Division A- Multiple Choice Questions

1. (a)

2. (b)

3. (d)

4. (d)

5. (d)

6. (d)

7. (b)

8. (b)

9. (a)

10. (a)

11. (a)

12. (a)

13. (b)

14. (c)

15. (c)

16. (b)

17. (c)

18. (b)

19. (d)

20. (b)

Division B- Descriptive Questions

Question 1 (a)

Using the work of an Auditor's Expert: As per SA 620 "Using the Work of an Auditor's Expert", the expertise of an expert may be required in the actuarial calculation of liabilities associated with insurance contracts or employee benefit plans etc., however, the auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert.

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence as per SA 500.

Further, in view of SA 620, if the expert's work involves use of significant assumptions and methods, then the relevance and reasonableness of those assumptions and methods must be ensured by the auditor and if the expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data in the circumstances must be verified by the auditor.

In the instant case, Mr. J, Mr. I and Mr. N, jointly appointed as auditors of JIN Ltd., referred their own known Actuaries for valuation of gratuity scheme. Actuaries are an auditor's expert as per SA 620. Mr. Y's referred actuary has provided the gratuity valuation report, which later on was found faulty. Further, Mr. N is not in agreement with this report, therefore, he submitted a separate audit report specifically for such gratuity valuation.

In such situation, it was duty of Mr. J, Mr. I and Mr. N, before using the gratuity valuation report of Actuary, to ensure the relevance and reasonableness of assumptions and methods used. They were also required to examine the relevance, completeness and accuracy of source data used for such report before expressing their opinion.

Mr. J, and Mr. I will be held responsible for gross negligence and using such faulty report without examining the adequacy of expert actuary's work whereas Mr. N will not be held liable for the same due to separate opinion expressed by him.

Question 1 (b)

As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period.

The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognized in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.
- Audit evidence that is pertinent to the re-estimation in the current period, of prior period accounting estimates.
- Audit evidence of matters such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time. In the given case, the management is not correct in refusing the relevant information to the auditor.

Question 1 (c)

In the present case, with respect to loans and advances of ` 95 Lacs given to Shripal Pvt. Limited, the Company has not furnished any agreement to CA Subhadra. In the absence of such an agreement, CA Subhadra is unable to verify the terms of repayment, chargeability of interest and other terms. For an auditor, while verifying any loans and advances, one of the most important audit evidence is the loan agreement. Therefore, the absence of such document in the present case, tantamount to a material misstatement in the financial statements of the company. However, the inability of CA Subhadra to obtain such audit evidence is though material but not pervasive so as to require him to give a disclaimer of opinion.
Thus, in the present case, CA Subhadra should give a qualified opinion
The relevant extract of the Qualified Opinion Paragraph and Basis for Qualified Opinion paragraph is as under:

Qualified Opinion
In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements of SATI Limited give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as on 31.03.2022 and profit/ loss for the year ended on that date.

Basis for Qualified Opinion
The Company is unable to furnish the loan agreement with respect to loans and advances of ` 95 Lacs given to Shripal Pvt. Limited. Consequently, in the absence of such an agreement, we are unable to verify the terms of repayment, chargeability of interest and other terms.

Question 2 (a)

Matters covered in Reporting in case of Comprehensive Audit are: To facilitate a proper consideration, the reports of the C&AG on the audit of PSUs are presented to the Parliament in several parts consisting of results of comprehensive appraisals of selected undertakings conducted by the Audit Board etc.

Some of the issues examined in comprehensive audit are:

(i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?

(ii) Have the accepted production or operational outputs been achieved? Has there been under-utilization of installed capacity or shortfall in performance and, if so, what has caused it?
(iii) Has the planned rate of return been achieved?
(iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
(v) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
(vi) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
(vii) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
(viii) If the enterprise has an adequate system of repairs and maintenance?
(ix) Are procedures effective and economical?
(x) Is there any poor or insufficient or inefficient project planning?

Question 2 (b)

Sometimes, a customer is sanctioned a cash credit limit at one branch but is authorised to utilise such overall limit at several other branches also, for each of which a sub-limit is fixed.
In such a case, the determination of status of the account as NPA or otherwise should be determined at the limit-sanctioning branch with reference to the overall sanctioned limit/drawing power and not by each of the other branches where a sub-limit has been fixed.
The auditor of the limit-sanctioning branch should examine whether it receives particulars of all transactions in the account at sub-limit branches and whether status of the account has been determined considering the total position of operation of the account at all concerned branches. The standalone matter of no credit transactions for more than 90 days as on 31st March,2022 at Solapur branch is irrelevant.
Hence, keeping in view above, CA. Muni should consider asset classification considering the total position of operation of the account at all concerned branches.
Regarding sub-limit at branches, the classification adopted by the limit-sanctioning branch should be followed. Hence, the Solapur branch has to follow asset classification made by the limit-sanctioning branch.

Question 2 (c)

The actions that the Board may take, based upon consideration of recommendations of the Quality Review Group, include one or more of the following: -
(i) Make recommendations to the Council of ICAI u/s 28B(a) of Chartered Accountants Act, 1949 for referring the case to the Director (Discipline) of the Institute for consideration and necessary action under the Chartered Accountants Act, 1949.
(ii) Issue advisory and guidance to the AFUR u/s 28B(c) of Chartered Accountants Act, 1949 for improvement in the quality of services and adherence to various statutory and other regulatory requirements. A copy of such advisory may also be sent to the ICAI for information.
(iii) Inform the details of the non-compliance to the regulatory bod(y)/ies relevant to the entity as may be decided by the Board.
(iv) Intimate the AFUR as to the findings of the Report as well as action initiated as above.
(v) In case of review arising out of a reference received from a regulatory body, inform the results of review and the details of action taken to the concerned regulatory body.
(vi) Consider the matter complete and inform the AFUR accordingly.

Question 3 (a)

Mr. Sheetal was discharged insolvent: Disabilities for the Purpose of Membership: Section 8 of the Chartered Accountants Act, 1949 enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, If he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in the Register until the expiry of such period.

In addition, failure on the part of a person to disclose the fact that he suffers from any one of the disabilities would constitute professional misconduct. The name of the person, who is found to have been subject at any time to any of the disabilities discussed in section 8, can be removed from the Register of Members by the Council.

In the given case, it is clearly stated that Mr. Sheetal was discharged insolvent, and he has also obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Hence, Mr. Sheetal has not violated the provisions of Section 8, and he is not debarred from having his name entered in the Register of Members.

Question 3 (b)

Reporting of Payments Exceeding Rs. 35,000 in Cash:

- Clause 21(d)(A) and 21(d)(B) of Form 3CD, requires tax auditor to scrutinize on the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) and 40A(3A) respectively read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, the same has to be reported under abovementioned clauses.
- As per section 40A(3) of the Income Tax Act, 1961, an expenditure is disallowed if the assessee incurs any expenses in respect of which payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on bank or account payee draft, exceeds Rs. 10,000. However, in case of payment made for plying, hiring or leasing of goods carriage, limit is Rs. 35,000 instead of Rs. 10,000.
- As per section 40A(3A) of the Income Tax Act, 1961, where an allowance has been made in the assessment for any year in respect of any liability incurred by the assessee for any expenditure and subsequently during any previous year the assessee makes payment in respect thereof, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, the payment so made shall be deemed to be the profits and gains of business or profession and accordingly chargeable to income-tax as income of the subsequent year if the payments made to a person in a day, exceeds Rs. 10,000 (Rs. 35,000 in case of plying, hiring or leasing of goods carriages).
- Based on the abovementioned provisions, following conclusion may be drawn:
  (i) Payments of 6 invoices of Rs. 5,000 each aggregating Rs. 30,000 made in cash on 4th July, 2018 need not be reported as the aggregate of payments do not exceed Rs. 35,000.
  (ii) Payments of 2 invoices of Rs. 18,000 each made in cash on 5th July, 2018 and 6th July, 2018 respectively aggregating Rs. 36,000 need not be reported as the payment do not exceed Rs. 35,000 in a day.
  (iii) Payment of Rs. 40,000 made in cash against an invoice for expenses booked in 2017-18 is likely to be deemed to be the profits and gains of business or profession under section 40A(3A) ofthe Income Tax Act, 1961. Thus, the details of such amountneed to be furnished under clause 21(d)(B) of Form 3CD.

Question 3 (c)

(i) One non-executive director has attained the age of 72 years: The auditor should ensure that no listed entity shall appoint a person or continue the directorship of any person as a non- executive director who has attained the age of seventy-five years. In the given situation, there is no violation of LODR 2015 for Non-executive director who has attained the age of 72 years.

(ii) One of the Directors is a Director in eight other Listed Entities: As per LODR 2015, a person shall not be a director in more than seven listed entities. In the given situation, there is non-compliance as one of the directors is director in eight other listed entities which is exceeding the prescribed limit of seven 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: Any person who is serving as a whole-time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities. For the purpose of above- mentioned provision, the count for the number of listed entities on which a person is a director/ independent director shall be only those whose equity shares are listed on a stock exchange. In the given situation, Managing Director has been serving as Independent Director in four listed entities of which one entity's Equity Shares are not listed on a stock exchange. So, it is not exceeding the prescribed limit of three entities, hence there is no violation of LODR 2015.

(iv) One Independent Director has been serving as Independent Director in Eight Listed Entities of which Equity Shares are listed on a Stock Exchange: A person shall not serve as an independent director in more than seven listed entities in case its Equity Shares are listed on a Stock Exchange. It may be noted that the count for the number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange.

In the given situation, there is non-compliance as one of the Independent Director has been serving as Independent Director in eight listed entities which is exceeding the prescribed limit of seven entities.

Question 4 (a)

Over-Valued Assets: In case of due diligence exercise, the area of analysis in order to ensure that the assets are not stated at over-valued amounts are:

- Uncollected/uncollectable receivables.
- Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc. with name of company.
- Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
- Assets carried at much more than current market value due to capitalization of expenditure/foreign exchange fluctuation, or capitalization of expenditure mainly in the nature of revenue.
- Litigated assets and property.
- Investments carried at cost though realizable value is much lower.
- Investments carrying a very low rate of income / return.
- Infructuous project expenditure/deferred revenue expenditure etc.
- Group Company balances not reconciled.
- Intangibles having no releasable value.

Question 4 (b)

Other Misconduct: CA Kumar has engaged his Articled Assistant for his own election campaigning for the central Council elections of ICAI. This aspect is covered under 'Other Misconduct" which has defined in Part IV of the First Schedule and Part III of the Second Schedule. These provisions empower the Council even if it does not arise out of his professional work This is considered necessary because a Chartered Accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action. Thus, when a Chartered Accountant uses the services of his Articled Assistant for purposes other than professional practice, he is found guilty under 'Other Misconduct'. Hence, CA Kumar is guilty of 'Other Misconduct'.

Question 4 (c)

Identification of Controls:

(i) Automated control as there is inbuilt control which allows editing in sales master by only authorised personnel.

(ii) Automated control as there is inbuilt control which doesn't allow approval of invoice in case of non-approval of purchase order.

(iii) IT dependent manual control as inventory ageing report is pulled out from the system after which provision for inventory is manually approved.

(iv) Manual control as sign off is required to be done for the invoice before the dispatch of the goods.

(v) Automated control as there is inbuilt control that doesn't allow goods to be sold if credit limit assigned to the customer has been crossed.

(vi) Manual control as sign off is required for every change to the credit limit.

(vii) IT dependent manual control as ageing report is relied upon for calculation of provisioning for debtors.

(viii) Automated control as PO, GRN and invoice is matched by the system before recording of the invoice to the vendor account.

Question 5 (a)

As per clause (vii) of point Y of Schedule III to the Companies Act, 2013 - Division I - Financial Statements for a company whose financial statements are required to comply with the Companies (Accounting Standard) Rules, 2006, "where the company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following :

1. whether quarterly returns or statements of current assets filed by the company with banks or financial institutions are in agreement with the books of accounts.
2. if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

Further, as per para 3(ii) (b) of CARO 2020, the auditor is required to report whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details.

The above clause requires CA Chandra to comment on whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ` 5 crores in aggregate. Stone (P) Ltd. has been sanctioned working capital facilities/limit of ` 10 crores which is apparently in excess of ` 5 crores.

Secondly, whether the quarterly returns filed by the Stone (P) Ltd. company with Royal Bank Ltd. are in agreement with the book of accounts of the company.

According to the data given in the instant situation, it is clear that there are variatio ns in Quarter 1, Quarter 2 & Quarter 3 requiring reporting under this clause because of difference in stock value as per Book of Accounts & Stock Value as per Quarterly returns submitted to Royal Bank Ltd.

Therefore, Contention of the management is not valid.

CA. Chandra should report the differences as per the Companies Act, 2013 and CARO 2020 as follows:

Question 5 (b)

Commission payable to Agents: Insurance business is generally solicited by the Insurance agents. The remuneration of agent is paid by way of commission which is calculated by applying percentage to premium collected by him. Agency commission contributes towards significant portion of expenses incurred by the Insurance Commission. Commission is payable towards generation of new business and towards settlement of renewal premium.

Role of Auditor: The Auditor during his review of Commission paid to Agents should mainly consider the following:

- Review the system established by the Insurer with respect to calculation of commission to eligible agents accurately and processing the same in timely manner.
- Review the commission payment system is in sync with the premium collection system. Check whether commission paid is within the limit prescribed under Insurance Act.
- Check whether commission is clawed-back on the cancelled policies.

Question 5 (c)

In the given case situation, auditor has to verify trade receivables for half year ending 30th September,2021. Such a process/exercise is only a fact finding and reporting exercise. The auditor has to report the facts as these are. Like, he would have to state whether confirmation from a particular debtor has been received or not.
The auditor can issue an assurance report in case of audit and review engagements. By providing assurance, the auditor provides comfort to users of financial statements. Assurance in the above context refers to the auditor's satisfaction as to the reliability of an assertion made by one party for use by another. To provide such assurance, the auditor assesses the evidence collected as a result of procedures conducted and expresses a conclusion. The degree of satisfaction achieved and, therefore, the level of assurance which may be provided is determined by the procedures performed and their results.
However, the types of services described in the given situation falls in the related services domain. These are, in the nature, of agreed-upon procedures to be carried out by the auditor. The auditor cannot issue an assurance report while providing such kind of services. He can only issue a report stating facts as they are without providing any sort of assurance. He can report only facts.
Therefore, the auditor cannot give a report providing assurance for such type of services. He can only issue a factual report.

Question 6 (a)

A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial reporting framework.
The auditor should obtain a listing of all the components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the consolidated financial statements unless these components meet criterion for exclusion.
In the given case, Brilliant Ltd has provided the list of components included in the consolidated financial statements (CFSs). CA Vishudh shall verify that all the components have been included in the CFSs.
Further, in respect of completeness of this information, CA Vishudh should perform the following procedures:

(i) review his working papers for the prior years for the known components;

(ii) review the parent's procedures for identification of various components;

(iii) make inquiries of the management to identify any new components or any component which goes out of consolidated financial statements;
(iv) review the investments of parent as well as its components to determine the shareholding in other entities;
(v) review the joint ventures and joint arrangements as applicable;
(vi) review the other arrangements entered into by the parent that have not been included in the consolidated financial statements of the group;
(vii) review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013;
(viii) Identify the changes in the shareholding that might have taken place during the reporting period.

Question 6 (b)

In the given case of Acharya Ltd, Auditors, while conducting audit has come across significant deficiency existing in the internal control system and also auditors wanted to ascertain that deficiency.

As per SA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management ", Indicators of significant deficiencies in internal control include, for example:

1) Evidence of ineffective aspects of the control environment, such as:
    a) Indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with governance.
    b) Identification of management fraud, whether or not material, that was not prevented by the entity's internal control.
    c) Management's failure to implement appropriate remedial action on significant deficiencies previously communicated.
2) Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
3) Evidence of an ineffective entity risk assessment process, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified.
4) Evidence of an ineffective response to identified significant risks (e.g., absence of controls over such a risk).
5) Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
6) Disclosure of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss.
7) Evidence of management's inability to oversee the preparation of the financial statements.

Question 6 (c)

Failure to Obtain Information: Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949 states that if a Chartered Accountant in practice fails to obtain sufficient information to warrant the expression of an opinion or his exceptions are sufficient material to negate the expression of an opinion, the chartered accountant shall be deemed to be guilty of a professional misconduct.

In the instant case Mr. 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.

The chartered accountant should not express his opinion before obtaining the required data and information. As an auditor, Mr. Vishal ought to have verified the basic records to ensure the correctness of circulation figures.

Conclusion: Thus, in the present case Mr. Vishal will be held guilty of professional misconduct as per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

Question 6 (d)

Provision for Claim: No risk can be assumed by the insurer unless the premium is received. According to section 64VB of the Insurance Act, 1938, no insurer should assume any risk in India in respect of any insurance business on which premium is ordinarily payable in India unless and until the premium payable is received or is guaranteed to be paid by such person in such manner and within such time, as may be prescribed, or unless and until deposit of such amount, as may be prescribed, is made in advance in the prescribed manner. The premium receipt of insurance companies carrying on general insurance business normally arise out of three sources, viz., premium received from direct business, premium received from reinsurance business and the share of co-insurance premium.

In view of the above, the insurance company is not liable to pay the claim and hence no provision for claim is required.