MOCK TEST PAPER- 1

FINAL (NEW) GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

Time Allowed – 3 Hours **Maximum Marks – 100**

Division A- Multiple Choice Questions (30 Marks)

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

1. PMP Ltd is an associate of PMP Inc, a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company‘s operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures.

The company‘s auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2019.

For the financial year ended 31 March 2020, the auditors made some changes in their audit team. While the audit partner remained the same, the field incharge has been replaced, as the field incharge who was engaged in the audit of the financial statements for the year ended 31 March 2019 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made onthe basis of the consideration that the firm has enough experience of engagement with this client.

The audit team commenced the work for audit of the year ended 31 March 2020 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant.

The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?

a. The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India(ICAI).

b. The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner.

c. The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report.

d. EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.

2. Kshitij Private Ltd is a company based out of Kochi having operations primarily in Europe. Because of the nature of the operations of the company, it is required to prepare its financial statements as per International Standards for reporting to the local regulatory authorities over there.

Since the business is based in Europe, the audit team is also required to visit the locations wherever the company has offices and is accordingly, required to perform certain audit procedures over there.

During the audit of this company for the financial year ended 31 March, 2020, the auditors, who had planned their work appropriately and had a large team for conducting the audit, were facing lot of challenges at various stages.

They were also required to revisit their materiality level during the course of the work.

However, at the time of final reviews when this was discussed with the Audit Partner (Audit Incharge), he was not convinced with the approach of the audit team wherein they reassessed their plans continuously resulting in waste of time.

In this situation, please advise which one of the following would be correct.

a. Audit Partner being the senior most team member is right and same thing should be considered by audit team by documenting it in the audit file.

b. Audit Partner's view is not correct as the audit team did the right thing.

c. Audit Partner was correct, however, during the course of an audit which required visits at various locations it was mandatory.

d. Audit Partner's view is not correct because the materiality was revised by the audit team which is a big thing and same should have been considered by the audit partner.

3. Mr. D is a practising Charted Accountant from Mangalore. He has been practising as a sole proprietor for past two decades. Mr. D's daughter Ms. S is a newly qualified chartered accountant, who cleared the final exam just three months ago. Immediately after qualifying, she also wanted to set up a sole proprietary concern and practice on her own. After setting up the firm, she printed her own vising card as follows:

S & Co., Chartered Accountants
Proprietrix.: Ms. S, FCA, B. Com
Office: JJ Nagar, Mangalore.
Phone: 9123456780

In view of above visiting card, whether Ms. S will be held guilty of professional misconduct? If so, under which clause?

- **a.** No, Ms. S won't be guilty of misconduct. As per recent decision of the council, a CA in practice can give any details in the visiting card, except for vision of the firm.
- **b.** Yes, Ms. S will be guilty of professional misconduct as per Clause 7 of Part I of First Schedule.
- **c.** Yes, Ms. S will be guilty of professional misconduct as per Part III of Second Schedule.
- **d.** Yes, Ms. S will be guilty of professional misconduct as per Clause 1 of Part III of First Schedule.

4. ABC Private Limited, a manpower supplier company, is using SharePoint for keeping all documents, ERP software having additional access through mobile devices, app for leave management, CRM portals for managing customer relations etc. Company is not required to maintain database in-house, as company is using cloud services. Due to increase in customer base, company wants to focus on defining the controls around above application / systems. As you are one of the members from risk management team, what category of IT controls you will suggest the Management:

- **a.** General IT and Environmental control.
- **b.** Environmental and Application controls.
- **c.** Application and Physical security control.
- **d.** General IT and Application controls.

5. Section 130 re-opening of accounts on Court's or Tribunal's orders: of the Companies Act, 2013 states that a company shall not re- open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board of India (SEBI), any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that Jain Ltd. has an annual turnover of ₹ 350 crore and has been into losses for the last 2 years. The operations of the company are good. Due to some technology changes, the company started facing competition and hence, started incurring losses. The company plans to revive in the next 1-2 years with the improvements in its processes. During the year ended 31 March, 2020, the management of the company came across certain transactions relating to the financial year ended 31 March 2019 which were erroneously missed to be accounted for. This would result into losses and hence, the management is considering to take this to the right financial year and for that purpose to re-open its accounts for the financial year ended 31 March 2019. Please advise.

- **a.** The position of the management is correct.
- **b.** The action of the management is correct, however, the reason behind reopening the accounts of last year does not seem to be correct.

c. The action of the management would have been correct had it been advised by the auditors of the company and for the same management should have taken approval from SEBI.

d. The action of the management is not correct.

6. A BCO Private Limited is operating in India for the last 15 years. It has three group companies – one subsidiary in India and the other two in Ireland and France. All these subsidiaries were acquired one by one and investments were made in these companies gradually i.e. initially control was not obtained and after investment for some period, control was obtained. The statutory auditors have evaluated that all the group companies are significant for the purpose of audit of consolidated financial statements.

   During the year ended 31 March 2019, the audited financial statements of all the components are available except for French company whose audit got delayed and would not get completed before the release date of CFS of parent company.

   For the purpose of consolidation, the parent company has provided the audited financial statements of other components. Please suggest what can be the possible situation in respect of financial statements of French company for the purpose of consolidation for the purpose of audit of CFS.

   a. Since the audit of French company is in progress, its financial statements subject to audit can be considered by auditor of parent company and audited signed financials can be given to auditors even after release of audited CFS as this is matter of documentation only.

   b. The management should give management accounts to the auditors of CFS and auditor can mention the same point in other matters paragraph in his audit report which is an acceptable approach.

   c. Auditor should get the financial statements of French company excluded from CFS.

   d. If the auditor does not receive audited financial statements of French company, he should modify his audit report.

7. You are the internal auditor of FCD Bank Limited for the year 2019-20and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:

   a. Ensure that all the fixed deposit receipts are attached along with the approved loan documents.

   b. Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.

   c. Discuss the process followed for lien marking with the branch manager.

d. Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.

8. PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?

a. It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly.

b. As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are requiredto give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions and advise the bank to segregate the PMS transactions from its own investments and provide the certificate of external auditor.

c. The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.

d. Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills re- discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.

9. You have been given an assignment of audit of IT department of a PSU. A checklist was handed over to you which contained many questions such as,

- Are external (offsite) data backups maintained at a place outside the premises?
- Are separate usernames and passwords assigned to individual users?
- Are periodical changes of passwords ensured?

The type of audit being conducted is likely to be:

a. Compliance audit.

b. Propriety audit.

c. Comprehensive audit.

d. Financial audit.

10. JK Ltd is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of INR 25,000 crore. The operations of the company are increasing constantly, however, the focus of the management is more on cost cutting in the coming years to improve its profitability.

In respect of the financial statements of the company which are used by various stakeholders, some deficiencies were observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders went for a civil action against the company including all the parties who had the responsibility in respect of those financial statements.

The statutory auditors of the company were also roped in. The statutory auditors went against this civil action and were able to prove that there was no professional negligence on their part.

It was decided that the loss was occasioned through the negligence of directors and the fault of the auditor in failing to verify the asset was considered to be only technical.

On the basis of above-mentioned facts, what should be the correct option out of the following?

a. A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.

b. Both the auditors and the directors should be held liable in respect of the deficiencies identified. Both of them should compensate these stakeholders in respect of the damages and a further penalty of INR 10 lakh would be imposed on them.

c. Auditors and directors should be held liable in this case. Further because the fault of directors is bigger, they would be subject toa penalty of INR 10 crore or losses suffered by the stakeholders, whichever is higher.

d. Since the fault of the auditor is limited to technical in nature, he cannot be held liable for any penalty or damages. However, he would not be allowed to work for this company and any other company in similar industry for a period of next 5 years as per the requirements of the Companies Act 2013.

<u>**Case Scenario 1**</u>

Good Deposit Limited a NBFC registered with RBI under section 45-IA of the RBI Act and listed on National Stock Exchange, appointed ABC & Co. Chartered Accountants as their statutory Auditor for the financial year ending on 31 March 2023. Mr. J the audit partner of ABC & Co. extracted the monthly net owned fund position from the books of Goods Deposit Limited. ABC & Co was peer-reviewed last in January 2019, and its peer review certificate was valid until January 2022. ABC & Co did not apply for Peer Review after January 2022 till the date of the acceptance of the audit.

Month	Net Owned Funds (as calculated based on monthly position)
April 2022	` 350 Lakh
May 2022	` 350 Lakh
June 2022	` 320 Lakh

July 2022	` 310 Lakh
August 2022	` 290 Lakh
September 2022	` 250 Lakh
October 2022	` 240 Lakh
November 2022	` 190 Lakh
December 2022	` 180 Lakh
January 2023	` 240 Lakh
February 2023	` 270 Lakh
March 2023	` 310 Lakh

The Board of Good Deposits Limited consisted of 9 directors, of which five were non-executive, including a woman director, and two were independent. Out of the above, the Chairperson of the Board was a regular non-executive director and promoter of the Company. The Company was not out of the 1000 top listed entities for the past five years.

During the year, Mr. J recommended to the Board and Audit Committee to have internal auditors. However, Board, citing budget issues, rejected the Audit Partner's recommendation. Board, however, assured that they would consider next year to have an internal audit department within the Company.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

11. Mr J reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Good Deposit Limited is not eligible to hold its Certificate of Registration under section 45 -IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the Statutory Auditor is required with reference to the position of the Company as at the end of the financial year ended 31 March and not based on each month's position. Kindly guide Mr J with respect to the requirement under Master Direction.

a. Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company as of the end of the financial year ended 31 March.

b. Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company as of the end of each month.

c. Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company throughout the financial year.

d. Only NBFC-MFI shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company throughout the financial year.

12. Mr J was of the opinion that the Composition of the Company's Board of Directors is not in compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. Kindly Guide the management with respect to the provision, which is not complied by the management, specified in Regulation 17 of SEBI LODR Regulations.

a. Where the regular non-executive Chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of the Board of director or at one level below the Board of directors, at least half of the Board of directors of the listed entity shall consist of independent directors.

b. Where the Chairperson of the Board of directors is a non-executive director, at least one-third of the Board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the Board of directors shall comprise of independent directors.

c. The Board of directors shall have an optimum combination of executive and non-executive directors with at least one-woman director, and not less than fifty per cent of the Board of directors shall comprise of non-executive directors.

d. Where the Chairperson of the Board of directors is a non-executive director, at least one-fourth of the Board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least one-third of the Board of directors shall comprise of independent directors.

13. At the time of accepting the Audit of Good Deposit Limited, the quality engagement partner objected that ABC & Co. does not hold a peer review certificate and hence cannot accept the statutory audit of the NBFC. Mr J was of the opinion that ABC & Co were falling under the Level-II category, and hence, they are required to get themselves peer reviewed once in 4 years. Kindly guide Mr J with respect to the peer review requirements as per Peer Review Guidelines 2022.

a. Every Practice Unit falling under the category of Level II is required to get peer- reviewed once in every 4 years. ABC & Co. was last peer reviewed in January 2019, and accordingly, they need to get themselves peer reviewed by January 2023.

b. As per the peer review mandate, Practice Units which propose to undertake Statutory Audits of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, for these Practice Units, there is a pre-requisite, starting from 1 April 2022, of having Peer Review Certificate before undertaking the Statutory Audit assignment.

c. Every Practice Unit falling under the category of Level II is required to get peer- reviewed once every 3 years. ABC & Co. was last peer reviewed in January 2019, and accordingly, they need to get themselves peer reviewed by January 2022.

d. Practice Units are required to wait for the allotment of Peer Reviewers by the Board. Once the names of Peer reviewers are intimated by the Practice Unit, then the Practice Unit can initiate the process of Peer Review with the reviewer.

14. Mr J wants to highlight the matter with respect to the absence of internal audit function in his audit report under the Emphasis of Matter paragraph. However, management was of the view that the audit partner was not right by disclosing the said matter in his audit report as it was an internal matter, and the audit team had not identified any material evidence which could impact the opinion of the auditor. Kindly guide Mr J whether proposed reporting under Emphasis of Matter (EOM) para in the Audit Report is correct.

a. EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is correct.

b. EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is incorrect.

c. EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is incorrect.

d. EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is correct.

15. Kindly guide Mr J regarding areas where he may need to report the absence of Internal Audit Function in the Company in Audit Report.

a. The auditor is required to report the matter in the Basis of Qualification paragraph of his audit report as the Auditor was unable to place reliance on the internal audit function of the Company.

b. The auditor is required to report the same under Para 3(xiii) of the CARO (Companies Auditor's Report Order), 2020.

c. The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.

d. The auditor is required to report the said matter in Key Audit Matters as per SA 701, which requires significant professional judgement and user attention.

By CA Kapil Goyal

Case Scenario 2

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	3rd	Saturday
May	10th	Monday
June	16th	Wednesday
July	9th	Friday
August	27th	Friday
September	2nd	Thursday
October	29th	Friday
November	2nd	Tuesday
December	1st	Wednesday
January	9th	Sunday
February	7th	Monday
March	6th	Sunday

Mr. Anant was entrusted with responsibility for calculation of Demand and time liability. On 31 st 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:

16. 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.

17. While calculating SLR compliance of Sambhav Limited, what will be value of demand and time liability as on 31st March?

a. 246 crore

b. 250 crore.

c. 237 crore.

d. 240 crore.

18. Will CA Dharam be disqualified after his wife purchased 500 shares for ` 9,00,000?

a. Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ` 1,00,000 market value.

b. 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.

c. 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.

d. Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.

19. Which of the fallowing statement is true?

a. For giving the effect of merger, permanent consolidation adjustment of 397 lakh and current period consolidation adjustment of 45 lakh was made.

b. For giving the effect of merger, permanent consolidation adjustment of 420 lakh and current period consolidation adjustment of 22 lakh was made.

c. For giving the effect of merger permanent consolidation adjustment of 442 lakh.

d. For giving the effect of merger, permanent consolidation adjustment of 375 lakh and current period consolidation adjustment of 67 lakh was made.

20. In the given situation whether audit engagement letter issued by Sambhav Limited?

a. Engagement letter issued specify the identification of framework applicable, whereas as per SA 210, it should not specify identification of framework applicable.

b. Engagement letter issued doesn't specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.

c. Engagement letter issued specify the expected form of report, whereas as per SA 210 it should not contain the expected form of report.

d. There was no discrepancy in the engagement letter issued.

Division B- Descriptive Questions

*Question No. **1** is compulsory.*

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

Total 70 Marks

1) **(a)** JIN Ltd., at its annual general meeting, appointed Mr. J, Mr. I and Mr. N as join t auditors to conduct audit for the financial year 2022-23. For the valuation of gratuity scheme of the company, Mr. J, Mr. I and Mr. N wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuarial reports. However, Mr. J agreed to Mr. I's actuary report, though, Mr. N did not. Mr. J contends that Mr. I's actuary report shall be considered in audit report due to majority of votes. Now, Mr. N is in dilemma. Explain the responsibility of auditors, in case, report made by Mr. I's actuary, later on, was found faulty.

[5 Marks]

(b) A Pvt Ltd is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.

[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)** 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.

[4 Marks]

(b) BOT Limited is enjoying cash credit facility sanctioned from Nariman Point, Mumbai branch of KNB Bank for `250 crore. However, for practical considerations, various sub-limits have been fixed for the borrower company for operation at Solapur, Pune and Nashik branches of the same bank.

The manager of the Solapur branch notices that there are no credit transactions in sub - limit account being operated at the Solapur branch for more than 90 days as on 31st March,2022.

Discuss the approach of CA. Muni, statutory branch auditor of Nariman Point branch, Mumbai of KNB Bank, in the matter of asset classification of the above borrower account. Also discuss considerations for classifying said account at the Solapur branch.

[5 Marks]

(c) 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?

[5 Marks]

3) **(a)** Mr. Sheetal is a practicing chartered accountant. Due to natural calamities and misfortune during the year 2021, he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 2023, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto, (especially from the point of section 8: Entry of name in Register of Members).

[4 Marks]

(b) BC Ltd., engaged in the manufacturing of goods carriage, appointed you as the tax auditor for the financial year 2018-19. How would you deal with the following matters in your tax audit report:

i. Payments of 6 invoices of Rs. 5,000 each made in cash to Mr. X, engaged in leasing of goods carriages on 4th July, 2018.

ii. Payments of 2 invoices of Rs. 18,000 each made in cash to Mr. Y, engaged in leasing of goods carriages on 5th July, 2018 and 6th July, 2018 respectively.

iii. Payment of Rs. 40,000 made in cash to Mr. Z, engaged in leasing of goods carriages on 7th July, 2018 against an invoice for expenses booked in 2017-18.

[6 Marks]

(c) 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]

4) **(a)** KDK Bank Ltd., received an application from a pharmaceutical company for takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. KDK 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?

[6 Marks]

(b) CA Kumar who is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaigning promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period.

[4 Marks]

(c) Identify the controls which are automated, manual or IT dependent manual for the below mentioned cases?

(i) Price master configured in the sales master can only be edited by authorised personnel in the system.

(ii) Invoice cannot be booked in SAP in case Purchase orders are not approved.

(iii) Inventory ageing report is pulled out from the system based on which provisioning is calculated after analyzing the future demand by the inventory personnel and approved by the controller.

(iv) All invoices are signed by warehouse personnel before the goods are dispatched to the customer.

(v) Credit limit is assigned to the customer and goods cannot be sold in excess of credit limit configured in the system.

(vi) All changes to the credit limit is approved manually by sales manager.

(vii) Ageing report is pulled out from SAP based on which provisioning is calculated by accounting personnel and approved by financial controller.

(viii) PO, GRN (Good received note) and invoice are matched by the system before it is posted in the financial records.

[4 Marks]

5) **(a)** 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 (` 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.

[6 Marks]

(b) You have been appointed to carry out the audit of Paradise Life Insurance Company Ltd. for the year 2022-23. 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.

[4 Marks]

(c) CA P is the auditor of Master Data Ltd. for the year 2021-22. The company requests the auditor to undertake an exercise involving only verification of trade receivables for half year ending 30th September 2021. The company wants to be satisfied that trade receivables are properly confirmed and reconciled.

In this regard, CA P has to verify the arithmetical accuracy of trade receivables, obtain confirmation of trade receivables and ensure verification of proper reconciliations with confirmations.

He is in a dilemma as to whether he can give a report providing assurance to the company in this respect. Guide CA P with reasoning. Assume that above exercise can be undertaken and there is no legal bar.

[4 Marks]

6) **(a)** CA. Vishudh is the auditor of Brilliant Ltd., a parent company which presents Consolidated Financial Statements. The management of Brilliant Ltd. has provided the list of the components included in the Consolidated Financial Statements. As an auditor of Consolidated Financial Statements, CA Vishudh has to verify that all the components have been included in the Consolidated Financial Statements and review the information provided by the management in identifying the components. State the procedures to be followed by CA. Vishudh in respect of completeness of this information.

[5 Marks]

(b) Auditors are required to obtain an understanding of internal control relevant to the audit when identifying and assessing its effectiveness and risk of material misstatement. During the audit of Acharya Ltd., you observed that significant deficiency exists in the internal control system, and you want to ascertain the same. Elucidate the various indicators of significant deficiencies which will help you in assessing the efficiency of internal control system of the organization.

[5 Marks]

(c) Vishal, a practicing Chartered Accountant issued a certificate of circulation of a periodical without going into the most elementary details of how the circulation of a periodical was being maintained i.e. by not looking into the financial records, bank statements or bank pass books, by not examining evidence of actual payment of printer's bills and by not caring to ascertain how many copies were sold and paid for. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

[4 Marks]

OR

(d) While auditing Suryankiran Insurance Ltd. as on 31st March, 2019, you observed that there is one policy which has been issued on 25th March, 2019 towards fire risk favoring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. It is the usual practice maintained by the company in respect of big customers that they would issue the policy before receiving the premium. The premium money was collected on 5th April 2019. It is further noticed that there was a fire accident in the premises of insured on 31st March, 2019 and a claim was lodged. The insurance company also provided for the same. How would you respond?

[4 Marks]