

Suggested Answers and Marking Scheme

MTP 10 (Full Syllabus)

Marks: 100

Time: 3 Hr.

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Q.1	(a) Management must prepare the consolidated financial statements as per the requirements of the Companies Act, 2013.	2
Q.2	(b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.	2
Q.3	(b) The objection raised by OM Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.	2
Q.4	(a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.	2
Q.5	(d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.	2
Q.6	(b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705	2
Q.7	(b) Yes, as it would be deemed that such post was delivered.	2
Q.8	(b) The Audit team should report the change in the "Emphasis of Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.	2
Q.9	(b) When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report	2
Q.10	(d) Yes, as the relevant clause for the reporting is not applicable in case of Pramati Limited.	2
Q.11	(b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.	2
Q.12	(c) The described situation can involve advocacy threats to the independence of the auditor.	2
Q.13	(a) Yes, because the provision should be 100% of the outstanding amount.	2
Q.14	(a) ₹ 1.50 crores	2
Q.15	(a) ₹ 0.40 crores	2

Part B (Descriptive Questions)**Q. No. 1 is Compulsory. Attempt ANY TWO from the rest.**

Q.1 (a)	<ul style="list-style-type: none"> According to SA 580, "Written Representations", written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations. Further, as per SA 560, "Subsequent Events", the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements. (0.5 Mark) In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the audit. Where this is the case, it may be necessary to request an updated written representation. (0.5 Mark) The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are. (1 Mark) Situations may arise where current management was not present during all the periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. (1 Mark) In the given situation, CA Ashish is carrying out an audit of restated financial statements of Krop Limited for the past 3 financial years i.e., 2023-24, 2022-23 and 2021-22 so he requested a Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the Company provided the Management Representation Letter only for the financial year 2023-24 as they were not in place during that period. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580, CA Ashish should take written representation letter from management of Krop Limited for the financial year 2022-23 and 2021-22 also. In case the management of Krop Limited does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705. (2 Marks)
Q.1 (b)	<p>Auditor's duties in case of inconsistency in Audit evidence:</p> <ul style="list-style-type: none"> SA 705, "Modifications to the Opinion in the Independent Auditor's Report", deals with auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. (1 Mark) The decision regarding which type of modified opinion is appropriate depends upon: <ul style="list-style-type: none"> (i) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

	<p>(ii) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements.</p> <p>Further, the auditor shall modify the opinion in the auditor's report when the auditor concludes that based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement. (2 Marks)</p> <ul style="list-style-type: none"> In the present case, during the audit, CA Ram obtained certain audit evidence which was not consistent with the affirmation made in financial statements. Therefore, CA Ram should modify his report in accordance with SA 705. Since CA Ram has obtained audit evidence which is inconsistent with the affirmations made in the financial statements. CA Ram should modify his opinion as per the circumstances of the case. <ul style="list-style-type: none"> (a) CA Ram shall express Qualified opinion when, having obtained sufficient appropriate audit evidence, he concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. (b) CA Ram shall express an Adverse opinion, where the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually, or in the aggregate, are both material and pervasive to the financial statements. (2 Marks)
Q.1 (c)	<ul style="list-style-type: none"> As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements. (1 Mark) The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain: <ul style="list-style-type: none"> (i) Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process. (ii) Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates. (iii) Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements. (1 Mark) The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures. (1 Mark) However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time. <p>Conclusion: In the given case, the management is not correct in refusing the relevant information to the auditor. (1 Mark)</p>

<p>Q.2 (a)</p>	<p>Some examples of technology risks where Mr. Raman should test the appropriate controls for relying on the digital systems:</p> <ul style="list-style-type: none"> • Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both. • Unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions or inaccurate recording of transactions (specific risks might arise when multiple users access a common database). • The possibility of information technology personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby leading to insufficient segregation of duties. • Unauthorized or erroneous changes to data in master files. • Unauthorized changes to systems or programs. • Failure to make necessary or appropriate changes to systems or programs. • Inappropriate manual intervention. • Potential loss of data or inability to access data as required. • Risks introduced when using third-party service providers. • Cybersecurity risks. <p style="text-align: right;">[0.5 Mark for each point (Any Four Points)]</p> <p>Mr. Raman should focus on the following control considerations to mitigate risks effectively:</p> <ol style="list-style-type: none"> (1) Auditors should gain a holistic understanding of changes in the industry and the information technology environment to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures. (2) Auditors, as appropriate, should consider risks resulting from the implementation of new technologies and how those risks may differ from those that arise from more traditional, legacy systems. (3) Auditors should consider whether digital upskilling or specialists are necessary to determine the impact of new technologies and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls. E.g., cybersecurity control experts, IT specialists in the team etc. <p style="text-align: right;">[1 Mark for each point (3 Marks)]</p>
<p>Q.2 (b)</p>	<p>Matters to be undertaken by the CA Firm while conducting the comprehensive audit of Saras Company Limited are:</p> <ol style="list-style-type: none"> (i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure? (ii) Have the accepted production or operational output been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it? (iii) Has the planned rate of return been achieved? (iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost? (v) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.? (vi) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?

	<p>(vii) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?</p> <p>(viii) If the enterprise has an adequate system of repairs and maintenance?</p> <p>(ix) Are procedures effective and economical?</p> <p>(x) Is there any poor or insufficient or inefficient project planning?</p> <p style="text-align: center;">[1 Mark for each point (Any Five Points)]</p>
Q.2 (c)	<ul style="list-style-type: none"> Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force. (2 Marks) An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment. (1 Mark) In the given situation, DND & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. DND & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same. <p>Conclusion: DND & Associates will be held guilty of professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. (1 Mark)</p>
Q.3 (a)	<ul style="list-style-type: none"> As per Sec. 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. (0.5 Mark) As per sub-Sec. 6 of Sec. 129 of the Companies Act, 2013, the Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of Sec. 129 or the rules made thereunder. (0.5 Mark) An investment entity is an entity that: <ul style="list-style-type: none"> (i) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (ii) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (iii) measures and evaluates the performance of substantially all of its investments on a fair value basis. (1 Mark)

	<ul style="list-style-type: none"> An investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity. (1 Mark) However, as per paragraph 33 of Ind AS 110, parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. (1 Mark) <p>Conclusion: Applying the above to the given case of L & K Investment Ltd., which fulfils all the conditions stated above, it is an investment entity. By applying Para 31 and 33 of Ind AS 110, it can be concluded that L & K Investment Ltd. is not required to consolidate as per Sec. 129 (3) of the Companies Act, 2013. (1 Mark)</p>
Q.3 (b)	<ul style="list-style-type: none"> The engagement partner shall take responsibility for: <ul style="list-style-type: none"> (i) The overall quality of each compilation engagement to which that partner is assigned and (ii) The engagement being performed in accordance with the firm's quality control policies and procedures. (2 Marks) The practitioner shall include in the engagement documentation: <ul style="list-style-type: none"> (i) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner. (ii) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and (iii) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report. (iv) The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation. <p style="text-align: center;">[1 Mark for each point (Any Three Points)]</p>
Q.3 (c)	<ul style="list-style-type: none"> Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949 debar a chartered accountant in practice from engaging in any business or occupation other than the profession of chartered accountancy unless permitted by the Council of the Institute so to engage. (1 Mark) There is no bar for a member to be a promoter / signatory to the Memorandum and Articles of Association of any company. There is also no bar for such a promoter / signatory to be a Director Simplicitor of that company irrespective of whether the object of the company includes areas which fall within the scope of the profession of Chartered Accountants. Therefore, members are not required to obtain specific permission from the Council in such cases. (1 Mark) Further, members of the Institute in practice may engage after obtaining the specific and prior approval of the Council in case of interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken. (1 Mark) In the given case, CA Yug is a promoter director of CDS Pvt. Ltd. and also, he is a sleeping partner in his family business of garments manufacturing firm. Applying the above to the given case, it can be concluded that, CA Yug:

	<p>(i) As Promoter Director: Not guilty of professional misconduct under the Chartered Accountants Act, 1949.</p> <p>(ii) As Sleeping Partner: Guilty of professional misconduct under the Chartered Accountants Act, 1949 as he did not obtain prior approval of the Council. (2 Marks)</p>
Q.4 (a)	<ul style="list-style-type: none"> According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties". (1 Mark) As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud that has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence. (2 Marks) In the given case, the auditor failed to discover the fraud during the audit. It is clearly given that the investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner. (1 Mark) From the facts given in the case and by applying Clause (7) and SA 240, it can be concluded that the auditor is guilty of professional misconduct and the directors can file disciplinary proceedings against the auditor. (1 Mark)
Q.4 (b)	<p>Integrated Reporting:</p> <ul style="list-style-type: none"> There are 6 Cs of Integrated Reporting – also known as 6 capitals: <ul style="list-style-type: none"> (i) Financial Capital: <ul style="list-style-type: none"> Pool of funds that is available to the organization for use in the production of goods or provision of services. Obtained through financing, such as debt, equity, or grants, or generated through operations or investments. (ii) Manufactured Capital: <ul style="list-style-type: none"> Seen as human-created, production-oriented equipment and tools. Available to the organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges & waste, and water treatment plants). (iii) Natural Capital: <ul style="list-style-type: none"> Is an input to the production of goods or the provision of services. An organization's activities also impact, positively or negatively, on natural capital. Includes water, land, minerals and forests, biodiversity, and ecosystem health. (iv) Human Capital: <p>People's skills and experience, their capacity, and motivations to innovate, including their:</p> <ul style="list-style-type: none"> Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights. Ability to understand and implement an organization's strategy.

	<ul style="list-style-type: none"> Loyalties and motivations for improving processes, goods, and services, including their ability to lead and to collaborate. <p>(v) Social Capital:</p> <ul style="list-style-type: none"> Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. Includes: <ul style="list-style-type: none"> Common values and behaviour. key relationships, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners. an organization's social license to operate. <p>(vi) Intellectual Capital:</p> <ul style="list-style-type: none"> Key element in an organization's future earning potential, with a tight link and contingency between investment in R&D, innovation, human resources, and external relationships, which can determine the organization's competitive advantage. Asia Pacific region continues to dominate in presenting sustainability data in annual reports. Approximately 60% of Companies reporting in 2022. Integrated reporting is strong in the Middle East. <p style="text-align: center;">[1 Mark for each point (Any Five Points)]</p>
Q.4 (c)	<ul style="list-style-type: none"> As per SA 320, "Materiality in Planning and Performing an Audit", when establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. <div style="text-align: right;">(1 Mark)</div> The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. <div style="text-align: right;">(1 Mark)</div> If the auditor concludes a lower materiality for the same, he shall determine whether it is necessary to revise performance materiality and whether the nature, timing and extent of the further audit procedures remain appropriate. <div style="text-align: right;">(1 Mark)</div> In the given case, Ananya & Co., as an auditor has applied the concept of materiality for the financial statements as a whole. But they want to re-evaluate the materiality concept on the basis of additional information of import of machinery for production of new product which draws attention to a particular aspect of the company's business. <p>Conclusion: Ananya & Co. can re-evaluate the materiality concepts after considering the necessity of such revision. <div style="text-align: right;">(1 Mark)</div></p>

<p>Q.5 (a)</p>	<p>Suggested audit procedure to be covered by the Concurrent Auditor to check the foreign exchange transactions of a branch of Silver Bank Ltd. is given hereunder:</p> <ul style="list-style-type: none"> • Check foreign bills negotiated under letters of credit. • Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules. • Check whether inward/outward remittance have been properly accounted for. • Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorized and necessary charges have been recovered. • Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the bank. • Ensure that the overbought/oversold position maintained in different currencies is reasonable, considering the foreign exchange operations. • Ensure adherence to the guidelines issued by RBI/HO of the bank about dealing room operations. • Ensure verification/reconciliation of Nostro and Vostro account transactions/ balances. <p style="text-align: center;">[1 Mark for each point (Any Five Points)]</p>
<p>Q.5 (b)</p>	<ul style="list-style-type: none"> • As per SA 505, "External Confirmations", negative confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations. (1 Mark) • The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. • Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. (1 Mark) • Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise. (1 Mark) • In the instant case, the auditor sent the negative confirmation requesting the trade payables having outstanding balances in the balance sheet while doing audit of Goldy Limited. One of the old outstanding of ₹ 20 lakh has not sent the confirmation on the credit balance. In case of non-response, the auditor may examine subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes. Further non-response for negative confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request. (2 Marks)
<p>Q.5 (c)</p>	<ul style="list-style-type: none"> • As per Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements". (2 Marks)

	<ul style="list-style-type: none"> In this case, CA Meet allowed his assistant who is not a partner but a member of the Institute of Chartered Accountants of India to sign stock certificate on his behalf and thereby commits misconduct. <p>Conclusion: CA Meet is guilty of professional misconduct under Clause (12) of Part I of First Schedule to the Chartered Accountants Act, 1949</p> <p style="text-align: right;">(2 Marks)</p>
Q.6 (a)	<p>Acceptance and Continuance of Client Relationships:</p> <p>As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," a firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about: -</p> <ul style="list-style-type: none"> Integrity of Client, promoters, and key managerial personnel. Competence (including capabilities, time, and resources) to perform engagement. Compliance with ethical requirements. <p>The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.</p> <p style="text-align: right;">(2 Marks)</p> <p>Further, as per SA 220, "Quality Control for an Audit of Financial Statements", the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence.</p> <p style="text-align: right;">(1 Mark)</p> <p>In view of the above, Sun & Associates should:</p> <ul style="list-style-type: none"> follow their firm's policies and procedures for client acceptance and continuance. This includes evaluating the integrity of the client, assessing potential risks associated with the engagement, and ensuring the firm has the necessary resources and expertise to perform the engagement effectively. The engagement team, should assess, whether the company is involved in any funding activities, to the political parties, and if so enquire and assess the risks related to such transactions. communicate clearly with the client regarding the scope of the engagement, the responsibilities of both parties, and any limitations on the services to be provided. This helps manage expectations and ensures alignment between the firm and the client. independence and objectivity throughout the engagement. Any potential threats to independence, such as relationships with the client's affiliates or involvement in political activities by related parties, should be evaluated and mitigated appropriately. Since the senior manager who was on this engagement is providing certain accounting services, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant ethical/independence requirements. continually monitor the client relationship for any changes or developments that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.

	<ul style="list-style-type: none"> ensure that their engagement team possesses the necessary competence and capabilities to perform the audit effectively. The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left Sun & Associates, the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit. <p style="text-align: center;">[1 Mark for each point (Any Two Points)]</p>
Q.6 (b)	<p>As per SA 501, "Audit Evidence - Specific Considerations for Selected Items", when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:</p> <p>(i) Attendance at physical inventory counting, unless impracticable, to</p> <ol style="list-style-type: none"> (1) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting. (2) Observe the performance of management's count procedures. (3) Inspect the inventory; and (4) Perform test counts; and <p>(ii) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. (2 Marks)</p> <p>Attendance at physical inventory counting involves:</p> <ol style="list-style-type: none"> (1) Inspecting the inventory to ascertain its existence and evaluate its condition and perform test counts. (2) Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and (3) Obtaining audit evidence as to the reliability of management's count procedures. (2 Marks) <p>Conclusion: Hence in the given case, the approach of Engagement Partner is not appropriate as when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. This should be done by performing various audit procedures which also includes attending physical count, observing the count, inspecting the inventory and reperforming physical counts. (1 Mark)</p>
Q.6 (c)	<ul style="list-style-type: none"> As per SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to draw users' attention to a matter 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, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: <ol style="list-style-type: none"> (i) The auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter; and (ii) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (2 Marks) In the instant case, since Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients, would now require production capacity license which will restrict the production of companies, due to change in laws and regulations. Management of the Act Pharma Limited assessed

the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statements. **(1 Mark)**

- Audit team of the Act Pharma Limited evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statements the audit team decided to disclose the same.
- The said matter is already disclosed and presented appropriately in financial statements and is of such importance that is fundamental to the users understanding of the financial statements and hence, it required to be disclosed under Emphasis of Matter paragraph.

Conclusion: Decision of audit team to disclose the same in Other Matter Paragraph is not in order, it should be disclosed in Emphasis of Matter Paragraph. **(1 Mark)**

OR

- As per Sec. 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 kilometers from the municipal limits of a city, in which the first office is located.

(2 Marks)

- Further a member having two offices of the type referred to above, shall have to declare which of the two offices is his main office, which would constitute his professional address. **(1 Mark)**
- In the given case, Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city and had great difficulty in regularly attending to the consultancy needs of his clients. A facilitation centre was opened in the industrial cluster and the proprietor is managing both the office and facilitation centre.
- Though distance between his office and facilitation centre i.e. sort of second office is within prescribed range i.e. 50 kilometers but Dheer & Co., will be liable for misconduct as prescribed intimation about facilitation centre and main office should be sent to the Institute of Chartered Accountants of India.

(1 Mark)



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