

**This document contains all ICAI MODULE QUESTIONS INCLUDING ILLUSTRATIONS COMPILED WITH SHORT ANSWERS/HINTS/Reference FOR CA FINAL MAY 21 STUDENTS NEW SYLLABUS. Students can use it for a quick revision. For detailed answers, students can refer the relevant content from the Module. This document will help you if you have done one proper reading of Audit subject.**

**For students having my fast track notes → you can refer content from those notes.**

**For students not having my fast track notes → please refer this link**

**<https://drive.google.com/drive/u/1/folders/1FZnNoG-k-FmbWAG0atSyevOTkKaCUaT>**

**Part I- Questions on Auditing and Assurance Standards (CHAP 1,2,3 and 6 of new may 21 modules)**

Q. No	Question	Answer in short/ hint/ reference to the relevant content
1	ABC Company files a law suit against Unlucky Company for ` 5 crores. The Attorney of Unlucky Company feels that the suit is without merit, so Unlucky Company merely discloses the existence of the law suit in the notes accompanying its financial statements. As an auditor of Unlucky Company, how will you deal with the situation?	Reference: IND AS 37/AS 29. IF it creates material uncertainty over going concern → SA 570 procedures. IF auditor concludes that there is Material uncertainty over going concern → reporting requirements of SA 570 will apply.
2	In the course of audit of K Ltd., its auditor Mr. 'N' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. 'N' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. 'N'.	SA 240 → auditor is concerned with fraud that causes material misstatement in the FS. SA 580 → If management does not provide requested written representation → modify opinion Sec 143(12) of Companies Act, 2013 → explain in short Clause X of CARO 2016 (for May 21 students)  Also explain in detail that auditor may withdraw from the engagement
3	During the course of audit of Star Limited the auditor received some of the confirmation of the balances of trade payables outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of trade payables, there are number of trade payables of small balances except one, old outstanding of ` 15 Lacs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing	SA 505 Explain negative confirmation request and the factors to be considered before using it. Compare Positive vs Negative and explain that negative confo request cannot be used as a sole substantive audit procedure. For the item of 15 Lacs, auditor must perform some alternate procedure.
4	Mr. Z who is appointed as auditor of Elite Co. Ltd. wants to use confirmation request as audit evidence during the course of audit. What are the factors to be considered by Mr. Z when designing a confirmation request? Also state the effects of using positive external confirmation request by Mr. Z.	SA 505 Explain factors to be considered for designing a confirmation request- Code word PM CALRA (refer my fast track notes) or refer your own notes. Define +ve confo request and explain that it's a better evidence than -ve confo request.
5	R & M Co. wants to be alert on the possibility of non-compliance with Laws and Regulations during the course	SA 250- You have to give examples of various situations/ evidence which

	of audit of SRS Ltd. R & M Co. seeks your guidance for identifying the indications of non-compliance with Laws and Regulations.	indicate that there could be non-compliance For e.g. high cash payments, investigation by CG, High fees to legal consultants, adverse media comment etc.
6	<p>KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for the financial year 2018-19. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr. Y's actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y's actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma.</p> <p>A) You are required to briefly explain the responsibilities of auditors when they are jointly and severally responsible in respect of audit conducted by them and also guide Mr. Z in such situation</p> <p>B) Explain the responsibility of auditors, in case, report made by Mr. Y's actuary, later on, found faulty.</p>	<p>SA 299.</p> <p>First explain the theory where joint auditors have a joint responsibility→ undivided scope, planning decisions for common audit areas, common conclusions derived etc.</p> <p>In this case reference also needs to be given to SA 620- Using the work of auditor's expert.</p> <p>IF all procedures as per SA 620 have been applied then none of these auditors will be liable.</p> <p>Mr. Z can issue separate report and if he has done so then he wont be liable for wrong reporting.</p>
7	As an auditor of RST Ltd. Mr. P applied the concept of materiality for the financial statements as a whole. On the basis of obtaining additional information of significant contractual arrangements that draw attention to a particular aspect of a company's business, he wants to re-evaluate the materiality concept. Please, guide him.	<p>SA 320.</p> <p>Explain that auditor needs to set materiality for FS as a whole and performance materiality.</p> <p>Then explain that materiality can be revised if→ auditor becomes aware of new information, significant changes in financial results or circumstances etc.</p> <p>Revision in materiality may lead to revision of NTE of audit procedures.</p>
8	When a sub-service organization performs services for a service organization, there are two alternative methods of presenting the description of controls. The service organization determines which method will be used. As a user auditor what information would you obtain about controls at a sub-service organization?	<p>SA 402</p> <p>Risk assessment procedures→ understanding the operations, materiality of transactions, degree of interaction between UE, SO and SSO. Also explain Type 1 and Type 2 report. Also explain inclusive and carve out approach.</p>
9	In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow, when financial statements are audited for the first time. If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances', what approach you will adopt in drafting your audit report?	<p>SA 510</p> <p>Start by explaining auditor's objectives as per SA 510</p> <p>Explain audit procedures for verifying opening balances.</p> <p>Auditor's approach while drafting report</p> <p>A) Material misstatements not rectified→ Qualified or Adverse Opinion</p>

		<b>B) Not satisfied with audit evidence → Qualified or Disclaimer of an opinion.</b>
<b>10</b>	<b>An auditor of Sagar Ltd. was not able to get the confirmation about the existence and value of certain machineries. However, the management gave him a certificate to prove the existence and value of the machinery as appearing in the books of account. The auditor accepted the same without any further procedure and signed the audit report. Is he right in his approach?</b>	<b>SA 580.</b> <b>Define WR.</b> <b>Explain that WR is only a supporting evidence and not SAAE.</b> <b>Auditor must perform his planned procedure.</b> <b>Discuss the case.</b> <b>Auditor is not correct in his approach.</b> <b>Can be held liable for gross negligence.</b>
<b>11</b>	<b>Your firm has been appointed as the statutory auditors of AGM Private Limited for the financial year 2018-19. While verification of company's trade receivables as on 31st March 2019, accountant of AGM Pvt. Ltd. has requested you, not to send balance confirmations to a particular group of trade receivables since the said balances are under dispute and the matter is pending in the Court. As a Statutory Auditor, how would you deal in this situation?</b>	<b>SA 505- mgmt. not allowing auditor to send confirmation request.</b> <b>Verify whether there is a legal dispute.</b> <b>It's a valid reason.</b> <b>Perform Alternate audit procedure.</b> <b>IF SAAE still not available → Modify opinion as per SA 705</b>
<b>12</b>	<b>RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. During the financial year ended 31 March 2019, the company carried out a detailed physical verification of its inventory and property, plant and equipment. You are the auditor of RIM Private Ltd. The inventory as at the end of the year was ` 2.25 crores. Due to unavoidable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order?</b>	<b>SA 501.</b> <b>Auditor's Attendance at physical inventory count done by the entity.</b> <b>In our notes → Refer various possibilities.</b> <b>This is a situation where mgmt. has done the physical verification but auditor was unable to attend it.</b> <b>Perform Alternate Audit procedures (give examples and elaborate which alternate procedure) + Obtain WR from mgmt. as per SA 580.</b>
<b>13</b>	<b>Mr. L while conducting the audit of ABC Ltd., observed that a substantial amount is recognized in respect of obsolescence of inventory and warranty obligation in the financial statements. Mr. L wants to obtain written representation from the management to determine whether the assumptions and estimates used are reasonable. Guide Mr. L with reference to the relevant Standard on Auditing.</b>	<b>SA 540.</b> <b>Auditing accounting estimates, fair value estimates and related disclosures.</b> <b>Explain in detail what type of WR can be obtained → a) about appropriateness of measurement process, b) assumptions reflect mgmt's intent and ability to carry out specific course of action, c) disclosures are complete and app as per AFRF, d) Impact of subsequent events, if any, has been considered</b>
<b>14</b>	<b>LMP Associates, Chartered Accountants, conducting the audit of PQR Ltd., a listed Company for the year ended 31st March 2019 is concerned with the auditor's responsibilities relating to other information, both financial and non-financial, included in the Company's annual report. While reading other information, LMP</b>	<b>Give 5 examples of amounts (financial information- ratios, trends, key performance indicators) and other items (descriptive disclosures to explain financial information or</b>

	<p><b>Associates considers whether there is a material inconsistency between other information and the financial statements. As a basis for the consideration the auditor shall evaluate their consistency, compare selected amounts or other items in the other information with such amounts or other items in the financial statements. Guide LMP Associates with examples of "Amounts" or "other items" that may be included in the "other information" with reference to SA 720.</b></p>	<p>business strategy, expansion related statements) from the annual report. We have discussed these examples in our fast track notes.</p>
15	<p><b>MB &amp; Associates is a partnership firm of Chartered Accountants which was established seven years back. The firm is getting new clients and has also, been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB &amp; Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1.</b></p>	<p>As per SQC-1/SA 220 Before accepting engagement we should evaluate the integrity of the client. Following should be considered→ a) identity and business reputation of the client's principal owners, b) the nature of the client's operations, c) attitude of the client's principal owners d) indications that the client might be involved in money laundering e) Why previous auditor is not being re-appointed?</p>
16	<p><b>CA. Amboj, a practicing chartered accountant has been appointed as an internal auditor of Textile Ltd. He conducted the physical verification of the inventory at the year-end and handed over the report of such verification to CA. Kishore, the statutory auditor of the Company, for his view and reporting. Can CA. Kishore rely on such report?</b></p>	<p>SA 610- Using the work of Internal Auditor. General points to be considered for a) Evaluating the internal audit function of the entity→ Competence, Objectivity, Approach b) Scope of Internal Auditor should be relevant Discuss the case and write that External auditor should review the procedures performed by IA, test check few items and then he can decide whether to rely on IA's work or not.</p>
17	<p><b>While doing audit, Ram, the Auditor requires reports from experts for the purpose of Audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same?</b></p>	<p>SA 620. Answer is divided broadly into two parts a) Examples of areas where expert's work can be used (valuation, legal consultancy etc.) b) Procedures to evaluate adequacy of expert's work→ whether expert's work is relevant and reasonable, reasonableness of significant assumptions and methods, accuracy of the source data etc.</p>
18	<p><b>While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements?</b></p>	<p>SA 540. Write the whole content of Risk Assessment Procedure. Refer notes. Understanding → AFRF, events and conditions of business requiring new/revised estimates, how mgmt.</p>



		makes accounting estimates→ method, data, controls, assumptions, experts?
19	A & Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan?	Development of an overall plan- points to be considered by auditor- write 10-12 points- scope of audit, applicable laws, afrr, new accounting/auditing standards, if any, setting materiality level, determining NTE of audit procedures etc.
20	As an auditor of garment manufacturing company for the last five years, you have observed that new venture of online shopping has been added by the company during current year. What factors would be considered by you in formulating the audit strategy of the company?	Factors to be considered for formulating audit strategy. General factors- 5 points – refer notes of SA 300- code word- Character of Raman's Team Resulted in Resources. Specific factors for online shopping- obtain an understanding of the information system: Write points of information system from SA 315- Components of Internal control.
21	During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.	SA 220. First explain the engagement partner's responsibility to ensure independence of audit team, firm and network firm. Then, explain that as per SA 220- EQCR- The reviewer has a responsibility to review whether requirements related to independence were followed or not. Hence, Engagement partner is incorrect.
22	AKJ Ltd is a small-sized 30 years old company having business of manufacturing of pipes. Company has a plant based out of Dehradun and have their corporate office in Delhi. Recently the company appointed new firm of Chartered Accountants as their statutory auditors. The statutory auditors want to enter into an engagement letter with the company in respect of their services but the management has contended that since the statutory audit is mandated by law, engagement letter may not be required. Auditors did not agree to this and have shared a format of engagement letter with the management for their reference before getting that signed. In this respect management would like to understand that as per SA 210 (auditing standard referred to by the auditors), if the agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement, what should be included in terms of agreed audit engagement letter?	Its just a big question with simple answer. Explain the contents of letter of engagement as per SA 210. Code word- OSAMA report- Refer notes. No further explanation required.

23	<p>A Pvt Ltd is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.</p> <p>The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.</p>	<p>SA 540.</p> <p>'the auditor shall review the outcome of accounting estimates included in the prior period FS, or, where applicable, their subsequent re - estimation for the purpose of the current period'</p> <p>Such review helps auditor in obtaining:</p> <ul style="list-style-type: none"> <li>a) Information about effectiveness of mgmt's process in estimating prior period estimates.</li> <li>b) Evidence required to verify 'RE-ESTIMATION'</li> <li>c) Information about estimation uncertainty.</li> </ul>
24	<p>X Ltd had a net worth of INR 1300 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise.</p>	<p>Explain the situations where it may be necessary to enter into a contract with auditor's expert:</p> <ul style="list-style-type: none"> <li>a) access to sensitive or confidential information</li> <li>b) matter referred is highly COMPLEX</li> <li>c) no past experience with the expert.</li> <li>d) Significance of auditor's expert in the context of audit.</li> <li>e) Clarity of roles and responsibilities.</li> </ul>
25	<p>Cineplex, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe, shops, pubs etc. located in the complex. Its other income includes advertisements exhibited within/outside the premises such as hoardings, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises. Cineplex appointed your firm as the auditor of the entity. Being the head of the audit team, you are, therefore, required to draw an audit programme initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points relating to a complex.</p>	<p>Write a checklist from planning to performing audit.</p> <p>Audit of income from sale of tickets- vouching, verification, check overall reconciliation etc. 10 points.</p> <p>Audit of payment of salaries, maintenance expenses- 2-3 points</p>
26	<p>SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" categorises the types of assertions used by the auditor to consider the different types of potential misstatements that may occur. Briefly explain with example.</p>	<p>Explain assertion wise different possible misstatements- explained in fast track notes of SA 315.</p>
27	<p>What are the components of an internal control framework</p>	<p>Explain 5 components of Internal control- CRIME- SA 315 notes.</p>

28	During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system	Drafting letter of weaknesses as per SA 265. Important points→ a) should contain list of significant deficiency in internal controls. B) only such weaknesses which were identified during the course of audit of FS, c) this letter serves as a valuable future reference, d) it can also minimise legal liability.
29	Explain briefly the Flow Chart technique for evaluation of the Internal Control system	No SA reference required. Explain what is a flow chart(a graphic presentation of each part of entity's control system) along with advantages (easy to understand, gives a bird's eye view). Also one example of Sales or Purchase process will be required. It is given in our SA 330 notes (last page)
30	As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose?	What do you expect from accounting controls? Timely, accurate recording Compliance with law. Properly authorised. Adequate documentation. Controls over journal entries etc.
31	New Life Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which basis system of control has been violated? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management	Internal check- explain the meaning. Also explain the principles to be considered for implementing internal check- no one person should have complete authority, rotation of duties, compulsory leaves atleast once, use of mechanical devices for physical controls, budgetary control etc,
32	Compute the overall Audit Risk if looking to the nature of business there are chances that 40% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 75%.At his part the Auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk.	Reference of SA 200 and SA 315. $Audit Risk = RoMM * DR$ $RoMM = Inherent Risk * Control Risk$ Therefore $AR = IR * CR * DR$ $RoMM = Risk of Material Misstatement$ $DR = Detection Risk.$ Audit Risk of 4% is the final answer. (Discussed in our SA- Basic notes)
33	ST Ltd is a growing company and currently engaged in the business of manufacturing of tiles. The company is planning to expand and diversify its operations. The management has increased the focus on the internal controls to ensure better governance. The management had a discussion with the statutory auditors to ensure the	General steps in Risk Based Audit (Discussed in our SA 315 notes). Risk Assessment Risk Response Reporting

	steps required to be taken so that the statutory audit is risk based and focused on areas of greatest risk to the achievement of the company's objectives. Please advise the management and the auditor on the steps that should be taken for the same.	
34	Y Co. Ltd. has five entertainment centers to provide recreational facilities for public especially for children and youngsters at 5 different locations in the peripheral of 200 kilometers. Collections are made in cash. Specify the adequate system towards collection of money.	Audit Checklist- vouching and verification type of answers- 5-6 points on each area → printing of tickets, collection, advance booking etc.
35	The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Explain.	Explain control environment (component of internal control as per SA 315) and specifically focus on the point of communication and enforcement of ethical values by the mgmt. and TCWG.
36	Your engagement team is seeking advice from you as engagement partner regarding steps for risk identification. Elaborate.	Every single step in Risk assessment procedure should be listed in a sequential order. Refer last few pages of SA 315 fast track notes to see the exact answer.
37	BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2019-20. In order to review internal controls of the Sales Department of the company, you visited the Department and noticed the work division as follows: a) An officer was handling the sales ledger and cash receipts. b) Another official was handling dispatch of goods and issuance of Delivery challans. c) One more officer was there to handle customer/ debtor accounts and issue of receipts. As an internal auditor, you are required to briefly discuss the general condition pertaining to the internal check prevalent in internal control system. Do you think that there was proper division of work in BSF Limited? If not, why?	General conditions of internal check: Refer Q31. Discuss the case study. Conclusion: Company has not done proper division of work
38	CA Sameer is the statutory auditor of Tram Fram Ltd. for the FY 2020-21. While concluding the audit CA Sameer decided to issue an unmodified opinion, though he also concluded that a material uncertainty exists with respect to the company's ability to continue as a going concern on account of a pending litigation related to labour laws. He is of the view that the company has made appropriate disclosures with respect to such pending litigation in the notes to accounts annexed to the financial statements of Tram Fram Ltd. for the FY 2020-21. Explain how CA Sameer will deal with the above situation in his auditor's report (draft the relevant portion of the auditor's report.)	Refer Audit report notes discussed in SA basics- Material uncertainty related to Going Concern. How to draft this para is given in SA 570. He should give refence to the notes to accounts where such Material uncertainty has been disclosed with clear explanation of material uncertainty. Students have to draft para accordingly.



39	XYZ Ltd. is a company engaged in the manufacture of cranes. CA Sudhir is the statutory auditor of the company for the FY 2020-21. The company has taken long term funding for fixed capital requirements and short term funding for its working capital requirements. During the course of audit, CA Sudhir found that the company's financing arrangements are about to expire and the company is unable to re- negotiate or obtain the replacement financing. As such the company may be unable to realize its assets and discharge its liabilities in the normal course of business. Notes to accounts annexed to the financial statements discuss the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing. Thus, the financial statements (and notes thereto) do not fully disclose this fact. What kind of opinion should CA Sudhir issue in case of XYZ Ltd.?	<p>This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.</p> <p>Mgmt has not disclosed such facts appropriately in the FS.</p> <p>Qualified opinion → incomplete disclosures in THIS CASE have material but not pervasive effect.</p> <p>(IF THERE WERE NO DISCLOSURES → IT COULD HAVE CREATED MATERIAL AND PERVASIVE EFFECT)</p> <p>In basis for qualified opinion → explain the material uncertainty.</p>
40	ABC Ltd. is a company engaged in the manufacture of iron and steel bars. PP & Associates are the statutory auditors of ABC Ltd. for the FY 2020-21. During the course of audit, CA Prakash, the engagement partner, found that the Company's financing arrangements have expired and the amount outstanding was payable on March 31, 2021. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Prakash express in case of ABC Ltd.?	<p>CA Prakash has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the entity is considering bankruptcy.</p> <p>The FS have NO DISCLOSURES.</p> <p>Auditor may conclude it creates material and pervasive effect.</p> <p>Adverse opinion.</p> <p>Draft adverse opinion.</p> <p>In Basis for Adverse opinion → Also explain what exactly is the material uncertainty.</p>
41	MNO Ltd. is a power generating company having its plants in the north eastern states of the country. For the FY 2020-21, M/s PRT & Associates are the statutory auditors of the company. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment (in XYZ Ltd.) that represents over 90% of the entity's net assets. What kind of opinion should the statutory auditors issue in such case?	<p>Unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets.</p> <p>Disclaimer of an opinion.</p> <p>Draft disclaimer.</p> <p>And also basis for disclaimer.</p> <p>For drafting Disclaimer there are some specific points to be considered → refer fast track notes lecture 1- SA Basics.</p>
42	CA Yash is the statutory auditor of Lakshmi Vardhan Limited for the FY 2020-21. In respect of loans and advances of ₹ 55,00,000/- given to Sarvagya Private Limited, the Company has not furnished any agreement to CA Yash and	<p>The inability of CA Yash to obtain such audit evidence is though material but not pervasive so as to require him to give a disclaimer of opinion (since the question does not provide details of total assets or any</p>

	<p>in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. What kind of opinion should CA Yash give in such situation?</p>	<p>other benchmark to measure whether its pervasive or not). Qualified opinion. Draft Qualified opinion along with basis for qualified opinion.</p>
43	<p>In the financial year 2020-21, MSD Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of MSD Ltd. issue in such circumstances?</p>	<p>there exists a material uncertainty that cast a significant doubt on the company's ability to continue as going concern and the same is not disclosed in the financial statements of MSD Ltd. NO DISCLOSURES → MATERIAL AND PERVASIVE. Adverse opinion. Explain the material uncertainty under the Basis for Adverse opinion Para.</p>
44	<p>CA Abhimanyu is the statutory auditor of PQR Ltd. for the FY 2020-21. During the course of audit CA Abhimanyu noticed the following:</p> <ol style="list-style-type: none"> <li>1. With respect to the debtors amounting to ₹ 150 crores, no balance confirmation was received by the audit team. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The Company has created a provision for doubtful debts to the tune of ₹ 25 Cr. during the year under audit. The Company has stated that the provision is based on receivables which are older than 36 months, which according to the audit team is inadequate and as such the audit team is unable to ascertain the carrying value of trade receivables.</li> <li>2. Further, in respect of Inventories (which constitutes 40% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the Company has not maintained adequate inventory records at the factory. The audit team was unable to undertake the physical inventory count as such the value of inventory could not be verified.</li> </ol> <p>Under the above circumstances what kind of opinion should CA Abhimanyu give?</p>	<p>CA Abhimanyu is unable to obtain sufficient and appropriate audit evidence. In these two circumstances the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. Disclaimer of an opinion. Basis for Disclaimer of an opinion. For drafting Disclaimer there are some specific points to be considered → refer fast track notes lecture 1- SA Basics. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701</p>
45	<p>In respect of the audit of BDS Ltd., the statutory auditor of the company noticed some matters. The statutory auditor wants to draw the user's attention towards such matters, though his opinion is not modified in respect of such matters. Draft the relevant paragraphs of the audit report for the following matters:</p> <ol style="list-style-type: none"> <li>1. The company has a plan to resume its construction activities with respect to one of its thermal power project, The activity of such power plant was suspended in the FY 2018-19. The thermal power project comprises of the plant</li> </ol>	<p>Emphasis of Matter (SA 706) for the first matter highlighting the notes to accounts. Other matter for the second matter referring to the branch auditor's work. For logics of these Paras refer SA Basic notes Lecture of 1 of the Fast track course.</p>

	<p>and equipment amounting to ` 5.95 crore and capital work in progress of ` 147.50 crore</p> <p>2. The financial statements of 5 branches are included in the Standalone Financial Statements of BDS Ltd. whose financial statements reflect total assets of ` 90 crores as at 31.03.2021 and total revenue from operations of ` 40 crores for the year ended on that date. The financial statements of these branches have been audited by the branch auditors.</p>	
46	Under the applicable Standards on Auditing, in what circumstances does the report of the statutory auditor require modifications? What are the types of modifications possible to the said report?	Explain Qualified, Adverse and Disclaimer of an opinion as Per SA 705
47	Write a short note on Certificate for Special Purpose vs. Audit Report	<p>A certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion</p> <p>A report, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor's opinion thereon.</p> <p>Refer 6.67 page of May 21 module.</p>
48	<p>Compare and explain the following</p> <p>1. Reporting to Shareholders vs. Reporting to those Charged with Governance</p> <p>2. Audit Qualification vs. Emphasis of Matter.</p>	<p>Shareholders vs TCWG:</p> <p>a) Sec 143 vs SA 260</p> <p>b) audit report on T&amp;F view of the FS vs Various matters during the course of audit</p> <p>c) Audit reports are in public domain vs TCWG communication is an internal private document.</p> <p>Qualified opinion vs EOM Para</p> <p>Refer SA Basic notes on Audit report concepts.</p>
49	As an expert you are required to brief the special considerations required for expressing: (a) Qualified Opinion; (b) Adverse Opinion and (c) Disclaimer of Opinion	<p>Explain two things</p> <p>a) When these opinions are given?</p> <p>b) Special points to be considered while drafting such opinion (especially disclaimer of an opinion)</p>
50	ADKS & Co LLP are the newly appointed statutory auditors of PKK Ltd. During the course of audit, the statutory auditors have come across certain significant observations which they believe could lead to material misstatement of financial statements. Management has a different view and does not concur with the view of the statutory auditors. Considering this the statutory auditors are determining as to how to address these observations in terms of their reporting requirement. Please advise.	<p>Explain the situations which can lead to modified opinion- Qualified, Adverse or Disclaimer.</p> <p>Discuss facts of the case and In this case explain in detail about Qualified and Adverse opinion since auditor has already identified situations leading to material misstatements.</p>
51	KPI Ltd is a joint venture of KPI Inc, a company based in US, and OPQ Ltd, a company based in Japan (hereinafter	If an auditor is required to conduct audit as per SAs and also follow ISAs then in audit report, such auditor

	<p>referred to as 'JV partners'). KPI Ltd was registered in India and is operating as a marketing support company for KPI Inc. All the costs of KPI Ltd are incurred in India and entire revenue of KPI Inc is generated in USD. The entire funding requirements of KPI Ltd are taken care of by the JV partners. Since KPI Ltd is based in India, hence it is also required to get its financial statements audited.</p> <p>The company appointed new auditors for the audit of the financial statements for the year ended 31 March 2020 after doing all appointment formalities wherein auditors are required to ensure compliance with Standards on Auditing and Internal Standards on Auditing.</p> <p>As an expert you are required to advise the auditor about the requirements regarding auditor's report for audits conducted in accordance with both Standards on Auditing issued by ICAI and International Standards on Auditing.</p>	<p>should refer to 'standards on auditing' only if following conditions are satisfied:</p> <p>a) There is no conflict between the requirements in the ISAs and those in SAs that would lead the auditor:</p> <p>(i) to form a different opinion or</p> <p>(ii) not to include EOM or OM Para.</p> <p>b) The auditor's report includes, at a minimum, each of the elements set out in Auditor's Report Prescribed by Law or Regulation (SAs) discussed above when the auditor uses the layout or wording specified by the Standards on Auditing.</p> <p>REFER PAGE 6.16 and 6.17 of the may 21 module</p>
52	<p>TUV Ltd. is a company engaged in the business of manufacture of spare parts. Saroj &amp; Associates are the statutory auditors of the company for the FY 2020-21. During the course of audit, CA Saroj noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of TUV Ltd. ended for an unforeseeable time period. When discussed with the management, CA Saroj was told that the company is in the process of identifying new customers for their products. CA Saroj understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly reflected in the financial statements of TUV Ltd. for the FY 2020- 21. How should CA Saroj deal with this matter in the auditor's report for the FY 2020-21?</p>	<p>Answer same as Q38 (full drafting of the para not required).</p> <p>Explain broadly that CA Saroj should express an unmodified opinion with a MU related to GC Para explaining the MU and referring to the notes to accounts.</p>
53	<p>Sun Moon Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Jharkhand and Odhisa. During the FY 2020-21, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Sun Moon Ltd. This happened in the month of December 2020 and as such entire power generation process of Sun Moon Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the company. There were delays in the of payment of wages and salaries and the banks from whom the company had taken funds for project financing also</p>	<p>Part I of the answer: Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements the auditor shall:</p> <p>a) Express a qualified or adverse opinion as per SA 705.</p> <p>(please explain that there is more probability of adverse opinion since no disclosures have been made and it could create material and pervasive impact.)</p> <p>Part II of the answer: However if auditor concludes that GC assumption is inappropriate and mgmt. does not adjust the FS then</p> <p>ADVERSE OPINION.</p>

	<b>decided not to extend further finance or to fund further working capital requirements of the company. Further, when discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the the financial statements of Sun Moon Ltd. What course of action should the statutory auditor of the company consider in such situation?</b>	<b>FOR LOGICS REFER SA 570 REPORT CHART IN SA BASICS NOTES OF FINAL CA FAST TRACK.</b>
<b>54</b>	<b>CA Omkar is the statutory auditor of Sabhyata Ltd. for the FY 2020-21. The company is engaged in the business of manufacture of floor tiles. During the course of audit, CA Omkar obtained certain audit evidence which were not consistent with the affirmation made in the financial statements. Discuss as to how CA Omkar should deal with the situation in the auditor's report.</b>	<b>Explain the logics of modifying opinion SA 705 CHART IN SA BASICS- LECTURE 1 notes of FREE FAST TRACK. In this case it could either lead to qualified or adverse opinion.</b>

If you wish to contribute- you may willingly do so on this link. No compulsions. It's a hard time for everyone.

Primary motto is to see you through the exams.

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