Test Series: October, 2022

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. CA. A, the auditor of XYZ Limited resigned from the post due to his personal reasons. CA. B was appointed as the subsequent auditor of the company by the Board of Directors. During the conclusion of the audit for the FY, should CA. B mention about CA. A 's resignation in the Companies (Auditor's Report) Order 2020?

   (a) Yes. As per clause (xviii) of para 3 of CARO, CA. B should report the resignation of CA. A and state if he has taken into consideration the issues or objections raised by CA. A.

   (b) No. Since the resignation of CA. A is due to his own personal reason, the same need not be reported under CARO.

   (c) Yes. As per clause (xxi) of para 1 of CARO, CA. B should report the resignation of CA. A and state if he has taken into consideration the issues or objections raised by CA. A.

   (d) No. CARO 2020 does not state any requirements to report resignation of auditor. However, the same needs to be mentioned by CA. B in the Audit Report under Other Matter Paragraph, as per SA 706.

2. A small concern has approached CA. Ajeet Nath for audit of accounts for year 2021-22. It later on transpired that preparation of accounts of the concern was outsourced to a third party which was engaged in preparation of books of this concern on a cloud server and was also preparing financial statements. The discussion amongst partners regarding agreeing to audit engagement remained inconclusive. Which of the following statements is MOST APPROPRIATE regarding agreeing to audit engagement of small concern?

   (a) The management is responsible for preparation of books and financial statements. If management is not willing to acknowledge it, audit engagement should not be accepted.

   (b) The third party has prepared the books and financial statements. It should be acknowledged by third party and then audit engagement should be accepted.

   (c) It is implied that management is responsible for preparation of books and financial statements. No express acknowledgment from management is necessary. Hence, audit engagement should be accepted.

   (d) The management as well as third party should acknowledge joint responsibility for preparation of books and financial statements. Only then, audit engagement should be accepted.

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

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

The type of audit being conducted is likely to be:

(a) Comprehensive audit.

(b) Propriety audit.

(c) Compliance audit.

(d) Financial audit.

4. JIN Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire OM Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition JIN Ltd. wants to get a due diligence review to be done of OM Leathers. JIN Ltd. appointed S & S Associates for conducting overall due diligence of OM Leathers. During review, the accountant asked OM Leathers to provide financial projections of the company for next five years, but OM leathers refused to provide the same and claimed that financial projections are not part of due diligence review.

   Whether the objection raised by the management of OM Leathers is correct? Give reason.

   (a) The objection raised by OM Leathers is correct, as due diligence doesn't include review of financial projections.

   (b) The objection raised by OM Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.

   (c) The objection raised by OM Leathers is correct, as reviewer cannot comment on financial projections in his report.

   (d) The objection raised by OM Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.

5. Employees of SIDHA Ltd. have to travel frequently for business purposes, so the company entered into a contract with SIDHACHAL Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, SIDHACHAL travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by SIDHA Ltd. within 18 days of the bill date. The bills raised by SIDHACHAL travels were of huge amount, so the management of SIDHA Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?

   (a) Internal audit, as it relates to examining the operational efficiency of the organisation.

   (b) Management audit, as it is an audit desired by the management.

   (c) Performance audit, so as to assess the performance of the SIDHACHAL travels appointed by the organisation.

   (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the SIDHACHAL travels for the organisation.

6. 50:50 test determination is popularly used in :

   (a) Banking Company.

   (b) Insurance Company.

   (c) NBFC Company.

   (d) Stock Trading Company.

7. Chandana Private Limited is engaged in trading of parts of machineries used in boiler plants. Company has seen growth of 58% in the sales and management expecting similar growth in next 3 financial years and is planning to onboard new dealers in order to achieve management goal. Purchase department also expects to develop new suppliers in order to meet customer demands.

Internal auditor of the company has identified frequent changes in the bank account and other master details of suppliers. At this expansion planning phase, company has no defined control to provide assurance on said supplier master changes. Management agreed to develop the process of monthly detailed review of supplier master changes done in supplier master by Finance assistant in order to ensure authorized changes in supplier master.

One of the members from the Management would like to know that above controls falls under which category:

(a) Automated control.

(b) Preventive control.

(c) Detective control.

(d) Compensating control.

8 Which of the following statements is correct regarding submission of Statutory branch audit report and LFAR of branch signed by the branch Auditor CA. Mahaveer?

(a) Statutory branch audit report is to be submitted to Statutory Central auditors and LFAR is to be submitted to head office of bank directly.

(b) Statutory branch audit report is to be submitted to Statutory Central auditors and LFAR is to be submitted to RBI directly.

(c) Statutory branch audit report as well as LFAR are to be submitted to Statutory Central auditors.

(d) Statutory branch audit report as well as LFAR are to be submitted to head office directly as appointment was made by Head office.

9. The following table shows a summary of identified misstatements:

		Profit & Loss ₹ (in Lakh)	**Balance Sheet ₹ (in Lakh)**
1.	Accumulated depreciation		20
	Depreciation	20	
	Incorrectly calculated depreciation on a straight-line basis		
2.	Bad debt expense	45	
	Allowance for doubtful debt		45
	Identified risk over bad debts based on ageing profile of the trade receivables balance		

Overall materiality for this audit was calculated and agreed to be ₹ 50 lakh. Which of the following scenarios would be the best approach to be taken by the audit team and most likely outcome?

(a) The audit team does not need to communicate this summary of identified misstatements to management, as individually the misstatements are not material.

(b) The audit team should ask a member of the accounts team to make journal entries to correct the misstatements identified immediately, without notifying senior management.

(c) The audit senior communicates all the identified misstatements to the appropriate level of management of the entity on a timely manner. Management does not see that the accumulated misstatements would lead to the financial statements being materially misstated and therefore, request them to be uncorrected and noted in the written representation.

(d) The audit senior communicates all the identified misstatements to the appropriate level of management of the entity on a timely manner. Then management can assess the findings and confirm they are in agreement. Assuming management agrees, they will be requested to make the necessary corrections.

10 CA. Ansh, the auditor of Rajul Limited, a company in which Government of Puducherry holds 49% & a Central PSU holds 51% of the shares, resigned from the post on 1st June 2021 due to his personal reasons. CA. Babu was appointed as the subsequent auditor of the company by the board of directors on 16th June 2021. One of the shareholders came to know about this information and contended that this appointment is not valid as per the provisions of Companies Act. Is the contention of the shareholder, right? If so, why?

(a) No. The appointment of shareholder is valid since the appointment is made within 30 days from the date of resignation of CA. Ansh.

(b) Yes. The appointment of shareholder is not valid. Since the appointment is made within 30 days from the date of resignation of CA. Ansh, it should have been done by the shareholders and not the board of directors. Board of directors can make the appointment only if no auditor is appointed even beyond 60 days.

(c) Yes. Since the appointment is made within 30 days from the date of resignation of CA. Ansh, it should have been done by C&AG and not by the Board of directors. Board of Directors can make the appointment only if no auditor is appointed even beyond 30 days.

(d) Yes. The appointment of shareholder is not valid. Since the appointment is made within 30 days from the date of resignation of CA. Ansh, it should have been done by the shareholders and not the board of directors. Board of directors can make the appointment only if no auditor is appointed even beyond 30 days. **(10 x 1 = 10 Marks)**

Questions (11-20) carry 2 Marks each

MCQ 11. -15.

Integrated Case Scenario 1

CA. Kamlesh Dutta was appointed as the engagement partner on behalf of Dutta & Associates for conducting the statutory audit for 3rd consecutive year of Pramat Limited, an unlisted public company, with a turnover of ₹ 35 crore during F.Y. 2019-20.

From F.Y. 2020-21 onwards, Pramat Limited had voluntarily adopted to prepare its financial statements as per Division II of Schedule III of the Companies Act, 2013, due to which Dutta & Associates had revised the terms of audit engagement for the current audit engagement. As per the revised terms, it was decided that the auditor's report on the financial statements will incorporate a paragraph in accordance with SA 706, drawing users' attention to the additional disclosures. Moreover, it was decided that management will also present appropriate disclosures in Financial Statement with respect to this change.

While auditing the entity, CA. Kamlesh came across a business policy of Pramat Limited that required to invest some portion of its money earned in its business in securities of different blue-chip companies and due to this reason, almost 55% of Pramat Limited's total assets consisted of such investments. These securities transactions were handled by its broker company, River Securities Private Limited (RSPL). RSPL was also performing necessary investment account reconciliations and was also preparing the MTM gain and loss calculation for the entity. Pramat Limited used to rely upon the calculations performed by RSPL and based on that they pass the MTM entry for their current investments every month. Pramat Limited were relying on the controls present in RSPL for the preparation of this entry. They also listed controls present in RSPL in their Risk Control Matrix as key controls.

The engagement quality reviewer, CA. Tushar, recommended CA. Kamlesh to obtain a Type 2 report from the management of RSPL to which CA. Kamlesh said that it was not required to do so as management was already comfortable with the controls present in RSPL.

Further while conducting the audit, CA. Kamlesh observed that investments in certain securities were sold at a price less than at which they were acquired and he didn't report on such matter as per Section 143(1) of the Companies Act, 2013, without even considering to inquire into the propriety aspect of the same.

CA. Kamlesh made the following observations while examining the financial statements prepared by the company as per Division II of Schedule III of the Companies Act, 2013, for the first time: -

(1) Other non-operating income and expenses related to it were shown separately in the statement of Profit and Loss.

(2) Trade payables (payable after 12 months) and Deferred tax liabilities were shown directly under the head "Non-Current Liabilities".

While finalizing the audit report, CA. Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance and Audit Committee of the entity. This letter was prepared in addition to the audit report. The audit team was of the view that for the above-mentioned letter the audit team is required to generate UDIN.

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. While finalizing the audit report CA. Kamlesh decided to present the early adoption of IND AS under the "Other Matter Paragraph" as in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. Kindly guide CA. Kamlesh with respect to correct reporting in the Audit Report as per SA 706:

    (a) No disclosure is required as it is voluntary adoption of Division II of Schedule III of the Companies Act, 2013.

    (b) The Audit team should report the change in the "Emphasis of Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.

    (c) The Audit team should report the change in the "Other Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.

    (d) The Audit team should qualify as per SA 705 the said change as it was not required to be implemented and this will create unnecessary confusion for the read.

12. CA. Kamlesh 's risk assessment includes an expectation that controls at the service organization are operating effectively and he contended that there was no requirement to obtain a Type 2 report. Kindly guide CA. Kamlesh with respect to the requirement of SA 402

    (a) CA. Kamlesh 's contention is correct as Management has comfort over the controls at service organization for the transactions and activities which are processed there.

    (b) When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report.

    (c) It depends upon the auditor's judgment and the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA. Kamlesh 's decision will be considered correct and appropriate.

    (d) As no services are outsourced to the broker company and hence there is no need to obtain the type 2 report.

13. Whether it is justifiable that CA. Kamlesh didn't report on the matter with respect to sale of investments even without inquiring for the same?

    (a) No, as at least CA. Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bona-fide.

    (b) Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.

    (c) No, he should have at least consulted CA. Tushar before doing so.

    (d) Yes, as the relevant clause for the reporting is not applicable in case of Pramat Limited.

14. Identify the errors, if any, in the preparation of financial statements by the company as per Division II of Schedule III of the Companies Act, 2013, from the observations made by CA. Kamlesh.

    (a) Other non-operating income should have been shown by netting off the expenses related to it and trade payables and Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.

    (b) Trade payables and Deferred tax liabilities should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.

    (c) Other non-operating income should have been shown by netting off the expenses related to it and trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.

    (d) Trade payables should be shown under the sub-heading 'Financial Liabilities' under the head 'Non-current liabilities'.

15. CA. Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics and findings for discussion. Kindly guide CA. Kamlesh with respect to UDIN requirements for this letter.

    (a) Separate UDINs are to be generated for the Statutory audit report and Letter to Those Charged with Governance.

    (b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.

    (c) One single UDIN is required to be generated for all items for this Client. UDINs are required to be generated Client wise instead of report-wise.

    (d) One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management and Those Charged with Governance.

MCQ 16. -20.

Integrated Case Scenario 2

KKML & Associates was appointed statutory auditor for FY 2021-22 of AMPL Limited (a steel & Iron manufacturing company and NSE-listed company) for the first time. CA. Kush was engagement partner for this assignment. Last year, it was audited by Ananya & Company Chartered Accountants. Ananya & Company charged ₹ 7,00,000 for the statutory audit for FY 2020-2021. Over and above that, Ananya & Company raised bills for overtime and out-of-pocket expense of ₹ 1,50,000. AMPL Limited paid ₹ 7,00,000 to Ananya & Company but raised a dispute over the calculation of overtime. As per AMPL Limited, the overtime on account of additional work as recalculated along with OPE should be ₹ 95,000/- and the same was paid on a day before proposing the appointment of CA. Kush as a Statutory Auditor. This OPE was accounted only to the extent of ₹ 80,000 on a provisional basis in books of accounts for FY 2020-21.

CA. Kush before accepting the appointment, communicated with Ananya & Company, as to why he should not accept the appointment as a Statutory Auditor for AMPL Limited. Ananya & Company replied on the same day stating the reason for not accepting the appointment as there were pending audit fees of ₹ 55,000/- (1,50,000 – 95,000) for FY 2020-21. After analysing the whole situation CA. Kush communicated with Ananya

& Company that this was a case of disputed audit fees, and he cannot decline acceptance of the appointment on this basis. Later, CA. Kush accepted the appointment.

Moreover, while proposing the appointment of CA. Kush, AMPL Limited issued a general notice to pass a resolution at AGM for the appointment of CA. Kush. The same was passed and a copy of the resolution and the notice were served to Ananya & Company after the AGM. This resolution was proposed by the Audit Committee consisting of 7 Directors i.e. Mr. Ram, Mr. Shyam, Mrs. Shweta, Mrs. Komal, Mrs. Jaya, Mrs. Prabha and Mr. Anand. Out of these, Mr. Shyam, Mrs. Shweta (Chairperson of the Audit Committee) and Mrs. Komal were not independent directors. There was no change in this during the whole FY 2021-22.

CA. Akash, the Engagement Quality Control Reviewer, insisted CA. Kush analyse whether the opening balances reflect the application of appropriate accounting policies. CA. Kush contented that he is not required to verify as he is already testing for closing balances which contain opening balances and that will give comfort over the application of accounting policies.

During the year, Mr. Shyam entered into an arrangement with the company wherein the company will transfer the residential flat (originally purchased by the company in his name) to Mr. Shyam for ₹ 4 Crore (originally purchased at ₹ 2 Crore and having FMV ₹ 4 Crore). Instead of consideration, the company will create a long-term loan due from Mr. Shyam in the books of accounts at ₹ 3 Crore and for the rest (₹ 1 Crore) of the amount, Mr. Shyam will provide Plant and Machinery to the company. No reporting or further disclosures were made by the company for this transaction as this was at an arm's length price.

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. Ananya & Company raised the contention that the appointment of CA. Kush is inappropriate as there were outstanding audit fees of ₹ 55,000 and he should not have accepted the appointment as Statutory Auditor. Considering the above scenario kindly guide CA. Kush on whether he should have declined the appointment on grounds of pending audit Fees

    (a) As per section 141 of the Companies Act, 2013, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then should not accept the appointment till the time the previous auditor's audit fees are paid in full.

    (b) As per section 139 read with Rule 3, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then he should not accept the appointment till if the previous auditor's audit fees are outstanding for a period of 180 days or more.

    (c) CA. Kush can accept a position as auditor previously held by another chartered accountant or a certified auditor i.e., Ananya & Company who has been issued a certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

    (d) CA. Kush can accept the appointment as statutory auditor as the pending fees are disputed fees and this would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered.

17. Ananya & Company contended that they were not given special notice and hence the appointment of CA. Kush is invalid. Considering the above scenario kindly guide CA. Kush on what course of action he should have adopted in the current case.

    (a) Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013 and hence CA. Kush is guilty of professional misconduct and his appointment is invalid.

    (b) Clause (8) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of

Sections 139 and 140 of the Companies Act, 2013 and hence CA. Kush is guilty of professional misconduct and his appointment is invalid.

(c) As per section 140(4) of the Companies Act, 2013, the company is required to share the general resolution and notice of appointment of another auditor once the resolution is passed in AGM. Hence, CA. Kush's appointment is valid and hence is not required to perform anything further.

(d) CA. Kush before getting appointed communicated with the previous auditor which was sufficient and equivalent to special notice. Hence, the contention of Ananya & company is incorrect.

18. Whether contention of CA. Akash, the Engagement Quality Control Reviewer regarding analysis of the opening balances is correct. Kindly guide CA. Kush with the correct course of action as per SA 510.

(a) The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

(b) The auditor shall obtain sufficient appropriate audit evidence about whether the material accounting policies reflected in the closing balances have been consistently applied in the current period's financial statements when there is a material change.

(c) If the auditor has identified misstatement in the drafting of accounting policies in the current period, then he shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances were appropriately drafted and applied.

(d) The auditor is not required to obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

19. In the current case, Audit Committee of AMPL Limited is consisting of 7 Directors i.e. Mr. Ram, Mr. Shyam, Mrs. Shweta, Mrs. Komal, Mrs. Jaya, Mrs. Prabha and Mr. Anand. Out of these, Mr. Shyam, Mrs. Shweta (Chairperson of the Audit Committee) and Mrs. Komal were not independent directors.

Chief Compliance Officer of the company raised an issue that the company has not complied with SEBI LODR Regulations. He also, insisted CA. Kush focus on this while performing the audit. You are required to verify the compliance with SEBI LODR Regulations based on the above-mentioned scenario. Kindly select the appropriate option from below depicting the correct provision of SEBI LODR regulation with respect to the Audit Committee:

(a) As per Regulation 17 of SEBI LODR Regulation, the audit committee shall have a minimum of two directors as members. At least one-third of the members of the audit committee shall be independent directors and the Chairperson of the audit committee shall be an independent director. Thus, contention of Chief Compliance Officer is correct.

(b) As per Regulation 18 of SEBI LODR Regulation, the audit committee shall have a minimum of five directors as members. At least one-third of the members of the audit committee shall be independent directors and the chairperson of the audit committee can be a non-independent director provided not more than one-third of directors shall be executive directors. Thus, contention of Chief Compliance Officer is not correct.

(c) As per Regulation 19 of SEBI LODR Regulation, the audit committee shall have a minimum of five directors as members. At least one-third of the members of the audit committee shall be non-executive directors and the chairperson of the audit committee shall be an independent director. If the chairperson is an executive director, then not more than one-third of directors shall be executive directors. Thus, contention of Chief Compliance Officer is correct.

(d) As per Regulation 18 of SEBI LODR Regulation, the audit committee shall have a minimum of three directors as members. At least two-thirds of the members of the audit committee shall be independent directors and the Chairperson of the audit committee shall be an independent director. Thus, contention of Chief Compliance Officer is correct.

20. CA. Kush was perplexed concerning reporting a transaction entered between Mr. Shyam and the Company for the transfer of the Immovable Property. You are being the Engagement Quality Control Reviewer, kindly guide CA. Kush concerning the appropriate reporting of the said transaction as per CARO 2020.

(a) As per para 3(xv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act have been complied with.

(b) As per para 3(xiv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions, other than being at arm's length price, with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.

(c) As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised.

(d). As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets. **(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) CA.K is appointed statutory auditor of SEEK INDIA LTD under Companies Act, 2013 for the first time. The company is preparing its accounts keeping in view applicable requirements of Division II of Schedule III of Companies Act, 2013. On scrutiny of financial statements of company put up for audit, it was noticed that notes to accounts show ageing of trade payables as per amended requirements of Schedule III of the Companies Act, 2013.

The ageing schedule forming part of notes is as under: -

Outstanding for following periods from due date of payment (₹ In crore)

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	NIL	NIL	NIL	NIL	NIL
Others	2	4	3	1	10
Disputed dues-MSME	NIL	NIL	NIL	NIL	NIL
Disputed dues-others	NIL	NIL	NIL	NIL	NIL

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms. Most of the key financial ratios are in red. There is no other relevant information concerning above in notes to accounts.

Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is no debit transaction in the month of March,2022. On inquiry, he came to know that stock audit of company was conducted in the month of January,2022 and stock auditors have commented vide their report dated 25.2.2022 that company had negative drawing power due to high creditors. Accordingly, the bankers have refused further debits in cash credit account from start of March,2022. There is no information in this respect in financial statements and notes to accounts.

Discuss how CA K should deal with above for reporting in his audit report under the Companies Act, 2013. **(5 Marks)**

(b) BREW Ltd., FMCG Company having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in Sri Lanka and Kenya. M/s PM & Associates are the statutory auditors of the company for the financial year 2021-22. During the course of audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statement being Joint venture investment in Dharma Ltd. representing over 91% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Dharma Ltd. is carried at ₹ 115 crore in the group's consolidated balance sheet.

Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report. **(5 Marks)**

(c) Difficult Books Limited is engaged in manufacturing of active pharmaceutical ingredients. Due to change in laws and regulations, every company engaged in manufacturing in active pharmaceutical ingredients would now require production capacity license which will restrict the production of companies. Management of the company assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statement.

Audit Team of the company evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statement the audit team decided to disclose the same in Other Matter Paragraph.

You as an Engagement Partner are required to guide the Audit Team with respect to reporting of the said matter in Audit Report. **(4 Marks)**

2. (a) The Engagement Partner of the audit team of High Inventory Limited assessed that the inventory is material with respect to the audit of the financial statement for the current period. Upon inquiring with the management, the Engagement Partner identified that the management will be performing an annual physical inventory count at all the warehouses where the entity stores and maintains its inventory. Moreover, management confirmed in its written representation that they will be performing a 100% physical count of inventory for the current period.

As a result, the engagement Partner decided not to perform any physical count of inventory as it will be a duplication of the work. Moreover, he decided that the written representation from management stating "the inventory exists and is in appropriate physical condition" will be sufficient and appropriate with respect to audit evidence to conclude that the inventory balance in the financial statement is free from any material misstatement.

In the light of SA 501, evaluate whether the decision taken by the Engagement Partner is appropriate or not. **(5 Marks)**

(b) You are part of engagement team conducting statutory audit of a branch of nationalized bank. During the course of audit, it has come to your notice that there are large number of cash credit accounts in the branch. Many of the cash credit accounts are only partially utilized during substantial part of year. However, in the month of March, the accounts are fully utilized. On further scrutiny, it is observed that these account holders have made fixed deposits from these utilized amounts at the end of year. These deposits have been liquidated in first week of April of next financial year.Comment upon how this situation would be dealt by you as a statutory branch auditor? **(4 Marks)**

(c) CA Praful has recently qualified and has obtained certificate of practice. In the initial years, it is taking time to set up his clientele base. He is also conducting audit of few entities. Simultaneously, he plans to provide coaching to CA students online taking advantage of his fresh reservoir of knowledge. Therefore, he advertises his classes on various social media platforms. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(5 Marks)**

3. (a) Generating and preparing meaningful information from raw system data using processes, tools, and techniques is known as Data Analytics and the data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs." You are required to give illustration of a suggested approach to get the benefit from the use of CAATs. **(5 Marks)**

(b) An American company engaged in the business of manufacturing and distribution of industrial gases, is interested in acquiring a listed Indian Company having a market share of 51% and assets over ₹ 1000 Crore. It requests you to conduct "Due Diligence" of assets of this listed Indian Company to find out, if any of the assets is overvalued. List down the areas of due diligence exercise to find out overvalued assets. **(5 Marks)**

(c) Gautam Ltd. is engaged in the manufacturing of textile products having an annual capacity of producing 2,30,000 units of garments. Gautam Ltd. is covered under the provisions of Goods and Service Tax Law with an applicable rate of 12%. During the financial year 2021-2022, Gautam Ltd. received a demand notice of ₹ 17.00 Lacs pertaining to the F.Y 2015-16 when the provisions of Central Excise Act were applicable. Gautam Ltd. deposited the demand amount after discussing with its legal department. Comment whether a tax auditor of Gautam Ltd.is required to report the same. **(4 Marks)**

4. (a) Arihant Ltd. is into the business of trading of dolls since 2004. The company was performing well till year 2015 and after that sales started showing downward trend. The Company had borrowed working capital funds from LP Bank Ltd. On 17.10.2021, account of the borrower was classified as NPA. Bank appointed forensic auditor, to identify, if any diversion of funds is there or not. Forensic auditor confirmed the diversion of funds. Matter went to the court of law and company was asked to recast its financial statements for the last 6 years. Management contended that Companies Act, 2013 does not allow recasting for more than five preceding financial years. Do you agree with the views of the management? **(5 Marks)**

(b) Vishudh Sagar & Co. Chartered Accountants have been auditors of JIN Ltd (a listed entity) for the last 8 financial years. CA. Manidhari, partner of the firm, has been handling the audit assignment very well since the appointment. The audit work of CA. Manidhari and his team is reviewed by a senior partner CA. Mahendra Sagar to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. CA. Mahendra was out of India for some personal reasons, so this year CA. Kushal, who is relatively less experienced team member, has been asked to review the audit work. In your opinion, what areas CA. Kushal should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not. **(5 Marks)**

(c) CA. Vasu started his practice from August 15, 2021. On 16th August 2021, one female candidate approached him for articleship. In addition to monthly stipend, CA. Vasu also offered her 2 % profits of his CA firm. She agreed to take both 2 % profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to CA. Vasu objecting the payment of 2 % profits. CA. Vasu replies to the ICAI stating that he is paying 2 % profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is CA. Vasu liable to professional misconduct? Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

5. (a) ABC Pvt Ltd was involved in the business of manufacturing pipes and holdings. For financial year 2020-21 the company had the following turnover from its various segments and product:

Segment Name	Turnover	Profit
Steel / Iron Pipe Manufacturing	140 Crore	10 Crore
Holdings and Civil Structure Accessories	25 Crore	50 Lakh
PVC / Yellow Pipe Manufacturing	65 Crore	8 Crore

During Financial Year 2021-22, the company's performance was considerably lower compared to FY 2020-21 due to competition and high prices. Turnover and Profit of the company for FY 2021-22 is given hereunder:

Segment Name	Turnover	Profit
Steel / Iron Pipe Manufacturing	60 Crore	2 Crore
Holdings and Civil Structure Accessories	15 Crore	35 Lakh
PVC / Yellow Pipe Manufacturing	35 Crore	3 Crore

The company was fully financed through its own capital during both years. Kindly assess whether the company was required to appoint internal auditor as per section 138 read with Rule 13 of the Companies (Accounts) Rules, 2014 for FY 2021-22. **(4 Marks)**

(b) GYAN & Co. is the statutory auditor of KUNTHU NBFC Ltd. While planning the audit procedures to be done during the audit of entity, there was a difference of opinion between CA. Matigyan and his partner CA. Shrutgyan. CA. Shrutgyan 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. Is the contention of CA. Shrutgyan correct? Also state what broad areas should mandatorily become part of the audit procedure of GYAN & Co. for conducting the audit of KUNTHU NBFC Ltd.? **(6 Marks)**

(c) CA. Prakash, 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. Is CA. Prakash liable to professional misconduct? Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

6. (a) CA Vardhman has been appointed as an auditor of Life Reliable Insurance Ltd. He observed that few insurance policies have been sold by the company in the last month of the financial year ending 31st March, 2022. While recognizing income in the income statement of the company, it is the responsibility of CA Vardhman to make an assessment of the reasonability of the risk pattern managed by the management.

Also, it is to be ensured by him that Life Reliable Insurance Ltd. should not issue policies, if the risk is not established before the closure of the F.Y. 2021-22.

Indicate the circumstances when the company should not issue the policy documents. **(5 Marks)**

(b) T Ltd. is holding 68% share of B Ltd, 51% share of C Ltd. RS & Co. Chartered Accountants are the statutory auditors of T Ltd. MN & Co. Chartered Accountants are the statutory auditors of B Ltd. and C Ltd. MN & Co have qualified the report of B Ltd. due to material discrepancies in standalone financial statement. While framing the opinion on Consolidated Financial Statement of T Ltd., RS & Co. (Principal Auditor) have ignored the qualification of B Ltd. considering it not material at Group Level. Comment. **(5 Marks)**

(c) During the course of the audit of Tirthankara Limited, CA. Shreyansh Manager in the audit team identified that there is significant risk in lease transactions due to complex cross-border sale and lease back arrangements. This significant risk or risk of material misstatement was not identified in management's risk assessment process. Upon various inquiries with Management regarding their risk assessment process, it was identified and concluded by the audit team that the management's risk assessment process is not effective to identify all the significant risks.

CA. Shreyansh decided that this in combination with other potential deficiencies in internal control constitutes significant deficiencies in internal control and hence, is required to be communicated to those charged with governance. However, the engagement partner had a different view regarding the audit of Tirthankara Limited. According to him, the only matter that is identified and poses significant deficiencies due to their magnitude is only required to be communicated. Matters of potential misstatements that are not actual misstatements cannot be termed as significant deficiencies.

You are required to guide CA. Shreyansh with respect to examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency. **(4 Marks)**

OR

CA. Vimal wants to apply in the empanelment of peer reviewer. He was into employment till 2012 since then he shifted from industry and started his own practice. Below is his experience and employment record from 1995 to 2012.

Name of Company	Designation	From Date	To Date
Parshav Ltd	Project Implementation Manager	1-4-1995	31-3-1998
Suparshava Ltd	Financial Reporting Senior Manager (Assisting in Audits)	1-4-1998	31-3-2007
Parasnath Ltd	Project & Improvement Director	1-4-2007	31-3-2012
Own Practice – Sole Prop	Audit & Taxation	1-4-2012	31-3-2022

Kindly assess whether CA. Vimal can apply and is qualified to get admitted in the empanelment of Peer Reviewer.