

**WT 4 (Ch. 7 – Reporting & Ch. 8 – Specialised Area)**

**Instructions: Part A comprises of MCQ.**

**Part B comprises of descriptive questions.**

**Part – A (Multiple Choice Questions)**

- Q.1** (a) (1 Mark)
- Q.2** (c) (1 Mark)
- Q.3** (b) (2 Marks)
- Q.4** (a) (1 Mark)
- Q.5** (b) (2 Marks)

**Part B (Descriptive Questions)**

**Q. No. 1 is Compulsory. Attempt Any two from the rest.**

**Q.1(a): Modified Opinion:**

- SA 705 states that the auditor shall modify the opinion in the auditor's report when:
  - (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. **(1 Mark)**
- In the given situation, auditor has obtained evidence in relation to non-recoverability of outstanding trade receivable.
- SA 705 further states that the auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. **(1 Mark)**
- In this scenario, the uncorrected misstatement stands at 200% of the profit before tax, while the materiality has been determined at 5% of the profit before tax. Hence, this misstatement should be considered as material. Additionally, if such a substantial amount is written off, it would significantly impact the financial position of the company. As a result, losses would have to be reported instead of profits. Taking the above factors into consideration, this misstatement should be classified as both material and pervasive. **(1 Mark)**

**Conclusion:** Adverse opinion needs to be expressed in accordance with the requirements of SA 705.

**(1 Mark)**

**Q.1(b): Reporting under CARO, 2020:**

- CARO, 2020 specifically provides that it shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3. This means that the auditor will need to give a CARO report on the consolidated financial statements with respect to clause 3(xxi) of the Order only. Thus, the auditor is not required to report on rest of the clauses of paragraph 3. **(1 Mark)**
- Clause 3(xxi) of CARO 2020 requires the auditor to state whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements. If yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks. **(2 Marks)**
- Therefore, it requires the auditor to provide details of the companies and the paragraph numbers of the respective CARO report containing the qualifications or adverse remarks only. Reporting under this is only required for those entities included in the consolidated financial statements to whom CARO 2020 is applicable. **(1 Mark)**

**Q.2: Requirement of SA 700 with respect to Supplementary Information Presented with F.S.:**

- As per SA 700 "Forming an Opinion and Reporting on Financial Statements", if supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion. [www.altclasses.in](http://www.altclasses.in) **(1 Mark)**
- If supplementary information that is not required by the applicable FRF is not considered an integral part of audited F.S., auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from audited F.S.. If this is not the case, then auditor shall ask management to change how unaudited supplementary information is presented. If management refuses to do so, auditor shall identify unaudited supplementary information and explain in auditor's report that such supplementary information has not been audited. **(1 Mark)**
- The auditor's evaluation of whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information and whether it is clearly labelled as "unaudited." **(1 Mark)**
- In the current case, the Statement of Average Revenue Per Booking (ARPB) and Comparative is unaudited supplementary information that could be construed as being covered by the auditor's opinion. Hence, the audit team should evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If not, then audit can suggest management to change the presentation of unaudited supplementary information by:

- (a) Removing any cross cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- (b) Placing unaudited supplementary information outside of the F.S. or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labelling them as unaudited. Unaudited notes that are intermingled with audited notes can be misinterpreted as being audited. **(1 Mark)**

**Conclusion:** If the management of XYZ Limited refuses to do so, the auditor shall identify the unaudited supplementary information, i.e., Statement of ARPB and Comparative and explain in the auditor's report that such supplementary information has not been audited. **(1 Mark)**

**Q.3(a): Reporting on F.S. prepared on Special Purpose Framework:**

Suhani may consider it appropriate to indicate that the auditor's report is intended solely for specific users. This may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph alerting the readers may be expanded to include these other matters and the heading modified accordingly. **(1 Mark)**

The draft para should read as under:

**Basis of Accounting and Restriction on Distribution and Use**

Without modifying our opinion, we draw attention to Note A to the F.S., which describes the basis of accounting. The F.S. are prepared to assist the company to comply with the financial reporting provisions of the contract referred to above. As a result, the F.S. may not be suitable for another purpose. Our report is intended solely for X Ltd. and Y Ltd. and should not be distributed to or used by parties other than X Ltd. and Y Ltd. **(1 Mark)**

**Q.3(b): Reporting requirements under Rule 11(g)**

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

- Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and **(1 Mark)**
- the same has been operated throughout the year for all transactions recorded in the software and **(1 Mark)**
- the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention. **(1 Mark)**

**Q.4: Implications for Auditor's Opinion on Summary F.S.:**

- When the auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements of auditor's report on summary financial statements described in SA 810: -
  - (a) State that the auditor's report on the audited financial statements contains a qualified opinion; and **(1 Mark)**
  - (b) Describe:
    - (i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion; and
    - (ii) The effect thereof on the summary financial statements, if any **(2 Marks)**
- If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. **(2 Marks)**

