

WT 5 (Ch. 7 – Completion and Review and Ch. 8 – Audit Reports)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

A. Raghav is in midst of finalizing audit reports of five clients. On reviewing each file, it is noticed as under:

- (A) In case of a company engaged in business of selling of agricultural products which are outside ambit of GST, engagement team has found that substantial part of revenues of the company (about 80%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenues generated through cash sales. Therefore, team has been unable to verify such revenues generated through cash sales.
- (B) TS Limited has been dragged to court by BS Limited for stealing its trade secrets using cyber theft and filed a claim for ₹ 50 crore. On reviewing audit file of TS Limited, CA Raghav finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of TS Limited are silent on this litigation matter.
- (C) It is noticed on review of audit file of a client that net profit before tax was ₹ 2 crore on a turnover of ₹ 100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ₹ 3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.
- (D) On reviewing file of a small finance bank, it was noticed that team has drafted following paragraph proposed to be included under Emphasis of Matter paragraph:
“Concerns are raised regarding “Going Concern” status of the Bank. However, the Bank feels that it continues to remain a “Going Concern” in view of reasons stated in note 10.
Our opinion is not modified in respect of this matter.”
- (E) On reviewing file of a client, it is noticed that team was not informed about finished goods of Rs. 1 crore lying at a location taken on rent in February 2023. The said issue was flagged at time of reconciling inventories by the team. Hence, team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is Rs. 8 crores. PBT of client is ₹ 10 crores.

Based upon above, answer the following questions:

- Q.1** As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705? **2**
- (a) Qualified opinion will be issued and basis for qualified opinion will also be provided.
- (b) Adverse opinion will be issued and basis for adverse opinion will also be provided.
- (c) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “auditor was engaged to audit financial statements.”
- (d) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “financial statements have not been audited.”
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- Q.2** Considering litigation matter of TS Limited, which of the following statements is most appropriate in this regard? **2**
- (a) Unmodified opinion needs to be expressed by auditor.
- (b) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.
- (c) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.
- (d) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.
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- Q.3** Considering description of issue regarding non-recoverability of export receivable of Rs. 3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report? **1**
- (a) Disclaimer of opinion
- (b) Unmodified opinion
- (c) Qualified opinion
- (d) Adverse opinion
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- Q.4** As regards matter of going concern in respect of a small finance Bank, which of the following statements is most appropriate? **1**

- (a) The para drafted by team is proper and in accordance with SA 570 since auditor has decided to give unmodified opinion.
- (b) The para drafted by team is proper and in accordance with SA 570 since matter has been disclosed in notes to accounts by bank management.
- (c) Instead of giving emphasis of matter paragraph, separate paragraph on 'Material Uncertainty Related to Going Concern' in report should be given in accordance with SA 570.
- (d) Separate paragraph on 'Material Uncertainty Related to Going Concern' under the heading "Emphasis of matter" paragraph in report should be given in accordance with SA 570.

Q.5 Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in February 2023, which type of opinion is appropriate to be issued in case of this client? 1

- (a) Modified opinion
- (b) Qualified opinion
- (c) Unmodified opinion
- (d) Either Modified or Qualified opinion



Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt any three from the rest.

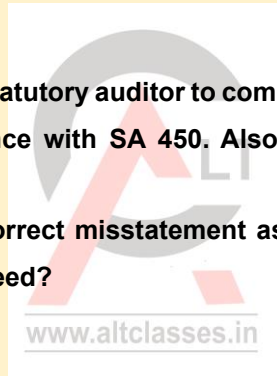
- Q.1** (a) Mention any three financial events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as going concern. 3
- (b) DOX Limited, a service provider company engaged in providing courier services pan-India as well as internationally, has appointed an internal auditor, Mr. G, in accordance with requirements of the Companies Act, 2013 during financial year 2023-24. The company's annual turnover during year 2022-23 and 2023-24 has been about ₹ 300 crores during each of above years. 3
- Business of the company has been profitable. Mr. G heads internal audit department of the company assessing governance activities, assisting in improving risk management activities and reviewing controls. Discuss reporting responsibility of statutory auditor of the company under the Companies Act, 2013 specifically in relation to internal audit and related matters for the year 2023-24.

Q.2 CA K is statutory auditor of DEMA Private Limited for the year 2022-23. The company has three plants in India. He is nearing completion of audit procedures relating to financial statements for the year under audit and has yet to sign audit report. Meanwhile, a huge fire had broken out in one of plants of the company located near Nashik on 25th June, 2023 damaging substantial part of machinery and work-in-process resulting in loss of about ₹ 5 crores. Unaware of the incident, he is in process of finalizing his report in first fortnight of July 2023. **4**

State few audit procedures to be performed by him to obtain sufficient appropriate evidence for identifying such events. Also explain auditor's responsibilities in this situation.

Q.3 Up and High Private Limited has started its export business during the year 2023-24. The company was catering to domestic market only in past years. CA H, statutory auditor of the company, is of the view that the company has understated its revenue by ₹ 50.00 lacs in the year 2023-24 by not complying with requirements of AS 9 relating to revenue recognition. **4**

- (i) Discuss responsibilities of statutory auditor to communicate with management in the above situation in accordance with SA 450. Also explain the usefulness of such communication.
- (ii) If management refuses to correct misstatement as communicated by the statutory auditor, how should he proceed?



Q.4 CA. S, while conducting audit of an entity is facing the following issues: - **4**

- (i) He has not been provided with necessary support for attending inventory count process of entity as at year end.
- (ii) Accounts Manager is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality.
- (iii) He was not able to verify revenues of entity due to lack of complete details.
- (iv) He has been asking for bills on a sample basis for the purpose of verifying expenses, but staff has been making lame excuses.

The matter was brought to knowledge of higher management, but of no avail. The auditor, CA S has come to the conclusion that the possible effects on the financial statements of undetected misstatements would be material and affecting many aspects of financial

statements and in such a case, a qualification of the opinion would be inadequate to communicate the gravity of the situation.

How should the auditor proceed in such a situation?

Q.5 CA E was appointed statutory auditor of XYZ Private Limited in AGM held in the month of August, 2023 for the first time for audit of financial statements of the company from year 2023-24 onwards. Since he is new to the company, he wants to be sure about integrity of accounting records. In this regard, he wants to ensure that software used by company for maintenance of its books of accounts is capable of tracking user activities and changes made to entries in books of accounts, if any, during the course of year.

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

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line "Inter Audit Test – WT 5"

Mention the following in the E-mail and answer Sheet:

1. Name:
2. Mobile No.:
3. Test: Inter Audit – WT 5



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