

Roll No. _____

Total No. of Questions – 21

Total No. of Printed Pages – 9

Maximum Marks- 100

General Instructions to Candidates

- (1) The question paper comprises two parts, Part A and Part B.
- (2) Part A comprises Multiple Choice Questions (MCQs).
- (3) Part B comprises questions which require descriptive answers.
- (4) Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
- (5) Answers to MCQs of Part A and answers to questions in Part B are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book.
- (6) **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
- (7) You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
- (8) Duration of the examination is 3 hours. You will be required to submit the descriptive answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
- (9) The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
- (10) Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

Part-B

70 Marks

- (1) Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
- (2) Working notes should form part of the answer.
- (3) Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

Part – A

Maximum Marks - 30

Case Scenario – I

Following is extract of information taken from draft financial statements of You and Me Limited engaged in manufacturing of bicycles put up before you for audit for year 2022-23:- (₹ In lacs)

Particulars	2022-23	2021-22
Revenue from operations	35000	25000
Cost of sales	26950	20000
Gross Profit	8050	5000
Operating expenses	3825	3825
Finance costs	225	275
Depreciation and amortization expenses	1200	1300
Profit before tax	2800	(400)
Tax expense – current tax	750	0
Deferred tax	(50)	(385)
Total tax expense	700	(385)
Profit after tax	2100	15
Trade receivables	6000	3000
Inventories	10000	6000

The company has not made any substantial additions in its plant capacity during the year 2022-23. It has reduced its dealer network and is approaching customers directly using its online platform. Encouraging responses have been received from customers and sales have gathered momentum through the online platform.

You are planning to use analytical procedures as risk assessment procedures. Keeping in view above, answer the following questions:-

- The revenue from operations of company has increased by 40% in year 2022-23 as compared to last year. There are no additions in plant capacity. Which of the following statements is most appropriate in this regard? (2 Marks)
 - There is audit risk that revenue from operations is overstated.
 - There is audit risk that revenue from operations is not overstated.
 - There is audit risk that fresh customers of company do not make payments.
 - There is audit risk that company is overutilizing its plant capacity leading to rapid plant obsolescence.
- The operating expenses of financial year 2021-22 and 2022-23 are same. Which of the following statements is most appropriate in overall context of case study? (2 Marks)
 - Operating expenses figures of two years can be same. There is no audit risk involved.
 - It is an anomaly. However, there is no audit risk involved.
 - There is audit risk that previous year figures need to be revised under Companies Act.
 - There is audit risk that previous year figures have been presented in place of current year figures in draft financial statements.
- Trade receivables turnover ratio has increased from 1.44 months in year 2021-22 to more than 2 months in year 2022-23. Identify the most appropriate statement. (2 Marks)
 - In direct distribution through online platform, trade receivables turnover ratio is estimated to be high. Therefore, there is no audit risk involved.
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. Therefore, there is no audit risk involved.
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be undervalued.
 - In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be overvalued.
- The gross profit ratio of company has increased by 3% during year 2022-23 in comparison to last year. Which of the following statements is most appropriate? (2 Marks)
 - There is audit risk that there is overstatement of cost of sales.
 - There is audit risk that margins with customers may have increased.
 - There is audit risk that closing inventories may be undervalued.
 - There is audit risk that cost of sales may not be completely recorded.

5. Inventory turnover ratio has increased from 2.88 months in year 2021-22 to about 3.42 months in year 2022-23. Which of the following statements is likely to be in accordance with overall context of case study? **(2 Marks)**
- (1) Revenue jump in current year may have led to need for raising inventory holding levels. Therefore, there is audit risk pertaining to misstatement of inventories.
 - (2) Raising of inventory levels may raise locked up funds in inventories. There is audit risk that it can lead to rise in costs.
 - (3) Revenue jump in current year may have led to need for raising inventory holding levels. However, there is also a risk that some of inventories with dealers could have become obsolete. It leads to audit risk that inventories may be overvalued.
 - (4) There is audit risk on account of both the factors stated at (2) and (3).

Case Scenario – II

Infinity Hospitality Private Limited was established in 1996 and was in the business of running hotels in tourist destinations in state of Kerala. It took leased properties on long-term leases ranging from 10 to 12 years, most with a lock-in of a whole term. The terms did not cover the force majeure clause. The company was family-owned business and had created a good reputation as value for a money- budget hotel. Most of the time, hotels clocked 60 to 75% occupancy rate, and during the festive season/ vacations, hotel business clocked 100% Occupancy. The capital structure of the company was debt oriented and over-leveraged.

Primary working capital was blocked in maintaining and upkeeping the leased properties, running the restaurant, leases, food and beverages, salary, Director's remuneration etc.

The owners looked at the business as a cash cow and did not plough back the funds to expand the business but were content with the decent profits the hotels were generating.

As the properties were leased and not owned, most of the cash flow generated from operations was used in servicing the property and huge loans from financial institutions. What was left was withdrawn as Directors' remuneration and dividend.

Everything was going on smoothly. However, there were flash floods in Kerala due to unprecedented rains. There were landslides and roads were blocked. The entire tourist season was washed away due to infrastructural challenges. Accessibility to resorts and hotels was badly hindered. Logistics support took time to reach in far flung areas. Visit to the "The God's own country" as last on the mind of tourists. The company was hardly trying to get back to some semblance of normalcy when pandemic struck. It was double whammy for the company.

The impact on travel, tourism and hospitality business was very severe. The management of Infinity Hospitality Private Limited believed that bad days would end soon and the business would be back to normal. They also were optimistic about the government coming up with support for the industry and were hopeful of negotiating with lessors and Financial Institutions for relief. They decided on humanitarian grounds not to terminate the employees and continued paying them a regular salary, maybe deferring 25% to be paid after one year. The immediate fallout was on the top line as suddenly, the business stopped.

The auditors, M/s XYZ and Associates, were conducting the audit of the company and were grappling with the situation and are seeking your guidance for the course of action they need to follow.

6. Which of the following is not a financial event/condition that may cast significant doubt on companies ability to continue as a going concern as per SA 570? **(2 Marks)**
- (1) Change from credit to cash on delivery model with suppliers
 - (2) Arrears or discontinuance of dividend
 - (3) Opening of a new chain of hotels by renowned competitor near the entity's area
 - (4) Adverse key financial ratios
7. Please choose the mitigating measure as the management is unable to pay lease rentals. **(2 Marks)**
- (1) Cancel the lease
 - (2) Restructure the lease agreement and negotiate for deferment and relief
 - (3) Terminate the employees and pay the lessor
 - (4) All the above
8. Which one of the following is not the responsibility of the auditor relating to communicating events or conditions identified that may cast significant doubt on the entity's Going Concern assertion? **(2 Marks)**
- (1) Perform additional audit procedures to identify events/ conditions beyond 12 months from the date of financial statements
 - (2) Whether the events constitute a material uncertainty
 - (3) The adequacy of related disclosures in the financial statements
 - (4) The implications for the auditor's report

9. Which of the following is not main pillar of written representations? (2 Marks)
- (1) The management responsibility for preparation of financial statement
 - (2) Assertion related to completeness
 - (3) Assertion related to access to data and information
 - (4) Written representation provides sufficient appropriate audit evidence

Case Scenario – III

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

- (A) In case of a company engaged in business of selling of agricultural products which are outside ambit of GST, engagement team has found that substantial part of revenues of the company (about 80%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenues generated through cash sales. Therefore, team has been unable to verify such revenues generated through cash sales.
 - (B) TS Limited has been dragged to court by BS Limited for stealing its trade secrets using cyber theft and filed a claim for ₹50 crore. On reviewing audit file of TS Limited, CA Raghav finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of TS Limited are silent on this litigation matter.
 - (C) It is noticed on review of audit file of a client that net profit before tax was ₹2 crore on a turnover of ₹100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ₹3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.
 - (D) On reviewing file of a small finance bank, it was noticed that team has drafted following para proposed to be included under Emphasis of Matter paragraph: -
 "Concerns are raised regarding "Going Concern" status of the Bank. However, the Bank feels that it continues to remain a "Going Concern" in view of reasons stated in note 10.
 Our opinion is not modified in respect of this matter."
 - (E) On reviewing file of a client, it is noticed that team was not informed about finished goods of ₹1 crore lying at a location taken on rent in February 2023. The said issue was flagged at time of reconciling inventories by the team. Hence, team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is ₹ 8 crores. PBT of client is ₹10 crores.
10. As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705? (2 Marks)
- (1) Qualified opinion will be issued and basis for qualified opinion will also be provided.
 - (2) Adverse opinion will be issued and basis for adverse opinion will also be provided.
 - (3) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "auditor was engaged to audit financial statements."
 - (4) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "financial statements have not been audited."
11. Considering litigation matter of TS Limited, which of the following statements is most appropriate in this regard? (2 Marks)
- (1) Unmodified opinion needs to be expressed by auditor.
 - (2) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.
 - (3) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.
 - (4) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.
12. As regards matter of going concern in respect of a small finance Bank, which of the following statements is most appropriate? (2 Marks)
- (1) The para drafted by team is proper and in accordance with SA 570 since auditor has decided to give unmodified opinion.
 - (2) The para drafted by team is proper and in accordance with SA 570 since matter has been disclosed in notes to accounts by bank management.
 - (3) Instead of giving emphasis of matter paragraph, separate paragraph on 'Material Uncertainty Related to Going Concern' in report should be given in accordance with SA 570.
 - (4) Separate paragraph on 'Material Uncertainty Related to Going Concern' under the heading "Emphasis of matter" paragraph in report should be given in accordance with SA 570.

General MCQs

- 13.** CA Sumit, during the process of assembling the audit file after the completion of the audit, briefed his team on the changes to be made in the audit documentation. Which of the following changes can be made during the audit file assembly stage? **(2 Marks)**
- Sorting, collating and cross referencing of working papers.
 - Deleting or discarding superseded documents.
 - Recalculation of depreciation.
 - Recalculation of Interest on loans.
 - Signing off of completion checklist relating to file assembly.
- (1) A, B and E
 - (2) C and D
 - (3) A, C and D
 - (4) A, C, D and E
- 14.** CA Sargun is conducting statutory audit of branch of KBC Bank. During the course of audit, it is noticed that one borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet. Which of the following statements is appropriate? **(2 Marks)**
- (1) Housing Loan should be classified as “Non-Performing Asset” in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset
 - (2) Car Loan should be classified as “Non-Performing Asset” in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset
 - (3) Both Housing loan as well as car loan should be classified as “Non-Performing Assets” in accordance with RBI norms on asset classification
 - (4) Both Housing as well as car loans should be classified as Standard assets
- 15.** CA J is in process of planning audit for a large company engaged in business of dealing and manufacturing of pharmaceutical products. Central Drugs Standard Control Organisation (CDSCO), National regulatory Authority under Ministry of Health and Family Welfare is responsible for approval of drugs, conduct of clinical trials and laying down Standards for drugs and control over quality of imported drugs. Auditor is also considering whether to make use of audit evidence obtained in previous audit of the same company. Besides, he is also considering volume of transactions to determine whether it is efficient to rely on internal controls. As part of planning activities, he is also considering extent of substantive audit procedures to be performed. Consider following factors stated from 1 to 5: **(2 Marks)**
1. Reporting requirements required by CDSCO, if any
 2. Need for specialized knowledge of pharma industry
 3. Expected use of audit evidence obtained in previous audit
 4. Volume of transactions to consider reliance on internal control
 5. Nature and extent of substantive audit procedures
- Choose the most appropriate factor/combination of factors which could be relevant to CA J in establishing audit strategy:-
- (1) 1, 3, 4 and 5
 - (2) 1 only
 - (3) 1, 2, 3 and 4
 - (4) 2 only

Part-B**Total No. of Questions – 6****Maximum Marks- 70****General Instructions to Candidates**

- (1) Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
- (2) Working notes should form part of the answer.
- (3) Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

1. (A) RST Ltd., a retail company, has set up internal controls requiring all invoices to be stamped and signed by an authorised person in “Goods Receiving Section” of the company stating the date and time of receiving goods in premises to ensure that only those purchase bills are produced for payment for which goods have been actually received.
During the audit, the auditor finds that two employees – a purchasing manager and an accounts clerk – have worked together to bypass this control, submitting fake invoices that resulted in payments for goods that were never received. You are required to state the objectives of an audit, as per SA 200, when it comes to ensuring the reliability of financial statements? Also explain, why auditor can provide only reasonable, rather than absolute, assurance that the financial statements are free from material misstatement due to fraud or error in the context of the given situation? **(4 Marks)**
- (B) CA Sudhakar has been appointed as the auditor of AMRO Ltd. Before accepting the appointment, he learns that his cousin, who held shares in the company and recently passed away without children, named him as the nominee for these shares, which have substantial value. Although holding such shares through a distant relative does not violate legal provisions or affect his independence, this unexpected inheritance places him in a dilemma. Advise CA Sudhakar on how he should deal with this situation and safeguard his independence. **(4 Marks)**
- (C) Section 77 of Multi-State Cooperative Societies Act, 2002 states that the Central Government may at any time by order direct that a special audit of the Multi-State Co-Operative Society’s accounts for such period or periods as may be specified in the order, shall be conducted. Further, it may by the same or a different order appoint either a Chartered Accountant or the Multi-State Co-Operative Society’s auditor himself to conduct special audit. Under which circumstances such power can be exercised by the Central Government? **(3 Marks)**
- (D) During the audit of a company, CA Kartik has noticed that company’s turnover has fallen drastically as compared to last three years due to loss of its major markets and key customers. The company is in need of funds for new product development, but bankers are not willing to lend financial support. Which additional audit procedures need to be performed by CA Kartik in accordance with SA 570 when such events or conditions are identified? **(3 Marks)**
2. (A) During the audit of ABC Ltd., a medium-sized manufacturing company, the engagement partner is responsible for directing and supervising the work of the engagement team. The team includes both experienced members and several new trainees. Additionally, certain areas of the audit have been identified as high-risk, such as revenue recognition and inventory valuation, due to recent changes in ABC Ltd.'s accounting policies. What factors should the engagement team members consider when determining the nature, timing, and extent of direction, supervision, and review of the engagement team's work? **(4 Marks)**
- (B) Companies are increasingly using data analytics for managing their operations. Auditors can also obtain good results by using data analytics. What are the tools and techniques used by auditors in applying the principles of Data Analytics and in which areas data analytics can be used by auditors? **(4 Marks)**
- (C) Satranga Foods Private Limited is engaged in manufacturing of pickles. The auditors of the company have planned audit procedures in respect of recognition of revenues of the company. Despite that, there is a possibility that misstatements in revenue recognition are not identified by planned audit procedures. Identify and explain that particular risk in detail. **(3 Marks)**

- (D) 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. **(3 Marks)**
3. (A) The auditor of EFG Ltd., a company engaged in the Tours and Travel business, needs to obtain an understanding of the company's control environment. To do this, the auditor evaluates whether:
- Management has created and maintained a culture of honesty and ethical behaviour; and
 - The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.
- What is included in control environment? Also explain the elements of control environment. **(4 Marks)**
- (B) CA N, engagement partner of LPS and Associates, is planning for audit of a large company. As part of preliminary engagement activities being performed in this regard, he wants to ensure that compliance with independence requirements is adhered. How shall he form a conclusion that audit firm complies with independence requirements? **(4 Marks)**
- (C) IT related risks can have an impact on audit. In what different ways, such risks can have an impact on audit of financial statements? **(3 Marks)**
- (D) 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? **(3 Marks)**
4. (A) CA Mukul is the external auditor of Beige Ltd., a large company, engaged in the manufacturing of fast-moving consumer (FMCG) goods. After assessing the internal audit function of the company, CA Mukul decided to use the internal auditor of the company to provide direct assistance. In this context, what is meant by direct assistance under relevant Standard on Auditing? Also comment whether prior to using internal auditor for direct assistance for the purpose of audit, CA Mukul is required to obtain any written agreements or not. Give examples of procedures in which CA Mukul shall not use an internal auditor to provide direct assistance. **(4 Marks)**
- (B) The financial statements of XYZ Limited show long-term borrowings from the banks, financial institutions, leasing, and hire purchase companies. Additionally, the company has issued debentures to its 1000 members to raise funds in accordance with the provisions of the Companies Act, 2013. The money raised by issuing debentures is also reflected in long-term borrowings. As the statutory auditor of XYZ Limited, CA X wants to verify that all borrowings on the balance sheet represent valid claims by banks or other third parties. Suggest a few audit procedures in this regard. **(4 Marks)**
- (C) The newly appointed auditor of BTN Limited wants to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements. What audit procedures should he perform for this purpose? **(3 Marks)**
- (D) An NGO based in Kolkata collected significant donations for flood victims in Bihar. The funds were distributed to various NGOs operating in Bihar to support relief efforts. You have been appointed as the auditor for this NGO's accounts for the year in which it collected and disbursed these donations. Draft an audit program to audit the receipts of donations and the remittance of the collected funds to different NGOs. **(3 Marks)**
5. (A) During the audit of Rapid Industries Private Limited, CA Akshat notices that inventories of raw materials and consumables and work-in-progress amounting ₹ 2.50 crores and ₹ 0.25 crores appear in the financial statements of the company as on March 31st, 2024. He wants to verify that the above-mentioned inventories have been valued appropriately and as per generally accepted accounting policies and practices. How should he proceed to verify the above? **(4 Marks)**
- (B) Discuss the reporting requirements as per CARO, 2020, regarding:
- Statutory Dues and
 - Transactions with Related Parties
- (4 Marks)**

(C) Proceedings have been initiated against False Limited for holding benami property under law relating to prohibition of benami transactions and the rules made thereunder but such property is not recorded in books of accounts. As a consultant to the company, what will you advise the company as far as disclosure requirements are concerned in financial statements in relation to said proceedings? **(3 Marks)**

(D) CA Manoj is the statutory auditor of a company. He has completed the audit and issued the audit report dated June 30, 2024. Before signing the audit report, written representations dated June 29, 2024, were obtained from the management of the company. Discuss the significance of the date of written representations. Also state whether the written representations obtained on June 29, 2024 is appropriate or not. **(3 Marks)**

6. (A) CA Ripun completed the audit of a listed company, and the audit report was issued on July 17th, 2024. However, he had not properly organized the audit working papers, including records of discussions with management, audit procedures performed, and conclusions reached. More than six months after issuing the report, he received a letter from the regulator in connection with audit of the company requesting him to share copy of audit file. In a hurry, CA Ripun quickly assembled the audit file, adding some papers he thought were necessary, but he used the current date on these newly added documents. He then sent the audit file to the regulator. Discuss the issues involved related to “audit documentation” and assembling of the final audit file in this case. **(4 Marks)**

(B1) Agrim, a CA student, is part of an engagement team conducting audit of Madurai branch of ARB Bank. CA Bhuvan, engagement partner, has asked him to verify provision made by branch as on March 31st, 2024 in respect of the following non-performing assets:-

Name of Account	NPA classification	Outstanding amount as on March 31 st , 2024 (In ₹ lakhs)	Amount of provision made (In ₹ lakhs)
AK Industries	Doubtful (D1)	10.00	5.00
Jupiter Traders	Substandard asset	50.00	7.50
VT and Co.	Doubtful (D2)	30.00	30.00
ASD and Sons	Loss	1.00	1.00

The engagement partner has already verified NPA classification. Outstanding amounts as on March 31st, 2024, relating to each NPA account listed above (except ASD and Sons) are fully secured. However, only personal guarantee of proprietor (Net worth of proprietor ₹ 50 lakhs) is available in account of ASD and Sons. Comment on the correctness of the above provisions.

Agrim is in dilemma regarding classification of above accounts as NPA although these are fully secured or guaranteed. Guide him. **(4 Marks)**

OR

(B2) CA K is statutory auditor of DEMA Private Limited for the year 2022-23. The company has three plants in India. He is nearing completion of audit procedures relating to financial statements for the year under audit and has yet to sign audit report. Meanwhile, a huge fire had broken out in one of plants of the company located near Nashik on 25th June, 2023 damaging substantial part of machinery and work-in-process resulting in loss of about ₹ 5 crores. Unaware of the incident, he is in process of finalizing his report in first fortnight of July 2023. State few audit procedures to be performed by him to obtain sufficient appropriate evidence for identifying such events. Also explain auditor's responsibilities in this situation. **(4 Marks)**

(C) Discussing meaning of completion memorandum, elaborate upon its importance. **(3 Marks)**

(D) Compute the Drawing Power for Cash Credit A/c of Kirpa Limited for the month of March 2024 with following information: **(3 Marks)**

	(Amount in ₹)
Stock	60,000
Debtors (Including Debtor of ₹ 15,000 for an invoice dated 20.10.2023)	55,000
Sundry creditors	10,000
Sanctioned Limit	48,000

Margin on stock is 30% and on debtors is 40%.

Note: Debtors older than 3 months are ineligible for calculation of DP.



I05

Part – A
Answer Key

1. (1)
2. (4)
3. (4)
4. (4)
5. (3)
6. (3)
7. (2)
8. (1)
9. (4)
10. (3)
11. (3)
12. (3)
13. (1)
14. (3)
15. (3)

Hints and Solution

1. (1)
There is audit risk that revenue from operations is overstated.
2. (4)
There is audit risk that previous year figures have been presented in place of current year figures in draft financial statements.
3. (4)
In direct distribution through online platform, trade receivables turnover ratio should have fallen. It is possible that some of the dealers may not be meeting their commitments of past contracts. Therefore, there is audit risk that trade receivables could be overvalued.
4. (4)
There is audit risk that cost of sales may not be completely recorded.
5. (3)
Revenue jump in current year may have led to need for raising inventory holding levels. However, there is also a risk that some of inventories with dealers could have become obsolete. It leads to audit risk that inventories may be overvalued.
6. (3)
Opening of a new chain of hotels by renowned competitor near the entity's area.
7. (2)
Restructure the lease agreement and negotiate for deferment and relief.
8. (1)
Perform additional audit procedures to identify events/ conditions beyond 12 months from the date of financial statements.
9. (4)
Written representation provides sufficient appropriate audit evidence.
10. (3)
A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “auditor was engaged to audit financial statements.”
11. (3)
It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.
12. (3)
Instead of giving emphasis of matter paragraph, separate paragraph on ‘Material Uncertainty Related to Going Concern’ in report should be given in accordance with SA 570.
13. (1)
A, B and E
14. (3)
Both Housing loan as well as car loan should be classified as “Non-Performing Assets” in accordance with RBI norms on asset classification.
15. (3)
1, 2, 3 and 4

Part - B**1. (A) (H and S)**

In conducting audit of financial statements, objectives of auditor in accordance with SA 200, “Overall Objectives of the Independent auditor and the conduct of an audit in accordance with Standards on Auditing” are:-

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor’s findings.

The process of audit suffers from certain inbuilt limitations due to which an auditor cannot obtain an absolute assurance that financial statements are free from misstatement due to fraud or error. These fundamental limitations arise due to the factors such as nature of financial reporting, nature of audit procedures, not in the nature of investigation, timeliness of financial reporting and decrease in relevance of information over time and future events.

Preparation of financial statements involves making many judgments by management. These judgments may involve subjective decisions or a degree of uncertainty. Therefore, the auditor may not be able to obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors. One of the premises for conducting an audit is that management acknowledges its responsibility of preparation of financial statements in accordance with applicable financial reporting framework and for devising suitable internal controls. However, such controls may not have operated to produce reliable financial information due to their own limitations.

In the context of RST Ltd., the management designed a control requiring that all invoices be stamped and signed by an authorized person in the Goods Receiving Section to confirm receipt of goods. However, collusion between two employees— the purchasing manager and the accounts clerk—allowed them to bypass this control by submitting fake invoices for payment. Collusion is a significant limitation of internal controls, as it overrides controls designed to prevent such fraud.

Given these factors, the auditor cannot provide absolute assurance that the financial statements are entirely free from material misstatements due to fraud or error.

(B) (H and S)

In the given situation, holding shares by CA Sudhakar involves financial interest in the company and is in nature of self-interest threat. Though he has come to hold shares due to nomination made by his distant relative before accepting the appointment.

Chartered Accountants have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to address the threats.

Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to comply with the fundamental principles to an acceptable level.

To address the issue, the following guiding principles are to be applied:-

- For the public to have confidence in the quality of audit, it is essential that auditors should always be and appear to be independent of the entities that they are auditing.
- Before taking on any work, an auditor must conscientiously consider whether it involves threats to his independence.
- When such threats exist, the auditor should either desist from the task or eliminate the threat or at the very least, put in place safeguards which reduce the threats to an acceptable level. All such safeguard measures need to be recorded in a form that can serve as evidence of compliance with due process.
- If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

Considering above, holding of shares of the same company for which he is offered appointment as auditor constitutes threat to his independence. Therefore, CA Sudhakar should take steps to eliminate the threat by selling shares immediately before accepting the appointment and in the absence of same, he should not accept the appointment as an auditor.

(C) (H and S)

The Central government has power to order special audit of Multi-State Cooperative Society's Accounts where it is of the opinion:-

- (a) that the affairs of any multi-state co-operative society are not being managed in accordance with self-help and mutual deed and co-operative principles or prudent commercial practices or with sound business principles or
- (b) that any multi-state co-operative society is being managed in a manner likely to cause serious injury or damage to the interests of the trade industry or business to which it pertains or
- (c) that the financial position of any multi-state co-operative society is such as to endanger its solvency.

(D) (H and S)

These procedures shall include: [Any 3 Points]

- (i) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (ii) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- (iii) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions.
- (iv) Evaluating the reliability of the underlying data generated to prepare the forecast; and
- (v) Determining whether there is adequate support for the assumptions underlying the forecast.
- (vi) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (vii) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

2. (A) (H and S)

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:-

- (i) The size and complexity of the entity.
- (ii) The area of the audit.
- (iii) The assessed risks of material misstatement.
- (iv) The capabilities and competence of the individual team members performing the audit work.

(B) (H and S)

The tools and techniques that auditors use in applying the principles of data analytics are known as Computer Assisted Auditing Techniques or CAATs in short. Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform the following:

- (i) Check completeness of data and population that is used in either test of controls or substantive audit tests.
- (ii) Selection of audit samples – random sampling, systematic sampling.
- (iii) Re-computation of balances – reconstruction of trial balance from transaction data.
- (iv) Reperformance of mathematical calculations – depreciation, bank interest calculation.
- (v) Analysis of journal entries
- (vi) Fraud investigation.
- (vii) Evaluating impact of control deficiencies.

(C) (H and S)

There is a possibility that planned audit procedures may not achieve desired result and fail to detect misstatements in revenue recognition. Such a risk is referred to as “detection risk”.

SA 200 defines detection risk as the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Detection risk comprises sampling and non-sampling risk.

- (a) Sampling risk is the risk that the auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. It simply means that the sample was not representative of the population from which it was chosen.
- (b) Non-sampling risk is the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk. Like an auditor may reach an erroneous conclusion due to application to some inappropriate audit procedure.

(D) (H and S)

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.

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.

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.

3. (A) (H and S)

The control environment includes:

- (i) the governance and management functions and
- (ii) the attitudes, awareness, and actions of those charged with governance and management.
- (iii) the control environment sets the tone of an organization, influencing the control consciousness of its people.

Elements of the control environment that may be relevant when obtaining an understanding of the control environment include the following:

1. Communication and enforcement of integrity and ethical values
2. Commitment to competence
3. Participation by those charged with governance
4. Management’s philosophy and operating style
5. Organisational structure
6. Assignment of authority and responsibility
7. Human resource policies and practices.

(B) (H and S)

The engagement partner, CA N shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, CA N shall:-

- (i) Obtain relevant information from the firm to identify and evaluate circumstances and relationships that create threats to independence.
- (ii) Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement and
- (iii) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

(C) (H and S)

IT related risks can have an impact on audit in different ways discussed as under:-

- (i) Impact on substantive checking
Inability to address IT risks may lead to non-reliance of data obtained from systems. In such a case, all information, data, and reports would have to be tested thoroughly for their completeness and accuracy. It could lead to increased substantive checking i.e. detailed checking.
- (ii) Impact on controls
It can lead to non-reliance on automated controls, system calculations and accounting procedures built into applications. It may result in additional audit work.
- (iii) Impact on reporting
Due to regulatory requirements in respect of internal financial controls in case of companies, it may lead to modification of auditor's report in some instances.

(D) (H and S)

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. 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. To curb the malpractices, ICAI implemented the concept of UDIN i.e. Unique Document Identification Number. Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them. 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.

It is required to be stated in case of audit reports and certificates.

4. (A) (H and S)

As per SA 610, "Using the work of Internal Auditor", direct assistance refers to the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

Prior to using internal auditors to provide direct assistance for purposes of the audit, CA Mukul, the external auditor shall:-

- (i) Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor and
- (ii) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

Examples of procedures in which CA Mukul shall not use internal auditor to provide direct assistance to him are:-

1. Procedures which involve making significant judgments in the audit;
2. Procedures relating to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited.
3. Procedures relating to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or
4. Procedures relating to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

(B) (H and S)

The audit procedures required to be undertaken by CA X while auditing borrowings is as follows:

- (i) Review board minutes for approval of new lending agreements. During review, ensure that new loan agreements or bond issuances were authorized. Ensure that significant debt commitments are approved by the board of directors.
- (ii) Check the details of loans recorded (interest rate, nature and repayment terms) to the loan agreement. Verify that borrowing limits, if any, imposed by the agreements are not exceeded.
- (iii) Roll out and obtain independent balance confirmations (SA 505) in respect of all the borrowings from the lender (banks/ financial institutions etc.).
- (iv) Verify the details of leases and hire purchase creditors recorded to underlying contracts/agreements.
- (v) In case of Debentures, examine trust deed for terms and dates of redemption, borrowing restrictions and compliance with covenants.
- (vi) When debt is retired, ensure that a discharge is received on assets securing the debt.
- (vii) Obtain Written Representation that all the liabilities which have been recorded represent a valid claim by the lenders.

(C) (H and S)

The auditor of BTN Ltd shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by:

- (1) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss.
- (2) Determining whether the opening balances reflect the application of appropriate accounting policies; and
- (3) Performing one or more of the following:
 - (i) Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements.
 - (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.

(D) (H and S)**Receipt of Donations:**

- (i) Internal Control System: Existence of internal control system particularly with reference to division of responsibilities in respect of authorised collection of donations, custody of receipt books and safe custody of money.
- (ii) Custody of Receipt Books: Existence of system regarding issue of receipt books, whether unused receipt books are returned and the same are verified physically including checking of number of receipt books and sequence of numbering therein.
- (iii) Receipt of Cheques: Receipt Book should have carbon copy for duplicate receipt and signed by a responsible official. All details relating to date of cheque, bank's name, date, amount, etc. should be clearly stated.
- (iv) Bank Reconciliation: Reconciliation of bank statements with reference to all cash deposits not only with reference to date and amount but also with reference to receipt book.
- (v) Cash Receipts: Register of cash donations to be vouched more extensively. If addresses are available of donors who had given cash, the same may be cross-checked by asking entity to post thank you letters mentioning amount, date and receipt number.
- (vi) Foreign Contributions, if any, to receive special attention to compliance with applicable laws and regulations.

5. (A) (H and S)

To verify that inventories of raw material and consumables and work-in- progress have been valued appropriately and as per generally accepted accounting policies and practices, the following procedures should be performed by CA Akshat:

- (i) For Raw materials and consumables:
 1. Ascertain what elements of cost are included e.g. carriage inward, non-refundable duties etc.
 2. If standard costs are used, enquire into basis of standards; how these are compared with actual costs and how variances are analysed and accounted for/ treated in accounting records.
 3. Test check cost prices used with purchase invoices received in the month(s) prior to counting.
 4. Follow up valuation of all damaged or obsolete inventories noted during observance of physical counting with a view to establishing a realistic net realizable value.
- (ii) For Work in Progress:
 1. Ascertain how the various stages of production/ value additions are measured and in case estimates are made, understand the basis for such estimates.
 2. Ascertain what elements of cost are included. If overheads are included, ascertain the basis on which they are included and compare such basis with the available costing and financial data/ information maintained by the entity.
 3. Ensure that material costs exclude any abnormal wastage factors.

(B) (H and S)

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).

(C) (H and S)

Disclosure in case of Benami Properties held by the Company: Where any proceedings have been initiated or pending against the company for holding any benami property under the relevant law relating to prohibition of such transactions, the company shall disclose the following:- [Any 3 Points]

- (a) Details of such property, including year of acquisition
- (b) Amount thereof
- (c) Details of Beneficiaries
- (d) If property is not in the books, then the fact shall be stated with reasons
- (e) Where there are proceedings against the company under this law as an a better of the transaction or as the transferor, then the details shall be provided
- (f) Nature of proceedings, status of same and company's view on same.

(D) (H and S)

As per SA 580, "Written Representations" the date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements.

Since written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations.

Furthermore, because the auditor must consider events occurring up to the date of the auditor's report that might require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

Conclusion:

In the given situation, CA Manoj obtained written representations dated June 29, 2024, from the management of the company before signing the audit report on June 30, 2024.

From the above is can be concluded that written representations have been obtained appropriately.

6. (A) (H and S)

The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

SQC 1, "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files.

- An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
- Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature.

Further, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed. In the given case, even after passage of more than six months, CA Ripun has not assembled an audit file. Besides, he has put in some papers with the current date which is not permissible at all. It shows that part of the audit documentation has been prepared afterwards putting a question mark on the quality of audit.

(B1) (H and S)

The auditor is required to ensure that provision for NPA is made as per its classification in different categories which are given as under:

Categories of Non-Performing Assets:	Provision required
Substandard Assets: Would be one, which has remained NPA for a period less than or equal to 12 months.	15%
Doubtful Assets: Would be one which has remained in the substandard category for a period of 12 months.	(Secured + Unsecured)
Sub-categories: Doubtful up to 1 Year (D1) Doubtful 1 to 3 Years (D2) Doubtful more than 3 Years (D3)	25% + 100% 40% + 100% 100% + 100%
Loss Assets	100%

From the above provision, it can be concluded that in case of:

AK Industries- It has been classified as Doubtful (D1) category. Therefore, it requires provision of 25% of secured amount. That is provision of Rs 2.50 lakh (i.e. 25% of ₹10 lakh) should be made instead of ₹ 5 lakh.

Jupiter Traders- It has been classified as Substandard asset. It requires provision of 15% of outstanding amount (i.e. 15% of ₹ 50 lakhs) which comes to ₹ 7.50 lakh. Therefore, provision made by the branch is correct.

VT and Co.- It has been classified as Doubtful (D2) category. It requires provision of 40% of secured amount. That is provision of ₹ 12.00 lakh (40% of ₹ 30 lakhs) should be made instead of ₹ 30 lakh.

ASD and Sons- It has been classified as a loss asset which requires provision of 100% of outstanding amount. Therefore, the provision made by the branch is correct.

Classification as NPA should be based on the record of recovery. Availability of security or net worth of borrower/guarantor is not to be taken into account for purpose of treating an advance as NPA or otherwise. Hence, these accounts have been classified as NPA on the record of recovery although these are fully secured or guaranteed.

OR

(B2) (H and S)

Before signing audit report, he should perform following audit procedures to obtain sufficient appropriate audit evidence that all such events have been identified and are appropriately reflected in financial statements:-

- Inquiry of management whether any subsequent events have occurred.
- Reading minutes of the meetings of owners, management that have been held after date of financial statements and inquiring about matters discussed at such meetings for which minutes are not available.
- Reading entity's latest subsequent interim financial statements.
- Obtaining Written representations from management in accordance with SA 580.

The situation is an example of subsequent event occurring between date of financial statements and date of audit report requiring disclosure in financial statements. The auditor has a responsibility to obtain sufficient appropriate audit evidence whether such an event requiring disclosure in financial statements is appropriately reflected in financial statements.

(C) (H and S)

Completion memorandum is a summary that describes the significant matters identified during the audit and how they were addressed.

Such a summary may facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist auditor's consideration of the significant matters. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

(D) (H and S)

Particulars of current assets		Amount (₹)	DP Amt (₹)
(A) Stocks:			
Stocks at realizable value		60,000	
Less: Unpaid stocks:			
Sundry creditors	10,000	<u>10,000</u>	
Paid for stocks		50,000	
Margin @ 30%		<u>15,000</u>	35,000
(B) Debtors:			
Total Debtors		55,000	
Less: Ineligible debtors		<u>15,000</u>	
Eligible debtors		40,000	
Margin @ 40%		16,000	16,000
Total Drawing Power			51,000

The sanctioned limit given in the question is ₹ 48,000 whereas drawing power as per the above working is ₹ 51,000. So, drawing power would be restricted to sanctioned limit i.e., ₹ 48,000/-.