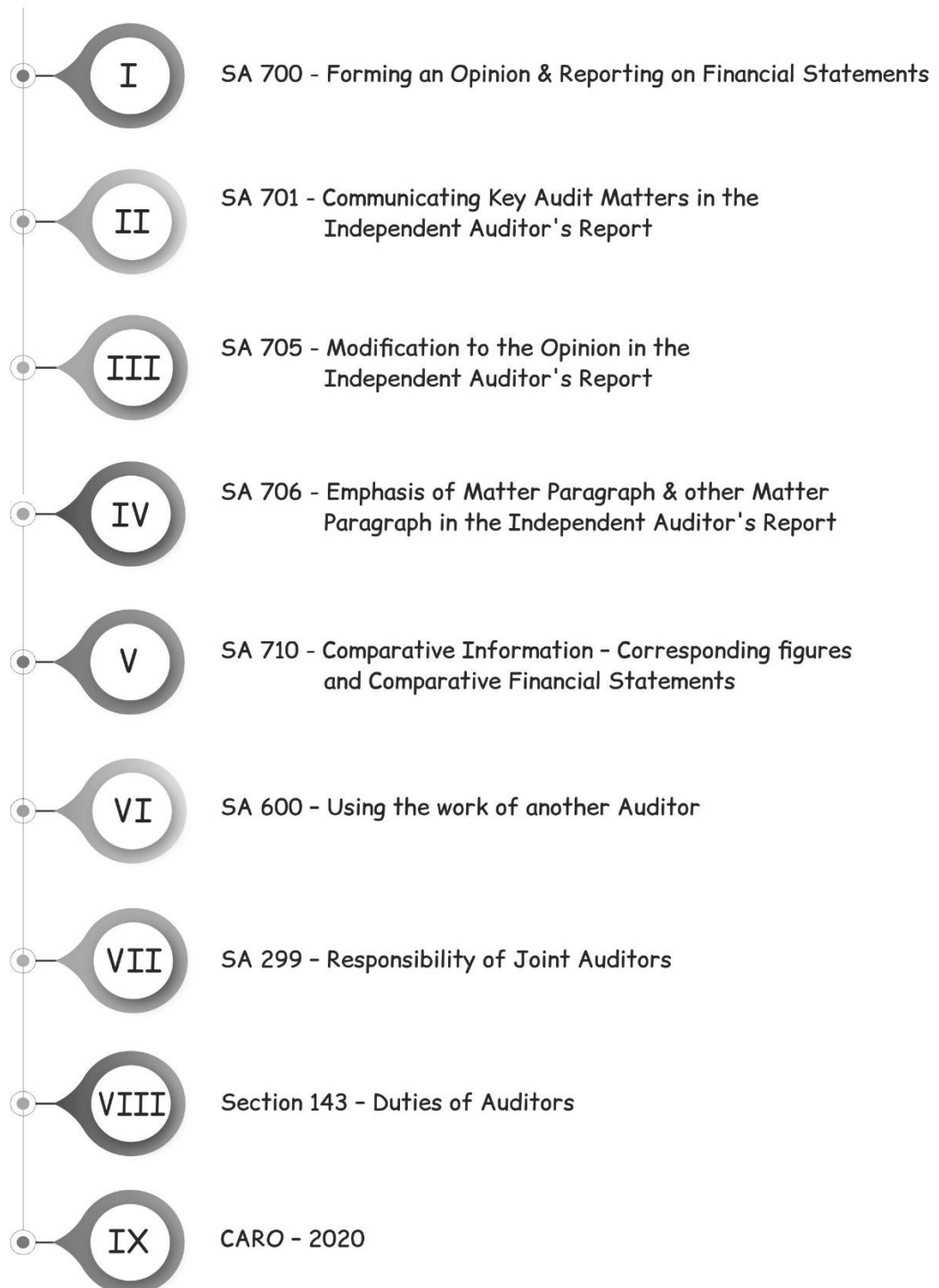


Audit Report

CHAPTER OVERVIEW:



Case Study

M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients. You are requested to go through the following and answer the questions that follow:

- During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference of depreciation but M/s Persistent & Co. has stated that they don't want to change the financial statements and if auditor persists they may give the effect in the next financial year.
- During the audit of M/s Dubious Brothers, Mr B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into bank regularly. When Mr. B asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr. B.
- During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise.

Based upon above, answer the following questions:

- 1) In case of M/s Persistent & Company, what would be an ideal Audit Opinion?
 - a) Unmodified
 - b) Qualified
 - c) Mention the fact in Emphasis of Matter Paragraph
 - d) Disclaimer
- 2) In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?
 - a) Qualified
 - b) Adverse

- c) Disclaimer
 - d) Unmodified
- 3) According to you, what would be appropriate course to take in case of M/s Honest & Associates?
- a) Issue Qualified Opinion
 - b) Issue Adverse Opinion
 - c) Mention the fact of change in method in Emphasis of Matter Paragraph
 - d) Issue Disclaimer of Opinion
- 4) When the Auditor, after conclusion of an Audit exercise, is of the opinion that there are material misstatements in the Financial Statements, but they are not pervasive, then what should an Auditor do?
- a) Issue Unmodified Opinion
 - b) Issue Qualified Opinion
 - c) Issue Disclaimer of Opinion
 - d) Mention it in Emphasis of Matter Paragraph
- 5) When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:
- a) Modified Opinion
 - b) Qualified Opinion
 - c) Disclaimer of Opinion
 - d) Unmodified Opinion

Answers to Case Study:

- 1) b)
- 2) c)
- 3) c)
- 4) b)
- 5) d)

Independent MCQ's

- 1) While expressing an unmodified opinion on financial statements, the auditor shall not use which of the following phrases?
 - a) present fairly in all material respects
 - b) give a true and fair view
 - c) with the foregoing explanation
 - d) All of the above

- 2) is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.
 - a) Emphasis of Matter Paragraph
 - b) Other Matter Paragraph
 - c) Key Audit Matter
 - d) Management Responsibility Paragraph.

- 3) Statement 1: Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements. Statement 2: Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.
 - a) Only Statement 1 is correct
 - b) Only Statement 2 is correct
 - c) Both the statements are correct
 - d) None of the statement is correct

- 4) Which of the following is not correct?
 - a) SA 700 - Forming an Opinion and Reporting on the Financial Statements
 - b) SA 701- Key Audit Matters in the Independent Auditor's Report
 - c) SA 705- Comparative Information- Corresponding figures and Comparative Financial Statements
 - d) SA 706- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

5) Responsibilities of Joint Auditors are governed by:

- a) SA 200
- b) SA 229
- c) SA 299
- d) SA 230

Answers to the MCQs based Questions:

- 1) c)
- 2) a)
- 3) d)
- 4) c)
- 5) c)

SA 700 – Forming an Opinion & Reporting on Financial Statements

Illustrations & Questions from ICAI Study Material

Question 1:

(ICAI SM)

M/s Amitabh & Associates are the statutory auditors of Ringston Ltd. which is a company engaged in the business of manufacture of pen drives. The auditor has started drafting the audit report for the FY 2021-22. CA Amitabh, the engagement partner is of the view that the financial statements of Ringston Ltd. represent a true and fair view. Give the draft of the opinion paragraph of the audit report

Answer:

We have audited the financial statements of Ringston Limited which comprise the Balance Sheet as at 31.03.2022 and the statement of Profit and Loss Account and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the

manner so required and give a **true and fair view** in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31.03.2022 and the Profit & Loss for the year ending on that date.

Question 2:**(ICAI SM)**

M/s Kite Rite & Associates are the statutory auditors of Prime Deluxe Limited, for the FY 2021-22. At the time of finalising the audit report, one of the engagement team members, Mr. Robin, asked the engagement partner, CA Kite as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA Kite, explained the team in detail and asked Mr. Robin to draft such section for the auditor's report of Prime Deluxe Limited. Help Mr. Robin to draft the Basis for opinion section.

Answer:**Basis for Opinion:**

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under **section 143(10) of the Companies Act, 2013**. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Question 3:**(ICAI SM)**

Diamond Shine Ltd. is a company engaged in the manufacture of detergent. M/s Bright & Associates are the statutory auditors of the company. Explain how the paragraph related to the management's responsibility will come in the auditor's report.

Answer:**Management's Responsibility for the Standalone Financial Statements**

- 1) The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with the

accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act.

- 2) This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.
- 3) In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

Question 4:**(ICAI SM)**

M/s Ajay Vijay & Associates are the statutory auditors of Sarovar Ltd. for the FY 2021- 22. The company is engaged in the business of manufacture of water bottles. At the time of finalising the auditor's report, one of the audit team members asked CA Ajay, the engagement partner to advise as to how the auditor's responsibilities can be shown in an appendix to the auditor's report. Draft the auditor's responsibility paragraph so as to advise the audit team member.

Answer:**Auditor's Responsibilities for the Audit of the Financial Statements**

- 1) Our objectives are to obtain **reasonable assurance** about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.
- 2) **Reasonable assurance is a high level of assurance, but is not a guarantee** that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

- 3) A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [indicate page number or other specific reference to the location of the description], forms part of our auditor's report.

Question 5:**(ICAI SM)**

M/s TUV & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. At the time of finalising the auditor's report, one of the audit team members asked the engagement partner, CA Tarun, to explain as to how the auditor's report will be signed. Help CA Tarun in explaining the same.

Answer:

The following is the correct way of signing an audit report.

M/s TUV & Associates

Chartered Accountants

(Firm's Registration No.)

Signature

(Name of the Member Signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place of Signature:

UDIN: 20037320AAAAAH1111

Date:

Question 6:**(ICAI SM)**

Maithili Thakur, a CA student, was perusing audit report of a company. Her eyes fell on an 18-digit alpha numeric number stated at end of audit report below the signatures of auditor and membership number. Make her understand objective and significance of such a randomly generated number. Is it required to be stated in case of audit reports only?

Answer:

- 1) The 18-digit alpha numeric number noticed by her at end of audit report is **Unique Document Identification number (UDIN)**. It is a system generated unique number.

- 2) Its basic objective is to curb the malpractices of non-CAs impersonating themselves as CAs. It helps in securing reports and documents issued by practicing CAs.
- 3) It is required to be stated in case of audit reports and certificates.

Question 7:**(ICAI SM)**

CA. Maya Memani has conducted audit of a company. She has asked Sana, a CA student undergoing training in her office, to prepare draft audit report. Sana was part of engagement team conducting the audit. She has been further told to prepare draft report expressing unmodified opinion. After drafting para comprising unmodified opinion, Sana feels no need to provide basis for opinion. Discuss why her thinking is not proper.

Answer:

"Basis for Opinion" is one of basic elements of an audit report in accordance with **SA 700**. Even in cases where unmodified opinion is expressed by auditor, "Basis for opinion" has to be provided by auditor. Basis for opinion section provides context about auditor's opinion. Therefore, Sana's thinking is not proper.

Question 8:**(ICAI SM)**

"The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements." Discuss stating clearly qualitative aspects of the entity's accounting practices

Answer:

The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.

This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.

Qualitative Aspects of the Entity's Accounting Practices

- 1) Management makes a number of judgements about the amounts and disclosures in the financial statements.
- 2) **SA 260** (Revised) contains a discussion of the qualitative aspects of accounting practices.
- 3) In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that

the cumulative effect of lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality include the following:

- a) The selective correction of misstatements brought to management's attention during the audit.
 - b) Possible management bias in the making of accounting estimates.
- 4) **SA 540** addresses possible management bias in making accounting estimates.

Question 9:

(ICAI SM)

"The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework."

Explain

Answer:

- 1) The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 2) In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
- 3) **That conclusion shall take into account:**
 - a) Whether sufficient appropriate audit evidence has been obtained;
 - b) Whether uncorrected misstatements are material, individually or in aggregate;
 - c) The evaluations

Question 10:

(ICAI SM)

In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required.

Answer:

- 1) In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements.
- 2) The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Indicators of a lack of neutrality include the following:

- a) The selective correction of misstatements brought to management's attention during the audit.
- b) Example
 - (i) Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings.
 - (ii) The combination of several deficiencies affecting the same significant account or disclosure (or the same internal control component) could amount to a significant deficiency (or material weakness if required to be communicated in the jurisdiction). This evaluation requires judgement and involvement of audit executives.
- c) Possible management bias in the making of accounting estimates.

Question 11:**(ICAI SM)**

The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion." The Opinion section of the auditor's report shall also identify the entity whose financial statements have been audited. Apart from the above, explain the other relevant points to be included in opinion section.

Answer:

The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."

The Opinion section of the auditor's report shall also:

- a) Identify the entity whose financial statements have been audited;
- b) State that the financial statements have been audited;
- c) Identify the title of each statement comprising the financial statements;
- d) Refer to the notes, including the summary of significant accounting policies; and
- e) Specify the date of, or period covered by, each financial statement comprising the financial statements.

Question 12:**(ICAI SM)**

"An auditor is required to make specific evaluations while forming an opinion in an audit report." State those evaluations.

Answer:

Specific Evaluations by the auditor:

In particular, the auditor shall evaluate whether:

- a) The financial statements adequately disclose the significant accounting policies selected and applied;
- b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- c) The accounting estimates made by management are reasonable;
- d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
- e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

Question 13:**(ICAI SM) / (MTP-I Mar.25)**

The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain

Answer:**Responsibilities for the Financial Statements:**

- 1) The auditor's report shall include a section with a heading "**Responsibilities of Management for the Financial Statements.**"
- 2) SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements.
- 3) Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.
- 5) This section of the auditor's report shall describe management's responsibility for:
 - a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; [because of the possible effects of fraud

on other aspects of the audit, materiality does not apply to management's acknowledgement regarding its responsibility for the design, implementation, and maintenance of internal control (or for establishing and maintaining effective internal control over financial reporting) to prevent and detect fraud.] and

- b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

Question 14:**(ICAI SM)**

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion". Explain what is included in this "Basis for Opinion" section.

Answer:**Basis for Opinion:**

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

- a) States that the audit was conducted in accordance with Standards on Auditing;
- b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs;
- c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
- d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Questions from ICAI RTP, MTP and Past Exam**Question 15:****(Jan.25)**

Singh & Associates, while carrying out statutory audit of Rubber Industries Limited, observed that debtors are not making payments invoice wise. As the debtors constitute sixty percent of the total assets, so auditors requested management to provide external confirmations of all the debtors outstanding for an amount exceeding ` 1.00 Lac. However, management resisted and no external confirmations were made available.

Auditor firm has decided to disclaim an opinion on the financial statements and seek your guidance on amendments that should be made in the "Basis for Opinion" section and elements required by SA 700 (Revised) which need not to be included in the auditor's report. Guide them suitably.

Answer:

In the given situation, since the audit firm has decided to disclaim an opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised) amend the heading "Basis for Opinion" to "Basis for Disclaimer of Opinion; and within this section, include a description of the matter giving rise to the modification.

Further, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the following elements required by SA 700 (Revised):

- (i) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
- (ii) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Question 16:

(RTP Jan.25)

Kiran, a CA student, was reviewing an audit report of the company when she noticed an 18-digit alphanumeric code below the auditor's signature and membership number. She wants to understand the purpose and importance of this randomly generated number as unique code. Is this code required for audit reports only?

Answer:

- 1) The 18-digit alpha numeric number noticed by her at the end of the audit report is Unique Document Identification number (UDIN). It is a system generated unique number.
- 2) It was noticed that financial documents/ certificates attested by third persons misrepresenting themselves as CA Members were misleading the Authorities and Stakeholders. ICAI also received number of complaints of signatures of CAs being forged by non CAs.
- 3) To curb the malpractices, ICAI implemented the concept of UDIN i.e. Unique Document Identification Number.
- 4) Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them.

- 5) An auditor is required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report and Certificates.
- 6) It is required to be stated in case of audit reports and certificates.

SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report

Questions from ICAI Study Material

Question 17:

(ICAI SM)

Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse.

Answer:

Communicating key audit matters in the auditor's report is not:

- a) A substitute for disclosures in the financial statements that the applicable Financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
- b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
- c) A substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
- d) A separate opinion on individual matters

Questions from ICAI RTP, MTP and Past Exam

Question 18:

(RTP May 25)

As per SA 701, the objectives of the auditor are to determine key audit matters and having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report. Which factors are taken into account by auditor

while determining Key Audit Matters? How Key Audit Matters are communicated in audit report?

Answer:

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit.

In making this determination, the auditor shall take into account the following:

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- b) Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.
- c) The effect on the audit of significant events or transactions that occurred during the period.
- d) The auditor shall determine which of the matters determined, as stated above, were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report shall state that:

- a) Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements [of the current period]; and
- b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Question 19:

(MTP-II Apr.25)

Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not considered as a substitute or alternative for a number of important items. What are those items in view of above?

Answer:

As per SA 701, "Communicating Key Audit Matters in the Auditor's Report", communicating key audit matters in the auditor's report is in the context of the auditor having formed an

opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:

- (i) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
- (ii) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report";
- (iii) A substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
- (iv) A separate opinion on individual matters.

Question 20:**(May 25)**

SA 701 "Communicating Key Audit Matters in the Auditor's Report" deals with the auditor's responsibility to communicate key audit matters in the auditor's report. Explain the definition of Key Audit Matter and how an auditor will determine the Key Audit Matters?

Answer:

Definition of Key Audit Matter: Key Audit Matters are those matters that, in the auditor's professional judgement were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Determining Key Audit Matters: The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- c) The effect on the audit of significant events or transactions that occurred during the period.

SA 705 - Modification to the Opinion in the Independent Auditor's Report

Illustrations & Questions from ICAI Study Material

Question 21:

(ICAI SM)

Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old & Associates are the statutory auditors of the company for the FY 2021-22. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material.

Explain the type of opinion that should be given by M/s Young Old & Associates in this case.

Answer:

M/s Young Old & Associates should give a qualified opinion as the effect of the misstatement on account of the non-bifurcation of loans into long term and short term loans, is material but not pervasive.

Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Question 22:

(ICAI SM)

M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2021-22. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2022. Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj.

Answer:

- 1) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- 2) In the case Porex Ltd., CA Taj found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Such situations are not reflected in the financial statements of the company despite having a material and pervasive impact on the financial statements. As such, CA Taj should give an adverse opinion.
- 3) Further, CA Taj should also consider the reporting responsibilities under CARO 2020 and section 143(12) of the Companies Act, 2013.

4) Disclaimer of Opinion:

- a) The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- b) The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Question 23:**(ICAI SM)**

Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2021-22 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. Explain the kind of audit report that the statutory auditor of the company should issue in this case.

Answer:

When the statutory auditor of the company is unable to obtain sufficient and appropriate audit evidence, the auditor should give disclaimer of opinion as per **SA 705**.

In the present case, the statutory auditor of the company is unable to extract correct data and reports from the SAP system for conduct of audit. Also, such data and reports are not available manually. **As such, the statutory auditor of Delightful Ltd. should give a disclaimer of opinion.**

Question 24:**(ICAI SM)**

M/s Daisy & Associates are the statutory auditors of Zebra Ltd. for the FY 2021-22. CA Daisy, the engagement partner wants to verify the cash in hand as on 31.03.2022. The cash balance of the company as on 31.03.2022 is ` 1,00,000/- and the turnover of the company for the year is ` 6 crores. The management of the company informs CA Daisy that such cash verification is not possible as the cashier is on leave for his marriage and no other employee of the company is available as all are busy in year ending activities. Explain the relevant provisions to deal with such a situation.

Answer:

- 1) 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 is 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.
- 2) In the present case CA Daisy, the statutory auditor is unable to verify the cash in hand of Zebra Ltd. as on 31.03.2022. The same is due to a limitation imposed by the management of Zebra Ltd. which is due to the non-availability of the cashier.
- 3) In such situation, CA Daisy should perform alternate procedures to verify the cash on hand of the company. **Further, CA Daisy should consider the impact on the auditor's report and may consider issuing a qualified opinion in this case.**

Question 25:**(ICAI SM)**

M/s Sun Moon & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. Owing to the pervasive nature of material misstatements in the financial statements of the company, CA Moon, the engagement partner decided to give an adverse opinion. Explain the responsibility of CA Moon with respect to communication with those charged with governance.

Answer:

CA Moon, being the statutory auditor of Venus Ltd. should communicate with those charged with governance about the circumstances that led to the expected modification i.e. an adverse opinion. Further the wording of such modification also needs to be discussed.

Question 26:**(ICAI SM)**

CA. Sarasbhai Patel, while conducting audit of an entity, feels that there is an atmosphere of non-cooperation all around. He has not been provided with necessary support for attending inventory count process of entity as at year end. Besides, CFO is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality. He was not able to verify revenues of entity due to lack of complete details. For verifying expenses, he has been asking for bills on a sample basis, but staff has been making lame excuses. The matter was brought to knowledge of higher echelons of management, but of no avail. The auditor feels that there could be misstatements and their possible effects would be material and affecting many aspects of financial statements. Assuming it is not possible to withdraw from engagement, what type of opinion should be expressed by auditor?

Answer:

In the given case, auditor has not been able to obtain sufficient appropriate audit evidence relating to inventories, debtors, creditors, revenues and expenses. The matter has brought to knowledge of management but no result has been achieved. Besides, auditor opines that there could be misstatements and their possible effects could be both material and pervasive.

In such circumstances, he should make disclaimer of opinion in accordance with SA 705.

Question 27:**(ICAI SM)**

Discuss the factors affecting the decision of the auditor regarding which type of modified opinion is appropriate.

Answer:

The decision regarding which type of modified opinion is appropriate depends upon:

- a) 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
- b) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements

Question 28:**(ICAI SM)**

Discuss the objective of the auditor as per Standard on Auditing (SA) 705 "Modifications to The Opinion in The Independent Auditor's Report".

Answer:

As per SA 705 "Modifications to the Opinion in the Independent Auditor's Report", the objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

- a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Question 29:**(ICAI SM)**

Distinguish between an adverse opinion and a qualified opinion. Also draft an opinion paragraph for both types of opinion.

Answer:

- 1) An auditor shall express an adverse opinion, when the auditor having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in aggregate are both material and pervasive.
- 2) Whereas, when the auditor, having obtained sufficient and appropriate audit evidence, concludes that misstatements are material but not pervasive, shall express a qualified opinion.
- 3) **SA 705 - "Modifications to the Opinion in the Independent Auditor's Report"** deals with the form and content of both types of report. The following are the draft of the opinion paragraphs of the reports.

a) Adverse Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 2021, the consolidated statement of profit and Loss, (consolidated statement of changes in equity) and the 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”).

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements **do not give a true and fair view in conformity with the accounting principles generally accepted in India**, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 2021, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.

b) Qualified Opinion

We have audited the standalone financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at March 31, 2021, and the statement of Profit and Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)) .

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements **give a true and fair view in conformity with the accounting principles generally accepted in India**, of the state of affairs of the Company as at March 31st, 2021 and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Questions from ICAI Model Test Paper

Question 30:

(Model Test Paper-2) / (MTP-II Apr.24)

M/s S R & Associates are the Statutory Auditors of Vanee Textile and Garments Ltd., a company engaged in the business of manufacturing of various textile products. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the F.Y. 2023-2024. CA S, the engagement partner, wants to conclude whether the financial statements as a whole are free from material

misstatements, whether due to fraud or error. Guide him about the factors he should consider to reach that conclusion.

Answer:

Factors to be considered to form an opinion:

The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

- 1) Whether sufficient appropriate audit evidence has been obtained
- 2) Whether uncorrected misstatements are material, individually or in aggregate.
- 3) The evaluations required
 - a) The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.
 - b) This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

Question 31:

(Model Test Paper-2) / (MTP-II Apr.24)

Discuss the objective of the auditor as per Standard on Auditing (SA) 705 "Modifications to The Opinion in The Independent Auditor's Report".

Answer:

As per Standard on Auditing (SA) 705 "Modifications to the Opinion In the Independent Auditor's Report", the objective of the auditor is **to express clearly an appropriately modified opinion** on the financial statements that is necessary when:

- a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Question 32:

(Model Test Paper-3) / (Sept.24)

CA Ayush has recently qualified and has joined a CA Firm. Ongoing through various audit reports, he observed that different phrases were used to express an unmodified opinion on the financial statements. On enquiring with a senior, he got to know that all those

phrases can be regarded as being equivalent. Which phrases are appropriate and which phrases are inappropriate while drafting an unmodified opinion?

Answer:

Appropriate and Inappropriate Phrases while drafting an Unmodified Opinion: When expressing an unmodified opinion on financial statements, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

- (i) In our opinion, the accompanying financial statements **present fairly, in all material respects**, [...] in accordance with [the applicable financial reporting framework]; or
- (ii) In our opinion, the accompanying financial statements **give a true and fair view of** [...] in accordance with [the applicable financial reporting framework].

The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent.

Inappropriate Phrases: When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

Question 33:

(Model Test Paper-6) / (MTP-I Nov.24)

"When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section." Briefly explain when the auditor should express:

- (i) Qualified Opinion.
- (ii) Adverse Opinion and
- (iii) Disclaimer of Opinion.

Answer:

"When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section." The auditor should consider the following while expressing the opinion in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

(i) Qualified Opinion

- a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, are material, but not pervasive or
- b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

(ii) Adverse Opinion:

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

(iii) Disclaimer of Opinion:

The auditor shall disclaim an opinion when he is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and he concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Questions from ICAI RTP, MTP and Past Exam

Question 34:

(RTP Sept.25)

Auditors do not always issue an unmodified opinion on financial statements. In cases where there are material misstatements or limitations in obtaining sufficient audit evidence, a modified opinion may be necessary.

Discuss the types of modified audit opinions an auditor can issue? Explain how these opinions differ based on the concepts of materiality and pervasiveness of the issue.

Answer:

There are three types of modified opinions, namely:

- (i) A qualified opinion.
- (ii) An adverse opinion.
- (iii) A disclaimer of opinion.

(i) Qualified Opinion:

The auditor shall express a qualified opinion when:

- a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

(ii) Adverse Opinion:

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

(iii) Disclaimer of Opinion:

- a) The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- b) The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Question 35:**(RTP May 24)**

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

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

The matter was brought to knowledge of higher management, but of no avail. The auditor, CA S has come to the conclusion that the possible effects on the financial statements of undetected misstatements would be material and affecting many aspects of financial statements and in such a case, a qualification of the opinion would be inadequate to communicate the gravity of the situation.

How should the auditor proceed in such a situation?

Answer:

- 1) In the given case, auditor has not been able to obtain sufficient appropriate audit evidence relating to inventories, debtors, creditors, revenues and expenses. The matter was brought to the knowledge of management but no result has been achieved. In such circumstances, auditor should proceed as given here under:

- 2) 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 the audit, where practicable and 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) If auditor withdraws from such an engagement, before withdrawing, 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.

SA 706 - Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor's Report

Illustrations & Questions from ICAI Study Material

Question 36:

(ICAI SM)

Lomaxe Ltd. is a company engaged in the business of manufacture of candles. CA Kamalnath is the statutory auditor of the company for the FY 2021-22. During the year under audit, there was a fire in the company's factory as a result of which, some of the company's plant and machinery was destroyed. The same was disclosed by the company in the notes to accounts annexed to the financial statements for the year ending 31.03.2022. CA Kamalnath decided to communicate this matter in the auditor's report as he is of the view that the matter is of such importance that it is fundamental to the user's understanding of the financial statements. Help CA Kamalnath to deal with this situation in the auditor's report.

Answer:

In the present case there is a need to add Emphasis on Matter Paragraph in the Auditor's Report. The draft of the same is as under:

Emphasis of Matter - Effects of Fire in Company's Factory

We draw attention to Note Y of the financial statements, which describes the effects of a fire in the Company's factory. Our opinion is not modified in respect of this matter.

Question 37:**(ICAI SM)**

Define Emphasis of Matter Paragraph and how it should be disclosed in the Independent Auditor's Report?

Answer:**Emphasis of Matter paragraph:**

A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Questions from ICAI Model Test Paper**Question 38:****(Model Test Paper-5) / (MTP-II Aug.24)**

Pure Services Limited is into the litigation relating to some legal action initiated by the industry regulator. The matter has reached jurisdictional High Court. Keeping in view uncertainty related to future outcome of matter, statutory auditor of the company has decided to include Emphasis of Matter (EOM) Paragraph in auditor's report.

- (i) Briefly discuss the considerations to be taken care of by the statutory auditor when EOM paragraph is included in auditor's report.
- (ii) State any two examples of circumstances where the auditor may consider it necessary to include an EOM paragraph.

Answer:

- (i) When the auditor includes an Emphasis of Matter (EOM) paragraph in the auditor's report, the auditor shall:-
- Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter"
 - Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements and
 - Indicate that the auditor's opinion is not modified in respect of the matter emphasized.
- (ii) Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter (EOM) paragraph are:
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
 - A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
 - Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
 - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

Question 39:**(RTP May 24)**

Mention some examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph.

Answer:**Examples of circumstances to include Emphasis of Matter Paragraph:**

As per SA 706 (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs in The Independent Auditor's Report", the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.

- c) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- d) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

Questions from ICAI RTP, MTP and Past Exam

Question 40:

(Jan.25)

NHG & Co., Chartered Accountants, is statutory auditor of M/s Backlog Private Limited (BPL) for the F.Y. 2023-24. BPL is engaged in providing telecom services and received a notice from telecom regulator to deposit fee for violating norms. BPL went into litigation and filed an appeal with telecom appellate authority and the matter is pending for decision as at the end of the financial year. However, the company has disclosed the same in financial statements. Audit team members have completed the audit procedures for the year 2023-24 and are in the process of drafting the audit report. Audit team leader knows that matter of norms violation and pending appeal need to be included in the audit report and seeks your guidance on how to report the matter in the auditor's report. Guide him suitably.

Answer:

- 1) As per **SA 501** if the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the entity's external legal counsel.
- 2) Further, as per **SA 706 (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"**, the auditor shall report an uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- 3) In addition to above, the auditor's report shall also state whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement as per Section 143(3) of the Companies Act, 2013.
- 4) In the given case, M/s BPL received a notice to deposit fee for violating norms. It went into litigation and filed an appeal which is pending for decision as at the end of the financial year. The company has disclosed the same in the financial statements. The auditor should assess that pending appeal requires adjustment in financial statements. He should ask company management to make necessary adjustment to the financial statements. If

adjustment is not made by management, he should consider the impact on auditor's report and report accordingly.

Alternative Solution:

- 1) As per SA 706 (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", the auditor shall report an uncertainty relating to the future outcome of exceptional litigation or regulatory action under Emphasis of Matter paragraph.
- 2) When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:
 - (i) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
 - (ii) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
 - (iii) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

SA 710 - Comparative Information - Corresponding figures and Comparative Financial Statements

Questions from ICAI RTP, MTP and Past Exam

Question 41:

(Jan.25)

Oval Enterprises Limited (OEL) is under legal obligation to represent its current year's financial statements along with the previous year's financial statements (comparative financial statements). Karan & Associates, Chartered Accountants, has been appointed as the statutory auditor for the year. CA Karan noticed that the last year's financial statements contain an adverse opinion for the financial statement as a whole due to a misstatement in the evaluation and disclosure of the debtors. Guide CA Karan for his duty regarding the treatment and addressing the issue while drafting his audit report. What disclosures he is required to make in this regard?

Answer:

- 1) In the given case, CA Karan noticed that the last year's financial statements contain an adverse opinion for the financial statement whole due to a misstatement in the evaluation and disclosure of the debtors.
- 2) If the auditor's report on the prior period, as previously issued, included an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.
- 3) In the Basis for Modification paragraph in the auditor's report, the auditor shall either:
 - a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
 - b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
- 4) Further, when comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:
 - a) That the financial statements of the prior period were audited by a predecessor auditor;
 - b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - c) The date of that report,

Question 42:**(MTP-II Apr. 25)**

The senior member of the firm Soni & Associates, Chartered Accountants, informed to its auditing staff that at the time of audit reporting regarding corresponding figures, when corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in specified circumstances. What are those exceptional circumstances?

Answer:

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.

In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
- b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

Question 43:

(RTP Jan.25)

The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements.

Explain clearly the differences between the approaches stating the essential audit reporting. Also define comparative information and audit procedures regarding comparative information.

Answer:

- 1) The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework.
- 2) There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in terms of engagement.
- 3) The **essential audit reporting differences between the approaches are:**
 - a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only; whereas
 - b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

4) Definition of Comparative Information - The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.

5) Audit Procedures regarding comparative information:

The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

- a) The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

SA 600 – Using the work of another Auditor

Questions from ICAI Study Material

Question 44:

(ICAI SM)

CA. Dicky Yadav is auditor of a company having four branches. The four branches are audited by another auditor CA. Yamini Jain. The reports in respect of accounts of branches examined by her have already been sent to company auditor. During the course of audit, CA Dicky Yadav asks the branch auditor to share with her summary of audit procedures and findings in respect of accounts of branches examined. CA. Yamini Jain feels it as encroachment of her domain. Discuss the issue.

Answer:

As per SA 600 - "Using the Work of Another Auditor", the principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. Such review of audit procedures and findings can be undertaken if principal auditor feels that it is necessary to apply such procedures to obtain sufficient appropriate audit evidence. **It is not an encroachment of another auditor's domain.**

SA 299 – Responsibility of Joint Auditors

Questions from ICAI Study Material

Question 45:**(ICAI SM)**

Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should identify division of audit areas and common audit areas. Explain stating the other relevant considerations in this regard.

Answer:

Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan.

In developing the joint audit plan, the joint auditors should:

- a) Identify division of audit areas and common audit areas;
- b) Ascertain the reporting objectives of the engagement;
- c) Consider and communicate among all joint auditors the factors that are significant in directing the engagement team's efforts;
- d) Consider the results of preliminary engagement activities, or similar engagements performed earlier.
- e) Ascertain the nature, timing and extent of resources necessary to accomplish the engagement.

Question 46:**(ICAI SM)**

The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit.

Answer:**Joint Audit:**

- 1) The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations.

- 2) Joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually.
- 3) It essentially involves sharing of the total work. This is by itself a great advantage. In specific terms the advantages that flow may be the following:
 - a) Sharing of expertise.
 - b) Advantage of mutual consultation.
 - c) Lower workload.
 - d) Better quality of performance.
 - e) Improved service to the client.
 - f) In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.
 - g) Lower staff development costs.
 - h) Lower costs to carry out the work.
 - i) A sense of healthy competition towards a better performance

Questions from ICAI Model Test Paper

Question 47:

(Model Test Paper-4) / (MTP-I July 24)

PQR & Associates and MNO & Co., both firms of Chartered Accountants, have been appointed as joint auditors of Gama and Beta Limited. Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should identify division of audit areas and common audit areas. Explain stating the other relevant considerations in this regard with reference to the Standards on Auditing.

Answer:

In accordance with SA 299, "Joint Audit of financial statements", before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, PQR & Associates and MNO & Co., the joint auditors should:

- a) Identify division of audit areas and common audit areas;
- b) Ascertain the reporting objectives of the engagement;

- c) Consider and communicate among all joint auditors the factors that are significant in directing the engagement team's efforts;
- d) Consider the results of preliminary engagement activities, or similar engagements performed earlier
- e) Ascertain the nature, timing and extent of resources necessary to accomplish the engagement

Question 48:**(Model Test Paper-7) / (MTP-II Dec.24)**

ASD Limited's business has grown from one state of India to various countries of the world. Since the business has increased manifold, the management decided to appoint joint auditors for conducting the statutory audit of the company. They appointed three CA firms for it. For which audit work the joint auditors will be jointly & severally responsible?

Answer:**Joint Audit of Financial Statements:**

As per SA 299, "Joint Audit of Financial Statements", all the joint auditors shall be jointly and severally responsible for:

- a) the audit work which is not divided among the joint auditors and is carried out by all joint auditors;
- b) Decisions taken by all the joint auditors under audit planning in respect of common audit areas;
- c) Matters which are brought to the notice of the joint auditors by any one of them and there is an agreement among the joint auditors on such matters;
- d) Examining that the financial statements of the entity comply with the requirements of the relevant statutes;
- e) Presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
- f) Ensuring that the audit report complies with the requirements of the relevant statutes, applicable Standards on Auditing and other relevant pronouncements issued by ICAI.

Question 49:**(May 25)**

As per SA 299 "Joint Audit of Financial Statements", joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an

expert job in a given time period which may be difficult to accomplish acting individually. Explain by stating any five advantages of joint audit.

Answer:

As per SA 299, "Joint Audit of Financial Statements", the advantages of Joint Audit are:

- (i) Sharing of expertise.
- (ii) Advantage of mutual consultation.
- (iii) Lower workload.
- (iv) Better quality of performance.
- (v) Improved service to the client.
- (vi) In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.
- (vii) Lower staff development costs.
- (viii) Lower costs to carry out the work.

Section 143 – Duties of Auditors and CARO – 2020

Questions from ICAI Study Material

Question 50: (ICAI SM) / (Model Test Paper-2) / (MTP-II Apr.24)

CA. Ravi Patnaik is conducting audit of a company for which reporting requirements under CARO, 2020 are applicable. He finds that cash credit facilities amounting to ₹ 4 crores were released to the company by branch of a bank for meeting its working capital requirements. He finds that out of above funds, ₹ 1 crore have been used by company for installing effluent treatment plant to meet State pollution control Board requirements. Is there any reporting obligation upon him under CARO, 2020?

Answer:

Clause (ix) (d) of CARO, 2020 whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated.

In the given situation, funds have been raised for meeting working capital requirements for ₹ 4 crores. Cash credit facilities for meeting working capital requirements are, by their very nature, short term borrowings. Out of above, ₹ 1 crore have been used by the company for investment in effluent treatment plant which is ostensibly for a long-term purpose.

Hence, the matter needs to be reported in accordance with requirements of Clause (ix) (d) of CARO, 2020.

Question 51:**(ICAI SM)**

ABC Ltd is a company incorporated in India. It has branches within and outside India. Explain who can be appointed as an auditor of these branches within and outside India. Also explain to whom branch auditor is required to report.

Answer:

- 1) Sub-section (8) of section 143 of the Companies Act, 2013, prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.
- 2) Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:
- 3) It may be noted that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.
- 4) Further as per rule 12 of the Companies (Audit and Auditors) Rules, 2014, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

Question 52:**(ICAI SM)**

Discuss the reporting requirements under CARO 2020, with respect to the moneys raised by the company by way of initial public offer or further public offer and where the company has made any preferential allotment or private placement of shares.

Answer:

The following are the disclosure requirements as per CARO 2020, with respect to the moneys raised by the company by way of initial public offer or further public offer and where the company has made any preferential allotment or private placement of shares.

- a) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
- b) Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;

Question 53:**(ICAI SM)**

Discuss which class of companies are specifically exempt from the applicability of CARO 2020?

Answer:

CARO 2020 shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except-

- a) A banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- b) An insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- c) A company licensed to operate under section 8 of the Companies Act;
- d) A One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and

- e) A private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

Questions from ICAI Model Test Paper

Question 54:

(Model Test Paper-1) / (MTP-I Mar.24)

DOX Limited, a service provider company engaged in providing courier services pan-India as well as internationally, has appointed an internal auditor, Mr. G, in accordance with requirements of the Companies Act, 2013 during financial year 2023-24. The company's annual turnover during year 2022-23 and 2023-24 has been about Rs.300 crores during each of above years. Business of the company has been profitable. Mr. G heads internal audit department of the company assessing governance activities, assisting in improving risk management activities and reviewing controls. Discuss reporting responsibility of statutory auditor of the company under the Companies Act, 2013 specifically in relation to internal audit and related matters for the year 2023-24.

Answer:

DOX Limited is in business of providing courier services. As name of the company and given facts suggest: -

- a) It is not a small company under section 2(85) of the Companies Act, 2013.
- b) It is not a private company.
- c) It is not a one person company.
- d) It is not a banking or insurance company.
- e) It is not a Section 8 company as it does not has charitable objectsetc.

Therefore, it does not qualify for any exemption from applicability of CARO, 2020. Hence, reporting requirements under CARO, 2020 are applicable. While reporting under CARO, 2020, statutory auditor is required to report under clause (xiv) of paragraph 3 as under:

- i) Whether the company has an internal audit system commensurate with the size and nature of its business
- ii) Whether the reports of the internal auditors for the period under audit were considered by the statutory auditor

Question 55:**(Model Test Paper-3) / (Sept.24)**

M/s. PQ Limited has a turnover of ₹ 807 crores during the financial year 2023-24. It has outstanding dues towards Goods and Services Tax (GST) of ₹ 10 lakhs since June 2023. When enquired by the auditor, the company's management informed him that they have filed an objection letter for the said demand with the GST Authorities, however, no response is received from the GST Department. State the reporting responsibility of the auditor under paragraph 3, clause (vii) of the Companies Auditor's Report Order, 2020 [CARO, 2020].

Answer:**Reporting responsibility of the auditor under paragraph 3 of CARO, 2020:**

- 1) The auditor is required to report as per clause (vii) (a) of Paragraph 3 of CARO, 2020 that whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;
- 2) Further, the auditor is also required to report as per Clause (vii) (b) of Paragraph 3 of CARO, 2020, where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute).

Question 56:**(Model Test Paper-4) / (MTP-I July 24)**

Mr. Chetan is appointed as an auditor of Spot Limited, a small company. Mr. Chetan is aware that CARO 2020 is not applicable to small company. List out the classes of companies that are specifically exempt from the applicability of CARO 2020.

Answer:

CARO 2020 shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except-

- a) A banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
- b) An insurance company as defined under the Insurance Act, 1938;
- c) A company licensed to operate under section 8 of the Companies Act;
- d) A One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
- e) A private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

Question 57:**(Model Test Paper-5) / (MTP-II Aug.24)**

Section 143(1) of Companies Act, 2013 states that every auditor of a company shall have access to books of accounts and vouchers of company and shall be entitled to require from officers of company such information and explanation as considered necessary and shall inquire into certain matters. State those matters to be inquired.

Answer:

Under section 143(1) of the Companies Act, 2013 auditor shall inquire into following matters given as under: -

- a) Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members
- b) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company
- c) Where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company
- d) Whether loans and advances made by the company have been shown as deposits

- e) Whether personal expenses have been charged to revenue account
- f) Where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

Question 58:**(Model Test Paper-6) / (MTP-I Nov.24)**

During the audit of a limited company as a statutory auditor you discovered that a fraud amounting to ₹ 5 lakh has been committed by the company. What are the reporting requirements regarding fraud under the Companies Auditor's Report Order, 2020?

Answer:

Reporting requirements of a fraud under the CARO 2020: The auditor is required to report the fraud under clause (xi) of Paragraph 3 of CARO 2020:

- a) Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;
- b) Whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;
- c) Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;

Question 59:**(Model Test Paper-7) / (MTP-II Dec.24)**

CARO, 2020 shall apply to every company including foreign company. However, it specifically exempts certain class of companies. State which class of companies are specifically exempt from the applicability of CARO, 2020?

Answer:

CARO, 2020 shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except:

- (i) A banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) An insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- (iii) A company licensed to operate under section 8 of the Companies Act;

- (iv) A One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
- (v) A private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

Question 60:

(Model Test Paper-8) / (May 24)

You have been appointed as the statutory auditor of a limited company. The company is registered as a Nidhi company. What are the reporting requirements of a Nidhi company under the Companies Auditor's Report Order, 2020?

Answer:

Reporting requirements of a Nidhi Company under the CARO 2020: The auditor is required to report under clause (xii) of Paragraph 3 of CARO 2020:

- a) Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;
- b) Whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
- c) Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.

Questions from ICAI RTP, MTP and Past Exam

Question 61:

(MTP-I Mar.25)

SKN Ltd. a biopharma company and global manufacturers of select critical care medical products has been sanctioned working capital limits of ₹ 5.99 crores from a nationalized bank on the basis of security of current assets. During the year under audit, the statutory auditor of SKN Ltd. considers that inventory is material to the financial statements and performs audit procedures over the company's final inventory records

to determine whether they accurately reflect actual inventory count and without any major discrepancies for each class of inventory. What are the reporting requirements regarding physical verification of inventory under CARO 2020 in this case?

Answer:

As per clause (ii) of Paragraph 3 of CARO, 2020 the auditor is required to report, in respect of physical verification of inventory and in respect of sanctioned working capital, that:

- (i) Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account.
- (ii) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details.

Question 62:

(RTP Sept.24)

Discuss the reporting requirements as per CARO, 2020, regarding:

- (i) Statutory Dues**
- (ii) Transactions with Related Parties**

Answer:

(i) Reporting under CARO,2020 regarding statutory Dues [Para 3(vii)]

- a) Whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;
- b) Where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);

- (ii) **Reporting under CARO, 2020 regarding transactions with related parties [Para 3(xiii)]**
Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards.

Question 63:**(May 25)**

TS Ltd. has raised funds by issuing fully convertible debentures. These funds were raised for the expansion and diversification of the business. The company had clearly outlined in its board resolution that these funds will be used for business expansion and diversification purposes only.

However, the company utilised these funds for repayment of long-term loans and advances rather than for the intended purpose of business growth and expansion.

State the reporting responsibility of the auditor under paragraph 3, clause (x) of the Companies Auditor's Report Order, 2020 (CARO 2020).

Answer:

The auditor is required to report under Clause (x) of Paragraph 3 of CARO 2020 that:

- a) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.
- b) Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance.

