

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)

Question nos. (1-10) carry 1 Mark each and Question nos. (11-20) carry 2 Marks each.

1. CA Mridul has been appointed as statutory auditor of PQT Limited, a reputed listed company engaged in the manufacturing of electronic products, in accordance with provisions of the Companies Act, 2013. Currently, he is also actively involved in advising the government in favour of proposed legislation likely to be introduced in one of the coming sessions of Parliament to attract investments and cutting-edge technology in the electronic products sector on behalf of his client. He has participated in TV programmes on the matter, written articles in business papers on the subject, and given key suggestions to the government in this regard. In all public appearances and statements, he has openly stated the fact of being associated with PQT Limited in the capacity of auditor. Which of the following statements is likely to be correct in this regard?
 - (a) The described situation can involve self-interest threats to the independence of the auditor.
 - (b) The described situation can involve familiarity threats to the independence of the auditor.
 - (c) The described situation can involve advocacy threats to the independence of the auditor.
 - (d) The described situation can involve self-review threats to the independence of the auditor.

2. CA Aarti is in the midst of performing audit procedures in the month of March 2023 for conducting a statutory audit of "Tess Products Private Limited" engaged in manufacturing of footwear products for the year 2022-23. The turnover of the company as per profit and loss account for the immediately preceding financial year is ₹ 35 crores. In the last week of March 2023, she gathered that the turnover of the company during the year 2022-23 would also be just nearing ₹ 35 crores. The company is also registered as a "Small Enterprise" under the Micro, Small and Medium Enterprises Development Act, 2006.

Its present paid-up share capital is ₹3.50 crores, which has remained unchanged for the past few years. Besides, it is availing and utilizing a working capital credit facility of ₹ 2 crores from a bank during all these years, including the year 2022-23. The company has acquired all shares of a company based in Hong Kong during the year 2022-23. She wants to be sure about the applicability or otherwise of CARO 2020 for suitably planning and directing her audit procedures for year 2022-23. Identify likely correct statement in this regard:

 - (a) Reporting under CARO, 2020 would not be applicable as it is a small company.
 - (b) Reporting under CARO, 2020 would not be applicable as it is registered as a small enterprise under Micro, Small and Medium Enterprises Act, 2006.
 - (c) Reporting under CARO, 2020 would be applicable as it is not a small company.
 - (d) Reporting under CARO, 2020 would not be applicable as it meets certain threshold criteria prescribed for private companies.

3. COBIT is _____
- (a) best practice IT governance and management framework published by Information Systems Audit and Control Association (ISACA). It provides the required tools, resources and guidelines that are relevant to IT governance, risk, compliance and information security.
 - (b) one of the most popular frameworks for improving critical infrastructure cyber security published by National Institute of Standards and Technology (NIST).
 - (c) the most widely adopted information security standard for the payments card industry issued by Payment Card Industry Security Standards Council (PCI SSC).
 - (d) set of best practice processes and procedures for IT services management in a company like change management, incident management, problem management, IT operations and IT asset management in accordance with ISO 20000.
4. Mr. C, auditor of a listed company, DEX Limited, signed its audit report on 21.8.2021. The regulator called the audit file in connection with some proceedings on 20.7.2022. He submitted audit files in the form of editable Excel files without any security feature on 10.8.2022. It later transpired that the audit file was modified between 20.7.2022 and 10.8.2022 by deleting certain information and adding fresh information in its place. Which of the following statements is likely to be correct in this regard?
- (a) Audit file was required to be assembled by 21.8.2021. Modification in the audit file after 21.8.2021 was generally not permissible.
 - (b) Audit file was required to be assembled by 21.8.2021. Modification in the audit file before 20.7.2022 was generally permissible.
 - (c) Audit file was required to be assembled by 20.10.2021. Modification in the audit file before 20.7.2022 was generally permissible.
 - (d) Audit file was required to be assembled by 20.10.2021. Modification in the audit file after 20.10.2021 was generally not permissible except in certain exceptional circumstances.
5. NOP Ltd. is a joint venture of Central Government and a private company and is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company. The company is acknowledged for its consumer-friendly practices. Initially it was completely owned by the Government and was running into significant losses but after the joint venture, the aggregate technical and commercial losses of the company showed a record decline. The operations of the company have improved significantly as claimed by the management of the company. The C&AG wants to conduct the performance audit of one of the departments of the company through a subordinate office of Indian Audit and Accounts Department. For this purpose, the audit programme has also been finalized and the Accountant General has intimated the company that the audit would start within a day's time. The company is concerned because the programme which has been received from the Accountant General is quite detailed and would involve significant time. Further the management of the company is quite surprised as to why this audit should be conducted as this is not a company subject to such types of audits as per law. The management of the company would like to have your inputs in respect of this matter. Please guide.
- (a) The notice for such type of audit should give reasonable time to the management to prepare themselves. Further it should not be a detailed audit requiring significant time of the company.
 - (b) The C&AG may conduct such type of audits in respect of NOP Ltd. which would get covered in this criteria, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
 - (c) In case of a joint venture such type of audit cannot be performed as per the Companies Act, 2013. The company should write to the Registrar of Companies in respect of this matter and till that time no audit can be started.

- (d) In case of a joint venture such type of audit cannot be performed as per the Companies Act, 2013. Further wherever this is applicable that is only for a small period of time. The company should write to the Ministry of Corporate Affairs in respect of this matter.
6. CA Madhur is conducting a tax audit of PMD products, a proprietary concern of Mr. P. The turnover of the firm for the financial year 2022-23 is ₹15 crores. Mr. P while filing his income tax return for the financial year 2021-22, had opted for a new tax regime having special rates by filing form no.10IE before the due date of filing the return of income. While e-filing form 3CB-3CD for the financial year 2022-23 (AY 2023-24) on behalf of a client, which of the following statements is correct and in accordance with law?
- (a) He is required to state in Form 3CD whether the assessee has opted for taxation under section 115BAC of the Income Tax Act, 1961, along with the date of filing form no.10IE and its acknowledgement number under clause 8A.
- (b) He is required to state in Form 3CD whether the assessee has opted for taxation under section 115BAC of the Income Tax Act, 1961, under clause 8A.
- (c) He is not required to state this fact in Form 3CD as the assessee had opted for taxation under section 115BAC in the financial year 2021-22.
- (d) He is not required to state this fact in Form 3CD as there does not exist any reporting requirement in this regard. It has to be only stated in the income tax return to be filed by the assessee.
7. CA X is part of the engagement team conducting statutory audit of "Happy Insurance Limited" engaged in the general insurance business. The company has underwritten substantial fire insurance policies covering fire and allied risks like flood, inundation, storm, etc. Therefore, CA X is focusing on audit procedures relevant to the fire department of the company. Which of the following is not likely to be a relevant audit procedure in this respect?
- (a) Verification and processing of Free Look Cancellation (FLC) requests within Turnaround time (TAT) for fire insurance policies.
- (b) Reviewing report of actuary for claims under fire insurance policies issued.
- (c) Verifying compliance with provisions of section 64VB of the Insurance Act, 1938, in case of reported fire claims.
- (d) Verification of commission paid to agents on fire insurance business.
8. X, Y and Z are joint auditors of a company engaged in manufacturing of chemicals. They have developed a joint audit plan and identified common areas. Besides, they have also identified and allocated work by signing work allocation documents among themselves. Verification of trade receivables was allocated to Z. Which of the following statements is in accordance with relevant SA in this regard?
- (a) X and Y should necessarily review work performed by Z to ascertain whether work has been actually performed in accordance with Standards on Auditing.
- (b) X and Y should perform tests to ascertain whether work has been actually performed in accordance with Standards on Auditing.
- (c) X and Y are entitled to assume that Z has actually performed work in accordance with Standards on Auditing.
- (d) X and Y are not entitled to assume that Z shall bring to their notice significant observations relevant to responsibilities noticed during the course of the audit.
9. CA P, as part of a statutory audit exercise, is testing a company's internal controls over purchase orders it places for acquiring capital assets. The company places huge orders for the acquisition of capital assets every year, keeping in view the nature of its business and corresponding requirements. While testing controls in a sample of purchase orders for the acquisition of capital assets, he failed to notice a

lack of adherence to certain established parameters for placing such orders. The above situation is indicative of _____

- (a) Sampling risk.
 - (b) Non-sampling risk.
 - (c) Control risk.
 - (d) Inherent risk.
10. "Performance materiality" means the amount or amounts set by the auditor at _____ than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements _____ materiality for the financial statements as a whole.
- (a) higher, exceeds.
 - (b) less, exceeds.
 - (c) less, falls below.
 - (d) higher, falls below.

(10 x 1 = 10 Marks)

Questions (11-20) carry 2 Marks each.

MCQs 11-15

Integrated Case Scenario 1

SED & Associates, a firm of auditors, received an offer letter dated 15th July 2022 to conduct audit of BTM Limited (a listed company) engaged in manufacturing of cement for the first time from year 2022-23 onwards. The audit was accepted by the firm on the basis of offer letter designating it as "Engagement Letter". The partners of firm have not felt the necessity to keep documents to show that firm has complied with requirements of section 141(3)(d) of Companies Act, 2013. CA E, engagement partner of SED & Associates, is conducting audit of aforementioned company. The company was incurring losses since last few years and it had resulted in erosion in substantial part of its net worth. It had negative working capital and was substantially debt-ridden.

The company had only one plant located in Madhya Pradesh. The plant was found to be in working condition during the course of audit. The Majority of fixed assets of the company were located at this very plant. The engagement partner was also informed during the audit that physical verification of Property, Plant and Equipment (PPE) was carried out by management during the year. However, the internal auditor had pointed out in one of its reports during the year that management did not physically verify Property, Plant and Equipment items. Having experience as an engagement partner in cement industry, he was of the view that the valuation of PPE was less than the value recorded in books of accounts. However, no such assessment/work was made during the audit.

During the year, the company defaulted in repayment of its loans to the bank and the credit facilities of the company were classified as NPA by the concerned bank. One note forming part of "Notes to Accounts" in financial statements on this matter presented for audit states as follows: -

"The company has not provided for interest on the loan taken from the bank to the extent that the same has remained unpaid as the loan accounts have been classified as NPA by the lender bank and the management is in the final stage of settlement of the liability. Interest, if any, will be recorded in the books when it will be crystallized after settlement/agreement with the lender bank."

Considering the prevailing situation, future plans provided by the management and applying professional Judgment, it has been decided to include an "Emphasis of Matter" paragraph in the auditor's report relating to going concern matters. It is felt that this matter is of such importance that it is fundamental to users' understanding of financial statements. The management has also included this matter in Notes to Accounts. However, he has not felt the need for evaluation of future plans provided by management.

During the audit for the year 2022-23, management was requested vide letter dated 20th May 2023 to provide all the information regarding contingent liabilities and credentials for logging in income tax portal, GST portal and other significant online portals. However, management had failed to provide such information, including login credentials, despite the engagement partner's request.

Therefore, it was decided to sign the audit report on the basis of the information available up to the date of signing of the audit report.

On the basis of the above case scenario, you are required to answer the following MCQs.

Multiple Choice Questions (5 Questions of 2 Marks each):

11. The case scenario describes the acceptance of the audit of the aforementioned company by SED & Associates. Which of the following statements is likely to be most appropriate in this regard?
 - (a) It was proper for auditors to accept an audit of the company on the basis of an offer letter designated as an engagement letter. Further, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements.
 - (b) It was improper for auditors to accept audit of the company on the basis of offer letter designated as engagement letter. It is necessary to accept audit on basis of separate engagement letter. However, there is no necessity to keep documents to show compliance with requirements of section 141(3)(d) of Companies Act, 2013 so long as there is no violation in respect of these requirements.
 - (c) It was improper for auditors to accept audit of the company on the basis of an offer letter designated as an engagement letter. It is necessary to accept the audit on the basis of a separate engagement letter. There is a necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.
 - (d) It was proper for auditors to accept an audit of a company on the basis of an offer letter designated as an engagement letter. However, there is the necessity to keep documents to show compliance with the requirements of section 141(3)(d) of the Companies Act, 2013.

12. What should be an appropriate course of action for the auditors in respect of PPE considering the situation described in this respect in the case scenario?
 - (a) The auditor should not attach much importance to the internal auditor's observations as he has found the plant of the company to be in working condition with its major assets intact. However, it should be evaluated whether impairment testing has been performed considering the company's circumstances.
 - (b) The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report and evidence obtained by him and its effect on other aspects of the audit. However, no evaluation of impairment testing is necessary, considering the company's circumstances.
 - (c) The auditor should determine what modifications to audit procedures are necessary to resolve inconsistencies between the internal auditor's report and evidence obtained by him and its effect on other aspects of the audit. Further, evaluation of impairment testing is necessary considering the company's circumstances.
 - (d) The auditor should not attach much importance to the internal auditor's observations as he has found the plant of the company to be in working condition with its major assets intact. Further, evaluation of impairment testing is not necessary considering the company's circumstances.

13. The Company has not recognised interest costs on its borrowings as loan accounts have turned NPA during the year under consideration. Which of the following statements is most appropriate in this context?
- (a) The policy followed by management is in contravention of applicable accounting standards to be followed by the company.
 - (b) The policy followed by management is in accordance with established norms due to the classification of loan accounts as NPA by the concerned bank. As banks do not recognise interest income on NPA accounts, mirror treatment is applicable to the company in question.
 - (c) The policy followed by management is in accordance with established norms as negotiations are underway with bankers. Interest would be recognised on NPA borrowings upon crystallisation of final settlement with bankers.
 - (d) The policy followed by management is in contravention of guidelines issued by the Reserve Bank of India.
14. The auditor has decided to include “Emphasis of Matter” (EOM) paragraph in auditor’s report relating to going concern matters. Which of following statements is true in this regard?
- (a) EOM paragraph can be included in auditor’s report depending upon auditor’s professional judgment and evaluation of management’s plans without maintaining documentation in this regard.
 - (b) EOM paragraph can be included in auditor’s report because going concern matter is fundamental to users understanding of financial statements However, no separate evaluation of management’s plans is required.
 - (c) If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern” .
 - (d) If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express a modified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern” .
15. Considering the matter of not providing information regarding contingent liabilities, including login credentials by the company as described, which of the following statements is most appropriate? Ignore all other matters stated from Q no.12 to 14 while answering this part.
- (a) The auditor should express unmodified opinion.
 - (b) The auditor should request management again to provide such information and must determine whether it is possible to perform alternate audit procedures to obtain sufficient appropriate audit evidence. In case of failure to obtain such evidence, implications for audit report should be considered.
 - (c) The auditor should take written representation from management stating that all such liabilities have been reflected in accordance with SA 580 and unmodified opinion should be expressed.
 - (d) The auditor’s responsibility is fulfilled on commenting appropriately regarding non-furnishing of required information by management regarding disputed statutory dues under clause 3(vii)(b) of CARO, 2020.

MCQs 16-20

Integrated Case Scenario 2

ABC Limited is a manufacturing company having three manufacturing facilities in India and ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15,000 crore and profit before tax of INR 2,000 crore during FY 2022-23. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promoter and Chief Executive Officer of the company. Mr. B, son

of Mr. A, is a company's non-executive director and holds a graduate degree from IIT Bombay and a post-graduate degree from IIM Ahmedabad.

During the audit, it was discovered that the company had acquired two subsidiaries, Maan Ltd. which deals in copper manufacturing and Dhan Ltd. which deals in paper manufacturing. Maan Ltd. and Dhan Ltd. are audited by M/s XYZ & Associates. ABC Ltd. prepared the consolidated financial statements for the current financial year under Indian Accounting Standards, which includes the financial statements of subsidiary Maan Ltd. However, the financial statements of Dhan Ltd. were not consolidated as the company has not yet been able to determine the fair values of certain material assets and liabilities of Dhan Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of ABC Ltd. Had the company consolidated the financial statements of both subsidiaries, there would have been a material impact on important elements of the financial statements. Also, the financial statements of ABC Ltd. for the current financial year include the corresponding figures (without consolidation) of the previous financial year, i.e., FY 2021-22.

Also, one of the directors of the Company did not give a declaration to the Company under section 164(2) of the Companies Act 2013 as of 31st March 2023. The auditors of the Company completed their audit of the financial statements and were awaiting this declaration. But the management was of the view that they would not be able to receive this declaration. All other directors had given the required declarations and the auditors had also verified that.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

16. Select best course of action to ensure compliance with Section 177 of Companies Act 2013 in relation to establishing vigil mechanism where directors and employees can report genuine concerns.
 - (a) ABC Limited is a listed company. Therefore, ABC Limited is required to establish vigil mechanism where directors and employees can report genuine concerns.
 - (b) Vigil mechanism is applicable to government companies only. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns.
 - (c) As per Section 177 of the Companies Act 2013, it is not mandatory to establish a vigil mechanism where directors and employees can report genuine concerns. Therefore, ABC Limited may or may not require establishing a vigil mechanism where directors and employees can report genuine concerns.
 - (d) ABC Limited is a listed company but has not accepted deposits from the public from the date of incorporation. Therefore, ABC Limited is not required to establish a vigil mechanism where directors and employees can report genuine concerns.
17. As of April 1, 2023, the Board of Directors would like to appoint Mr. B as Chairperson of ABC Limited. You are requested to provide assistance to ABC Limited to determine compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations.
 - (a) Where the chairperson of the board of directors is a non-executive director, at least one-third of the board of directors shall comprise independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the board of directors shall comprise of independent directors. Hence, after appointing Mr. B as Chairperson of ABC Limited, at least one-third of the board of directors shall comprise independent directors.
 - (b) Where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of the board of directors or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors. Hence, after appointing Mr. B as Chairperson of ABC Limited, at least half of the board of directors shall comprise independent directors.
 - (c) Mr. B is not eligible to be appointed as Chairperson of the company, as he is not an independent director of the company.

- (d) Mr. B is not eligible to be appointed as Chairperson of the company, as he is a relative of the company's Chief Executive Officer.
18. With respect to the non-consolidation of financial statements of Dhan Ltd. with the financial statements of ABC Ltd., how should the auditor deal with the same in their audit report?
- (a) The auditor should give a disclaimer of opinion.
- (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
- (c) The auditor should mention this fact in the emphasis of matter paragraph.
- (d) The auditor should mention this fact in other matter paragraph.
19. With respect to the corresponding figures of the financial year 2021-22 in the current year financial statements, what is the auditor's reporting responsibility for the same?
- (a) The auditor's opinion should refer to each period for which the financial statements are presented.
- (b) The auditors need to report on the current year's financials only be it comparative or corresponding figures.
- (c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of the prior period which was not addressed earlier.
- (d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.
20. How should the auditors of the company should deal with the matter related to non-receipt of declaration under section 164(2) of the Companies Act, 2013?
- (a) Auditors may perform alternate procedures in respect of non-receipt of declaration under section 164(2) of the Companies Act.
- (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act, then it should be ignored by the auditors on the basis of materiality.
- (c) There is no reporting implication due to non-receipt of declaration under section 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on.
- (d) Auditors would need to report this matter in their Independent Auditor's Report.

Division-B-Descriptive Questions-70 Marks

Question No.1 is compulsory.

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

1. (a) While conducting a statutory audit of "Hope Solutions Limited", CA Y has assessed the risk of material misstatement to be low at the financial statement level and at the assertion level due to a stable, established and relatively less risky business and extremely satisfactory internal controls operating in the company. However, despite the low assessed risk of material misstatement, he chooses to send external confirmation requests to third parties for confirmation of certain material contracts entered into with them by the company. By doing so, he intends to obtain evidence regarding certain assertions contained in the financial statements of the company. Do you think his approach is in accordance with Standards on Auditing? Justify your answer with reasons.

(5 Marks)

- (b) Certain news reports published in media have indicated that whistle-blower complaints are on the rise in listed companies, particularly in merger & amalgamation transactions (M&A). The legal framework under the Companies Act, 2013 and SEBI LODR regulations also contain requirements to be followed by a listed company regarding whistle-blower complaints.

CA Sagar is an auditor of a listed company. The company has received during the year some “anonymous complaints” relating to its merger transactions. Elaborating legal requirements relating to whistle-blower complaints in listed companies, discuss how he should proceed to perform procedures regarding such “anonymous complaints” received during the year. Does any reporting duty of auditor relating to whistle-blower complaints under the Companies Act, 2013 exist?

(5 Marks)

- (c) SA 315 requires the auditor to document key elements of understanding obtained regarding each of its internal control components, sources of information from which such understanding was obtained and risk assessment procedures performed.

While conducting statutory audit of MPT Limited, a listed company, CA Z has understood various IT controls relating to data centre and network operations, system software acquisition, change and maintenance, program change, access security and application system acquisition, development and maintenance operating in the company. Besides, he has also gained knowledge of application controls designed to ensure the integrity of accounting records.

Which one of the internal control components of the company is referred to in the above description? Besides activities gathered from the above description, give examples of any other two activities relevant for an audit included in the above identified “component of internal control” of the company.

(4 Marks)

2. (a) MZE Limited is engaged in the manufacturing and export of ready-made garments. The company has lost overseas buyers to Asian competitors with lower raw materials and labour costs. As a result, MZE Limited has lost out on a significant chunk of export orders, and the trend has become more pronounced in the year 2022-23. Further, the US economic recession caused delays in the company's overseas payments, leading to the company being unable to keep its loan repayment commitments with bankers. Further, the company has not been able to pay its creditors on time. Even statutory dues payable by the company are either not paid or being paid after a gap of 5-6 months, leading to extra costs. Due to declining revenue, the company cannot cover its fixed costs and has begun laying off employees.

Considering all these circumstances, CA P doubts the company's ability to continue as a going concern while conducting the statutory audit for the year 2022-23. He is studying management's assessment of the company's ability to continue as a going concern by studying projected profitability statements for the next two years containing turnover, expenses and profits estimates. Comment on the above situation with specific reference to audit procedures being performed by CA P in context of relevant Standards on Auditing.

(5 Marks)

- (b) CA X is conducting concurrent audit of a branch of MNB Bank (a nationalised bank) in industrial hub of Pune. It is a CBS branch, and its advances are to the tune of about ₹ 500 crores. The branch has borrowers / customers with cash credit, term loans, and export credit facilities, including pre-shipment and post-shipment credits. Some customers in the branch are importers who regularly get letters of credit issued to foreign suppliers. During tenure of Mr. X as concurrent auditor, fresh credit facilities under aforesaid segments are being sanctioned every month to new customers. The branch is also considering requests of its existing customers for enhancements / fresh requirements in line with established norms.

As a result of the above, the staff of the advances department in the branch is always on its toes. The previous regular inspection of the branch (not pertaining to CA X's tenure) had pointed out huge revenue leakage in advances of the branch, raising alarm bells in the Zonal Office and Inspection Department. Keeping in view the above situation, CA X is taking steps to ensure that there is no revenue leakage in advances of the branch and recoveries are made on the spot in case such leakages are detected. Discuss any five areas in this regard where concurrent auditor's audit procedures should be focused. **(5 Marks)**

- (c) ABC & Associates are conducting audit of consolidated financial statements of "Crazy Paints Limited" for year 2022-23. The consolidated financial statements consist of financial statements of parent company and its five subsidiaries (audited by component auditors). While drafting audit report in respect of consolidated financial statements under Companies Act, 2013, how firm should proceed to deal with issue of reporting under CARO, 2020? **(4 Marks)**
3. (a) CA Ragini is offered appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of financial year 2022-23 of XPM Limited, a listed company operating from a small town. She is also based in the same town and was not engaged previously to conduct audit of a listed entity. She accepts the appointment to act as EQCR. She performs the review by ticking a "Yes / No" checklist and signing on some of working papers prepared by engagement team. The audit file does not contain any material which shows that the work of EQCR is separate from the work of the engagement team. Do you agree with the approach adopted by EQCR? By commenting on issues involved in the above situation, discuss whether she can be held guilty of professional misconduct. **(5 Marks)**
- (b) CA T was appointed by Fair Insurance Company for a Forensic Accounting assignment with respect to the calculation of claim amount on the basis of information and details received from the surveyor. Suggest the general step-by-step process of Forensic Accounting which may be undertaken by CA T in this situation. **(5 Marks)**
- (c) CA X has issued report in Form 29B under the Income-tax Act, 1961 wrongly computing "book profits" of a company for financial year 2021-22. He has signed the said form hurriedly without ascertaining the required adjustments to be made for arriving at the "book profits" of the company. Subsequently, the company's ITR was picked up for scrutiny under the faceless assessment scheme on 29.6.23, and the matter came to light of tax authorities. Which fundamental principle of professional ethics is violated in this situation? Also, discuss the liability of CA X, if any, under the Income Tax Act in this respect. **(4 Marks)**
4. (a) The Comptroller & Auditor General of India plays a key role in functioning of financial committees of Parliament and state legislatures. Therefore, he has come to be recognized as a friend, philosopher and guide of committees. Discuss how such a role is ensured in practice. Also, briefly discuss the functions of "Estimates Committee" of Parliament. **(5 Marks)**
- (b) ZOB Limited is planning to be listed. The management of company has pulled up its socks and decided to implement "Enterprise Risk Management Program" for identifying and assessing various risks. Differentiating scope of such a program from internal control framework, discuss what does "Risk Assessment Process" is likely to include in such a program. Also identify any two such widely available ERM frameworks. **(5 Marks)**
- (c) CA W is tax auditor of WHT Pharma Limited for financial year 2022-23. During the course of audit, it is noticed that pharma company has provided free medicine samples to doctor employees of 50 hospitals during period from 1st August 2022 to 31st March 2023. In this regard, the company has selected a specialist doctor in each hospital. Value of free samples of drug manufactured by the pharma company provided to each selected specialist doctor in every hospital is ₹ 50,000/- during

this period. Discuss how CA W should proceed in this matter while conducting tax audit of the company. **(4 Marks)**

5. (a) Suhana, a CA final student, is part of engagement team conducting audit of CMM Finance Limited, a listed NBFC. While going through THE audit programme, she notices that it contains instructions for verification of following matters among other things in relation to disclosure requirements of Schedule III of Companies Act, 2013:
- (i) Verification regarding disclosure of any of item of income or expenditure which exceeds 1% of revenue from operations or ₹10 lakhs whichever is higher.
 - (ii) Verification of disclosure regarding Return on Capital Employed Ratio, return on Equity Ratio and net profit ratio.

Discuss whether above instructions for similar matters need revision by engagement partner in this situation. If so, elaborate on revision required along with reasons. **(5 Marks)**

- (b) While conducting audit of RAC Limited, CA R has discovered a misstatement in the financial statements of a company due to non-write off of a huge trade receivable with an outstanding amount of ₹ 2 crores. The party in question has fled from India and is now absconding. After reviewing the audit evidence, it was concluded by the auditor that there is no possibility of recovering the outstanding debt. Despite the matter being brought to the attention of the management, they have refused to correct the misstatement. As a result, the financial statements of the company show a profit before tax of ₹ 1 crore, which is incorrect due to the management's refusal to correct the aforementioned misstatement. Materiality has been determined for financial statements @ 5% of profit before tax. Comment as regards to type of opinion to be given by CA R in above situation on the basis of provided information. **(5 Marks)**
- (c) CA D is serving as Vice-President (finance) of TM Industries, a firm. A huge claim lodged by firm for ₹20 crores with an insurance company was just paid for ₹2 crores. Aggrieved by it, management of TM Industries has decided to go in for arbitration proceedings under Arbitration and Conciliation Act, 1996. Unaware of lawyers dealing in this field, management requests CA D to help them find out a suitable lawyer. Being a smart person, CA D has links with one such lawyer. His understanding with arbitration lawyer was to receive 25% of fees agreed between lawyer and client by way of commission. Comment whether CA D is guilty of professional conduct. **(4 Marks)**
6. (a) CA Tushar is engagement partner conducting audit of consolidated financial statements of a group which includes parent entity and its 3 subsidiaries. The standalone financial statements of its subsidiaries are audited by component auditors. He is considering accepting such appointment. What specific considerations have to be kept in mind by him before accepting appointment as principal auditor of the group?

After acceptance, he is in quandary with regard to determination of materiality during audit of consolidated financial statements. What specific considerations have to be kept in mind while determining materiality during audit of above group? **(5 Marks)**

- (b) JJJ & Associates, an audit firm working mainly in field of statutory audits, has been selected by Quality Review Board (QRB) for review. During review, it has been found that Audit Firm Under Review (AFUR) has not maintained quality of audits of selected companies as evidenced from their respective audit files. AFUR has not complied with requirements of SA 501 and SA 505 in these cases. Further, in these cases, companies had not complied with accounting standards as required by law and AFUR has issued clean audit reports. Dwell upon functions of QRB in this regard.

(5 Marks)

(c) Consider the following statement:

“The internal auditor of a company shall be free from any undue influences which force him to deviate from the truth. He shall be independent.”

Is above statement proper? If so, how independence of internal auditor can be established?

(4 Marks)

OR

Mr. Raj, a practicing Chartered Accountant was ordered to surrender his certificate of practice and he was suspended for two years for accepting the appointment as an auditor of a company without ascertaining the requirements of section 139 and 140 read with section 141 of Companies Act, 2013. During the period of suspension, Mr. Raj, designating himself as Data Privacy consultant, did the work of filing Data Privacy related returns and made appearance as a consultant before various related authorities in other capacity other than Chartered Accountant in Practice. He contended that there is nothing wrong in it as he, like any other consultant, could take such work and his engagement as such in no way violate the order of suspension inflicted on him.

Kindly guide Mr. Raj whether can he appear before various Data Privacy related authorities when he is under period of suspension in light of section 6 of the Chartered Accountants Act, 1949.

(4 Marks)