

MOCK TEST PAPER - I
FINAL COURSE: GROUP – I
PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

All MCQs are compulsory

Question No. 1 is compulsory.

*Attempt any **four** questions from the Rest.*

Time Allowed – 3 Hours

Maximum Marks – 100

DIVISION A – MCQs (30 Marks)

Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. M/s. ASH Brothers is a partnership firm engaged in the business of selling old vehicles. Mr. A, Mr. S and Mr. H are the three partners of the firm. In the month of January 2021, Mr. H's son (a minor) was admitted for the benefit of partnership who attained majority in April 2022, but no change was made in the Partner's share during the year. Whether the tax auditor is required to mention the details of Mr. H's son admitted to the partnership during the year, as per clause 9 of Form 3CD of the Income Tax?
 - (a) Since the minor has not attained majority during the audit period, no details need to mention in Form 3CD.
 - (b) The auditor is not required to give details of minor admitted to partnership as there was no change in the Partner's Share during the year.
 - (c) Any change in the Partners since the last date of the preceding year has to be mentioned under clause 9(b) of Form 3CD.
 - (d) As the father of minor is his guardian till he attains majority and Mr. H was already partner in the firm, there is no need to mention the details of minor in Form 3CD.
2. M/s Brahmi and Associates have been appointed as the statutory auditor of Prompton Leaves Limited, a manufacturer of gas geysers for the FY 2021-22. During the course of audit, the auditor found that two customer complaints have been filed against the company in the FY 2021-22, for the use of sub standard pipes and wires in manufacture of gas geysers. The gas geyser blasted at high temperature leading to severe injuries to the family of complainant along with damage to their property. They have sought a demand of rupees 10 crore. However, the lawyer of Prompton Leaves Limited believes that such claim is unsustainable as the incident occurred due to short circuit at both the complainants place. The management of Prompton Leaves Limited accordingly did not include any reference to the litigation in the financial statements. The auditor obtained legal advice from some independent lawyer according to whom the outcome of the case is not ascertainable as of now.
 - (a) The statutory auditor should give an unqualified opinion.
 - (b) The statutory auditor should give an unqualified opinion with Emphasis of Matter paragraph.
 - (c) The statutory auditor should withdraw from the audit engagement.
 - (d) The statutory auditor should give a qualified opinion.
3. M/s Vardhman and Associates have been appointed as the statutory auditors of a NBFC (UVW Ltd.) for the financial year 2021-22. The company is required to comply with the Indian Accounting Standards. During the course of audit CA Vardhman found that the company has classified its Assets and Liabilities as financial and non-financial instead of current and non-current. What should CA Vardhman advice the management of NBFC UVW Ltd. in this regard?

- (a) The management of NBFC UVW Ltd. is correct in classifying the Balance Sheet items as financial and non-financial as per requirement of Division III of Schedule III of Companies Act 2013.
 - (b) The management of NBFC UVW Ltd. is not correct in this regard and should classify the Balance Sheet items as current and non-current as is required by all other companies as per the requirement of the Division III under Schedule III of the Companies Act 2013.
 - (c) The management of NBFC UVW Ltd is right in this regard as the NBFC has the option to classify the balance sheet items either as current and non-current or as financial and non- financial.
 - (d) The management of NBFC UVW Ltd. should classify the Balance Sheet items as current and non-current as per the requirement of Division II of Schedule III of the Companies Act 2013 applicable in case of NBFC.
4. M/s Shiva & Associates have been appointed as statutory auditors of Kailash Ltd. which is the company registered under Section 8 of the Companies Act 2013. During the course of audit, CA Shiva noticed that the Board of Directors have held their meetings only twice, in the financial year under audit. How should CA Shiva deal with the same in the compliance certificate to be issued by him?
- (a) CA Shiva should give an adverse statement stating that the meeting of board of directors were held only twice as against the minimum requirement of 4 meetings of financial year.
 - (b) CA Shiva need not mention regarding the same in the compliance certificate as there is no minimum requirement of meeting of board of directors in case of companies registered under Section 8.
 - (c) Kailash Ltd. being a company registered under Section 8 of the Companies Act 2013 is exempt from obtaining compliance certificate from the statutory auditors.
 - (d) Kailash Ltd. is correct in conducting two meeting of board of directors therefore, CA Shiva should not give an adverse or qualified statement in this regard.
5. M/s Sati and Associates were appointed as the statutory auditors of Power King Limited for the audit of financial year 2021-22. Power King Limited has a power generating plant in Sikkim. At the time of accepting the engagement, it was decided among the engagement partner (CA Sati) and the management that since CA Sati and his team is doing the audit of a client having power plant in Sikkim for the first time, it will be the duty of the management to update the audit team regarding all the taxes and statutes applicable to units situated in Sikkim. Which of the following is correct in this regard?
- (a) The engagement team, being the auditor of Sikkim based power plant for the first time can always rely on the management's information and can work accordingly.
 - (b) The engagement team should understand the Power King Limited business environment and should obtain knowledge about the laws and statutes applicable in this case.
 - (c) The engagement team should not accept the audit of such power plant situated in Sikkim of which he has no prior knowledge.
 - (d) The engagement team can very well accept the audit of Power King Limited and with respect to aspects related to Sikkim law he can give disclaimer of opinion, if required.
6. Employees of Star Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Sudarshan Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Sudarshan travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by Star Ltd. within 15 days of the bill date. The bills raised by Sudarshan travels were of huge amount, so the management of Star Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?
- (a) Internal audit, as it relates to examine the operational efficiency of the organisation.
 - (b) Management audit, as it is an audit desired by the management.

- (c) Performance audit so as to assess the performance of the Sudarshan travels appointed by the organisation.
 - (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Sudarshan travels for the organisation.
7. PRS Ltd. issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31st March 2021. The issue was fully subscribed. During this year, there was an abnormal rise in the profits of the company for which it was found later on that it was because of manipulated sales in which there was participation of whole-time director and other top officials of the company. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts. The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. The auditors were able to prove that they found internal controls to be satisfactory and did not find any circumstance to arouse suspicion. The company was not able to prove that auditors were negligent in performance of their duties. Please suggest your views on this.
- (a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.
 - (b) The approach of the auditors looks reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.
 - (c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc., the manipulation could have been detected. Hence the auditors should be held liable.
 - (d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective, then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.
8. Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:
- (a) Net liability or net current liability position.
 - (b) Cancellation of company's production license due to change on government policies.
 - (c) Non-declaration of dividend to equity shareholders.
 - (d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
9. approach to sampling has the following characteristics:
- I. Random selection of the sample items; and
 - II. The use of probability theory to evaluate sample results, including measurement of sampling risk.
- (a) Statistical sampling
 - (b) Non-statistical sampling
 - (c) Stratified sampling
 - (d) Haphazard sampling

10. Which of the following is an example of Direct Entity level control
- (a) Company code of conduct and ethics policies.
 - (b) Human resource policies.
 - (c) Job roles & responsibilities of employees.
 - (d) Monitoring of effectiveness of controls activities by Internal Audit function. **(10 x 1 = 10 Marks)**

Questions (11-20) carry 2 Marks each

MCQ 11. -15.

Integrated Case Scenario 1

M/s Head Limited, had recently issued right shares for all the existing shareholders. The total proceeds collected amounted to ₹ 200 crore, out of which 50 % was planned to be used for construction of a new factory next to the existing one and the balance was to be used for working capital purpose. However, due to the Covid-19 pandemic, the proposed factory work was affected and hence the company decided to park 9% of the specific fund in a debt mutual fund instead of keeping it idle. Similarly, the company decided to park 11% of the working capital fund in government securities.

M/s Legs Limited, an unlisted associate entity of Head Limited had similarly raised funds through qualified institutional placement & used the funds fully for the specified purpose. The auditor of the Legs Limited (Mr. G, partner of M/s GK & Associates) and the auditor of Head Limited (Mr. Q, partner of M/s CYQ & Associates) suggested that they shall mandatorily disclose the details of utilization of funds, as per SEBI LODR Regulation 32.

However, Mr. C, one of the partners of M/s CYQ & Associates argued that there is no need to report the above matter under SEBI LODR Regulations, but the same shall be reported under CARO 2020. Mr. Q argued that the matter need not be reported under CARO 2020. This argument had spoiled the relationship between the two partners, as a result of which, Mr. C decided to quit from the partnership and started his own practice.

Mr. C then decided to induct Mr. J, a newly qualified Chartered Accountant as a partner in his firm. After this, the firm got an audit assignment from M/s Bank Limited. Mr. C consulted with his partner whether to accept the offer. Mr. J told that he has a loan (amounting to 75% of FD) against fixed deposit (of ₹6.8 lakh) in the said bank and feared that they cannot accept the offer. However, Mr. C told that since the loan is against fixed deposit there is no problem in taking up the offer, but he didn't want to force Mr. J in giving his acceptance. Therefore, the offer was dropped.

Few months later, Mr. C passed away and the whole firm was managed by his partner Mr. J. The legal representative of Mr. C (Mrs. C) quoted the partnership agreement clause regarding the right of legal representative of the deceased partner to receive share of profit from the firm and requested for such share of profit. However, Mr. J informed that there is no such provision as per the Chartered Accountants Act and denied to share any profits/ revenue from the firm. Agitated by the decision of Mr. J, Mrs. C filed a complaint with the Institute of Chartered Accountants of India against Mr. J.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Multiple Choice Questions (5 questions of 2 Marks each):

11. Is the advice of Mr. Q correct in case of Head Limited? If yes what are the details which need to be disclosed by the company?
- (a) Yes. The company shall indicate the deviations in use of proceeds and category wise variation between projected utilization and actual utilization.
 - (b) No. There is no need to indicate the statement since such deviations were due to Covid-19 pandemic.

- (c) Yes. The company shall indicate the deviations in use of proceeds in form of an explanatory statement.
 - (d) Yes. The company shall indicate the % of deviation if such deviation is more than 10% of the total funds allotted for the specified purpose. Hence, the company shall indicate only the deviation in utilization funds allocated for working capital purpose.
12. In case if Head Limited is to report the deviation in use of funds, at what interval should it report the same?
- (a) Disclose it every year in its Annual Report
 - (b) Biannual reporting
 - (c) Every quarter
 - (d) Monthly reporting, till the funds are fully utilised.
13. Assuming yourself as the auditor of Head Limited, what would be your stand on reporting the deviation in utilization of funds under CARO 2020?
- (a) There is no need to report the matter under CARO, since such deviations were due to Covid-19 pandemic.
 - (b) The matter should be reported under CARO, under clause (xi)(a)
 - (c) The matter should be reported under CARO, under clause (x)
 - (d) The matter should be reported under CARO, under clause (xvi)(b)
14. In the above case, is the act of Mr. J to deny share of profits to legal representative of Mr. C right? What is the relevant provision of the Chartered Accountants Act which you need to refer in this case?
- (a) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 2 of Part I of First Schedule of Chartered Accountants Act.
 - (b) Mr. J has all right to deny the share of profit since it shall lead to professional misconduct. The relevant provision to be considered here is clause 2 of Part I of First Schedule of Chartered Accountants Act.
 - (c) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 4 of Part I of First Schedule of Chartered Accountants Act.
 - (d) Mr. J is correct in denying the share of profit. Though the same is mentioned in the agreement, it is against the provisions of Chartered Accountants Act. The relevant provision to be considered here is Clause 1 of Part II of Second Schedule.
15. Had the firm accepted the audit assignment of Bank Limited, would it have led to invalid appointment as per the Companies Act, 2013? If yes, under what provision?
- (a) No. As explained by Mr. C, since the loan was against a fixed deposit (loan against a collateral) appoint of the firm would not be void had they accepted the offer.
 - (b) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(ii) of the Companies Act, 2013.
 - (c) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(iii) of the Companies Act, 2013.
 - (d) Yes. The acceptance of the offer would have led to professional to invalid appointment of the firm as per the section 141(3)(c)(ii) of the Companies Act, 2013.

MCQ 16. -20.

Integrated Case Scenario 2

M/s Audit & Co. were appointed as internal auditors of M/s Manufacturing Limited, whose shares were held by Mr. F, Mrs. F, Mr. S & Ms. D in equal proportion.

CA Senior and his articled assistant Mr. Junior were a part of the team which was looking after the above assignment. As a part of the work, Mr. Junior was required to take care of the P2P internal controls established to ensure the three-way match is properly functioning. Being new to internal audit, he asked for help from a fellow team member regarding the above matter.

After completion of the audit, the firm submitted its report directly to the Board of Directors of the company. A copy of the same was also sent to the company's statutory auditors. The report had clearly mentioned that the existing internal audit system in the company was not commensurate with its size and nature of business.

Following this, the company offered the assignment of Tax Audit to M/s Audit & Co. itself. All the partners were happy to accept the offer, except CA New, an ex-articled assistant and newly inducted partner of the firm. He was of the opinion that if the above offer was accepted, it would lead to professional misconduct under the Chartered Accountants Act. However, despite his advice, the firm went on to accept the offer.

After the above incident, CA New resigned from the firm and started his own practice as a sole proprietor. Few days after the resignation of CA New, the following things happened:

- (i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the magazine.
- (ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Multiple Choice Questions (5 questions of 2 Marks each):

16. Assuming yourself to be a fellow team member of Mr. Junior, explain him what is a three-way match internal control involved in P2P process.
 - (a) Matching of Purchase order, Sales order & Invoice raised to ensure all ordered quantity of intended goods have been invoiced and proper control over quantity of inventory is maintained.
 - (b) Matching of Sales order, Goods delivery note & invoice to ensure all ordered quantity of intended goods have been delivered and invoiced accordingly.
 - (c) Matching of Sales order, Invoice & Payment receipt details to ensure all ordered quantity of intended goods have been invoiced and payment for the same is received.
 - (d) Matching of Purchase order, Goods receipt note & invoice to ensure all ordered quantity of intended goods have been received and invoiced accordingly.
17. Assuming yourself to be the statutory auditors of the company, would you need to mention about the details in the internal audit under CARO 2020? If yes, under what clause should it be mentioned?
 - (a) The above matter should be reported under clause (xiv) of CARO 2020
 - (b) The above matter need not be reported under CARO, but it shall be reported under Emphasis of Matter Paragraph as per SA 706.
 - (c) The above matter should be reported under clause (xviii) of CARO 2020
 - (d) The above matter should be reported under clause (xv) of CARO 2020

18. From the above information that M/s Manufacturing Limited appointed an internal auditor, what could you infer about their Paid-up share capital, outstanding deposit & turnover?
- Paid up share capital of ≥ 40 crore Outstanding deposits > 20 crore; Turnover ≥ 190 crore
 - Paid up share capital of ≥ 25 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 100 crore
 - Paid up share capital of ≥ 50 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 200 crore
 - Paid up share capital of ≥ 45 crore Outstanding deposits ≥ 15 crore; Turnover > 100 crore
19. Will accepting the Tax Audit offer lead to professional misconduct? If yes, as per which clause?
- No. There will be no professional misconduct on the firm, if it accepts the offer.
 - Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 4 of Part I of Second Schedule read along with Council Guidelines.
 - Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 12 of Part I of First Schedule.
 - Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 2 of Part I of Second Schedule read along with Council guidelines.
20. Comment on following incidents (i) & (ii) discussed in the scenario from the perspective of Professional Ethics as per the Chartered Accountants Act.
- (i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the magazine.
- (ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites.
- Incident (ii) makes CA New guilty of professional misconduct, since he is advertising for seeking partnership.
 - Neither of the incidents violate any provisions of Chartered Accountants Act. Hence, there is no professional misconduct.
 - Incident (i) makes M/s Audit & Co. firm guilty of professional misconduct, as the advertisement is published in newspaper other than that issued by the Institute.
 - Incident (ii) makes CA New guilty of professional misconduct, since he has provided the addresses of his social networking sites. **(10 x 2 = 20 Marks)**

Division B- Descriptive Questions-70 Marks

Question No. 1 is compulsory.

Attempt any **four** questions from the Rest.

1. (a) M/s Chandra & Co., Chartered Accountants were appointed as Statutory Auditors of Green Essence Limited for the F.Y 2021-2022. The previous year's audit was conducted by M/s. Nath & Associates. After the audit was completed and report submitted, it was found that closing balances of last financial year i.e., 2020-21 were incorrectly brought forward. It was found that M/s Chandra & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. Accordingly, a complaint was filed against Chandra & Co. in relation to this matter.

You are required to inform what policies are required to be implemented by Chandra & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC).

(5 Marks)

- (b) M/s. Sumati & Co. was appointed as an auditor of Mati Limited, a company operating its business in telecom sector. As per spectrum allocation agreement with Government, Mati Limited is required to pay certain percentage of its annual revenue as license fee. Mati Limited paid the license fee on its core business for last two years. At the end of third year, the communication was received from Government that it needs to pay agreed percentage on its total revenues and not only on core business revenues. Matter was disputed and went to court of law. On prudence basis, Mati Limited made a provision on estimated business in its books of accounts of agreed percentage on non-core business receipts also. The amount of provision was of such huge amount that the Mati Limited's profit and loss account for that quarter reflected loss due to that provision. How you as an auditor can evaluate this accounting estimate which involves significant risk and what if Management has not addressed the effects of estimation uncertainty on provision made?

(4 Marks)

- (c) In the financial year 2020-21, Shreyansh Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of Shreyansh Ltd. issue in such circumstances and why? Also, draft the opinion and basis for opinion para for the same.

(5 Marks)

2. (a) Prabhu Ltd., a company incorporated in India and listed on a recognized Stock Exchange in India, has entered into various related parties transactions during the financial year. You are required to answer the following keeping in mind the Listing Obligations and Disclosure Requirements (LODR) on Corporate Governance.

(i) Who should sign the report of material transactions with related parties? **(1 Mark)**

(ii) What type of transactions and policy are required to be disclosed in relation to related party transactions? **(2 Marks)**

(iii) Whether disclosures of related party transactions on consolidated financial statements are required to be made? If yes, what are the guidelines? **(2 Marks)**

- (b) The volatility, unpredictability and pace of fast changes that exists in the automated environment today is far greater than in the past and consequently it throws more risk to business which requires them to have a need to continuously manage such risks. State various risks which an enterprise may have to face and manage. **(4 Marks)**

- (c) CA Bahu, a newly qualified professional with certificate of practice, approached CA Subahu, the auditor of his father's company Apex Ltd., to allow him to have some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA Subahu allowed him to sit in his office for 6 month and allotted a small chamber with other office infrastructure facility. In the course of his association with CA Subahu's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT and GST return and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA Subahu's office, he did not get any salary or share of profit or commission but only re-imbursement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 2,50,000 by CA Subahu for his association out of gratitude. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

3. (a) You have been appointed to carry out the audit of Blue Heaven Life Insurance Company Ltd. for the year 2021-22. During the course of audit, you observed that the commission payable to agents constituted a major expense in operating expenses of the Company. Enumerate the audit concerns

that address to the assertions required for the Auditor to ensure the continued existence of internal control as well as fairness of the amounts in accounting of commission payable to agents.

(5 Marks)

- (b) Mr. Yuvi is a contractor dealing in food catering, flower decorating and light decorating activities. He has received contract in respect of food catering and flower decorating from one NGO for holding Annual Talent evening event to celebrate completion of 25 years of their establishment. For the said event Mr. Yuvi has received in cash ₹ 1,75,000 for food catering and ₹ 1,35,000 for flower decoration. As a tax auditor how would you deal and report on the above? **(5 Marks)**
- (c) CA. Vardhman, a Chartered Accountant in practice, empanelled as an Insolvency Professional (IP) has mentioned the same on his visiting cards, letter heads and other communications also. Mr. Tapas residing in his neighbourhood, has filed a complaint for professional misconduct against the said member for such mention of IP. You are required to examine the same with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**
4. (a) CA Sheetal is conducting the statutory audit of Kunthu Ltd., a non-banking financial company. It has branches in various parts of India. The company with a focus on housing finance, has outstanding non-convertible debentures worth ₹ 170 crore. The company reportedly missed interest payments of ₹ 17 crore on its debts because of inadequate liquidity. As a result, Kunthu Ltd. faced a series of downgrades by rating agencies on its debts over the past two months. Rating was cut to D from A4 implying that the company was in default or expected to be in default soon. What aspects CA Sheetal should look into in relation to the activity of mobilization of public deposits (particularly in relation to downgrading of credit facilities) by Kunthu Ltd? **(5 Marks)**
- (b) Moksh Ltd. is a manufacturing company and started its business in the year 2000. The net profit after tax of the company was 15% up to the financial year 2019-20, but for the financial year 2020-21 and 2021-22 the company's profit declined even when there was increase in the sales and production of goods by the company. So, the management of AS Ltd. felt a need to get the management audit conducted with the objective of detecting and overcoming current managerial deficiencies. Briefly discuss the steps to prepare the management audit report. **(5 Marks)**
- (c) Mr. Shanti, a Chartered Accountant, employed as a paid Assistant with a Chartered Accountant firm, leaves the services of the firm on 31st December, 2020. Despite many reminders from ICAI he fails to reply regarding the date of leaving the services of the firm. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**
5. (a) Mr. Shripal, a practising Chartered Accountant, has been appointed as an auditor of Rani Ltd on 12th June, 2021 for the year ended 31st March, 2022. The following persons have done following transactions in securities of Rani Ltd.:
- Daughter of Mr. Shripal Purchase of Securities on 10th September, 2021 of face value of ₹ 45,000 (market value ₹ 90,000).
 - Husband of daughter of Mr. Shripal: Purchase of Securities on 10th December, 2021 of face value of ₹ 90,000 (market value ₹ 1,90,000).
- All the above securities were sold on 18th February, 2022 for ₹ 3,00,000. Discuss the implications of the above on the appointment of Mr. Shripal. **(5 Marks)**
- (b) EROS, a movie theatre complex, is the foremost theatre located in Bangalore. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe, shops, pubs etc. located in the complex. Its other income includes advertisements exhibited within/outside the premises such as hoardings, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

EROS appointed your firm as the auditor of the entity. Being the head of the audit team, you are, therefore, required to draw an audit programme initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points relating to a complex.

(5 Marks)

- (c) HSDC Bank Ltd., received an application from a pharmaceutical company for take over of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. HSDC Bank Ltd., requires you to make a due diligence audit in the areas of assets of pharmaceutical company especially with reference to valuation aspect of assets. State what may be your areas of analysis in order to ensure that the assets are not stated at overvalued amounts.

(4 Marks)

6. (a) Bahubali & Co., a CA. firm was appointed by C&AG to conduct comprehensive audit of Brahmi Ltd., a public sector undertaking. C&AG advised Bahubali & Co. to cover areas such as investment decisions, project formulation, organisational effectiveness, capacity utilisation, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems, etc. Discuss stating the issues examined in comprehensive audit.

(5 Marks)

- (b) The Auditor of Rapid Limited succumbed to the pressure of the management in certifying the financials with an over stated figure of turnover by not adhering to the cut-off principles of the time scale for the transactions of the year. On taking cognizance of this act of the auditor, the Tribunal under the Companies Act, 2013 initiated the proceedings against him. Briefly list the powers of the Tribunal in this respect including those relating to making orders against the Auditor found to be guilty.

(5 Marks)

- (c) CA Rajul has been appointed as Forensic Auditor by BMY Bank Limited for one of its borrowal accounts AMISS Ltd. CA Rajul started the audit by first reviewing the transactions of the borrower in Bank statement as per Bank records to identify any hidden patterns in that information. She had to review huge volume of data, as the number of transactions per day were in hundreds and the data was to be reviewed for the last three years. So, she was stuck up as to how to proceed further to identify any hidden patterns in information, if any. Guide CA Rajul, suggesting which technique to be used for identifying any hidden patterns in the information.

(4 Marks)

OR

While assigning the quality review work to the respective Technical Reviewers, in order to ensure independence and avoid conflict of interest, certain eligibility conditions were specified for carrying out the specified quality review assignment to the Technical Reviewers who were required to submit a declaration of eligibility before starting the assignment. In view of above, briefly discuss those eligibility conditions prescribed for Technical Reviewer.

(4 Marks)