

MOCK TEST PAPER 2
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. Shripal Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?
 - (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
 - (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.
 - (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
 - (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.
2. Bhagwan & Co. has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. During the course of carrying out investigation as above, Bhagwan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. What should be the procedure of Bhagwan & Co. to seek evidence from outside India for the investigation?
 - (a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation.
 - (b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence.
 - (c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India.
 - (d) Powers of seeking evidence outside India is available only to an investigator under section 212- Serious Fraud Investigation.
3. While reporting under clause (ii) of Paragraph 3 of CARO 2020, which of the following is correct:
 - (a) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory.

- (b) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory.
 - (c) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory.
 - (d) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory.
4. The Splendid General Insurance Company has entered into reinsurance contract with Adi Reinsurance Co. Ltd. against the risk of fire only. Adi Reinsurance Co. Ltd. is one of the largest reinsurers in India. Identify the type of reinsurance contract between Splendid General Insurance Company and Adi Reinsurance Co. Ltd.
- (a) Treaty Reinsurance.
 - (b) Proportional Treaty Reinsurance.
 - (c) Non-Proportional Treaty Reinsurance.
 - (d) Facultative Reinsurance.
5. The amount of materiality initially determined needs to be revised as the audit progresses:
- (a) If there is a delay in the audit.
 - (b) In the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.
 - (c) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a higher amount (or amounts) initially.
 - (d) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a lower amount (or amounts) initially.
6. While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:
- (a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.
 - (b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.
 - (c) Net credit balance in branch adjustment accounts including these relating to foreign branches.
 - (d) Margins held and kept in sundry deposits for funded facilities.
7. While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup. How should the auditor deal with the same?
- (a) The auditor should issue a qualified opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence.
 - (b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion.
 - (c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls.
 - (d) The auditor can rely on the SAP data and there is no need for qualification of report.

8. As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the following areas should CA & Co. take into account to determine "Key Audit Matter"?
- (i) The effect on audit of significant transactions that took place in the financial year.
 - (ii) Areas of high risk as assessed and reported by management's expert.
 - (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.
- (a) (i) & (ii)
 - (b) (ii) only
 - (c) (i) & (iii)
 - (d) (i), (ii) & (iii)
9. Rimmi Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31st March, 2021, the company acquired two companies in India and France in September, 2020 and January, 2021 respectively. The company controls both of these companies as per the criteria laid down in the Companies Act, 2013 as well as the applicable accounting standards.
- The management started discussions with the auditors regarding the audit wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements (CFS), if they want. Management needs your advise on the same.
- (a) Management must prepare the CFS as per the requirements of the Companies Act, 2013.
 - (b) Management has a choice not to prepare CFS but should go for that considering that its true performance and financial position can then be demonstrated.
 - (c) Management could have prepared CFS if the acquired companies would have completed at least one year post acquisition.
 - (d) Management must prepare CFS but it should include only the company acquired in India.
10. Gamma Private Ltd. duly appoints CA Palak as the tax auditors of their Company and the appointed Tax-auditor chalks out a detailed Audit Programme to be assigned to her audit engagement team to carry out the tax audit efficiently & effectively. Which of the following situations wouldn't warrant an alteration in the Audit Programme during the course of Audit by the Tax Auditor of Gamma Private Limited during the next Financial Year ?
- (a) Significant changes in Procedures and Personnel of the Company subsequent to audit Procedures.
 - (b) A Substantial increase in the volume of turnover as against the anticipated results of the Company.
 - (c) An extraordinary increase in the amount of Book Debts as compared to that in the First Year.
 - (d) A New Contract received by Gamma Ltd. from a Foreign Client during the course of the audit.

(10 x 1 = 10 Marks)

Questions (11-20) carry 2 Marks each

MCQ 11. -15.

Integrated Case Scenario 1

While preparing the financial statement for the year ended on 31 March 2022, ABC Limited, a listed entity, provided the below information:

Excerpt of Standalone Balance sheet of ABC Ltd as of 31 March 2022

(in ₹ Lakhs)

Particulars	Note No	As on 31.03.2022	As on 31.03.2021
Equity and Liabilities			
Current liabilities			
(a) Financial Liabilities			
(ii) Trade Payables: -	10		
(A) total outstanding dues of micro enterprises and small enterprises; and		300	
(B) total outstanding dues of creditors other than micro enterprises and small enterprises.		210	
(iii) Other financial liabilities (other than those specified in item (c))			

Note 10: Ageing of Trade Payables

Particulars	Ageing of Trade Payables (₹ in Lakhs)					
Ageing	Less than 3 Year	3-5 Years	More than 5 Years	Total Non- MSME Trade Payables	MSME Trade Payables	Total Trade Payables
Undisputed	100	50	30	180	160	340
Disputed	10	20	0	30	40	70
Total	110	70	30	210	200	410

Additional Information:

- Mr. A while performing the statutory audit of ABC Ltd identified that the total trade payables reported in the Balance Sheet as of 31 March 2022 and the amount reported in Note 10: Ageing of Trade Payables are different. Upon inquiry, management informed that the difference between both amounts is the Intercompany Trade Payables which is eliminated as part of consolidation Adjustment. Hence, there was no requirement to show intercompany Trade Payables in the ageing schedule. Mr. A accepted the explanation and did not perform any further procedures to validate the explanation.
- When Audit Committee inquired with Mr. A as to how they have verified and validated the segregation of the trade payables, Mr. A replied that they purely relied upon the management representation as there was no alternate procedure available to gather sufficient and appropriate audit evidence to validate the said information. Moreover, they informed the management that they have not qualified their audit opinion as they have relied in true faith upon management representation.
- While performing the audit procedure to validate the Trade Payables ageing, Mr. A identified that management has calculated the due date of trade payables from the end of 180 days from the date of transaction. Mr. A found it appropriate based on the conservative approach.
- Mr. A did not qualify his audit opinion on the financial statement prepared for the period ending on 31 March 2022 on any grounds. Also, Mr. A specified that :

"The financial statements for the year ended on 31 March 2022 give a true and fair view of the state of affairs of the company, comply with the accounting standards notified under section 133 and are in the form provided for the company in Schedule III of the Act"

5. While preparing the audit report Mr. A, provided the following information in Key Audit Matters.

Key Audit Matters	How our audit addressed KAM
While auditing the Trade Payables, the auditor identified that the trade payables balance includes ₹ 100 lakh payable to the intercompany which is aged more than 3 years.	We have relied upon the assessment performed by the management with respect to the litigation and disputed Trade Payables Balance.
Upon Inquiry with management, it was identified the same amount is not paid on account of a dispute with respect to commercial terms.	Moreover, the amount is not material and hence no further procedure other than obtaining management representation was performed on the said balance.
However, no such amount was outstanding as receivable in the accounts statement shared by Intercompany. The amount was already written off by such an Intercompany in past years.	

6. Other than the disputed trade payables disclosed, there were claims against the company which were not yet acknowledged as debt. The aggregate amount and exposure for such claims were ₹ 25 Lakh. As per an expert hired by the management, no amount is required to be provided in books of accounts as in all the claims there are high chances that the decision will be in favour of the company.
7. Following were the materiality levels decided by the auditor for the current period's audit:
- Overall Materiality: ₹ 50 Lakh;
 - Performance Materiality: 5 Lakh;
 - Materiality for Aggregate Uncorrected Misstatement: ₹ 1 Lakh.

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. In the given situation whether Mr. A will be held guilty of professional Misconduct.
- Yes, Mr. A, is guilty of professional misconduct under Clause 7 of Part I of First Schedule.
 - Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of First Schedule.
 - Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of the Second Schedule.
 - No, Mr. A is not guilty of professional misconduct as he has performed all the audit procedures appropriately.
12. Whether Financial statements given in the scenario are in confirmation with the requirements of Division II of Schedule III?
- Yes, the financial statements are in confirmation with requirements mentioned in Division II of Schedule III
 - No, management should have eliminated the Intercompany Trade Payables balance from the amount disclosed in the Standalone Balance Sheet. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.
 - No, Management should not have disclosed the disputed trade payables less than 3 years as these trade payables are still under the period of limitation as per Limitation Act and they should not be disclosed in Financial Statement.
 - No, management should have added the Intercompany Trade Payables balance to the ageing schedule. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.

13. In continuation to MCQ no 12, what is an appropriate way to report the above-mentioned issues?
- Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed trade payables. Moreover, he should have modified or issued an adverse opinion as Financial Statements were not in confirmation with requirements of Division II of Schedule III.
 - Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the intercompany trade payables. Moreover, he should have been unmodified as Financial Statements were not in confirmation with requirements of Division II of Schedule III.
 - Mr. A should have expressed an unmodified opinion as per SA 700, as he was able to obtain all the explanation and information required and sought by him. Moreover, he should have modified it as the Cash Flow Statement was not in confirmation with the requirements of Division II of Schedule III.
 - Mr. A should have reported matters related to Trade Payables Ageing as a qualification in Key Audit Matters, as he was not able to obtain all the explanation and information required and sought by him.
14. Whether the reporting performed by Mr. A related to intercompany trade payables under the paragraph/section of Key Audit Matter in the audit report appropriate? Select from the below option to support your answer.
- Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.
 - Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.
 - Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, the auditor shall report the matter in Key Audit Matters in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
 - The auditor shall express an adverse opinion and report the said matter in Key Audit Matter Para when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the current case, the auditor has appropriately disclosed the said matter in Key Audit Matter Paragraph.
15. As per the expert appointed by the Auditor, the exposure for the company can be ₹ 20 lacs as in past in similar cases, the judgement was delivered against the company. However, the management of ABC Limited was of the view that when management has already hired an expert, then there is no need to hire another expert by the auditor. Seeking your advice, kindly guide the auditor by selecting the below option, and what next steps should perform.

- (a) The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. Also, if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert. Hence auditor can appoint his expert to validate the assumption and estimate performed by the management's expert.
- (b) The auditor shall rely upon the work performed by the management's expert. Management expert will be equivalent to the auditor's expert and hence no other expert is required to be appointed.
- (c) The auditor shall not rely upon the management's expert unless he evaluates the adequacy of the 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. Although in the current case, there is no consonance between the management's expert's findings and other audit evidence, the auditor is still required to rely upon the findings of the management's expert.
- (d) The auditor shall rely upon the management's expert without evaluating the adequacy of the 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. Hence auditor is required to rely upon the findings of management's expert in the current case.

MCQ 16. -20.

Integrated Case Scenario 2

HF Limited – ND, a Non-Banking financial company which is exclusively into housing finance business completed one month of operations. They approached their auditor M/s UVW & Co. Chartered Accountants to know about the process to apply for certificate of registration under section 45 IA of RBI Act. After calculating the net owned funds (which stood at ₹ 249 lakh) and considering other details, the company was told that they need not apply for the certificate.

After the completion of the financial year, UVW & Co. started the statutory audit and tax audit for HF limited. During the course of the audit, the management disagreed on the following matters:

- (I) The company had revalued a particular class of its asset (no intangible asset was revalued). The carrying value before revaluation was ₹ 77 lakh and the value post revaluation was ₹ 84.70 lakh. The auditors wanted to mention the same along with the amount of change in CARO.
- (II) It was found that an amount of ₹ 5 lakh had been written off as bad debts. The complete amount was not admissible as per the Income tax Act and hence the auditor decided to mention about the same under clause 19 of the tax audit report and disallow the inadmissible amount.

MC Limited approached UVW & Co. for providing few management and consultancy services for their company. The offers given by the company was:

- (i) Inventory management, material handling & storage
- (ii) Personnel recruitment and selection
- (iii) Tax representation and advice concerning tax matters

Mr. U, the senior partner of the firm was not consulted while deciding to respond to the above offers made by MC Limited. Hence, he resigned from the partnership and went into practice as a sole proprietor. Since Mr. U was having an interest in the field of merchant banking, he applied and obtained a registration as category IV merchant banker under SEBI's Rules and Regulations. Upon obtaining the same, he was approached by HF limited, who wanted to go for a capital issue. Mr. U accepted the offer. The offer document and advertisements regarding the capital issue prominently displayed the name and address of Mr. U, under the caption 'Advisor to the Issue'. It was later found that Mr. U was guilty of professional misconduct because of the above incident.

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. Why the auditor advised HF Limited – ND, a Non-Banking financial company not to apply for certificate under section 45 IA ?
- (a) Since the company is Non-Deposit taking NBFC, there is no need to apply for certificate of registration.
 - (b) The company needs to completed one year of operations before applying for the certificate.
 - (c) Net owned funds are below the stipulated limit of ₹ 250 lakh, hence the company need not apply for certificate.
 - (d) The company falls under exempt category as notified by RBI.
17. Is the auditor's decision to report issue I given in the situation correct? What is the reason?
- (a) Yes. Since the revaluation of asset has brought a change of 10% in the carrying amount, the same shall be reported in CARO, including the amount.
 - (b) No. The reporting requirement under CARO relates to physical verification of assets, record maintenance, etc. only. It does not require the details of revaluation to be provided.
 - (c) No. Since no intangible asset is revalued, the above matter need not be reported.
 - (d) No. Since the revaluation of asset has not reduced the carrying value, the same need not be reported.
18. Assuming yourself to be a part of the management, how would you respond to point II relating to reporting of written off Bad debts in Tax Audit Report ?
- (a) Completely agree with the above matter as told by the auditor.
 - (b) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD.
 - (c) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD, but under clause 25 of Form 3CD.
 - (d) Partially agree with respect to reporting the same, but not with respect to the amount being disallowed by the auditor.
19. Assuming all responsibilities & protocols being fulfilled properly, from the above case scenario, what can you infer about the appointment of M/s UVW & Co. as auditors for HF limited?
- (a) They were appointed by Shareholders.
 - (b) They were appointed by Empanelment Committee.
 - (c) They were appointed by Board of Directors.
 - (d) They were re-appointed as auditors.
20. In the above case of Mr. U, which act of his could have led to professional misconduct?
- (a) Obtaining registration as category IV merchant banker.
 - (b) Allowing the caption 'Advisor to the Issue' in the offer document and advertisement.
 - (c) Accepting the offer of HF limited without communicating the same to their auditors.
 - (d) Allowing his name and address to be displayed prominently in the offer document and advertisement.
- (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) After accepting the statutory audit of M/s All-in-All Ltd., a departmental store, you became aware of the fact that management of the company have imposed certain limitations on the scope of your assurance function which may adversely affect and result in your inability to obtain sufficient appropriate audit evidence to discharge your responsibility required by the statute. Indicate the consequences and your response to the limitations imposed by the management on your scope.

(5 Marks)

- (b) M/s Krishna Associates, Chartered Accountants, while conducting the audit of Love Kush Ltd want to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. Guide M/s Krishna Associates with the matters where specific inquiries may be conducted to evaluate subsequent events.

(4 Marks)

- (c) Yupee (P) Ltd. got incorporated on 15th May 2021 and Mr. Harsh, the director of Yupee (P) Ltd. proposed to Kamal & Co. on 24th May 2021, for being appointed as its statutory auditor. Mr. Kamal, the sole proprietor of Kamal & Co., after checking the compliance with all the statutory requirements, accepted the said offer and issued an audit engagement letter vide email to Yupee (P) Ltd.

Mr. Harsh found all terms of audit engagement to be proper but in the paragraph relating to auditor's responsibility in the engagement letter, as produced below:-

"We will conduct our audit in accordance with Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement."

Certain queries raised in his mind that what does reasonable assurance meant? Which Standard on Auditing requires the auditor to obtain such reasonable assurance? Is it possible to give absolute assurance on such financial statements?

Assuming that you are Mr. Kamal, the newly appointed statutory auditor of Yupee (P) Ltd. Please address to the queries of Mr. Harsh as stated above.

(5 Marks)

2. (a) Sambhav & Co., a Chartered Accountant Firm, is appointed as the principal auditor of a listed company, Moksh Ltd.

Figures of income and net-worth of five out of seven components of Moksh Ltd., which are its unlisted subsidiaries, is tabulated below for the immediate preceding financial year along with the consolidated amount:

(₹ in crore)

Particulars	Consolidated	Component 'A'	Component 'B'	Component 'C'	Component 'D'	Component 'E'
Income	600	70	20	140	130	40
Net Worth	1,600	80	40	280	360	100

The remaining two components i.e., Component 'F' & Component 'G' of Moksh Ltd. were unaudited. According to Mr. Sambhav, the engagement partner, Component 'F' is material to the consolidated financial statements whereas Component 'G' is not material to consolidated financial statements and this fact has also been discussed in writing with those charged with governance of Moksh Ltd.

- (i) Which of the components of Moksh Ltd. can be termed as “material subsidiary” and in the Board of which of the unlisted subsidiaries at least one independent director of Moksh Ltd. needs to be appointed or would be appointed? **(4 Marks)**
- (ii) What shall be the audit consideration in relation to reporting in case of unaudited components of Moksh Ltd. by Sambhav & Co. and how Sambhav & Co. as a principal auditor shall report in case of Component ‘F’ & Component ‘G’, respectively? **(5 Marks)**
- (b) The auditors are required to understand, evaluate and validate the entity level controls as a part of audit engagement, the result of which has an impact on the nature, timing and extent of other audit procedures. In evaluating the effect of such control, existence, effectiveness and assessment of the whistle-blower policy in the company is very important. Specify the procedure you would perform for an understanding and evaluation of such whistle-blower policy. **(5 Marks)**
3. (a) You are an auditor of Great Insurance Company Ltd. which offers variety of risk management products to business entities wishing to protect their business activities against losses due to various probable risks. Great Insurance Company Ltd. is in the process of offering to Unique Ltd., a multinational group having worldwide market, “Trade Credit Insurance Policy” to cover domestic risk, export risk and political risk. You as an auditor of Insurance Company have been requested to ensure that all the requirements have been met by Great Insurance Company Ltd. before Trade Credit Insurance Product is offered to Unique Ltd. List down those requirements. **(5 Marks)**
- (b) While conducting the tax audit of RRR Ltd. you observed that company has timely filed ETDS return for TDS deducted on salary under section 192 of the Income Tax Act, 1961 in form 24Q in respect of fourth quarter period from 1st January 2021 to 31st March 2021. The company has not furnished list of details which are not reported in the statement of tax deducted at source under the pretext that TDS statements are furnished within the prescribed time. As a Tax Auditor of RRR Ltd. how you would deal and report? **(5 Marks)**
- (c) Sanyam, a chartered accountant in practice is owner of three agriculture lands. He lost his father due to Covid Pandemic. After death of his father, he started carrying out agricultural activities. His neighbour Raja who is a farmer, filed a complaint against him to ICAI that being a member he is carrying out agricultural activities, therefore, he is liable for misconduct. You are required to examine the same with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**
4. (a) OM & Co. is the statutory auditor of OTAPS NBFC Ltd. While planning the audit procedures to be done during the audit of entity, there was a difference of opinion between Mr. O and his partner Mr. M. Mr. O is of the opinion that evaluation of internal control system and verification of registration with RBI should not be the part of audit procedure, as it is the part of internal audit only. Briefly state what broad areas should mandatorily become part of the audit procedure of OM & Co. for conducting the audit of OTAPS NBFC Ltd.? Also comment whether contention of Mr. O is correct? **(6 Marks)**
- (b) The Marketing Department of Charitra Ltd. has been consistently showing a lower performance whereas the cost of the department is increasing in spurts over the years. The management believes that since the marketing department is under a regular radar of the CFO, an audit might result in the employee hostility. Also, an operational audit of Marketing Department was done two years back however, the recommendations of the previous audit were not followed by the concerned employees. Please advise the management if another audit is the solution and whether only one-time operational audit is enough? Further, advise on the ways to deal with the employee hostility. **(4 Marks)**
- (c) Mr. Shreyansh, a Chartered Accountant in practice was invited to deliver a seminar on Amendments in Schedule III and CARO 2020 which was attended by professionals as well as by representatives of various Industries. One section of audience raised a particular issue unique to

the industry to which it pertains. Mr. Shreyansh enthusiastically explained the issue and elaborated how he solved this, for his client facing the same issue with worked out examples from the computer storage device using the actual data of one of his clients with full identification of client details being displayed to the group for the sake giving clarity on a topic in a real-life situation. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

5. (a) Dharam & Karam Company Ltd. had prepared its financial statements for the financial year 2021-22 which were approved by the Board of Directors of the company and thereafter they were signed by the Chairperson of the company as authorized by the Board, as well as by its CEO, CFO and CS, respectively. Also, its board report was signed by its Managing Director as well as by an Executive Director. You are required to comment whether financial statements and the Board's report of the company have been signed by the persons mandatorily required to sign, as prescribed by the relevant Act. **(4 Marks)**
- (b) Darshan Ltd. is a manufacturing company, provided following details of wastages of raw materials in percentage, for various months. You have been asked to enquire into causes of abnormal wastage of raw materials. Draw out an audit plan.

Wastage percentage are

July 2021	1.3%
Aug 2021	1.6%
Sep 2021	1.5%
Oct 2021	3.9%

(6 Marks)

- (c) BR Construction was into the business of building roads and other infrastructure facilities for government contracts. Mr. Tiwari, one of the senior official, was looking after the procurement of cement required at the construction sites. There was a substantial increase in the price of cement bags bought as compared to those bought prior to the appointment of Mr. Tiwari. The management of the company decides to get a forensic audit done for the transactions handled by Mr. Tiwari. What points should be kept in mind by the management while appointing a forensic auditor?

(4 Marks)

6. (a) The Comptroller and Auditor General of India has appointed a chartered accountant firm to conduct the comprehensive audit of Tram Company Limited (a listed government company) which is handling the Metro project of the metropolitan city for the period ending 31-03-2021. The work to be conducted under Project 'D' handled by the Tram Company Limited was of laying down railway line of 124 kilometers. [The chartered accountant firm reviewed the internal audit report and observed the shortcoming reported about the performance of Project 'D' regarding the understatement of the Current liabilities and Capital work in progress by ₹ 95.39 crore.] Explain some of the matters to be undertaken by the chartered accountant firm while conducting the comprehensive audit of Tram Company Limited. **(5 Marks)**

- (b) Samyak Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2021-22. In order to review internal controls of the Sales Department of the company, you visited the Department and noticed the work division as follows:

- (1) An officer was handling the sales ledger and cash receipts.
- (2) Another official was handling dispatch of goods and issuance of Delivery challans.
- (3) One more officer was there to handle customer/ debtor accounts and issue of receipts.

As an internal auditor, you are required to briefly discuss the general condition pertaining to the internal check prevalent in internal control system. Do you think that there was proper division of work in Samyak Limited? If not, why? **(5 Marks)**

- (c) Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. Your Audit Manager informed that the bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year. Comment. **(4 Marks)**

OR

CA. Sita, appointed as a Peer Reviewer for M/s. Ram Associates, has asked for all the compilation and the Due Diligence engagements carried out by M/s. Ram Associates for her peer review during the period considered for peer review purposes by the board. She has also sent out a mail to Peer Review Board regarding her selection. Mr. Ram, the managing partner of the firm seeks your advice on this matter. **(4 Marks)**