsequent events have on the audit and has made the following statements:**

- 1) All material subsequent events require the numbers in the financial statements to be adjusted
- 2) A non-adjusting event is a subsequent event for which NO amendments to the current year financial statements are required
- 3) The auditor's responsibilities for subsequent events which occur prior to the audit report being signed are different from their responsibilities after the audit report has been

4) The auditor should request a written representation confirming that all relevant subsequent events have been disclosed

Which of the statements above in relation to subsequent events are TRUE?

- a) 1 and 3
- b) 2, 3 and 4
- c) 1, 2 and 4
- d) 3 and 4 only

III. The audit engagement partner has asked you to make an initial assessment of the materiality of the issue with the outstanding receivables balance with Pirlo Co and to consider the overall impact on the financial statements.

Which of the following correctly summarises the effect of the outstanding balance with Pirlo Co?

Material

Financial statement impact

- a) No Revenue is overstated
- b) No Gross profit is understated
- c) Yes Profit is overstated
- d) Yes Use of going concern basis of accounting is in doubt

IV. The audit engagement partner requires you to perform additional procedures in order to conclude on the level of any adjustment needed in relation to the outstanding balance with Pirlo Co.

Which TWO of the following audit procedures should be performed to form a conclusion as to whether the financial statements require amendment?

- (1) Discuss with management the reasons for not amending the financial statements
- (2) Review the cash book post year end for receipts from Pirlo Co
- (3) Send a request to Pirlo Co to confirm the outstanding balance
- (4) Agree the outstanding balance to invoices and sales orders

- a) 1 and 2
- b) 1 and 4
- c) 2 and 3
- d) 2 and 4

**V. Which of the following options correctly summarises the impact on the auditor's if the issue remains unresolved?**

- a) Unmodified opinion with key audit matters paragraph
- b) Qualified opinion with key audit matters paragraph explaining the issue
- c) Qualified opinion
- d) Adverse opinion

**ANSWERS 11**

- I. b
- II. d
- III. c
- IV. a
- V. C

**CASE STUDY 12**

12. You are an audit supervisor in Seahgal & Co and are currently planning the audit of your existing client, Eshu Heating Co (Eshu), for the year ending 31 December. Eshu manufactures and sells heating and plumbing equipment to a number of home improvement stores across the country. Unpaid receivable

The finance director of Eshu has notified you that one of Eshu's key customers has been experiencing financial difficulties. Eshu has agreed that the customer can take a six-month payment break, after which payments will resume. The finance director does not believe that

any allowance is required against this receivable. Your review of industry journals has identified several articles that suggest the key customer may soon cease trading.

#### Inventory

Eshu has experienced increased competition. In order to maintain its current levels of sales, it has decreased the selling price of its products significantly. The finance director has informed you that he expects increased inventory levels at the year-end. In addition to Eshu's inventory, there will be inventory stored on behalf of a third party at the year-end. You plan to attend the year-end inventory count of Eshu which is being held three days before the year end due to staff availability of Eshu. A reconciliation will be performed to determine the year-end inventory quantities.

#### Lawsuit

A customer has filed a claim against the company regarding a heating system that Eshu installed two months before the year end. The customer claims the installation was not done properly resulting in an explosion which caused damage to his home. The customer is claiming compensation of \$50,000 which is material to the financial statements. The finance director has informed you that the claim is not probable to succeed so has not referred to it in the financial statements.

**I. Which of the following substantive procedures would provide the MOST reliable evidence as to the recoverability of the outstanding balance from Eshu's key customer?**

- a) Obtain a direct confirmation letter from the key customer
- b) Compare the current outstanding balance from the customer to the prior year
- c) Review the industry journal articles referring to the customer's financial difficulties
- d) Review post year-end cash receipts from the key customer

**II. Which of the following substantive procedures will provide evidence over the existence of Eshu's other trade receivables?**

- i. Calculate the receivables days ratio and compare with prior year

- ii. Perform a receivables circularisation
  - iii. Review post year-end cash receipts from customers
  - iv. Recalculate the allowance for irrecoverable receivables
- a) i, iii
  - b) i, ii, iii
  - c) ii, iii
  - d) i, ii, iii, iv

**III. Which of the following factors may indicate overvaluation of inventory at Eshu?**

- i. Increased competition resulting in a decrease in selling price**
- ii. Increased inventory levels**
- iii. Increased inventory turnover ratio**
- iv. Inventory consists of heating and plumbing equipment for home improvement stores**

- a) i, ii, iii
- b) i, ii, iv
- c) ii, iii, iv
- d) i,ii

**IV. Select which of the following are tests of control in relation to Eshu's inventory balance.**

- i. Observe the client's staff to ensure they are following the inventory count instructions**
- ii. Inspect the inventory for evidence of damage or obsolescence**
- iii. Re-perform the reconciliation from the inventory count date to the year-end date for inventory to assess the accuracy of the inventory quantities**

- a) i, ii, iii
- b) i, ii
- c) ii, iii
- d) i, iii



**V. Which of the following are appropriate audit responses to the lawsuit?**

- 1. Ask the finance director to include a provision in the financial statements**
- 2. Inspect correspondence between the client and their legal advisers**
- 3. Review board minutes to understand management's view about the claim**
- 4. Contact the customer to understand the details of the claim**

- a) 2 and 3 only
- b) 2, 3 and 4
- c) 1, 3 and 4
- d) 1 and 4 only

**ANSWERS 12**

- I. D**
- II. C**
- III. D**
- IV. A**
- V. A**

**CASE STUDY 13**

13. You are an audit manager at Bomkeysh & Co and are approaching the end of the audit of Santoor which is a large listed retailer. The draft financial statements currently show a profit before tax of Rs.65 lakhs and revenue of Rs.660 lakhs for the financial year ended 31March 20X6. You have been informed that the finance director left Santoor Co on 28Feb 20X6.

As part of the subsequent events audit procedures, you reviewed post year-end board meeting minutes and discovered that a legal case for unfair dismissal has been brought against Santoor Co by the finance director. During a discussion with the Human Resources (HR) director of

Santoor Co, you established that the company received notice of the proposed legal claim on 10 April 20X6.

The HR director told you that Santoor Co's lawyers believe that the finance director's claim is likely to be successful, but estimate that Rs. 150,000 is the maximum amount of compensation which would be paid. However, management does not intend to make any adjustments or disclosures in the financial statements.

**I. Bomkeysh& Co has a responsibility to perform procedures to obtain sufficient, appropriate evidence that subsequent events are appropriately reflected in the financial statements of Santoor Co. Until which date the auditor should perform subsequent events procedures**

- a) The date the subsequent events review is performed
- b) The date of approval of the financial statement
- c) The date of the auditor's report
- d) The date the financial statements are issued

**II. If, after the financial statements have been issued, Bomkeysh& Co becomes aware of a fact which may have caused its report to be amended, the firm should consider several possible actions.**

**Which TWO of the following are appropriate actions for Bomkeysh& Co to take?**

- i) Discuss the matter with management and, where appropriate, those charged with governance
  - ii) Obtain a written representation from management
  - iii) Consider whether the firm should resign from the engagement
  - iv) Enquire how management intends to address the matter in the financial statements where appropriate
- a) i, ii
  - b) i, ii, iii
  - c) ii, iii, iv

d) i, iv

**III. Which of the following audit procedures should be performed to form a conclusion as to whether the financial statements require amendment in relation to the unfair dismissal claim?**

- (1) Inspect relevant correspondence with Santoor Co's lawyers**
- (2) Write to the finance director to confirm the claim and level of damages**
- (3) Review the post year-end cash book for evidence of payments to the finance director**
- (4) Request that management confirm their views in a written representation**

- a) 1, 2 and 3
- b) 1, 2 and 4
- c) 1, 3 and 4
- d) 2, 3 and 4

**IV. You are drafting the auditor's report for Santoor Co and the audit engagement partner has reminded you that the report will need to reflect the requirements of SA 701.**

**According to SA 701,**

**which of the following should be included in the 'Key Audit Matters' paragraph in the auditor's report?**

- a) Matters which required significant auditor attention
- b) Matters which result in a modification to the audit opinion
- c) All matters which were communicated to those charged with governance
- d) All matters which are considered to be material to the financial statements

**V. Which of the following audit opinions will be issued if the unfair dismissal case is NOT adjusted for or disclosed within the financial statements?**

- a) A qualified audit opinion as the financial statements are materially misstated
- b) A qualified audit opinion as the auditor is unable to obtain sufficient appropriate evidence
- c) An unmodified opinion with an emphasis of matter paragraph
- d) An unmodified audit opinion

### ANSWERS 13

- I. C
- II. D
- III. C
- IV. A
- V. A

### CASE STUDY 14

14. Medicare Co is an established pharmaceutical company that has for many years generated 90% of its revenue through the sale of two specific cold and flu remedies. Medicare has lately seen a real growth in the level of competition that it faces in its market and demand for its products has significantly declined.

You are the audit manager responsible for the audit of Medicare's financial statements for the year ended 31 March 20X7.

In addition to recruiting staff, Medicare also needed to invest Rs.2 cr in plant and machinery. The company wanted to borrow this sum but was unable to agree suitable terms with the bank; therefore, it used its overdraft facility, which carried a higher interest rate. Consequently, some of Medicare's suppliers have been paid much later than usual and hence some of them have withdrawn credit terms meaning the company must pay cash on delivery.

**I. Which of the following statements are correct with regards to the going concern basis of accounting?**

**(i). The going concern basis of accounting is used when the entity will be able to continue in business for the foreseeable future**

**(ii). The foreseeable future is defined for accounting purposes as 36 months from the company's reporting date.**

**(iii).The going concern basis of accounting assumes that of business**

**(iv). Financial statements that are prepared on a going the entity will be able to realise its assets and discharge its liabilities in the normal course concern basis assert that the company intends to liquidate its operations.**

a) i, ii, iii

b) ii, iii, iv

c) i, iii

d) i, ii, iii, iv

**II. Which of the following statements describe the most direct impact the withdrawal of supplier credit has on Medicare's use of the going concern basis of accounting?**

**(i). Medicare now has to pay cash on delivery and this adds further cash flow strain imposed by the overdraft**

**(ii). Some suppliers may end their relationship with Medicare, preventing the company from producing its products, thus further reducing sales**

**(iii).Medicare will have to seek alternative suppliers, who may not meet Medicare's quality control standards**

**(iv). The bank may impose strict covenants on the overdraft, restricting the way Medicare can conduct its future operations**

a) i, ii

b) ii, iii c) i, ii, iii

d) i, ii, iii, iv

III. It is May 20X7. The directors have informed you that the bank overdraft facility is due for renewal next month, after the auditor's report is signed. They are confident that it will be renewed. Which of the following audit procedures would be most effective in assessing whether or not Medicare is a going concern?

- (i). Agree current overdraft level to bank letter
- (ii). Obtain confirmation from the bank that the overdraft facility will be renewed
- (iii). Obtain written representation from management that they consider the going concern assumption to be appropriate
- (iv). Review board minutes for meetings held after the year end for evidence which indicate further financial difficulties or evidence of alternative sources of finance

- a) ii, iv
- b) ii, iii, iv
- c) i, ii, iii
- d) i, ii, iii, iv

IV. The directors have now agreed to include going concern disclosures, while continuing to use the going concern basis of accounting.

You agree with Medicare's management that the going concern basis of accounting is appropriate under the circumstances. You have reviewed the draft disclosures and believe they are correct and adequate.

Indicate which form of audit opinion would be appropriate and how the going concern issue would be disclosed in the auditor's report

	<b>Audit opinion</b>	<b>Disclosure in the auditor's report</b>
a	Disclaimer	Describe the nature of the going concern uncertainty in the Material Uncertainty Related to Going Concern section
b	Unmodified	Describe the nature of the going concern uncertainty in the Key

	opinion	Audit Matters section
c	Qualified opinion	Describe the nature of the going concern uncertainty in the Basis for Adverse Opinion Section
d	Adverse opinion	Describe the nature of the going concern uncertainty in the Basis for Qualified Opinion section

V. The audit is completed. The auditor's report and the financial statements have been signed but not yet issued.

The finance director of Medicare has just informed the audit team that he has been informed by the bank that the overdraft facility will not be renewed. Medicare currently does not have any other source of finance.

**What actions, if any, should you now take in order to meet the auditor's responsibilities under SA 560?**

- a) No actions required as the auditor's report and financial statements have already been signed
- b) Discuss with management about their plans for the company and determine whether the 20X7 financial statements should now be prepared on a break-up basis. If yes, request management to adjust the financial statements, audit the adjustments and provide a new auditor's report
- c) Discuss with management about their plans for the company and determine whether disclosures should be revised in the 20X7 financial statements. If yes, request management to revise the disclosures and redraft the auditor's report to refer to the revised disclosures
- d) Request that management adjust for this event in the 20X8 financial statements, as it occurred in the year ending 31 March 20X8

#### **ANSWERS 14**

- I. C**
- II. A**
- III. A**

IV. B

V. B

### **CASE STUDY 15**

15 Humpty Co, your audit client, operates a chain of food wholesalers across the country and its year end was 31 March 20X1. The final audit is nearly complete and it is proposed that the financial statements and auditor's report will be signed on 13 June. Revenue for the year is Rs.78 cr and profit before taxation is Rs.7.5 cr.

The following information comes to light:

Humpty Co has three warehouses; following extensive rain on 20 July, rain and river water flooded the warehouse located in Bass. All of the inventory in the warehouse was damaged and has been disposed of. The insurance company has been contacted. No amendments or disclosures have been made in the financial statements.

A customer of Humpty Co has been experiencing cash flow problems and its year-end balance is Rs.0.3cr. The company has just become aware that its customer is experiencing significant going concern difficulties. The management of Humpty believes that as the company has been trading for many years, they will receive some, if not full, payment from the customer; hence they have not adjusted the receivable balance.

A key supplier of Humpty Co is suing them for breach of contract. The lawsuit was filed prior to the year end, and the sum claimed by them is Rs.1 cr. This has been disclosed as a contingent liability in the notes to the financial statements.

Correspondence has just arrived from the supplier indicating that they are willing to settle the case for a payment by Humpty Co of Rs.0.6 cr. It is likely that the company will agree to this.

**I. Which of the following audit procedures in general as per SA 560 would identify subsequent events occurring up to the date of the auditor's report ?**

**1) Enquire of management whether there have been any unusual accounting adjustments**



**2) Enquire of management whether there have been any issues of shares/debentures, or changes in business structure**

**3) Review management procedures for identifying subsequent events to ensure that such events are identified**

**4) Obtain written representation that all subsequent events requiring adjustment or disclosure have been adjusted or disclosed**

a) 1 and 2

b) 1 and 3

c) 1, 3 and 4

d) 1, 2, 3 and 4

**II. Which of the following statements correctly describe the likely impact that the flooding of the warehouse will have on Humpty' financial statements for the year ended 31 March 20X1?**

**1) Inventory should be written down, because the flood damage is an adjusting event**

**2) Inventory should not be written down, because the damage is not an adjusting event 3) If a material amount of inventory is uninsured, it may be necessary to disclose the event and estimate of the financial losses**

**4) If insurance proceeds are more likely than not to be received, a contingent asset should be recognized**

a) 1 only

b) 2 only

c) 1 and 4

d) 2 and 3 d) 2 and 3

**III. Which of the following audit procedures should be performed in order to form a conclusion on the amendment required to Humpty' 20X1 financial statements in respect of the Rs.0.3cr owed by the customer experiencing financial difficulties?**

- 1) Reviewing the post year-end period for payments received from the customer in respect of the year end debt
- 2) Reviewing correspondence with the customer to assess the likelihood of Humpty recovering the Rs.0.3cr
- 3) Writing to the customer to request confirmation of the amount owed to Humpty at the year end
- 4) Ask management to produce a revised cash flow forecast covering at least 12 months the year end

- a) 1 and 2
- b) 2 and 3
- c) 1 and 4
- d) 3 and 4

**IV. Which of the following options correctly summarises the impact on the auditor's report if the financial statements are not revised in the light of the new information regarding the lawsuit for breach of contract?**

- a) Unmodified
- b) Unmodified with emphasis of matter
- c) Qualified 'except for'
- d) Adverse opinion

**V. It is now 13 July 20X1. The auditor's report has been signed. The financial statements are due to be issued on 25 July 20X1. Which of the following statements correctly describes the auditor's responsibility in relation to subsequent events occurring between now and 25 July?**

- a) The auditor must design procedures to obtain sufficient appropriate audit evidence that all events up to that date that may require adjustment or disclosure have been identified

- b) The auditor must perform procedures on matters examined during the audit, which may be susceptible to change after the year-end.
- c) The auditor has no obligation to perform procedures, or make enquiries regarding the financial statements. Any subsequent events should be noted and considered in the next period's audit.
- d) If the auditor becomes aware of a fact that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall discuss the need for any adjustments with management

### ANSWERS 15

- I. d  
II. b  
III. a  
IV. C  
V. D

### CASE STUDY 16

16 You are a audit manager in Sampark & Co. You are reviewing the audit file of Atul Co which is nearing completion. You have noted several issues during your review:

Several working papers have not been signed as reviewed. You are aware that a review has taken place it is not documented on the audit file.

One audit working paper states that a sample of 30 purchase invoices should be tested but the results the test show that only 15 invoices were tested. Several other areas document that samples sizes were reduced in order to save time.

In the subsequent events review section of the file, the audit senior has documented that they have enquired of management whether there have been any subsequent events and were told that there have not been any. No further work was considered necessary as a result.

**I. Which of the following statements are true in respect of the reduction in samples sizes?**

- 1) The audit plan has not been followed
- 2) Sufficient appropriate evidence may not have been obtained
- 3) Material misstatements may go undetected
- 4) Those sections will need to be reviewed by a manager and the manager will form a conclusion on the balances.

- a) 1, 2 and 3 only
- b) 2 and 4 only
- c) 1, 3 and 4 only
- d) 1, 2, 3 and 4

II. Select whether the following statements are true or false in respect of the subsequent events review of Atul Co.

1. Enquiry does not provide sufficient appropriate evidence on its own
2. The auditor scepticism has demonstrated a lack of professional
3. A written representation should have been obtained from management confirming that they have disclosed all subsequent events to the auditor
4. The auditor only needs to perform procedures if they are made aware of any subsequent events

- a) True, False, False, True
- b) True , True , False, False
- c) True , False, True , False
- d) True , True , True , False

III. As a result of the quality control issues encountered during the audit of Atul Co, which of the following actions should now be taken?

1. The offending members of staff have demonstrated a lack of competence and due care therefore the firm should report them to the disciplinary committee of ICAI

- 2. More frequent quality control reviews may need to take place**
- 3. Further training may be provided to staff**
- 4. The firm's policies and procedures may need to be updated**

- a) 1 and 2 only
- b) 1 and 3 only
- c) 2, 3 and 4 only
- d) 1, 2, 3 and 4

**IV. Which of the following statements is true in respect of post and pre-issuance reviews?**

- a) A post-issuance review involves a review of the significant judgments affecting the audit
- b) A pre-issuance review is also known as a cold review
- c) A post-issuance review may identify the need for revision to the firm's policies
- d) None of the above

**V. Select which of the following two statements are false in respect of review of audit working papers**

- 1. The audit partner will review all working papers on the audit file before issuing an opinion**
- 2. If working papers have been reviewed there is no quality control issue arising from the lack of documentation**
- 3. All working papers should be signed by the person who prepared them**
- 4. All team members' work should be reviewed by someone more senior than the preparer**

- a) 1 & 2
- b) 2 & 3
- c) 3 & 4
- d) 1 & 4

## ANSWERS 16

I. A

II. D

III. C

IV. C

V. A

## CASE STUDY 17

You are planning the audit of Veer Co, a new audit client which operates in the oil & gas exploration industry. Companies wishing to operate in this industry require a licence which is valid for 20 years. Veer Co has been in existence for 30 years and has grown its revenue at an average of 12% per annum. During your planning meeting you were informed that the forecast profit before tax for this financial year is Rs.6,650 cr. (prior year: Rs. 4,200 cr.) based on revenues of Rs.86,800 cr.(prior year: Rs.70,000 Cr.)

**I. Which of the following is the LEAST significant audit risk to be considered when planning the audit of Veer Co?**

- a) Non-compliance with laws and regulations
- b) Understatement of trade payables
- c) Adequacy of provisions and contingent liabilities
- d) Reasonableness of estimates of oil and gas reserves

**II. Which is the most appropriate responses to address the increased detection risk due to Veer Co being a new audit client?**

1. Extended controls testing should be performed
2. Obtain an understanding of Veer Co
3. Contact the previous auditor to request working papers

- a) 1 ,2 ,3
- b) 1 ,2
- c) 2 ,3
- d) None of the above

**III. Which of the following is the LEAST appropriate materiality level to be used in the audit of Veer Co?**

- a) Rs. 1050 cr.
- b) Rs.700.0 cr.
- c) Rs.5.25 cr.
- d) Rs.3.15 cr.

**IV. Select whether the following statements are not consistent with the movement in revenue.**

1. Cut-off of revenue is an audit risk
2. Completeness of revenue is an audit risk
3. Occurrence of revenue is an audit risk

- a) 1 ,2 ,3
- b) 1
- c) 2
- d) 3

**V. Match the audit risks listed with the MOST appropriate response the auditor of Veer Co should take**

	Audit risk	Auditor's response
1	Receivables may be overstated due to long outstanding debts	Contact a sample of customers to confirm the year-end balance

2	Non-current assets may be impaired in relation to exploration areas which have been decommissioned	i. Ask management to adjust the financial statements
3	Intangible assets such a licences to operate in the industry may not have been amortised correctly	ii. Inspect the licence agreement
		iii. Review correspondence with
		iv. Calculate the expected amortization
		v. Review the depreciation charge for adequacy

- a) 1- (iii) , 2-(v) , 3-(iv)  
b) 1- (iii) , 2-(iv) , 3-(v)  
c) 1- (iv) , 2-(ii) , 3-(v)  
d) 1- (v) , 2-(iii) , 3-(iv)

#### ANSWERS 17

- I. B  
II. C  
III. A  
IV. C  
V. A

#### CASE STUDY 18



You are the manager responsible for the audit of Mansi Co and you are completing the audit of the financial statements. The draft financial statements report revenue of Rs.12,600 cr. (prior year – Rs. 11,900 cr.). The draft annual report of Mansi Co contains a Chairman’s statement in which the chairman has commented that he is pleased to report an increase in revenue of 20% this year. The report also includes an operating corporate social responsibility report, financial statements and notes to the financial statements.

The directors of Mansi Co have indicated that they intend to distribute the annual report to prospective investors in order to obtain additional finance. The engagement partner has informed the directors that the auditor’s report is only intended for reliance by the existing shareholders and that no liability will assumed to any other party. The engagement partner has asked you to draft the auditor’s report for Mansi Co and requested that this restriction is included.

**I. Which of the following statements best describes the auditor’s responsibilities in respect of other information?**

- a) The auditor provides limited assurance over the completeness and accuracy of the other information
- b) The auditor must read the other information to ensure it is consistent with the financial statements and their knowledge of the entity obtained during the audit
- c) The auditor must audit the other information and obtain sufficient appropriate evidence the other information is true and fair
- d) Other information only needs to be considered if it is made available at the start of the with the draft financial statements

**II. Which of the following sections of Mansi Co’s annual report would NOT be considered ‘Other information?’**

- a) Chairman’s statement
- b) Operating review
- c) Corporate social responsibility report

d) Notes to the financial statements

**III. How should the inconsistency between the Chairman's statement and financial statements be referred to in the auditor's report of Mansi Co**

- a) Within the Other Information section
- b) Within an Emphasis of Matter paragraph
- c) Within an Other Matter paragraph
- d) Within the audit opinion section

**IV. Select whether the following statements are true or false in relation to referring to the Chairman's statement in the auditor's report of Mansi Co.**

- 1. Users may be misled if the other information contains incorrect information or information which contradicts the financial statements such as that in the Chairman's statement**
- 2. Users may believe the auditor has not audited the financial statements properly if the inconsistency is not highlighted**
- 3. The auditor must expose management's incompetence**
- 4. The inconsistency your auditor's report if not highlighted may undermine the credibility of your auditor's report if not highlighted**

- a) True, False, False, True
- b) True , True , False ,True
- c) True , False, True , False
- d) True , True , True , False

**V. In respect of the partner's request for restricting liability, how should this be addressed in the Auditor report?**

- a) Within the Auditor's Responsibility section

- b) By including an Emphasis of Matter paragraph
- c) By including an Other Matter paragraph
- d) Within the Basis for Opinion section

#### **ANSWERS 18**

I. B

II. D

III. A

IV. B

V. C

#### **CASE STUDY 19**

You are an audit senior of YATHARTH & Co and have worked on the external audit of BHAIYAJI Co (BHAIYAJI), an unlisted company, since your firm was appointed external auditor two years ago. BHAIYAJI owns a chain of nine restaurants and is a successful company. BHAIYAJI has always been to national hygiene regulations, especially in relation to the food preparation process. Noncompliance can result in a large fine or closure of the restaurant concerned. The board of BHAIYAJI has recently notified you that the national hygiene regulations have been Updated and are now much more stringent and onerous than before.

**I. Despite running a successful company, BHAIYAJI's board has often needed to be reminded of some fundamental principles and you often have to explain key concepts. Which of the following statements best defines the external audit?**

- a) The external audit is an exercise carried out by auditors in order to give an opinion on whether the financial statements of a company are fairly presented.

- b) The external audit is an exercise carried out in order to give an opinion on the effectiveness of a company's internal control system.
- c) The purpose of the external audit is to identify areas of deficiency within a company and to make recommendations to mitigate those deficiencies.
- d) The external audit provides negative assurance on the truth and fairness of a company's financial statements.

**II. The board has also struggled to differentiate between its responsibilities and those of the external auditor in circumstances such as the prevention and detection of fraud and error, and compliance with regulations. Which of the following statements best describes YATHARTH & Co's responsibility regarding BHAIYAJI's compliance with hygiene regulations, in line with SA 250 Revised) Consideration of Laws and Regulations in an Audit of Financial Statements?**

- a) YATHARTH & Co should actively prevent and detect non-compliance with the regulations.
- b) YATHARTH & Co should perform specific audit procedures to identify possible non-compliance.
- c) YATHARTH & Co should obtain sufficient appropriate audit evidence about BHAIYAJI's compliance with the regulations as they have a direct effect on the financial statements.
- d) YATHARTH & Co does not have any responsibility as the hygiene regulations do not have a direct effect on the financial statements.

**III. Which of the following would NOT have been relevant to the audit partner in forming this opinion?**

- a) The existence of a three-party relationship
- b) The existence of suitable criteria
- c) The determination of materiality
- d) The subject matter

**IV. What level of assurance you believe YATHARTH & Co should provide, and also what type of opinion the firm should give. What is the level of assurance and type of opinion that can be provided on this audit engagement?**

**Level of assurance**

**Report wording**

- |               |          |
|---------------|----------|
| a) Reasonable | Positive |
| b) Reasonable | Negative |
| c) Limited    | Positive |
| d) Limited    | Negative |

V. Select the correct one

- a) If the auditor has identified non-compliance with laws and regulations, auditor can report it to outside the entity, if in public interest and would not be considered as misconduct under CA Act and non-compliance of SA 250.
- b) If the auditor has identified non-compliance with laws and regulations, auditor can report it to outside the entity, if required by law and would not be considered as misconduct under CA Act & non-compliance of SA 250.
- c) If the auditor has identified non-compliance with laws and regulations auditor can report it to outside the entity if required by law but would be considered as misconduct under CA Act & Non-Compliance of SA 250.
- d) All of the above.

**ANSWERS 19**

- I. A**
- II. C**
- III. a**
- IV. a**
- V. b**

## CASE STUDY 20

Charcoal Co (Charcoal) is a computer hardware specialist and has been trading for over five years. The company is funded partly through overdrafts and loans and also by several large shareholders; the year end is 30 April 20X4.

Charcoal has experienced significant growth in previous years; however, in the current year a new competitor, Drums Design Co (Drums), has entered the market and through competitive pricing has considerable market share from Charcoal including one of its largest customers. Charcoal is looking to develop new products to differentiate itself from the rest of its competitors. It has approached its shareholders to finance this development; however, they declined to invest further in Charcoal. Charcoal's loan is long term and it has met all repayments on time. The overdraft has increased significantly over the year and the directors have informed you that the overdraft facility is due for renewal next month and they believe it will be renewed.

The directors have produced a cash flow forecast which shows a significantly strengthening position over the coming 12 months. They are confident with the new products being developed and, in light of their trading history of significant growth, believe it is unnecessary to make any disclosures in the financial statements regarding going concern. At the year end, Charcoal received notification from one of its customers that the hardware installed by Charcoal for the customers' online ordering system has not been operating correctly. As a result, the customer has lost significant revenue and has informed Charcoal that they intend to take legal action against them for loss of earnings.

Charcoal has investigated the problem post year end and discovered that other work in progress is similarly affected and inventory should be written down by Rs.2.625cr. The finance director believes that as this misstatement was identified after the year end, it can be amended in the 20X5 financial statements. Draft financial statements for the year ended 30 April 20X4 showed profit after tax of Rs.1,750 cr.

**I. Which of the following correctly summarises whether the uncorrected misstatement of inventory is material and its impact on the 20X4 financial statements?**

<b>Material</b>	<b>Adjust in 20X4 financial statements</b>
a) No	No
b) No	Yes
c) Yes	Yes
d) Yes	No

**II. Which of the following factors are indicators that may cast doubt on Charcoal's ability to continue as a going concern?**

- 1. The entry of the new competitor reducing Charcoal's market share**
  - 2. The significant increase in the overdraft**
  - 3. The company has a long-term loan**
  - 4. The reluctance of the shareholders to provide further investment in Charcoal**
- a) 1, 2 and 3  
b) 1, 2 and 4  
c) 1, 3 and 4  
d) 2, 3 and 4

**III. As part of your assessment of going concern you have reviewed the cash flow forecast. This is based on the assumption of significant increases in revenue. Which of the following procedures would provide the most reliable evidence regarding the validity of this assumption?**

- a) Email correspondence between the sales director and potential new customers  
b) A review of board minutes showing details of new customers won  
c) A review of post year end sales and the order book

d) Discussions with management regarding their plans for obtaining new business

**IV. You have concluded that circumstances exist which cast significant doubt on Charcoal's ability to continue as a going concern .Which of the following must you include in your communication with those charged with governance in accordance with SA 570 Going Concern?**

- 1. Whether the circumstances you have identified constitute a material uncertainty**
- 2. Whether the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statement**
- 3. The adequacy of the related disclosures**
- 4. The period of time your assessment has covered if less than 12 months from the date of the financial statements**

- a) 1, 2 and 3
- b) 1, 2 and 4
- c) 1, 3 and 4
- d) 2, 3 and 4

**V. The auditors have been informed that Charcoal's bankers will not make a decision on the overdraft facility until after the auditor's report is completed. The directors have now agreed to include some going concern disclosures and you believe these disclosures are adequate. Which of the following correctly summarises the impact on the auditor's report of Charcoal if the auditor believes the company is a going concern but that this is subject to a material uncertainty?**

**Opinion**

- a) Modified
- b) Unmodified
- c) Unmodified

**Disclosure**

- Key audit matters
- Material uncertainty related to going concern
- Key audit matters



d) Modified

Material uncertainty related to going concern

## **ANSWERS 20**

**I. c**

**II. b**

**III. c**

**IV. a**

**V. b**

## **CASE STUDY MCQs :- Issued by ICAI**

### **CASE STUDY 1**

M/s NSG & Associates have been appointed as auditors of Viaan Ltd. for the financial year 2019-20. The processes, operations, accounting and decisions are carried out by using computers in Viaan Ltd. The auditors understand that there are several aspects that they should consider to determine the level of automation and complexity in the business environment of Viaan Ltd. While planning the audit work, the engagement partners discussed with the audit staff about the various types of controls in the automated environment.

The different types of audit tests that can be used in audit of an automated business environment were also discussed within the engagement team. The responsibility regarding the Internal Financial Controls was also discussed in detail. Further the tools and techniques that can be used to deal with the enormous data and information of Viaan Ltd. were briefed to the audit staff by the engagement partners.

**I. Based on the above facts, answer the following: -**

**..... are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.**

(a) Application Controls

- (b) IT dependent Controls
- (c) Automated Controls
- (d) General IT Controls

**II. Statement 1: Application controls include both manual and automated controls that operate at a business process level.**

**Statement 2: General IT Controls apply to mainframe, mini frame as well as end user environment.**

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct
- (c) Both Statements 1 & 2 are correct
- (d) Both Statements 1 & 2 are incorrect

**III. .... are also known as pervasive or indirect controls :-**

- (a) General IT Controls
- (b) Application Controls
- (c) IT dependent Controls
- (d) None of the above

**IV. Which of the following are not the types of audit tests that can be used in the audit in an automated environment?**

- (a) Observation
- (b) Inspection
- (c) Re performance
- (d) None of the above

**V. .... is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information:**

-

- (a) Computer Assisted Audit Techniques
- (b) Automated Controls
- (c) Data Analytics
- (d) None of the above

#### ANSWER 1

- I. b
- II. c
- III. a
- IV. d
- V. c

#### CASE STUDY 2

M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.

Various topics like audit planning, overall audit strategy, audit programme were discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.

**I. Based on the above facts, answer the following:-**

**1. .... sets the scope, timing & direction of the audit and guides the development of the more detailed plan.**

- (a) Audit Programme
- (b) Overall Audit Strategy
- (c) Completion Memorandum
- (d) Audit Plan

**II. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.**

**Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.**

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct
- (c) Both Statements 1 & 2 are correct
- (d) Both Statements 1 & 2 are incorrect

**III. .... means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-**

- (a) Benchmark Materiality
- (b) Materiality in Planning
- (c) Performance Materiality
- (d) Materiality.

**IV. Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-**

- (a) Total Revenue
- (b) Profit before tax
- (c) Net Asset Value
- (d) None of the above

**V. (i) Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work**

**(ii) Statements are issued by ICAI with a view to secure compliance by members on some matters.**

**(iii) Guidance notes are recommendatory in nature.**

**(iv) Statements are mandatory in nature.**

(a) All the above statements are correct.

(b) Statements 1 & 2 are correct

(c) Statements 1, 2 & 3 are correct

(d) Statements 1,2 & 4 are correct

## **ANSWERS 2**

**I. b**

**II. c**

**III. c**

**IV. d**

**V. a**

## **CASE STUDY 3**

- M/s TPR & Associates have been appointed as the auditors of Octopus Ltd. for the Financial Year 2019-20.
- During the course of audit, the auditor notices that there is significant change in the number of debtors of the company. The auditor decided to check the debtors account in detail.
- Further the company has made various provisions like the provisions for taxation, provision for bad & doubtful debts.
- Also during the current Financial Year, the auditor attended the physical verification of the inventory being carried out by the management.
- The auditor notices that there is no substantial change in the bifurcation of amount of items representing the liabilities side of the balance sheet of Octopus Ltd. Still the auditor understands that he needs to check the liability side in detail.
- Further the company has also recognised various income like interest income and dividend income which auditor understands need to be checked in detail.
- The auditor is of the understanding that certain matters need to be reported under Companies Auditors Report Order (CARO). I. Based on the above facts, answer the following:-

**1. ....is a possible obligation that arises from the past events and whose existence will be confirmed only by the occurrence/ non occurrence of one or more uncertain future events not wholly within the control of the entity:-**

- (a) Provision
- (b) Reserve
- (c) Contingent Liability
- (d) Liability

**II. Which of the following is not correct with respect to the inventory held by Octopus Limited:-**

- (a) All inventory units held by the company should have been recorded and recognized in the financial statements.
- (b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.
- (c) Inventory should be recognized at cost or net realizable value whichever is lower.
- (d) Inventory balance as at the year end does not include any element of next year

**III. If the management of Octopus Ltd. refuses to allow the auditor, to send the confirmation request to the debtors, the auditor should:-**

- (a) Withdraw from the engagement
- (b) Not listen at all to any requests of the management.
- (c) Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly.
- (d) Agree to management request and proceed with audit of other items of the financial statements.

**IV. Which of the following statements is not true so far as the liabilities of a company are concerned:-**

- (a) Liabilities are the financial obligations of a company including owner's funds.
- (b) Liabilities include borrowing, trade payable and other current liabilities and provisions.
- (c) Verification of liabilities is an important as that of assets.
- (d) All of the above.

**V. Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client**

**Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances:-**

- (a) Only statement 1 is correct
- (b) Only statement 2 is correct
- (c) Both 1 & 2 are correct
- (d) Both 1 & 2 are incorrect

### ANSWERS 3

I. c

II. b

III. c

IV. a

V. c

### CASE STUDY 4

ABC Ltd. is a company dealing in products namely chocolate and coffee. ABC Ltd. approached audit firm XYZ & Associates for the statutory audit of its financial statements for the year ended 31.03.2019. The Gross turnover of the company is Rs.105 crores, out of which turnover from one of its product namely coffee is of Rs.95 crores during the immediate preceding Financial Year.

During the course of Audit, XYZ & Associates found certain delay in the payment of the Employees Provident Fund by ABC Ltd. They understand that the same need to be reported under the relevant provisions of Companies (Auditors Report) Order 2016.

During the FY 2018-2019, Mrs. X wife of CA Mr. X who is partner in XYZ & Associates acquires certain shares of ABC Ltd. The audit firm is of the opinion that this may call for a disqualification for the firm for being working as the auditor of the company under the relevant provisions of the Companies Act 2013.



Further, ABC Ltd. also approached the auditors to provide them the Investment Banking service to which the auditors denied as per the provisions of Companies Act 2013.

During the course of audit, XYZ & Associates has reason to believe that an offence of fraud involving some amount has been committed in the ABC Ltd. by its General Manager. The auditors understand that there is a requirement for reporting of fraud by the auditors under the Companies Act and the relevant rules.

**I. Based on the above facts, answer the following:-**

**1. After the appointment of XYZ & Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:-**

- (a) 60 days
- (b) 30 days
- (c) 15 days
- (d) 20 days

**II. If Mrs. X acquires security exceeding the prescribed limit in the ABC Ltd., then XYZ & Associates shall take corrective actions within.....days. What is the prescribed limit:-**

- (a) 100 days, Market Value Rs 1,00,000
- (b) 60 days, Face value Rs 1,00,000
- (c) 90 days, Face value Rs 1,00,000
- (d) 15 days, Market Value Rs 1,00,000

**III. Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:-**

- (a) Section 143(12), 1 crore & above
- (b) Section 139(12), 1 crore & above
- (c) Section 143(12), 2 crore & above

(d) None of the above

**IV. What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:-**

- (a) Maintenance of cost records is mandatory, in form CRA 1.
- (b) Maintenance of cost records is mandatory, in form CRA 2.
- (c) Maintenance of cost records is mandatory, in any general format.
- (d) No requirement of maintenance of cost records

**V. Under relevant clause of CARO,2016, XYZ & Associates is required to report the extent of arrears of Employees Provident Fund as at the balance sheet date:-**

- (a) Exceeding 9 months
- (b) Exceeding 3 months
- (c) Exceeding 6 months
- (d) Exceeding 12 months

**ANSWERS 4**

- I. c
- II. b
- III. a
- IV. a
- V. c