

**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. Swami & Co LLP is a firm of Chartered Accountants. The firm has 8 Partners. The firm has a good portfolio of clients for statutory audits, but the same clients had some other firms as their tax auditors. In the current year (FY 2021-22), many existing clients for whom Swami & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits up to a maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed.

You are requested to advise the firm in this matter.

- a. There is no limit on no of tax audits in case of LLP.
  - b. All the partners of the firm can collectively sign 360 tax audit reports.
  - c. All the partners of the firm can collectively sign 480 tax audit reports.
  - d. All the partners of the firm can collectively sign 360 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.
2. Bahu Subahu Co. LLP is an old firm of Chartered Accountants with Bahu and Subahu as the audit partners. The firm has various statutory audit and internal audit engagements which are looked after by Bahu and Subahu respectively. In the previous year ended 31 March 2022, one of the audit engagements of the firm was picked up for peer review and peer reviewer raised various observations regarding the audit documentation. Some of the information regarding audits were missing from the audit files as per the observation of the peer reviewer.

Bahu and Subahu are in the process of establishing a robust mechanism for audit documentation so that the same is available for a long duration and would lead to audit efficiencies also in the future years. Bahu and Subahu would like to understand the period for which audit documentation should be maintained by them as per the Standard on Auditing 230. Please advise.

- a. 10 years.
  - b. 9 years.
  - c. 8 years.
  - d. 7 years.
3. Shripal Ltd is in the business of manufacturing of tiles and sanitaryware. The company has a large inventory every year. Annual turnover of the company is INR 3600 crore. The company has 9 plants across India. The management of the company carries out physical verification of inventory every year at the time of reporting date. During the year ended 31 March 2022, it was found by the management that the inventory sheets of 31 March 2021 did not include five pages containing details of inventory worth INR 29.5 crore. Management has included this inventory in the valuation of inventory as of

31 March 2022. Management has also explained that considering the size of the company this may happen at times as the inventory is huge and lying at various locations. Moreover, the amount of the inventory is insignificant if considered as a percentage of revenue or inventory. State how you will deal with this matter as an auditor in the accounts of the company (towards substantive audit procedures and excluding the impact on auditor's assessment under Internal Financial Control Framework) for the year ended 31 March 2022.

- a. Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors' report for the year ended 31 March 2022.
  - b. Management should restate the financials to adjust the error. Otherwise, auditor may modify his opinion on current year's financial statements considering the materiality.
  - c. Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors' report for the year ended 31 March 2022.
  - d. Include an emphasis of matter because of the effects or possible effects of the error in the auditors' report for the year ended 31 March 2022.
4. Shanti Ltd is in the business of construction and infrastructure. The company is listed in India having an annual turnover of INR 3500 crore. The company has various projects offices/ operations in India and outside India. The functional currency of the company and its project offices is INR. The company has five joint ventures and various jointly controlled operations. The company has been audited by Sudarshan & Associates, a firm of Chartered Accountants, since beginning. During the year ended 31 March 2022, new auditors were appointed as the statutory auditors of the company for the audit of the financial statements for the year ended 31 March 2022. New statutory auditors have raised various points related to the consolidation procedures followed by the company. Management did not agree to the observations of the auditors as they have been following this since many years now and there was no observation of previous auditors in respect of the same. Auditors have highlighted a point that joint ventures have been consolidated by the company in its standalone financial statements. However, management has an argument that those are in the nature of its operations and hence to reflect the true and fair view it would be appropriate to consolidate the same in the standalone financial statements.
- Please advise as auditors how would you deal with this matter.
- a. Since the matter is related to consolidation, which is more relevant for consolidated financial statements, hence no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2022.
  - b. Auditor should look at the materiality and conservatism principle. Company has included extra information in the financials which can be considered by the auditors and basis that clean audit report should be given.
  - c. Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise, auditor may modify his opinion on current year's financial statements considering the materiality.
  - d. As per the requirements of IND AS, joint venture if consolidated in standalone financial statements should not be consolidated again in the consolidated financial statements. Basis that this point should be dropped by the auditor.
5. ASAUS Ltd is in the business of optics and imaging products. It is a wholly owned subsidiary of Japanese company, ASU Ltd. ASAUS Ltd has many expatriates (Expats) working in the company whose tenure range from 2 to 5 years. During the course of audit of financial statements of the company, the statutory auditors observed that the company has not been deducting and depositing the TDS (tax deducted at source) on salaries of expats. The auditors assessed that the impact of this can be significant as the company has many expats and salary amount is significant. Management explained that TDS on salary

of expats would lead to unnecessary hassles to the expats and they serve the company only for a short period. How should the auditors of ASAUS Ltd deal with this matter?

- a. Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should report the same in CARO only.
  - b. Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO.
  - c. The auditor should agree to the management's view as the expats are temporary workers and this may not be convenient for the management.
  - d. Since the matter relates to statutory liability only, the reporting requirements do not arise till the time this becomes disputed.
6. JIN Ltd issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31 March 2022. 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. Which of the following is correct:

- 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.
7. MN Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2021-22. It consists of two partners CA. M & CA. N. CA. M is brother of the father of the finance director of the company. CA. N is an old friend of the finance director of the company.

What kind of ethical threat is associated with appointment of MN Associates as an auditor of RSR Ltd.?

- a. Self Interest Threat.
- b. Advocacy Threat.
- c. Familiarity Threat.
- d. Self-Review Threat.

8. SIDHA Pvt Ltd had turnover of ₹ 39 crore as at 31 March 2022. The Company had taken a loan of ₹ 39 crore from various banks and financial institutions during the year 2021- 2022. These loans were paid by the Company before 31 March 2022. The Company is of the view that the auditors' reporting on adequacy and operating effectiveness of internal financial controls (IFC) under Section 143(3)(i) of the Companies Act, 2013 would not be required. The auditors of the Company have a different view. What should be correct option?
- The turnover of SIDHA Pvt Ltd is below required threshold and hence IFC will not be applicable.
  - The turnover of SIDHA Pvt Ltd is below required threshold and loan amount was fully paid before year end i.e., 31 March 2022. Hence IFC will not be applicable.
  - The turnover of SIDHA Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2022 or not, IFC would be applicable.
  - In the given case because of the repayment of the loan before year end i.e., 31 March 2022, applicability of IFC becomes optional.
9. Which of the following is an example of Direct Entity Level Control?
- Ethics policy.
  - Human resource policy.
  - Business performance reviews.
  - Job roles & responsibilities of employees.
10. The Advances Bank Ltd. has sanctioned overdraft limit of ₹ 42.5 crore to ASG Ltd. on the working capital of the company as on 31<sup>st</sup> March 2020. As per bank norms the drawing power in the overdraft account need to be reviewed on quarterly basis as per the audited stock statement of the company. As a central statutory auditor for the year 2021-22, while verifying the advances for the year ending 31<sup>st</sup> March 2022, you noticed that the bank has not obtained the stock statement of ASG Ltd. for the two quarters ending 31<sup>st</sup> December 2021 and 31<sup>st</sup> March 2022 and no provision of NPA has been made for this account in the financial statements for the year 2021-22. What will be your decision as a central statutory auditor?
- Classify the borrower's account as NPA as the borrower's financial position cannot be determined due to non-submission of stock statement.
  - Instruct the bank to obtain the audited stock statement for both the quarters and review the credit limit accordingly.
  - As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31<sup>st</sup> March 2022, so the outstanding in the account will be deemed as irregular.
  - You should give a qualificatory note in the audit report as per SA 700. **(10 x 1 = 10 Marks)**

**Questions (11-20) carry 2 Marks each**

**MCQ 11. -15.**

**Integrated Case Scenario 1**

Sambhav Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Sambhav Limited appointed Mr. Dharam, Mr. Paras and Mr. Anant as its central joint auditors for the year 2021-22. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Sambhav Limited issued appointment letter as well as engagement letter to all of them. But Mr. Dharam was not clear on some point so he requested Sambhav Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of

framework applicable. It also contains the reference to expected form and content of report from all three joint auditors.

During the year Sambhav Limited has acquired another bank called Aadi Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹3 crore, determination of amount of minority interest of ₹ 75 lakh and some intra-group transaction adjustment of ₹ 22 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Sambhav Limited and Aadi Limited which was of 45 lakh.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Paras. But Mr. Paras failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Dharam. While performing audit on compliance with SLR requirements Mr. Dharam used 12 odd dates in different months of fiscal year. Mr. Dharam with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	3 <sup>rd</sup>	Saturday
May	10 <sup>th</sup>	Monday
June	16 <sup>th</sup>	Wednesday
July	9 <sup>th</sup>	Friday
August	27 <sup>th</sup>	Friday
September	2 <sup>nd</sup>	Thursday
October	29 <sup>th</sup>	Friday
November	2 <sup>nd</sup>	Tuesday
December	1 <sup>st</sup>	Wednesday
January	9 <sup>th</sup>	Sunday
February	7 <sup>th</sup>	Monday
March	6 <sup>th</sup>	Sunday

Mr. Anant was entrusted with responsibility for calculation of Demand and time liability. On 31<sup>st</sup> March total liability stood at ₹ 250 crore. It includes Margin held for funded facilities of ₹ 4 crore, credit balance for one branch of ₹ 6 crore, adverse balance of nostro Mirror account of ₹ 3 crore and unadjusted deposit for agency business of ₹ 8 crore.

Wife of CA Dharam was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 500 shares of Shambhav Limited of ₹ 100 each for ₹ 9,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors.

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. List down all the months whose date has been selected inappropriately by CA Dharam for calculation of SLR compliance?
  - a. January, February and March.
  - b. July, August and October
  - c. June, July and October.

- d. May and November.
12. While calculating SLR compliance of Sambhav Limited, what will be value of demand and time liability as on 31<sup>st</sup> March?
- 246 crore
  - 250 crore.
  - 237 crore.
  - 240 crore.
13. Will CA Dharam be disqualified after his wife purchased 500 shares for ₹ 9,00,000?
- Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ₹ 1,00,000 market value.
  - Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 1,00,000 face value.
  - Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns shares of less than ₹ 10,00,000 market value.
  - Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.
14. Which of the following statement is true?
- For giving the effect of merger, permanent consolidation adjustment of 397 lakh and current period consolidation adjustment of 45 lakh was made.
  - For giving the effect of merger, permanent consolidation adjustment of 420 lakh and current period consolidation adjustment of 22 lakh was made.
  - For giving the effect of merger permanent consolidation adjustment of 442 lakh.
  - For giving the effect of merger, permanent consolidation adjustment of 375 lakh and current period consolidation adjustment of 67 lakh was made.
15. In the given situation whether audit engagement letter issued by Sambhav Limited?
- Engagement letter issued specify the identification of framework applicable, whereas as per SA 210, it should not specify identification of framework applicable.
  - Engagement letter issued doesn't specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.
  - Engagement letter issued specify the expected form of report, whereas as per SA 210 it should not contain the expected form of report.
  - There was no discrepancy in the engagement letter issued.

**MCQ 16. -20.**

**Integrated Case Scenario 2**

POSH Bank of India is a Public Sector Bank founded in the year 1967. The bank has 179 branches all over India as on 31.03.2022. Total Deposits of the bank on 31.03.2021 was ₹ 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2021-22 are SAHU & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following:

- The Advance granted to Mr. Ram has been guaranteed by State Government. However, said advance is overdue since November 2021.
- As on 20.04.2022, the ad hoc limit of account of Mr. Shyam has not been reviewed even though 120 days of date of ad hoc sanction were over.

The above advances have been granted by Meerut Branch. However, this branch is not subject to Concurrent Audit.

The Bank has also granted Term Loan of ₹ 20 crore to Sumati Ltd (An Unlisted Company) on 01.02.2022. The sanction letter read as follows:

“The Facility shall be used for Repayment of Unsecured Loans of Promoters – ₹ 10 crore and towards development & construction expenses (Other than Land Cost) of the company’s new office to be situated in Faridabad, Haryana – ₹ 10 crore”.

The company has utilized the facility as follows as on 31<sup>st</sup> March 2022-

- (i) Land Purchased for New Office: ₹ 4 crore;
- (ii) Development and construction Expenses of New Office: ₹ 11 crore;
- (iii) Repayment of Unsecured Loans of Promoters: ₹ 3 crore;
- (iv) Investment in Fixed Deposit: ₹ 2 crore (Temporarily);

Company’s Total Borrowings from all Banks as on 31<sup>st</sup> March 2022 is ₹ 60 crore.

POSH Bank of India is the parent organization (100% Holding) of POSH General Insurance Co. Ltd. The Statutory auditors of POSH General Insurance are AK & Co., Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31<sup>st</sup> March 2022:

- Value of Assets: ₹ 700 crore.
- Amount of Liabilities: ₹ 415 crore.
- Capital: ₹ 200 crore.

The POSH General Insurance has entered into reinsurance contract with Fair Reinsurance Co. Ltd. against the risk of fire only. Fair Reinsurance Co. Ltd. is one of the largest reinsurers in India.

Mr. Shri (Partner in SAHU & Associates) also acts as Surveyors and Loss Assessors under Insurance Act, 1938. However, he has not intimated or taken permission from the Council of Institute of Chartered Accountants of India.

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. As Statutory Auditor of Sumati Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained?
  - a. ₹ 4 crore.
  - b. ₹ 5 crore.
  - c. ₹ 7 crore.
  - d. ₹ 2 crore.
17. As an audit manager of the firm, advice which advance(s) shall be classified as Non-Performing Asset?
  - a. Mr. Ram.
  - b. Mr. Shyam.
  - c. Both Mr. Ram and Mr. Shyam.
  - d. Neither Mr. Ram nor Mr. Shyam.
18. Based on above data, state whether POSH General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If no, then state what further action will be done?
  - a. Yes, solvency margin has been maintained therefore no action is required.

- b. No, It shall deemed to be insolvent.
  - c. No, It shall submit a financial plan to the authority.
  - d. The requirement of Solvency Margin is not applicable in case of general insurance companies.
19. Whether the acting of Mr. Shri as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?
- a. Yes, as specific permission from the council shall be required.
  - b. No, as general permission from the council has been granted.
  - c. No, as specific permission from the council can be obtained at any point of time.
  - d. Yes, as general permission is not granted for above occupation.
20. Identify the type of reinsurance contract between POSH General Insurance and Fair Reinsurance Co. Ltd.
- a. Treaty Reinsurance.
  - b. Proportional Treaty Reinsurance.
  - c. Non-Proportional Treaty Reinsurance.
  - d. Facultative Reinsurance.

**(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 Prakash & Co., Chartered Accountants were appointed as statutory auditors of JIN Limited for the financial year 2021-22. During the course of audit, one of the partners CA Prakash observed that there is misappropriation of assets in the form of theft of entity's inventory and is perpetrated by employees in relatively small and immaterial amounts. CA Prakash is concerned with the existence of certain circumstances for increasing the susceptibility of assets to misappropriation. Guide CA Prakash with respect to risk factors related to misstatements arising from misappropriation of assets with reference to relevant Standard on Auditing. **(5 Marks)**
- (b) In the course of audit of FIN Limited you observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. FIN Limited used a service organisation to record transactions and process related data. As an auditor, what would be your considerations regarding the nature and extent of activities undertaken by service organisation to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk. Discuss with reference to relevant Standard on Auditing. **(5 Marks)**
- (c) CA Subhadra is the statutory auditor of SATI Ltd. for the financial year 2021-22. In respect of loans and advances of ₹ 95 lakh given to Shripal Pvt. Ltd., the Company has not furnished any agreement to CA Subhadra and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. Justify the type of opinion which CA Subhadra should give in such situation. Also, Draft an appropriate Opinion paragraph and Basis of Opinion paragraph. **(4 Marks)**
2. (a) It was observed from the modified audit report of the financial statements of Shrivasti Ltd. for the year ended 31st March, 2021 that depreciation of ₹ 3.95 crore for the year 2020-2021 had been

charged off to the Statement of Profit and Loss instead of including it in "carrying value of asset under construction". State in relation to the audit for the year ended 31st March 2022, whether such modification in the previous year's audit report would have any audit implication for the current year i.e. FY 2021-22 and if yes, how the auditor is required to deal with the same in his audit report for the current year? **(5 Marks)**

- (b) Seeta Ltd is the Subsidiary Company of Geeta Ltd. Ram & Associates has been appointed as auditor of Geeta Ltd. for the financial year 2019-20 and Hanuman & Associates has been appointed as auditor of Seeta Ltd. for the year 2019-20. Explain the role of Ram & Associates and Hanuman & Associates as auditors of the parent company and subsidiary company respectively. **(4 Marks)**
- (c) Stone Private Limited was engaged in business of manufacture of Cycles. CA. Chandra was appointed as a Statutory Auditor of the Company for the financial year 2021-22. Outing the year under audit, Stone Private Limited obtained working capital facilities from Royal Bank Limited for ₹ 10 crore hypothecating the Stock of goods as primary security. On inquiry CA. Chandra was informed by management that stock statements are furnished periodically to Royal Bank Limited and the details of submission of quarterly stock statement are as follows:

Period of Stock	Stock Value as per Books of Account as at the end of the quarter (₹ in crore)	Stock Value as per quarterly statement submitted to Royal Bank Limited as at the end of quarter (₹ in crore)
Q1-2021-22	21.50	24.00
Q2-2021-22	24.75	27.00
Q3-2021-22	21.50	24.00
Q4-2021-22	25.25	25.25

The management of Stone Private Limited did not disclose the above variations in Notes to accounts forming part financial Statements of the Company for the year 2021-22. The management replied that there are no variations as on the Balance sheet date and further they are of the view that stock statement furnished to bank is only a formality and computed arbitrarily only for the purpose of securing higher drawing power and hence statutory auditors need not be bothered.

Is the contention of the management valid? As a statutory auditor how CA. Chandra should deal with the same and discuss the disclosure/reporting requirements if any, as per the Companies Act, 2013 and CARO, 2020. **(5 Marks)**

3. (a) In course of audit of Great Samaritan Bank as at 31<sup>st</sup> March, 2022 you observed the following:
- (i) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government? **(4 Marks)**
- (ii) In the course of audit of Bank, you found that the Bank had sold certain of its non-performing assets. Mention any two points of audit check that are very relevant to this area of checking. **(2 Marks)**
- (b) The management of MANIPRABH Limited, a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management. **(4 Marks)**
- (c) Mr. Nageshwar, a Chartered Accountant in practice has been elected as the treasurer the Regional Council of the ICAI. The Regional Council had organized an international tour through

a tour operator during the year for its members. During the audit of the Regional Council, it was found that Mr. Nageshwar had received a personal benefit of ₹ 40,000 from the tour operator. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

**(4 Marks)**

4. (a) Comment on the following in the light of certificate of compliance of conditions of Corporate Governance to be issued under SEBI (LODR) Regulations 2015, for a listed company (one among the top 1000 listed companies) where the Board consists of 20 directors with a non-executive director as its Chairman and further-
- (i) One non-executive director has attained the age of 72 years.
  - (ii) One of the directors is a director in eight other listed entities.
  - (iii) The managing director is serving as independent director in four listed entities of which one entity's equity shares are not listed on a Stock exchange.
  - (iv) One independent director has been serving as independent director in eight listed entities of which equity shares are listed on a Stock exchange.
- (4 Marks)**
- (b) M/s Vrinda Auto, a partnership firm, is engaged in manufacture of automobile spare parts having factory at Surat. CA Mahaveer was appointed as the Tax Auditor of M/s Vrinda Auto for the Assessment year 2022-2023. While carrying out the Tax Audit under section 44AB of the Income Tax Act, 1961. CA Mahaveer observed following:
- (i) Interest of ₹ 50,000 paid to Vendor Ghanshyam who was registered under MSME Act, 2006.
  - (ii) Interest payment ₹ 10,000 was incurred in relation to earning exempt interest income from Tax Relief bonds.
  - (iii) Sum of ₹ 1,00,000 was received from Mr. Ghanshyam, for sale of one plant and machinery. But due to non-compliance of one of the conditions as specified in the contract with Mr. Ghanshyam, M/s Vrinda Auto forfeited ₹ 1,00,000 during AY 2022-23 as per forfeiture clause mentioned in the contract.

Guide CA Mahaveer in reporting the above transactions under the relevant clauses in Form No. 3CD.

**(6 Marks)**

- (c) Mr. Bahubali, a Chartered Accountant in practice, wrote two letters to M/s Shubh Labh Chartered Accountants a firm of CAs; requesting them to allot him some professional work. As he did not have a significant practice or clients he also wrote a letter to M/s PQR, a firm of Chartered Accountants for securing professional work. Mr. Smart, another CA, informed ICAI regarding Mr. Bahubali 's approach to secure the professional work. Is Mr. Bahubali wrong in soliciting professional work? Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.
- (4 Marks)**
5. (a) Jambu, Gautam and Vishudh are partners in a firm sharing profits and losses in the ratio 4:3:2. The partners have agreed to take Mr. Rishabh as a partner with effect from 1st April, 2023 as 1/5<sup>th</sup> partner. What are the important steps involved while conducting investigation on behalf of Mr. Rishabh, the incoming partner?
- (5 Marks)**
- (b) Mr. Nemi, a Chartered Accountant in practice, is the auditor of Yuvraj Ltd. He advised the Managing Director of the company to include 'orders under negotiation' in sales, to reflect higher profit and better financial position for obtaining bank loans in future. Mr. Nemi, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.
- (5 Marks)**
- (c) While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was

outside his scope of the financial audit to look into the compliance with other laws. Comment in accordance with relevant Standards on Auditing. **(4 Marks)**

6. (a) "The C & AG may direct the appointed auditor about the manner in which the accounts of the Government Company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India". What are the relevant sections of the Companies Act, 2013 and steps involved in the audit of Government Companies? **(5 Marks)**
- (b) As at 31st March 2022 while auditing Secure Insurance Ltd, you observed that a policy has been issued on 25th March 2022 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5th April, 2022. You further noticed that there was a fire accident in the premises of the insured on 31st March 2022 and a claim was lodged for the same. The insurance company also made a provision for claim. Comment. **(5 Marks)**
- (c) During the process of extracting the exception reports, the auditors noted numerous purchase entries without valid purchase orders. In terms of percentage, about 35% of purchases were made without valid purchase orders whereas few purchase orders were validated after the actual purchase. Also, there was no reconciliation between the goods received and the goods ordered. You are required to briefly explain the audit procedures to address the validity of account balance level. **(4 Marks)**

**OR**

What are the consequences if the Quality Review Board notices major non-compliances with the requirements of the Standards on Quality Control or Standards on Auditing or Accounting Standards? **(4 Marks)**