

Suggested Answers and Marking Scheme

MTP 4 (Ch. 7 – Reporting & Ch. 8 – Specialised Areas)

Marks: 40

Time: 1 hr. 15 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 (a)** The Limited Review Report for Quarter 3 was required to be issued, and consequently, the audit report for the full year is also required to be issued before resignation. **2**
- Reason:**
- Where Auditors' withdrawal is not permitted: As per Securities and Exchange Board of India's directive on the resignation of auditor, if the auditor proposes to resign:**
- After 45 days from the end any of the quarters of a period covered under the appointment, then he shall, before such resignation, issue the audit / Limited review report for such quarter as well as the next quarter.
 - If the Limited Review Report has been issued for all the three quarters, then the auditor shall issue the audit report for the full year before resigning from the engagement.
- Q.2 (b)** To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence. **2**
- Reason:**
- As per SA 705, if management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.**
- Q.3 (d)** The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second quarter was required to be issued. **2**
- Reason:**
- Where Auditors' withdrawal is not permitted:**
- As per the Securities and Exchange Board of India's directive on the resignation of auditor, if the auditor proposes to resign within 45 days from the end of any of the quarters of a period covered under the appointment, then the auditor shall, before such resignation, issue the audit/limited review report for such quarter.**
- Here, if the auditor proposed to resign on 25th November, i.e. within 45 days from the 2nd quarter and before issuance of the limited review report for 2nd quarter, then the limited review report for 2nd quarter was required to be issued.**

- Q.4 (d)** In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements. **2**

Reason:

As per SA 705, if the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall disclaim an opinion on the financial statements, if withdrawal from the audit before issuing the auditor's report is not practicable or possible.

- Q.5 (b)** The auditor should assess whether the earlier Emphasis of Matter relates to the information contained in the schedule, and include a reference only if the matter is relevant to what is being reported upon in this specific engagement. **2**

Reason:

Under an audit of a single statement / element, the auditor evaluates whether matters included in the report on the complete set are relevant to the element being audited. An EOM is included only if it affects the element. The environmental dispute did not affect net tangible assets, so relevance assessment is key.

- Q.6 (d)** The auditor cannot issue an unmodified opinion as a single statement that represents a major portion of the financial statements cannot be separately reported unmodified when the complete set carries an adverse opinion. **2**

Reason:

An unmodified opinion on a specific element cannot contradict an adverse opinion on the complete financial statements when the element is a major portion or closely interlinked with misstatements. Inventory made up ~60% of assets and was connected to revenue issues; hence unmodified reporting is not permissible.

Part B (Descriptive Questions)

Attempt ANY TWO from the rest.

- Q.1 (a) Supplementary Information Presented with the Financial Statements:**

SA 700 "Forming an Opinion and Reporting on Financial Statements" deals with the supplementary information presented with the financial statements. Accordingly,

- If supplementary information that is not required by applicable FRF is presented with the audited F.S., the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the F.S. due to its nature or how it is presented.
- When it is an integral part of the F.S., the supplementary information shall be covered by the auditor's opinion.

(2 Marks)

- If supplementary information that is not required by the applicable FRF is not considered an integral part of audited F.S., the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited F.S. If not, then the auditor shall ask management to change the presentation of supplementary information. If management refuses to do so, auditor shall identify unaudited supplementary information & explain in auditor's report that such supplementary information has not been audited. **(1 Mark)**
- When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule, included as an appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements. **(1 Mark)**
- Thus, additional profit and loss account is not considered an integral part of the audited financial statements and the auditor shall evaluate that supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. **(1 Mark)**

(b) Drafting of Opinion Paragraph and Basis of Opinion Paragraph:

M/s GN & Associates are unable to obtain SAAE about the financial information of a joint venture investment that represents over 90% of the group's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements. Therefore, the statutory auditor should issue a disclaimer of opinion. **(1 Mark)**

Relevant extract of Disclaimer of Opinion and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We were engaged to audit the accompanying consolidated financial statements of Tea Ltd., FMCG Company (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group), which comprise the consolidated balance sheet as on March 31, 2027, the consolidated statement of Profit and Loss, (consolidated statement of changes in equity) and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "Consolidated Financial Statements"). **(1 Mark)**

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. **(1 Mark)**

Basis for Disclaimer of Opinion

Group's investment in its joint venture Kali Ltd. Company is carried at ₹ 100 crores on the Group's consolidated balance sheet, which represents over 90% of the Group's net assets as on March 31, 2027. We were not allowed access to the management and the auditors of Kali Ltd., including Kali Ltd. auditors' audit documentation. **(1 Mark)**

As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Kali Ltd.'s assets that it controls jointly, its proportional share of Kali Ltd.'s liabilities for which it is jointly responsible, its proportional share of Kali Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement. **(1 Mark)**

(c) Audit Report of Separate Engagement of Audit of PPE:

As per SA 805, “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”, if the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity’s complete set of financial statements, the auditor shall express a separate opinion for each engagement. **(1 Mark)**

If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity’s complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

- (i) The auditor is not prohibited by law or regulation from doing so;
- (ii) That opinion is expressed in an auditor’s report that is not published together with the auditor’s report containing the adverse opinion or disclaimer of opinion; and
- (iii) The specific element does not constitute a major portion of the entity’s complete set of F.S.

(2 Marks)

In the given situation, CA Rajni is statutory auditor of STS Ltd. for the financial year 2026-27 for the complete set of financial statements and has also assigned the audit of PPE as a separate engagement for the same financial year. Considering the same, it can be concluded that CA Rajni can give separate opinion on separate engagement i.e. adverse opinion for statutory audit and unmodified opinion for separate engagement provided the above conditions are satisfied. **(1 Mark)**

Q.2 (a) Consideration while planning and performing audit of Special purpose financial statements:

As per SA 800 “Special Considerations – Audit of Financial Statements prepared in accordance with Special Purpose frameworks” auditor should consider the following while planning and performing audit of financial statements prepared in accordance with special purpose framework:

- In planning and performing an audit of special purpose F.S., auditor shall determine whether **application of the SAs** requires special consideration in the circumstances of the engagement. While determining the application of SA, auditor is required to consider the **requirement of SA 200 on applicability of SAs**. SA 200 requires the auditor to comply with
 - (a) relevant ethical requirements, and
 - (b) all SAs relevant to the audit.
- Auditor is required to comply with each requirement of an SA unless entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.
- Application of some of the requirements of SAs in an audit of special purpose F.S. may require special consideration by the auditor. For example, in SA 320, judgments about matters that are material to users of the F.S. are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose F.S., however, those judgments are based on a consideration of the financial information needs of intended users.

(1 Mark)

- SA 315 requires the auditor to obtain an understanding of the entity’s selection and application of accounting policies. In the case of F.S. prepared in accordance with the provisions of a contract, auditor shall obtain understanding of significant interpretations of contract that management made

in preparation of those F.S. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the F.S.

(1 Mark)

- In the case of special purpose F.S., such as those prepared in accordance with the requirements of a contract, management may agree with intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. Existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose F.S.

(1 Mark)

- In the case of special purpose F.S., persons responsible for the oversight of its preparation may not be the same as TCWG responsible for the oversight of the preparation of general purpose F.S. In such cases, requirements of SA 260 may not be relevant to the audit of the special purpose F.S.

(1 Mark)

(b) Auditor's responsibilities as to Other Information included in Annual Report:

- SA 720 "Auditor's Responsibilities relating to Other Information" deals with auditor's responsibilities relating to Other Information, whether financial or non-financial information included in entity's annual report. Accordingly, descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other items that may be included in other information.
- Auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

(2 Marks)

Auditor's duties with regard to reporting:

If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- Agrees to make the correction, the auditor shall determine that the correction has been made; or
- Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

Conclusion: Considering requirements of SA 720 as stated above, it can be concluded that partner is not correct in his approach.

(3 Marks)

(c) Loan granted to Subsidiary:

- As per Clause (iii)(a)(A) of Paragraph 3 of CARO 2020, the auditor is required to report, inter alia, whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;

(1 Mark)

- Further, as per Clause (iii)(c) of Paragraph 3 of CARO 2020, the auditor is required to report in respect of loans and advances in the nature of loans, whether schedule of repayment of principal & payment of interest has been stipulated & whether the repayments or receipts are regular;

(1 Mark)

- Furthermore, as per Clause (iii)(f) of Paragraph 3 of CARO 2020, the auditor is required to report, whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013.

(1 Mark)

- In the given case, the company has granted a loan of ₹ 5 crore to its subsidiary, for which no repayment schedule has been stipulated and no repayment has been received during the year. Accordingly, CA Ravi should make appropriate reporting under Clause (iii)(a)(A), Clause (iii)(c), Clause (iii)(f) of Paragraph 3 of CARO 2020.

(1 Mark)

Q.3 (a) Limitation after the auditor has accepted the engagement:

- As per SA 705 “Modifications to the Opinion in the Independent Auditor’s Report”, if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

(0.5 Mark)

- If management refuses to remove the limitation, the auditor shall communicate the matter to TCWG, unless all of TCWG are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

(0.5 Mark)

- If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- (a) If auditor concludes that the possible effects on the F.S. of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from audit, where practicable & possible under applicable law or regulation; or
 - (ii) If withdrawal from the audit before issuing the auditor’s report is not practicable or possible, disclaim an opinion on the financial statements.

(3 Marks)

- If the auditor withdraws, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

(0.5 Mark)

- In the given case, management imposed limitation on audit opinion. Thus, auditor should take above mentioned actions in response to such limitations.

(0.5 Mark)

(b) Reporting on Summary Financial Statements:

When the auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements of auditor's report on summary financial statements described in SA 810: **(2 Marks)**

(a) State that the auditor's report on audited financial statements contains a qualified opinion and

(b) Describe:

(i) The basis for the qualified opinion on the audited F.S., and that qualified opinion; and

(ii) The effect thereof on the summary financial statements, if any **(2 Marks)**

If the summary F.S. are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary F.S.

(1 Mark)

(c) Default in repayment of Loans/Borrowings:

As per Clause (ix)(a) of Paragraph 3 of CARO 2020, where the company has defaulted in repayment of loans or other borrowings, the auditor is required to report the amount of default and the period of default, along with lender-wise details. **(1.5 Marks)**

In the given case, the company had availed a term loan of ₹ 50 crore from a consortium of banks and defaulted in repayment of instalments aggregating to ₹ 6 crore for a period of 95 days. Although the default was subsequently cleared before the balance sheet date, the default had occurred during the year. **(1.5 Marks)**

Accordingly, CA Ravi should report the amount of default of ₹ 6 crore and the period of default of 95 days, lender-wise, under Clause (ix)(a) of Para. 3 of CARO 2020. **(1 Mark)**

Link for Resources (Revision Videos, MTPs, Amendments, Charts, etc.) and Inquiries

1	Youtube Channel	https://www.youtube.com/@altclassesca9193	 www.altclasses.in
2	Telegram Channel	https://t.me/altclasses	
3	Whatsapp Group for Doubts	https://chat.whatsapp.com/LSDM362giy2ErmRgTi7ceA	
4	LMS Link	https://altclasses.in/knowledge-forum-ca-final/	
5	E-mail Id	altclasses11@gmail.com	
6	Contact Number	9319805511, 7206941195	 ALT CLASSES A venture of Rankki Gang
7	Website Link	https://altclasses.in/	