

Test Series : October, 2021

**MOCK TEST PAPER -I**  
**FINAL (NEW) 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. Pradyuman & Co. was one of the joint auditors of Lok Sahay Insurance Co. Ltd. Mr. Vicky, one of the engagement team members, of the said joint auditor, was examining the expenses included in different accounts.

While verifying the expenses incurred in relation to employees, Mr. Vicky made a list of the same as follows, which he was going to discuss with his senior: -

Particulars	₹	Included in which account?
Payment of Salaries to employees	100 lakh	Employees' Remuneration and Welfare Benefits Account
Reimbursement of premium in respect of employees' health cover	20 lakh	Employees' Remuneration and Welfare Benefits Account
Training and non-training expenses incurred for employees	30 lakh	Employees' Remuneration and Welfare Benefits Account
Expenses incurred towards medical treatment of employees not having health cover	10 lakh	Employees' Remuneration and Welfare Benefits Account
Incentives paid to employees of the company who have solicited insurance policies	40 lakh	Commission account

Whether it can be said that Lok Sahay Insurance Co. Ltd. has properly accounted for the expenses incurred in relation to employees?

- No, reimbursement of premium in respect of employees' health cover should be included in 'Others' account and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- No, non-training expenses have to be shown separately and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- No, expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account and non-training expenses have to be shown separately.
- No, training and non-training expenses incurred for employees should be bifurcated and shown separately and expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account.

2. While auditing Veer Ltd., CA. Vardhman divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata' and started taking a sample from each of them. He treated each stratum as if it was a separate population. He divided the trade receivables balances of Veer Ltd. for the Financial Year 2020-21 into groups on the basis of personal judgment as follows:

S. No.	Particulars
1	Balances in excess of ₹ 10,00,000;
2	Balances in the range of ₹ 7,75,001 to ₹ 10,00,000;
3	Balances in the range of ₹ 5,50,001 to ₹ 7,75,000;
4	Balances in the range of ₹ 2,25,001 to ₹ 5,50,000;
5	Balances ₹ 2,25,000 and below

From the abovementioned groups, CA. Vardhman picked up different percentage of items for examination from each of the groups, for example, from the top group i.e. balances in excess of ₹10,00,000, he selected all the items to be examined; from the second group, he opted for 25 % of the items to be examined; from the lowest group, he selected 2% of the items for examination; and so on from rest of the groups. Which one of the following methods of sample selection is he following?

- (a) Systematic sampling.  
 (b) Stratified sampling.  
 (c) Section sampling.  
 (d) Selection sampling.
3. The notes to the account statement of Nemi Ltd. shows the break-up of accounts payable for the Financial Year 2020-21 as follows:

Accounts Payable	Amount (in ₹)
Mr. K	1,20,000
Mr. R	40,000
Mr. B	14,56,000
<b>Total</b>	<b>16,16,000</b>

CA. Raju, the auditor of Nemi Ltd., wants to investigate the valuation of accounts payable of Mr. B amounting to ₹ 14,56,000. Which of the following procedures is best fitted & more reliable to be followed by CA. Raju to get more reliable evidence for the existence of such balance as on 31<sup>st</sup> March, 2021?

- (a) Inspect each and every journal entry passed in the books of Nemi Ltd.  
 (b) Ask Nemi Ltd. to provide the details of payment made during the year 2021-22.  
 (c) Inspect the invoices issued by Mr. B and the payments made.  
 (d) Interrogate the cash manager of Nemi Ltd.
4. The firm from which you are pursuing your articleship training is the internal auditor of Shanti Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material. You will:
- (a) Accept the explanation and the bills.

- (b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.
  - (c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit.
  - (d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.
5. Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon:
- I. Nature, size and complexity of the entity
  - II. Nature of the significant deficiencies identified
  - III. Estimated time required by management to resolve the deficiency
  - IV. Fees charged from the client
- (a) I and II.
  - (b) I, II and III.
  - (c) III and IV.
  - (d) Only II.
6. Shrenik 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 31<sup>st</sup> 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's 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, if they want. Management needs your advise on the same.
- (a) Management must prepare the consolidated financial statements as per the requirements of the Companies Act, 2013.
  - (b) Management has a choice not to prepare consolidated financial statements but should go for that considering that its true performance and financial position can then be demonstrated.
  - (c) Management could have prepared consolidated financial statements if the acquired companies would have completed at least one year post acquisition.
  - (d) Management must prepare consolidated financial statements, but it should include only the company acquired in India.
7. As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?
- (a) Friend of a family member of a person who has the authority and responsibility for planning.
  - (b) Holding debentures in the entity.
  - (c) The entity's holding of debentures in other entities.
  - (d) The entity's holding of equity in other entities.
8. KPC Limited is a garment manufacturing company having Head Office in Mumbai, 4 factories, 10 marketing offices across the country. The company uses SAP ERP for almost all its business processes except Payroll which is being outsourced to an Agency in Bangalore. Once payroll is processed, data is sent to the HR department at HO. HR department shares such details with Finance Department at HO for making the payment. Journal entries are recorded in SAP. Employees complained about incorrect

Income Tax calculation and KPC Limited appointed a CA firm to review the payroll system in detail. It was observed that logic of Income Tax calculation is not as per the requirements of the Act and when the outsourced Agency confirmed that they carried out program changes recently and error may be due to such changes. The Auditor attributed the error of such incorrect software changes to:

- (a) Loss of Application Controls.
  - (b) Loss of Overall Controls.
  - (c) Loss of IT General Controls.
  - (d) Human oversight.
9. Siddha and Associates, Chartered Accountants has been appointed as the branch statutory auditor of CRR Bank. Auditor identified cases of Advances where primary security is not adequate to cover the margin as stipulated by the Loan covenants. Further no documentation exists to confirm that the collateral security is unencumbered. For the advances not having adequate security, the auditor should:
- (a) Mention the cases in the Long Form Audit report only.
  - (b) Not mention the cases in the Long Form Audit report.
  - (c) Document the cases and discuss with branch management.
  - (d) Consider to downgrade the asset as per RBI prudential norms.
10. RST Ltd has a Net Worth of ₹ 80 crore and a market capitalisation of ₹ 350 crore. However, its ranking is 800 among all the Listed Companies based on the said capital for the previous year. It has a subsidiary Company PQR Pvt Ltd whose net worth is ₹ 25 crore. Whether RST Ltd. and PQR Ltd. are required to undertake Secretarial Audit?
- (a) Both RST Ltd. and PQR Ltd. shall undertake Secretarial Audit.
  - (b) Only RST Ltd., being a listed entity, is required to undertake Secretarial Audit.
  - (c) None of them are required to undertake Secretarial Audit since they are not among the top 500 Companies on the basis of Market Capitalisation.
  - (d) Only RST Ltd. shall undertake Secretarial Audit since it is among the top 1,000 Companies on the basis of Market Capitalisation.

(10 x 1 = 10 Marks)

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

**MCQ 11. -15.**

### **Integrated Case Scenario 1**

Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar & Co., respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2020-21 of Anitya Ltd.

They were having difference of opinion with regards to following points:-

Sr. No.	Reasons for Differences in Opinion
1	Manohar & Co. wanted to refer to the work of the auditor's expert, Mr. Tanmay in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.
2	Certain misstatements affected information to be included in 'Management Discussion and Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the Llyods & Co., there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements

3	For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and Llyods & Co. wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.
4	Manohar & Co. had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, Manohar & Co. wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.

The differences of opinion in case of Tink & Co. and Llyods & Co. were resolved but there remained disagreement with the one of the opinions of Manohar & Co. due to which Manohar & Co. expressed its opinion in a separate audit report.

Manohar & Co. was initially appointed as a joint auditor in Anitya Ltd. for 5 years term with other two auditors but it gave its resignation as an auditor to the company on 20<sup>th</sup> October, 2021, due to the reason of having differences of opinion with other joint auditors.

Manohar & Co. filed the required statement with respect to its resignation on 27<sup>th</sup> November, 2021, with Anitya Ltd. as well as the Registrar, respectively.

The Board of Directors of Anitya Ltd. appointed Namo & Co. as a joint auditor in place of Manohar & Co. which was later approved by members in the general meeting of the company.

Namo & Co. before getting appointed, as aforesaid, had :-

- (i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks "Office Found Locked".
- (ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

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. Whether the opinion of Manohar & Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?
  - (a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.
  - (b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement.
  - (c) No, as such reference was not required by any law or regulation.
  - (d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.
12. Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?
  - (a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.
  - (b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.
  - (c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.

- (d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.
13. Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?
- (a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701
- (b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.
- (c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.
- (d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.
14. By what date, Manohar & Co. should have filed the statement with respect to its resignation with Anitya Ltd. as well as the Registrar and in what form?
- (a) Manohar & Co. should have filed the statement in Form ADT-3 by 19<sup>th</sup> November, 2021.
- (b) Manohar & Co. should have filed the statement in Form ADT-4 by 19<sup>th</sup> November, 2021.
- (c) Manohar & Co. should have filed the statement in Form ADT-2 by 19<sup>th</sup> December, 2021.
- (d) Manohar & Co. should have filed the statement in Form ADT-3 by 20<sup>th</sup> November, 2021.
15. Whether Namo & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?
- (a) No, as the communication through registered post acknowledgment due could not be done, Namo & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.
- (b) Yes, as it would be deemed that such post was delivered.
- (c) No, because in such a case Namo & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.
- (d) No, however, Namo & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.

#### MCQ 16. -20.

#### Integrated Case Scenario 2

A special resolution was passed by Dunk Ltd., an unlisted public company, for the purpose of conducting investigation into the affairs of the company by getting order of the Central Government for the same.

The Central Government on receipt of such application from Dunk Ltd. supported by a copy of special resolution did not deem fit to pass an order for investigation and thereby, rejected such request. Thereafter, certain specified number of members of Dunk Ltd. made an application to the Tribunal for seeking investigation and the Tribunal upon being satisfied that such investigation was required, passed an order which was forwarded to the Central Government.

On receipt of such order from the Tribunal, the Central Government passed an order for investigation into the affairs of Dunk Ltd., by appointing Mr. Rajesh as an inspector for the same, who is practicing as a chartered accountant in partnership firm named RS & Co.



Mr. Rajesh started with the investigation into the affairs of Dunk Ltd. from 03.04.2021. All books and papers of Dunk Ltd. were handed over to Mr. Rajesh from 04.04.2021. During the investigation, Mr. Rajesh considered it necessary to examine the books and papers of Blue Bell (P) Ltd., a supplier company of Dunk Ltd. while investigating on a particular matter relating to purchases of Dunk Ltd. Accordingly, Mr. Rajesh obtained the same through an officer of Dunk Ltd. on 20.04.2021. Such books and papers of Blue Bell (P) Ltd. were returned by Mr. Rajesh on 05.06.2021 but he again obtained the same on 20.06.2021 by an order in writing, due to certain reasons which were returned on 25.08.2021.

Mr. Rajesh, at the later stage of investigation, also initiated investigation into the affairs of Sinq Ltd., an unlisted public company, which was being managed 2 years ago by an ex-manager of Dunk Ltd., Mr. Jayesh, as he considered it necessary to do so, after obtaining required approvals.

Mr. Rajesh examined on oath by summoning and enforcing attendance of following persons: -

- Mr. Jayesh
- Mr. Urvil, a director of Dunk Ltd.
- Mr. Sunny, an employee of Sinq Ltd.
- Mr. Raj, an employee of Blue Bell (P) Ltd.

The investigation, in case of the aforesaid companies i.e. Dunk Ltd. and Sinq Ltd. was concluded by Mr. Rajesh but he only forwarded the report of the results of investigation of Dunk Ltd., after authentication, to the Central Government.

On perusal of such investigation report of Dunk Ltd., the Central Government observed that revenue of Dunk Ltd. was misrepresented during F.Y. 2019-20 as they were booking fictitious sales in anticipation of actual sales and thus, it concluded that the affairs of the company were mismanaged during the F.Y. 2019-20 which casted a doubt on the reliability of financial statements for the said financial year and because of which it made an application to the Tribunal for the purpose of re-opening books of account of Dunk Ltd. and recasting its financial statements.

The tribunal passed an order on 12.01.2022 for re-opening books of account of Dunk Ltd. and recasting its financial statements for F.Y. 2019-20 on the basis of aforesaid reason, after giving notice to the Central Government for the same and taking into consideration the representations made by it in this regard.

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. Whether it was justifiable on the part of the Central Government to reject the application of Dunk Ltd. even though it was supported by a copy of special resolution and whether RS & Co. could have been appointed as inspector instead of Mr. Rajesh, in order to have more manpower for the investigation?
  - (a) Yes, as the Central Government possesses discretion to reject the application received from any person if it does not deem fit for investigation and RS & Co. was eligible to be appointed as inspector.
  - (b) No, the Central Government should have accepted the application as necessary formalities were complied with by Dunk Ltd. and RS & Co. was ineligible to be appointed as inspector.
  - (c) Yes, as the Central Government possesses discretion to reject such an application and RS & Co. was eligible to be appointed as an inspector provided it had minimum 3 partners.
  - (d) Yes, as the Central Government possesses discretion to reject such an application and RS & Co. was ineligible to be appointed as inspector.

17. Till what time period, Mr. Rajesh was having the authority to keep in his custody, the books and papers of Dunk Ltd. and Blue Bell (P) Ltd which were obtained again?
- 01.10.2021 & 03.12.2021, respectively
  - 03.07.2021 & 03.12.2021, respectively
  - 01.10.2021 & 21.02.2022, respectively
  - 03.06.2021 & 02.12.2021, respectively
18. For which of the following person(s), Mr. Rajesh was required to obtain prior approval of Central Government for examining them on oath by summoning and enforcing their attendance?
- Mr. Jayesh, Mr. Sunny and Mr. Raj, respectively
  - Mr. Sunny and Mr. Raj, respectively
  - Mr. Sunny
  - Mr. Raj
19. Whether it was justifiable on the part of Mr. Rajesh for not forwarding the investigation report of Sinq Ltd. to the Central Government and what type of fraud had been identified by the Central Government on perusal of investigation report of Dunk Ltd.?
- Yes, provided reasons for not forwarding the same are recorded in writing by Mr. Rajesh and the type of fraud identified is in the nature of 'Teeming and Lading', respectively.
  - No, as it is the responsibility of the inspector to forward to the Central Government, the results of investigation of all the companies done by him and the type of fraud identified is in the nature of 'Tampering of receipts', respectively.
  - No, because at the first place, Mr. Rajesh was not only having the authority to investigate into the affairs of Sinq Ltd. and the type of fraud identified is in the nature of 'Teeming and Lading', respectively.
  - Yes, if according to Mr. Rajesh such report was not relevant to the investigation of affairs of Dunk Ltd. and the type of fraud identified is in the nature of 'Advance billing', respectively.
20. Whether it was mandatory for the Tribunal to take into consideration the representations made by the Central Government before passing the order for re-opening of accounts and till what financial year, Tribunal can make such order of re-opening of accounts?
- No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till F.Y. 2016-17.
  - No, provided reasons for the same are recorded in writing by the Tribunal for not taking into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till F.Y. 2014-15.
  - No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till F.Y. 2013-14.
  - Yes, it was mandatory for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till F.Y. 2014-15.

**(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) Mr. S & Mr. J are a senior and junior articled assistant respectively, in a renowned audit firm. Both were assigned statutory audit of a manufacturing company. Mr. S instructed his junior to draft an audit plan by taking reference from a similar client (a partnership firm) who was engaged in the same business. Mr. J was confused as to how that reference could suit in this case, since the nature and extent of planning would vary for both clients. After few days, the audit work commenced. During the course of the audit, certain events took place, which made Mr. J to rethink about the audit plan initially designed. He approached Mr. S and enquired about when would an audit plan require a change. Comment about both the situations face by Mr. J in the above situation.

**(5 Marks)**

- (b) Jinchandra & Co., Chartered Accountants, have been appointed Statutory Auditors of Gurudeva Ltd. for the F.Y. 2020-21. The audit team has completed the audit and is in the process of preparing audit report Management of the company has also prepared draft annual report.

Audit in-charge was going through the draft annual report and observed that the company has included an item in its Annual Report indicating downward trend in market prices of key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. Audit Manager discussed this issue with partner of the firm who in reply said that auditors are not covered with such disclosures made by the management in its annual report, it being the responsibility of the management.

Do you think that the partner is correct in his approach on this issue?

Discuss with reference to relevant Standard on Auditing the Auditor's duties with regard to reporting.

**(4 Marks)**

- (c) In the course of audit of Kushal Ltd, you suspect that the management has made misstatements in the financial statements intentionally to deceive the users and to succumb to pressures to meet market expectations. Elucidate how the fraudulent financial reporting may be accomplished and also discuss the techniques of committing fraud by management overriding controls. **(5 Marks)**
2. (a) Mr. DG, Partner in M/s. DG and Associates, as part of their audit presentation to the Audit Committee of MABD Limited, a listed company, highlighted the following:
- Difficulties faced during the audit;
  - Disagreements with the management;
  - Management Letter Points;
  - Draft Management Representation letter to be provided by the Company in connection with the audit.

Some of the Audit Committee members were not happy with the above presentation and asked Mr. DG to take it back and submit directly to the Board. They believe that Audit Committee is not the forum for discussing such problems and this has to be sorted out between auditors and the management. Please comment on the above.

**(6 Marks)**

- (b) As a part of the listing process, M/s FRAD Limited had prepared and issued its prospectus to the public. The top executives thought that a pending litigation against the company (which would cause a cash outflow of ₹ 1 crore) may affect the demand for share application. Due to this, they had omitted the fact, for the well-being of the company. Mr. K, who was well aware of this matter, had authorized himself to be named in the prospectus as a director. However, Mr. K was little reluctant, so he informed and agreed that he shall become such director after an interval of some time. Unfortunately, after few days, this matter got leaked and several subscribers sustained huge loss. Mr. K is now defending himself stating that he is currently not holding the director post hence no action can be taken against him. Analyse. **(4 Marks)**
- (c) Mr. Manipal, a practicing Chartered Accountant has signed the Tax Audit Reports u/s 44AB of the Income tax Act, 1961 for the financial year 2019-20 that are filed online using Digital Signature and without generating UDIN on the ground that there is no field for mentioning UDIN on digitally signed online reports. Is the contention of Mr. Manipal valid? Give your comments with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(4 Marks)**
3. (a) As at 31<sup>st</sup> March 2021 while auditing Reliable Insurance Ltd, you observed that a policy has been issued on 25<sup>th</sup> March 2021 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5<sup>th</sup> April, 2021. You further noticed that there was a fire accident in the premises of the insured on 31<sup>st</sup> March 2021 and a claim was lodged for the same. The insurance company also made a provision for claim. Comment. **(4 Marks)**
- (b) Gambit Ltd., engaged in the leasing of goods carriage, appointed you as the tax auditor for the financial year 2020-21. How would you deal with the following payments to Mr. X, Mr. Y and Mr. Z (engaged in leasing of goods carriage) relating to the leasing transactions in your tax audit report:
- Payments of 6 invoices of ₹ 5,000 each made in cash to Mr. X on 4<sup>th</sup> July, 2020.
  - Payments of 2 invoices of ₹ 18,000 each made in cash to Mr. Y on 5<sup>th</sup> July, 2020 and 6<sup>th</sup> July, 2020 respectively.
  - Payment of ₹ 40,000 made in cash to Mr. Z on 7<sup>th</sup> July, 2020 against an invoice for expenses booked in 2019-20. **(6 Marks)**
- (c) Mr. Sheetal, a Chartered Accountant during the course of audit of SS Ltd. came to know that the company has taken a loan of ₹ 12 lakh from Employees Provident Fund. The said loan was not reflected in the books of account. However, the auditor ignored this information in his report. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**
4. (a) Rishabh Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2015. The company was having net owned funds of ₹ 1,50,00,000/- (one crore fifty lakh) and was not having registration certificate from RBI and applied for it on 30<sup>th</sup> March 2020. The company appointed Mr. Gautam as its statutory auditors for the year 2019-20. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2016? **(6 Marks)**
- (b) Manidhari Ltd. has come across many instances where it could buy products at lesser cost than the actual procurement price it paid. The management believes that the adequate purchase policy is in place including the requirements of three quotations from registered vendors, appropriate

vendor vetting and rating mechanism, however, the on-ground implementation of the purchase policy might be defective. Further, it has observed that there might be some employees involved in choosing the higher cost vendors as well. The company approaches you to advise the type of audit it should get done: Management or Operational. Please advise through a comparison between both the audits. **(4 Marks)**

- (c) CA. Intelligent, a practicing Chartered Accountant was on Europe tour between 15-09-20 and 25-09-20. On 18-09-20 a message was received from one of his clients requesting for a stock certificate to be produced to the bank on or before 20-09-20. Due to urgency, CA. Intelligent directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**
5. (a) M/s Aadi & Co., Chartered Accountants, have been allotted the branch audit of a nationalized bank for the year ended 31<sup>st</sup> March, 2021. You are part of audit team and have been instructed by your partner to verify the following areas:
- (i) Fulfilment of the criteria prescribed for NPA norms for government guaranteed advance.
  - (ii) Fulfilment of the criteria prescribed for NPA norms for the advances given for agricultural purposes.
  - (iii) Drawing power calculation from stock statements in respect of working capital accounts.
  - (iv) Accounts where regular/ad hoc limits are not reviewed within 180 days from the due date/date of ad hoc sanction. What may be your areas of concern as regards matters specified above?
- (6 Marks)**
- (b) Gem Ltd. is an exporter of precious and semi-precious stones. The turnover of the company is ₹ 150 crore, out of which ₹ 105 crore is from export business and remaining ₹ 45 crore from domestic sales. Amount received from export business is all in foreign currency. Directors of Gem Ltd. are of the opinion that cost audit is not applicable to their company as maximum revenue has been generated from export business. Give your opinion. **(4 Marks)**
- (c) Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO 2016: -
- (i) The Company is in the process of selling its office along with the freehold land available at Pune and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 20 Lakh in 2006, the current market value is ₹ 200 Lakh. This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under Fixed Assets though no disclosure of non-registration is made in the notes forming part of the accounts.
  - (ii) The Internal Auditor of the Company has identified a fraud in the recruitment of employees by the HR department wherein certain sums were alleged to have been taken as kick-back from the employees for taking them on board with the Company. After due investigation, the concerned HR Manager was sacked. The amount of such kickbacks is expected to be in the range of ₹13.50 Lakh.
- (4 Marks)**

6. (a) You have been appointed as auditor of ARHAM Ltd. After having determined the audit objectives, now you have been requested to draft audit criteria. What are the sources that you will use while doing the task? **(5 Marks)**
- (b) CA. V is the auditor of Superb Ltd., a parent company which presents Consolidated Financial Statements. The management of Superb Ltd. has provided the list of the components included in the Consolidated Financial Statements. As an auditor of Consolidated Financial Statements, CA V 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. V in respect of completeness of this information. **(5 Marks)**
- (c) As an Auditor of TRP Ltd., you are suspicious that there might be non-compliance with laws and regulations to which the Company is subject to. Indicate the possible areas or aspects where you may have to look out for forming an opinion as to whether your suspicion has some basis to further inquire. **(4 Marks)**

**OR**

The elements of skill, experience and independence of reviewers are ensured before initiating them in Peer Review process. In the above light, state few eligibility criteria fixed for a person to be empanelled and also for being appointed as a Peer Reviewer.