

68.5

- 1) d ~~✓~~
- 2) a ~~✓~~
- 3) b ~~✓~~
- 4) c ~~✓~~
- 5) a ~~✓~~
- 6) d ~~✓~~
- 7) a ~~✓~~
- 8) b ~~✓~~
- 9) b ~~✓~~
- 10) b ~~✓~~
- 11) a ~~✓~~
- 12) a ~~✓~~
- 13) c ~~✓~~
- 14) b ~~✓~~
- 15) d ~~✓~~

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A very well attempted very good concept clarity the thing is you need to be more explaining the things and read the requirement of question at least 2 to 3 times before attempting any question and then evaluate what the question is asking with clause over here is getting attracted and then answer

### PART - II :-

#### Question - 6) a):-

As per SA 570 - going concern, it is the auditors responsibility to evaluate the going concern basis of assumption used by management and ensure that there are no such events or conditions that may put a significant doubt on entity's assumption of going concern.

If events or conditions have been identified that puts doubt on entity's basis of going concern, the auditor must ask the management for its assessment of going concern.

If the management has not taken the assessment, auditor shall :-

- request the management for its assessment of going concern.
- management must draw future plans for the entity and convince auditor on improving the condition

Answer is it completely different

- management must ~~from the ask and the requirement of the question the facts of the question~~ check and evaluate the ~~accuracy~~ for the shortage of the squares and all but the answer is
- evaluate the ~~methods used by management and adequate support for assumptions used.~~ completely defend so won't be able to give marks on this and will request you to going forward read at least 2 to 3 times any question
- consider any additional facts which came to knowledge
- obtain a written representation from management regarding the going concern basis of assumption and events and conditions that put a significant doubt.

In the given case, there have been circumstances identified by CA Atul about events and conditions that put significant doubt on entity's assumption of going concern. They are :-

- increase in labour turnover
- decrease in revenues
- high fixed costs

- unable to repay creditors
- bankers not willing to help etc.

In ~~the~~ such situation, ~~an~~ ~~and~~ ~~must~~ the ~~managed~~ ~~forecast~~ draw the ~~future~~ ~~plan~~ and ~~cash~~ ~~flow~~ ~~assessment~~ for its ~~going~~ concern.

Auditor ~~must~~ check the ~~accuracy~~ of ~~underlying~~ data and ~~adequate~~ support for ~~assumption~~ and also shall obtain ~~written representation~~

Other ~~additional~~ ~~procedures~~ that may be done by auditor is the checking for ~~litigation~~ and ~~claims~~, ~~loan agreements~~ etc. ~~X~~

Question - 6) b) :-

When more persuasive audit evidence is needed regarding the effectiveness of control, it may be appropriate to increase the extent of testing of control as well as the degree of reliance on controls. The factors that the auditor ~~must~~ consider in determining the extent of test of controls:-

→ Reliance and reliability on the ~~internal~~ ~~controls~~ of entity 9

→ Length of the time ~~for~~ during which internal controls are relied on for purpose of audit.

→ ~~Efficiency~~ of internal controls

- Frequency of performance of internal control
- Expected rate of deviation
- extent of dependence and reliance checking for the purpose of given assertion. Well attempted but prefer not to do overwriting over cutting at it gives the negative impact

Question - 6) c) :-

The agricultural advances are categorised into two types:-

- Long duration crops :-  
those crops whose crop season is for more than an year.
- Short duration crops :-  
whose crop season is for less than one year.

The "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops would be treated as "short duration" crops. The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State.

NPA norms for long duration crops are that they must be recognised as non-performing if interest and principal is overdue for more than 1 crop season.

Will preferred to be more explanatory while explaining the things just like mentioned above about the crops

NPA for short duration crops are that - they must be recognised as non-performing if the interest and principal are overdue for more than 2 crop seasons.

### Question - 5)(a) :-

→ NPA classification is based on record of recovery. An asset is classified as an NPA (Non-performing asset) when the interest has been overdue for more than 90 days.

→ Net worth ~~or~~ of security owned by the borrower or guarantor is not considered for NPA classification.

→ The NPA classification and the percentage of provision is as follows:-

<u>Particulars</u>	<u>Provision</u>
Sub Standard assets (NPA for 12 months)	Praful to use the full forms instead of the short forms and try to follow the proper format in which you will be doing the work over here you can simply who is the table format for better presentation

~~Doubtful assets (NPA for more than 12 months) seems unrecorded~~

Doubtful 1	25% - 100%
Doubtful 2	40% - 100%
Doubtful 3	100% - 100%

~~Low assets 100%~~

→ The provision must have been made as:- (In lakhs)

<u>Name of Account</u>	<u>NPA Classification</u>	<u>amt of provision</u>
AK Industries	Doubtful 1	2.5 lakhs
Jupiter traders	Sub Standard	7.5 lakhs
VT & Co.	Doubtful 2	12 lakhs
ASD Sons	Loss Asset	1 lakh
5		23.0 lakhs

→ Therefore, Agrim must make the above provisions and those made by branch is incorrect.

→ since NPA classification is based on record of recovery, personal guarantee or fully secured <sup>does</sup> not affect the classification.

### Question - 5) b) :-

→ The scope of audit includes proper disclosure of financial statements. It is under the scope of audit that the auditor must determine that the financial information is presented and disclosed as required as per the applicable financial reporting framework of entity. 3

→ XYZ Ltd's management has changed its method for valuation of inventory without proper disclosure in the financial statements. This has resulted in major profits. You should also mention about the facts what is The fast and the question and then form the judgement

→ GAO must examine the reasons for such non-disclosure and ask management about the reasons because such a matter falls under the scope of audit.

→ Therefore, change in valuation method of inventory and consistency of application of methods followed in prior periods must be examined by the auditor as it falls under the scope of audit.

Question -5) c) :-

Matters that should be specially considered by ~~you~~ audit while auditing the accounts of the partnership firm:-

→ whether the partnership deed has been drafted and firm's business is within the scope of partnership deed. 1.5

→ the distribution of profits amongst the partners

→ the salaries and other benefits given to partners.

→ the interest on loans granted and taken by partners

→ the interest on capital, interest on drawings.

→ ~~the~~

→ whether the firm has been registered in the register of firms and appropriate procedures has been taken.

Again the answer is not as per the requirement it is completely different from the required answer kindly read question properly and then answer

→ whether the proper documentation has been done about audit appointment in writing.

→ whether there are proper records made about major financial decisions and approvals of the same.

### Question 4(a) :-

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→ Surprise solar Ltd has put limitation of scope on the audit which is restricting the auditor to perform certain procedures relating to significant portion of inventory.

The management cannot put limitation on scope of audit after the acceptance of engagement. The auditor must evaluate reasons of such restriction and inquire management You should mention the fact as well before framing any judgement or the conclusion assessment of such restriction.

If alternative sufficient and appropriate audit evidence is not available, the auditor must not accept such audit engagement. Limitation on scope makes this as a review engagement which overrides the purpose of audit. If the auditor has accepted and law or regulation makes audit not to withdraw, auditor should disclaim the opinion.

→ The liability limitation clause is restricting and benefiting the auditor by restricting its liability to twice the amount. This is an self-interest threat and auditor must behave in professional behaviour by taking professional care while auditing.

The auditor must be professionally competent and must take due care while auditing an entity. Such a liability limitation clause

is incorrect.

→ Therefore, CA Raman should not accept the engagement because management has put limitation on scope and liability clause that hampers the ethical and professional values of auditor and overrides the purpose of audit.

#### Question 4) b) :-

Few techniques as to how receipts can be suppressed and results into frauds and finally incurring losses are:-

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→ receipts may be tampered by indicating a lower amount of cash received as compared to actual cash received. This would make the entity bear loss for the rest amount. There might be fraud committed by the personnel responsible for such control.

→ entity personnel having a link

Write at least 5 points for 4 marks so that even a wrong point won't effect marks

### Question-4) c) :-

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Auditors do not always issue an unmodified opinion on financial statements. If the auditor identifies material misstatements that are material and ~~pervasive~~ pervasive or is unable to find sufficient and appropriate audit evidence, then the auditor may issue modified opinion.

#### Types of modified opinions:-

→ Qualified opinion:- When the auditor is able to get sufficient and appropriate audit evidence but finds misstatements that are material but not pervasive, then the auditor shall give a Qualified Opinion.

→ When the auditor is unable to obtain sufficient and appropriate audit evidence and concludes that material effects of misstatement may be material but not pervasive, then the auditor shall give a qualified opinion.

→ Adverse Opinion:-

When the auditor is able to obtain sufficient and appropriate audit evidence and concludes that misstatements are material and pervasive both, the auditor shall issue an Adverse Opinion.

## → Disclaimer of opinion :-

When the auditor is not able to obtain sufficient & appropriate audit evidence and concludes that probable amounts of mistatement Try to be more explanatory while explaining the things are natural and unascertained, then the auditor shall issue disclaimer of opinion.

## Question - 3) a) :-

i) These above factors identified affects the overall audit strategy for Tech Solutions Ltd.

The auditor shall now make audit strategy with consideration of the complexity

and understanding the risks of mergers,

etc. Influence on Overall Audit Strategy

Specific Audit Procedures for the Audit Programme

U were suppose to explain these points in detail

The revenue recognition criteria of Tech Solutions where they earn a significant revenue from long-term service contracts, special attention and procedures must be made for this criteria. This shall affect the overall strategy.

The regulatory and legal compliance and the risk of employee fraud must be taken into consideration for audit strategy.

ii) Specific audit procedures to be included in audit program to address the identified risk :-

→ evaluating if the company is in compliance with its regulatory environment.

→ evaluating the effectiveness of employees in cash and expense-related transactions.

→ ~~evaluating the long-term service contracts which generates the highest revenue and understand the revenue recognition criteria.~~

→ evaluate the valuation of intangible assets and assess the entity's policies & procedures regarding mergers and risks.

Question - 3) b) :-

matters to be disclosed by the entity

with regard to ~~the company~~ <sup>Since Mayank Ltd is covered under section 135</sup> of the Companies Act, the following matters shall be disclosed by the Mayank Ltd with regard to CSR activities:

9 → amount of expenditure made  
→ amount of shortfall in expenditure  
→ amount of CSR provision made  
→ reasons for shortfalls  
→ amount of any previous year brought  
→ nature of CSR activity done  
→ Description of the activity.  
→ any significant matter that arise during the activity.

### Question 3)(c) :-

As per ~~IAS 560~~, auditor shall perform audit procedures designed to obtain sufficient and appropriate audit evidence that all events occurring between the date of financial statements and date of audit report, that require adjustment or disclosure in, the financial statements and date of audit report, that such events are :-

*Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report: The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.*

*The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.*

- ~~Reading the minutes of the meetings of the entity of any meeting that took place after balance sheet date.~~
- ~~Reading the interim financial report of the company, if any.~~
- ~~Obtain understanding of any procedure that management has set up to identify such events.~~
- ~~Inquire management and those charged with governance regarding any significant matter that arose after balance sheet date.~~

Question 1(a) :-Periodic review of audit programme :-

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~~businesses vary in nature, size and operations. The audit programme made during previous year might not be relevant to this year because of significant changes in circumstances, or the business has opened a new line of business, company's recent shift and changes in policies and procedures.~~

~~In the given situation, CA Veer realised that audit programme had not been changed over ten years and this has resulted in failure in detecting significant issues arising in the company.~~

→ Therefore, periodic review of audit programme is essential and any modifications made must be properly documented to incorporate significant changes in entity.

→ If the auditor CA Veer continues with the outdated audit programme, the significant issues shall not be detected and material misstatements would also not be identified.   
any change in the business policy of the client may not be adequately known and consequently, audit work may be carried on, on the basis of an obsolete programme and, for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.

Question -1) b):-

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i) Inherent risk:-

It is the susceptibility of an assertion being material misstated, individually or in aggregate with other misstatements, before any application of entity's internal controls.

The company is not very successful due to a poor importance given by governments to this issue is an inherent risk.

ii) Control risk:-

It is the assertion of being materially misstated, either individually or when aggregated with other misstatements, after the application of relevant controls to prevent, detect and correct such misstatement.

The ~~control~~ risk of inventory being damaged is the control risk.  
Very well attempted but try to avoid overwriting and over cutting

iii) ~~as~~ detection risk:-

The risk that auditor might not be able to detect misstatements which can be material either individually or when aggregated with other misstatements by the audit procedures of the auditor.

The possibility of misstatement in revenue recognition not identified is a detection risk of Sree Food Pvt Ltd.

3 Question -1(c) :-

~~Audit is not an investigation. Auditing is done based upon the evidence and financial information provided by management. The auditor provides only reasonable assurance. The entity is free from material misstatement whether due to fraud or error or both. Auditor cannot provide absolute assurance as it has its own inherent limitations.~~

~~Investigation provides absolute assurance on the entity's detection of fraud and other misstatements.~~

~~Audit provides reasonable assurance which is the high level of assurance.~~

~~The inclusion of such clause in the appointment letter by MR Ltd is unwise.~~

~~The auditor's objection to such a clause is correct.~~