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Case Study Number	Chapter No. and Name	Topics Covered	Reference Material
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Chapter 1 - Quality Control

Integrated Case Scenario - 1

CA Mritunjay is statutory auditor of a listed company engaged in providing services relating to “tourism sector”. He is practicing in sole-proprietorship capacity. The audit of abovesaid listed company was conducted by his proprietary firm and report was issued for year 2024-25. Subsequently, audit report was selected by NFRA to oversee quality of service and compliance with Standards. Necessary information was called from auditor towards above objective.

It was required of him to produce audit working papers to show that audit was carried out in accordance with Standards on auditing. Details of the audit plan and details of risk assessment procedures carried out to identify and assess risk of material misstatement in financial statements were called. It was also required to show how response to assessed risks was designed and implemented and communicated with those charged with governance.

Audit working papers sent by him through email included procedures on how some balances in financial statements were verified. Also included in working papers were procedures performed by him relating to verification of inventories, trade receivables and trade payables.

The working papers sent by him to the authority did not include details on audit plan and manner of identifying and assessing risks of material misstatement. On being asked to respond, it was reasoned by him that audit was properly planned and required procedures were carried out in relation to material items on test check basis.

It has been further clarified by him to the authority that audit was carried out in accordance with Standards and it was practically not feasible for a firm of small size to make a detailed audit plan. It was also put on record with authority that he had assessed risk of material misstatement to be low based upon his understanding of the company. He has further reasoned that assessing risks is a matter of professional judgment. Representation has also been made by him stating that communications as necessary were made orally with those charged with governance.

It was also pointed out to him that engagement quality control review was not carried out. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise.

Attention was also drawn to the fact that financial statements of company were required to be prepared on basis of Ind-AS. However, at some places in notes to accounts, reference is made to accounting standards which are not applicable to the company. These errors have been attributed to data feeding entry errors by junior staff.

Based upon above, answer the following questions:

Q.1	<p>It has been contended by auditor that audit was properly planned. He has further stated that it was practically not feasible for firm of small size to prepare a detailed audit plan. Which of the following views is most appropriate in this regard?</p> <p>(a) Audit was, in fact, planned as evidenced by auditor’s submissions.</p> <p>(b) Although auditor has no record of audit plan, it does not affect compliance with SA 220.</p> <p>(c) Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220.</p> <p>(d) Audit was, in fact, planned as evidenced by auditor’s submissions. However. there is an exemption for small CA firms doing away with cumbersome documentation in relation to audit plan.</p>
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Q.2	<p>The auditor has reasoned that risk of material misstatement has been assessed to be low based upon his understanding of the company and it is a matter of professional judgment. Identify the most appropriate statement from below in this regard.</p> <p>(a) Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was arrived at.</p> <p>(b) Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220.</p> <p>(c) Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.</p> <p>(d) Such a query, itself, is outside the mandate of authority.</p>
Q.3	<p>Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below:</p> <p>(a) Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.</p> <p>(b) Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.</p> <p>(c) No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review.</p> <p>(d) Engagement quality control review is dependent upon benchmarks established under SQC 1. If those bench marks are satisfied, such a review is necessary.</p>
Q.4	<p>Considering auditor's reply regarding errors in data feeding entry by junior staff in relation to accounting standards, which of the following statements is proper?</p> <p>(a) Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220.</p> <p>(b) Such are examples of clerical errors encountered during preparation of reports. There is no effect on auditor's opinion and consequently question of non-compliance with SA 220 does not arise.</p> <p>(c) Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.</p> <p>(d) Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220.</p>
Q.5	<p>On your overall reading of the case study, which of the following statements appears to be true?</p> <p>(a) The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA-220.</p> <p>(b) The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.</p> <p>(c) SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220.</p> <p>(d) SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.</p>

Answer – Integrated Case Scenario 1		
Q. No.	Answer	
1	(c)	Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220.
2	(c)	Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.
3	(a)	Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.
4	(c)	Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.
5	(b)	The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.

Miscellaneous Topics

Integrated Case Scenario - 34

CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around ₹ 50 lakh. This profit would not be distributed as dividend to the shareholders; however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2024-25, the following observations with respect to the company were made by the auditors:

The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to ₹ 1.50 crore approximately.

Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2023.

As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.

CA & Co. Chartered Accountants, were also acting as auditors for another company, LS Ltd. and KD Bank Ltd. During the course of audit of LS Ltd., there was a difference of opinion between the management and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (I) The effect on audit of significant transactions that took place in the financial year.
- (II) Areas of high risk as assessed and reported by management's expert.
- (III) Significant auditor judgement relating to areas in the financials that involved significant management judgement.

During the audit of KD Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ₹29 lakh were overdue for more than two years.

73 (guaranteed by Government of India) agricultural loan accounts amounting to ₹ 25 lakh were overdue for more than two years.

6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to ₹ 25 lakh for each company were overdue for more than three and a half months.

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of ₹ 113 crore, of which preliminary expenses of ₹ 17 crore were included.

The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

1

Is the decision of CA & Co. of not reporting the issues of ZXC in CARO, 2020 justified? If so, under what reason?

	<p>(a) No. CARO, 2020 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO.</p> <p>(b) Yes. CARO, 2020 is not applicable to ZXC and hence the same need not to be reported.</p> <p>(c) No. As per SA 240, the auditor has to maintain professional skepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.</p> <p>(d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.</p>
2	<p>What is the total amount of loans that should be classified as NPA by KD Bank?</p> <p>(a) 79</p> <p>(b) 100</p> <p>(c) 204</p> <p>(d) 104</p>
3	<p>Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?</p> <p>(a) Guarantee given by KD Bank on behalf of constituent located in Myanmar.</p> <p>(b) A percentage of the total bills purchased by KD Bank.</p> <p>(c) Claims against the bank acknowledged as debt.</p> <p>(d) Unpaid salary of ₹ 5 lakh to five staffs of KD Bank Ltd., who are currently undergoing a court trail.</p>
4	<p>As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the following areas should CA & Co. take into account to determine "Key Audit Matter"?</p> <p>(I) The effect on audit of significant transactions that took place in the financial year.</p> <p>(II) Areas of high risk as assessed and reported by management's expert.</p> <p>(III) Significant auditor judgement relating to areas in the financials that involved significant management judgement.</p> <p>(a) (i) & (ii)</p> <p>(b) (ii) only</p> <p>(c) (i) & (iii)</p> <p>(d) (i), (ii) & (iii)</p>

Answer - Integrated Case Scenario 34

Q. No.	Answer	
1	(b)	Yes. CARO, 2020 is not applicable to ZXC and hence the same need not to be reported.
2	(d)	104
3	(a)	Guarantee given by KD Bank on behalf of constituent located in Myanmar.
4	(c)	(i) & (iii)

Integrated Case Scenario - 35

<p>Andy & Co. a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva</p>
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Swaroopam Private Limited by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year and your 1 year trainee asks you the following questions listed down. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

- The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as the reports given by him are designed in a marvellous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.
- The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Q.1	<p>The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:</p> <p>(a) As the work done by the internal auditor is marvellously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co.</p> <p>(b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co. need to reduce the unnecessary work as the same has been performed by the other auditor.</p> <p>(c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co. needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.</p> <p>(d) The work performed by the internal auditor can be used by the External Auditor in this case if the architect is not an employee of the company but is in private practice.</p>
Q.2	<p>The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:</p> <p>(a) The company needs to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.</p> <p>(b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.</p> <p>(c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.</p> <p>(d) Both (a) & (b).</p>

Q.3	<p>The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:</p> <p>(a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.</p> <p>(b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.</p> <p>(c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.</p> <p>(d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.</p>
Q.4	<p>The trainee asked you whether the IND AS is applicable to the group or not?</p> <p>(a) Yes, but only Manava Swaroopam Limited need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.</p> <p>(b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.</p> <p>(c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company's net worth is below 250 crore and is not listed in any recognised stock exchange in India.</p> <p>(d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.</p>
Q.5	<p>The company has requested its previous auditor to give back its audit documentation ("working papers") and warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:</p> <p>(a) The auditor has a right over its working papers but the owner of them is the company. He should make available the work papers to the company at its request and SQC 1 mandates the auditor to make copies made available to its clients.</p> <p>(b) The previous auditor is bound to return the work papers as the company has raised the confidentiality clause over the audit firm. Thus, SA 230 is not applicable in such a scenario as the original owner itself requests you to return the working papers.</p> <p>(c) The auditor has a right over its working paper, and he is the owner of the workpapers, but he cannot give the work papers to any person even at the request of the company.</p> <p>(d) The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company.</p>

Answer – Integrated Case Scenario 35

Q. No.	Answer	
1	(c)	The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co. needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.
2	(d)	Both (a) & (b).
3	(a)	The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.

4	(b)	Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.
5	(d)	The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company.

Integrated Case Scenario - 36

CA. Parampara is statutory auditor of “Lohit Finance Limited”, a micro finance institution, working predominantly in states popularly described as “seven sisters of North East”, West Bengal, Odisha and Andhra Pradesh.

It is a non-deposit taking NBFC catering to credit requirements of rural and semi-urban households and provides small ticket loans. She has performed audit procedures for year 2024-25 and following further information is given as under:

- A. The Board of Directors of the company has passed a resolution in its meeting held on 1.5.24 for non-acceptance of public deposits during year ended 31 March, 2025.**
- B. Audit procedures performed by her included testing design and operating effectiveness of controls relating to allowances for loan losses using Expected credit loss model (ECL) in accordance with Ind AS 109. Tests of details performed by her included verifying assumptions affecting ECL calculations.**
- C. The company has obtained certificate of registration dated 15 March, 2013 from RBI in pursuance of section 45-1A of RBI Act, 1934 and it is entitled to hold such certificate of registration in terms of its financial assets/income pattern for year ended 31st March, 2025.**
- D. It falls in middle layer of scale-based regulations and regulations for a systemically important non-deposit taking NBFC are applicable to it. Its capital adequacy ratio is stated in note 36 of financial statements.**
- E. The company has identified instances of cash embezzlement by the employees during the year. Such instances relate to employees fleeing after collection of instalments from customers at some centres. The total amount involved is ₹ 15 lacs and ₹ 5 lacs have been recovered subsequently. The matter has also been reported in note 35 of financial statements.**

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Q.1	<p>The Board of Directors has passed a resolution for non- acceptance of public deposits during year 2024-25. Which of the following statements is most appropriate in this regard as regards reporting obligations of auditor are concerned?</p> <ul style="list-style-type: none"> (a) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor’s additional report to the Board of Directors of the company. (b) Passing of board resolution for non-acceptance of public deposits, being an internal governance matter, is not required to be reported by auditor. (c) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement for auditor under CARO, 2020. (d) Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor’s additional report to the Board of Directors of the company as well as under CARO, 2020.
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Q.2	<p>The auditor has performed audit procedures relating to allowances for loan losses using ECL in accordance with Ind AS 109. As these allowances involve significant judgment and estimates, she wants to state how it was addressed by her. How she can do that?</p> <p>(a) By stating it in Auditor's additional report to Board of Directors.</p> <p>(b) By identifying it as Key audit matter in Independent auditor's report.</p> <p>(c) By incorporating Emphasis of Matter Paragraph in Independent auditor's report.</p> <p>(d) By stating it in matters as required under Section 143(3) of Companies Act.</p>
Q.3	<p>Which of the following statements is most appropriate in respect of reporting requirements relating to certificate of registration of the company obtained from RBI as described in para [C] of the case?</p> <p>(a) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company.</p> <p>(b) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020.</p> <p>(c) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO,2020. Further, it is also required to be reported in auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its financial assets/income pattern.</p> <p>(d) It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 under CARO,2020.</p>
Q.4	<p>As regards description of capital adequacy ratio as described in para [D] of case, which of the following statements meets regulatory reporting requirements?</p> <p>(a) Auditor has to ascertain and verify whether such ratio has been disclosed in financial statements in notes to accounts.</p> <p>(b) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at.</p> <p>(c) Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI.</p> <p>(d) Auditor has to ascertain and verify whether such ratio has been disclosed in financial statements in notes to accounts and has been correctly arrived at and is in compliance with minimum CRAR prescribed by RBI.</p>
Q.5	<p>Regarding instances of cash embezzlement identified by the company during the year, which of the following statements best fits into reporting requirements of an auditor?</p> <p>(a) Such instances are required to be reported under CARO, 2020 as well as in auditor's additional report to Board of Directors of company.</p> <p>(b) Such instances are required to be reported under CARO, 2020 under relevant clause.</p> <p>(c) Cash embezzled amount is less than ₹ 1 crore. No reporting under CARO, 2020 is required of such instances.</p> <p>(d) Such instances are to be specifically reported in auditor's report under Section 143(3) of Companies Act,2013.</p>

Answer – Integrated Case Scenario 36		
Q. No.	Answer	
1	(a)	Matter of passing of board resolution for non-acceptance of public deposits is a specific reporting requirement in auditor's additional report to the Board of Directors of the company.
2	(b)	By identifying it as Key audit matter in Independent auditor's report.
3	(c)	It is the duty of auditor to report whether company has obtained certificate of registration as required under section 45-IA of RBI Act, 1934 in auditor's additional report to the Board of Directors of the company as well as under CARO, 2020. Further, it is also required to be reported in auditor's additional report to Board of Directors whether company is entitled to hold such certificate in terms of its financial assets/income pattern.
4	(c)	Auditor has to ascertain and verify whether such ratio as disclosed in NBS-7 has been correctly arrived at and whether such ratio is in compliance with minimum CRAR prescribed by RBI.
5	(b)	Such instances are required to be reported under CARO, 2020 under relevant clause.

Integrated Case Scenario - 37																											
<p>JDDS Deposit Limited, a NBFC registered with RBI under section 45-IA of the RBI Act and listed on National Stock Exchange, appointed BDP & Co. Chartered Accountants as their statutory auditor for the financial year ending on 31 March 2025. Mr. Ankush the audit partner of BDP & Co. extracted the monthly net owned fund position from the books of Goods Deposit Limited.</p> <p>Month Net Owned Funds (as calculated based on monthly position)</p> <table> <tr> <th>Month</th><th>Net Owned Funds (as calculated based on monthly position)</th></tr> <tr> <td>April 2024</td><td>₹ 350 Lakh</td></tr> <tr> <td>May 2024</td><td>₹ 350 Lakh</td></tr> <tr> <td>June 2024</td><td>₹ 320 Lakh</td></tr> <tr> <td>July 2024</td><td>₹ 310 Lakh</td></tr> <tr> <td>August 2024</td><td>₹ 290 Lakh</td></tr> <tr> <td>September 2024</td><td>₹ 250 Lakh</td></tr> <tr> <td>October 2024</td><td>₹ 240 Lakh</td></tr> <tr> <td>November 2024</td><td>₹ 190 Lakh</td></tr> <tr> <td>December 2024</td><td>₹ 180 Lakh</td></tr> <tr> <td>January 2025</td><td>₹ 240 Lakh</td></tr> <tr> <td>February 2025</td><td>₹ 270 Lakh</td></tr> <tr> <td>March 2025</td><td>₹ 310 Lakh</td></tr> </table>		Month	Net Owned Funds (as calculated based on monthly position)	April 2024	₹ 350 Lakh	May 2024	₹ 350 Lakh	June 2024	₹ 320 Lakh	July 2024	₹ 310 Lakh	August 2024	₹ 290 Lakh	September 2024	₹ 250 Lakh	October 2024	₹ 240 Lakh	November 2024	₹ 190 Lakh	December 2024	₹ 180 Lakh	January 2025	₹ 240 Lakh	February 2025	₹ 270 Lakh	March 2025	₹ 310 Lakh
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<p>During the year, Mr. Vineet recommended to the Board and Audit Committee the appointment of internal auditors. However, the Board rejected this recommendation due to budget constraints. They assured that they would consider establishing an internal audit department within the Company next year.</p> <p>Based on the above facts, answer the following:</p>																											

Q.1	<p>Kindly guide Mr. Vineet regarding areas where he may need to report the absence of internal audit function in the company in Audit Report.</p> <p>(a) The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.</p> <p>(b) The auditor is required to report the matter in the Basis of Qualification paragraph of his audit report as the Auditor was unable to place reliance on the internal audit function of the Company.</p> <p>(c) The auditor is required to report the same under Para3(xiii) of the CARO (Companies Auditor's Report Order), 2020.</p> <p>(d) The auditor is required to report the said matter in Key Audit Matters as per SA 701, which requires significant professional judgement and user attention.</p>
Q.2	<p>Mr. Vineet reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Good Deposit Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the statutory auditor is required with reference to the position of the Company as at the end of the financial year ended 31 March and not based on each month's position. Kindly guide Mr. Vineet with respect to the requirement under Master Direction.</p> <p>(a) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as of the end of each month.</p> <p>(b) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.</p> <p>(c) Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as of the end of the financial year ended 31 March.</p> <p>(d) Only NBFC-MFI shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.</p>
Q.3	<p>Mr. Vineet wants to highlight the matter with respect to the absence of internal audit function in his audit report under the Emphasis of Matter paragraph. However, management was of the view that the audit partner was not right by disclosing the said matter in his audit report as it was an internal matter, and the audit team had not identified any material evidence which could impact the opinion of the auditor. Kindly guide Mr Vineet whether proposed reporting under Emphasis of Matter (EOM)para in the Audit Report is correct.</p> <p>(a) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users 'understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is incorrect.</p> <p>(b) EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is incorrect.</p>

	<p>(c) EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is correct</p> <p>(d) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is correct.</p>
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Answer – Integrated Case Scenario 37

Q. No.	Answer	
1	(a)	The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.
2	(c)	Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as of the end of the financial year ended 31 March
3	(b)	EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is incorrect.

Integrated Case Scenario - 38

Rainbow Non-Bank Limited, a "Non-Systemically Important Non-Deposit Taking Non-Banking Financial Company," was operating appropriately till the start of the COVID-19 pandemic. Due to unforeseen conditions during the pandemic and after that, the operating revenue of the NBFC started decreasing. Following is the position of Net Owned Funds of the company during the last 4 financial years:

Financial Year	Net Owned Funds
FY 21-22	₹ 12 crore
FY 22-23	₹ 5 crore
FY 23-24	₹ 3 crore
FY 24-25	₹ 2.5 crore

Rainbow Non-Bank Limited appointed Tirthankara & Company as their statutory auditor for FY 2024-25. Rainbow Non-Bank was involved in re-financing of accounts payables of other companies (i.e., paying to accounts payables on behalf of the company on the due date and allowing additional credit period by charging interest).

To test for understatement in existence or valuation of accounts payable, Mr. Abhinandan (Engagement Partner) decided to test recorded & refinanced accounts payables on a sample basis. He also decided to verify refinanced accounts payable against signed contracts.

Mr. Abhinandan did not identify any misstatements.

While performing audit procedures in the month of March 2025 itself, it was noticed by Mr. Abhinandan that Senior Sales Manager from Rainbow Non-Bank agreed to refinance the accounts payables of Opal Stones India Limited, but on the due date, he issued payment to his personal account instead of issuing payments to Accounts Payables of Opals Stones India Limited. The matter was flagged by him to audit committee and amount was subsequently recovered. Due to this Opal Stones had to pay an additional amount of ₹ 4 crore over and above amount of accounts payables of ₹ 25 crore embezzled by the Senior Sales Manager. As Opal Stones had to shell out extra funds due to above, it was proposing to file a suit against the company. However, negotiations were still going on between two companies to settle the matter. There was no disclosure in financial statements regarding these negotiations.

No other observation was identified by Mr. Abhinandan. He is considering to express an unmodified opinion in above situation. He has also approached EQCR to review working papers and documentation.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs: [RTP-Nov. 23]

Q.1	<p>While reviewing working papers of Mr. Abhinandan, the Engagement Quality Control Reviewer (EQCR) identified that the audit procedure followed to test for understatement in existence or valuation of accounts payable refinanced is not relevant. However, Mr. Abhinandan did not understand the comments provided by his EQCR. Kindly guide Mr. Abhinandan with respect to the “relevance of the audit procedure” by selecting the appropriate option from below:</p> <p>(a) Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement inexistence or valuation of accounts payable and not their understatement.</p> <p>(b) Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable will give comfort on completeness and valuation but not on existence.</p> <p>(c) The relevance of the information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.</p> <p>(d) The relevance of audit evidence is increased when it is obtained from independent sources outside the entity.</p>
Q.2	<p>During the review of Mr. Abhinandan's working papers, the External Conformity and Quality Review (EQCR) observed that Rainbow Non-Bank Limited's performance was subpar, with the Net Owned Funds (NOF) standing at ₹ 2.5 crore at the close of FY 24-25. The EQCR believed that Mr. Abhandan was expected to include the NOF in the auditor's certificate for the year-end. However, Mr. Abhinandan disagreed with the same. Can you please provide guidance on the accurate reporting obligation in the current case.</p> <p>(a) Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration and it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.</p> <p>(b) Non-banking financial company whose NOF falls below ₹ 200 Lakh shall submit a certificate from its Statutory Auditor.</p>

	<p>(c) A certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision. However, the same is not mandatory.</p> <p>(d) Only for NBFC - MFI, a certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 should be submitted to the Regional Office of the Department of Non-Banking Supervision.</p>
Q.3	<p>Regarding the issue involving the embezzlement by the Senior Sales Manager, what is the most appropriate compliance action for Mr. Abhinandan under the provisions of the Companies Act, 2013? Please select the most suitable option from the choices below:</p> <p>(a) As per Sec. 92 of the Companies Act, 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers and details of compounding of offences and appeals made against such penalty or punishment.</p> <p>(b) As per Sec. 143(12) of the Companies Act, 2013 read with Rule 13, if an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.</p> <p>(c) As per Sec. 143(12) of the Companies Act, 2013 read with Rule 13, if an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 10 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.</p> <p>(d) As per Sec. 92 of the Companies Act, 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers, which involves or is expected to involve individually an amount of ₹ 10 crore or above, and details of compounding of offences and appeals made against such penalty or punishment.</p>
Q.4	<p>Considering the overall materiality of ₹ 2 crore, EQCR believes that Mr. Abhinandan should not issue an unmodified opinion. Mr. Abhinandan, however, argues that he has not identified any material misstatement. To guide Mr. Abhinandan appropriately, the following option is the most suitable:</p> <p>(a) If the auditor has expressed an unmodified opinion on the financial statements, then the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.</p> <p>(b) If there is a material misstatement in the financial statements that relate to the non-disclosure of information that should be disclosed, then the auditor shall discuss the non-disclosure with those charged with governance, and where the impact of non-disclosure is material but not pervasive, then the auditor should issue a qualified opinion.</p> <p>(c) When evaluating the outcome of litigation, the Auditor should record in the audit report the interests and relationships of management that may create threats in the litigation and any applicable safeguards to save the company from outcomes of litigation, whether legal or not.</p> <p>(d) If the auditor has expressed an unmodified opinion along with the "Emphasis of Matter" Paragraph, then the auditor shall describe in the "Basis for Emphasis of Matter" section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.</p>

Q.5	<p>On noticing the issue, Mr. Abhinandan reported the fraud to Audit Committee within two days of his knowledge of the fraud, seeking their reply or observations within 45 days. However, neither the audit committee nor management replied to the auditor till the 45th day. Kindly guide what the auditor is expected to do in the case when he has not received any reply from the audit committee or management.</p> <p>(a) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall wait for the next 45 days, and he shall send a reminder to Audit Committee and Management to reply on the matter reported by him to them.</p> <p>(b) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall report the matter to shareholders and should seek their reply on observations within the next thirty days.</p> <p>(c) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.</p> <p>(d) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the CFO along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.</p>
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Answer - Integrated Case Scenario 38		
Q. No.	Answer	
1	(a)	Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement inexistence or valuation of accounts payable and not their understatement.
2	(a)	Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration and it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.
3	(b)	As per Sec. 143(12) of the Companies Act, 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.
4	(b)	If there is a material misstatement in the financial statements that relate to the non-disclosure of information that should be disclosed, then the auditor shall discuss the non-disclosure with those charged with governance, and where the impact of non-disclosure is material but not pervasive, then the auditor should issue a qualified opinion.
5	(c)	In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.