

**MOCK TEST PAPER - I**  
**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. Mr. R, (friend of Mr. P) a CA in practice invited Mr. P to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s RP & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. R informed that there is no such Regulation regarding the firm's name. Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountants Act and Regulation?
  - (a) RP and Co.
  - (b) RP & Associates.
  - (c) RP and Networks.
  - (d) RP & Affiliates.
  
2. During the conduct of audit, it was found that the management has intentionally made material misstatements in the several items of the financial statements to deceive the users of the financial statements, to reduce the pressures of meeting market expectations and to increase the reputation of the company. What would be the implications on the auditor's report if no adjustments are made to the financial statements regarding the misstatements made by the management?
  - (a) The auditor would issue a qualified audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
  - (b) The auditor would issue an adverse audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
  - (c) The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Adverse Opinion' paragraph below the opinion paragraph.
  - (d) The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
  
3. The audit team has obtained the following results from the trade receivables circularisation of Nemi Co for the year ended 31 March 2023.

Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment
	₹	₹	
AM Co.	2,25,000	2,25,000	
AN Co.	3,50,000	2,75,000	Invoice raised on 29 March 2023
AO Co.	6,20,000	4,80,000	Payment made on 30 March 2023
AP Co.	5,35,000	5,35,000	A balance of ₹ 45,000 is currently being disputed by AP Co.
AR Co.	1,78,000	No reply	

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

- No further audit procedures need to be carried out in relation to the outstanding balances with AM Co. and AP Co.
  - The difference in relation to AN Co. represents a timing difference and should be agreed to a pre-year-end invoice.
  - The difference in relation to AO Co. represents a timing difference and should be agreed to pre-year-end bank statements.
  - Due to the non-reply, the balance with AR Co. cannot be verified and a different customer balance should be selected and circularised.
4. The management of Prabhu Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Viharsh has been appointed as an auditor of the company for current Financial Year 2022-23. Before starting the audit, she wants to evaluate the internal control system of Prabhu Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Viharsh decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?
- Are authorized signatories for purchases limited to elected officials?
  - Are payments approved only on original invoices?
  - Does authorized officials thoroughly review the documents before signing cheques?
  - Are monthly bank reconciliations implemented for each and every bank account of the company?
5. 50:50 test determination is popularly used in:
- Banking Company.
  - Insurance Company.
  - Non-Banking Financial Company.
  - Stock Trading Company.
6. 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 usernames 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.
7. Suvrat & Co. Chartered Accountants, mainly into statutory audit and tax audit, is now exploring the areas of due diligence and investigation assignments. During the course of due diligence, an articled assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank. You are required to guide the articled assistant regarding whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below?
- (a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.
  - (b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.
  - (c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.
  - (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.
8. Mr. Ishwar was appointed as statutory auditor of a Chennai-based listed company New Limited. For the financial year 2022-23, Mr. Ishwar had signed limited review reports for each quarter, till the quarter ended on 31st December 2022. Owing to his personal commitments and increased workload, he tendered his resignation to New Limited on 30th January 2023 and asked the company to appoint another auditor to issue an audit report for the remaining quarter and the FY 2022-23 as a whole. But the management of the company did not accept the same.
- Is the management of New Limited right in asking Mr. Ishwar to issue audit report for the last quarter and the FY 2022-23 as a whole, despite his resignation? What could be the reason for the same?
- (a) No, only if the auditor resigns after 45 days from the end of a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole.
  - (b) Yes, if the auditor resigns within 45 days from the end of a quarter, he is obligated to issue audit report for such quarter.
  - (c) No, only if the auditor resigns after 45 days from the end of a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue an audit report for the financial year as a whole if he resigns during the last quarter.
  - (d) Yes, Mr. Ishwar is responsible to issue audit report for the last quarter as well as FY 2022-23 since, he was the one who had issued the same for the first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during the last quarter.
9. CA. Dayalu was statutory auditor of Safety Limited. It was an insurance company having fire, and marine insurance products. In case of marine insurance, it had a risk of nearly ₹ 100- 120 crore and in case of fire insurance, 70% of its fire insurance premium was received from Star Hotels. Safety Ltd has a policy that in case of marine insurance, it will not hold risk of more than ₹ 50 crore, hence Safety Ltd signed a contract for 5 years with Help Ltd, which was involved in the business of reinsurance, to cede risk above ₹ 50 crore for 40% of marine insurance premium. What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its marine business?
- (a) Surplus proportional treaty reinsurance.
  - (b) Quota share proportional treaty reinsurance.

- (c) Facultative reinsurance.
- (d) Non-proportional treaty reinsurance.
10. Speak Ltd. is showing a commission expense of ₹ 2 crore during the month of October 2023. The auditor has made an effort to understand the business process that makes up this financial statement line item as to how it is initiated, recorded, approved, posted and reported. During this exercise, he finds that there is a difference of ₹ 1,50,000/- in the commission recorded as per the Sanchar Software (source) and commission as reflected in SAP accounts (destination).
- What is the kind of risk assessment carried out by the auditor in the given case?
- (a) It is an evaluation of risks and controls at process level.
- (b) It is a direct entity level control evaluation.
- (c) It is an indirect entity level control evaluation.
- (d) There is no risk assessment as such carried out by the auditor. (10 x 1 = 10 Marks)

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

**MCQ 11. - 15.**

**Integrated Case Scenario 1**

CA Paras is in the midst of conducting statutory audit for the year 2022-23 of "Meto Chemicals Limited", a listed company. He is collating information required for reporting under CARO, 2020 from management. Audit procedures as are necessary in the circumstances will be performed on the information so obtained. The company's revenue from sale of products is ₹15,000 crore. During the course of this exercise, he obtained the following information: -

**[A]** The management has provided the following details of dues that have not been deposited on 31<sup>st</sup> March, 2023 on account of disputes: -

<b>Name of Statute</b>	<b>Nature of dues</b>	<b>Forum where the dispute is pending</b>	<b>Period to which the amount relates</b>	<b>Amount involved (₹ in crore)</b>	<b>Amount unpaid (₹ in crore)</b>	<b>Other comments</b>
Income-tax Act, 1961	Income tax	CIT (Appeals)	AY 2018-19	50.00	50.00	
Income-tax Act, 1961	Income tax	ITAT	AY 2014-15	10.00	10.00	Demand stayed by ITAT pending completion of hearing by the Tribunal
EPF Act	PF contribution	Hon'ble High Court of Rajasthan	FY 2017-18	0.10	0.10	
Municipal Corporation Act	Property tax	Hon'ble High Court of Rajasthan	FY 2015-16	0.15	0.15	

The company has already made a provision of ₹10 crore in its financial statements considering the likely outcome of ongoing matters under dispute at ITAT. However, no provision has been made in respect of income tax matters pending before CIT(Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court.

[B] The following information is available from financial statements / records of the company. (₹ in crore)

Non-Current assets	As at 31/03/23	As at 31/03/22
Property, Plant and Equipment	3,500	4,000
Right-of-use assets	750	700
Intangible assets	42	40

Values stated above are as per gross block.

Right-of-use assets consist of leases where the company has obtained the right-of-use asset under lease agreement in accordance with Ind AS 116.

[C] Meto Chemicals Limited produces goods for which the Central Government has specified maintenance of cost records. Besides, cost audit has also been mandated under section 148(2) of the Companies Act. The cost auditor has already examined cost records and issued the cost audit report.

[D] During the course of audit, CA Paras has found that physical verification of inventories of the company has been conducted during the year by management. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of account as at the year-end: -

(Amount ₹ in crores)

Particulars	As per physical verification	As per books of account
Raw material	1,000	1,020
Work-in-progress	200	220
Finished goods	2,000	2,290
Stores and spares	150	120.
<b>Total</b>	<b>3,350</b>	<b>3,650</b>

[E] During the course of audit, he is informed by management that two supervisory employees have been dismissed from service due to fraud of ₹ 25 lakh committed by them during the year 2022-23. The amount has also been subsequently recovered from them during the year itself.

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

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

- Select the correct statement relating to reporting of statutory dues which have not been deposited on account of disputes under clause 3(vii)(b) of CARO, 2020?
  - Only matters relating to income tax pending before CIT (Appeals) and PF contribution matter pending before Hon'ble High Court need to be reported.
  - Only Income tax matter pending before ITAT needs to be reported.
  - All the four matters for which information has been provided in the fact pattern need to be reported.
  - Income tax matter pending before CIT (Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court need to be reported, matter pending with ITAT does not require reporting.
- Identify the correct statement relating to reporting duties of the auditor under clause 3(i) of CARO, 2020 with regard to:
  - It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. Similarly,

there is a duty to report on whether company is maintaining proper records showing full particulars of intangible assets. However, this duty does not extend to reporting on maintenance of records for Right-of-use assets.

Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets.

- (b) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets.

Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management also extends to Right-of-use assets.

- (c) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty does not extend to reporting on maintenance of records for Right-of-use assets and intangible assets.

Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. This duty to report on physical verification by management does not extend to Right-of-use assets.

- (d) It is the duty of the auditor to report whether company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment. This duty also applies to reporting on maintenance of records for Right-of-use assets and intangible assets.

Further, auditor has to report on whether Property, Plant and Equipment have been physically verified by management at reasonable intervals. However, this duty to report on physical verification by management does not extend to Right-of-use assets.

13. As regards cost records is concerned, which of the following statement is correct regarding reporting under clause 3(vi) of CARO, 2020?

- (a) The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.

- (b) The auditor is not required to report on maintenance of cost accounts and cost records since cost auditor has already issued the cost audit report. In such situations, the auditor does not have any duty to report under CARO, 2020.

- (c) The auditor is required to examine the cost audit report as well as take into account any qualifications therein and report them under clause 3(vi) of CARO, 2020. However, his duty to report on maintenance of cost accounts and cost records does not exist anymore.

- (d) The auditor has a duty to report on cost accounts (or cost statements) only. The clause does not require the auditor to comment on maintenance of cost records (e.g. cost records relating to materials, labour, overheads) where specified by the Central Government.

14. Considering the values of inventories arrived upon physical verification conducted by management vis-à-vis values reflected in its books of account, select the correct option for instance in the case study to be reported by the auditor on inventories under clause 3(ii)(a) of CARO, 2020?

- (a) Differences in all classes of inventories (raw material, work-in-progress, finished goods and stores and spares) should be reported irrespective of the materiality and the auditor should also comment on whether they have been properly dealt with in the books of account.

- (b) There is no instance to be reported in the given case since the difference between the total value of inventories as per books and physical verification is less than 10%.
- (c) To report differences in the value of work-in-progress, finished goods and stores and spares since the difference in each class of inventory is 10% or more (based on value after adjustments). The auditor should also comment on whether they have been properly dealt with in the books of account.
- (d) To report differences in the value of finished goods and stores and spares since the difference in each class of inventory is more than 10% (based on value as per books of accounts). The auditor should also comment on whether they have been properly dealt with in the books of account.
15. Should the fraud described in para [E] of the case be reported by the auditor under clause 3(ix)(a) of CARO, 2020?
- (a) There is no duty to report since the amount involved is less than ₹1 crore.
- (b) It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved.
- (c) The requirement to report the fraud does not apply in the current situation since the fraud was not discovered by the auditor.
- (d) The requirement to report the fraud does not apply in the current situation since the amount has been fully recovered during the year from the employees who committed the fraud.

#### MCQ 16. - 20.

#### Integrated Case Scenario 2

CA. Subhadra is conducting statutory audit of a branch of FNB Bank. The branch is having deposits of ₹ 450 crore and advances of ₹300 crore respectively reflected in its financial statements as on 31<sup>st</sup> March 2023. While performing audit procedures, she noticed the following: -

[1] While reviewing advances of the branch, she came across the following particulars of two cash credit accounts: - (₹ in crore)

Name of borrower	Sanctioned Limit	Value of primary security	Value of collateral security	Net worth of borrower	Net worth of guarantors
KT Fab	10.00	20.00	15.00	5.00	3.00
PM Decor	15.00	25.00	12.00	7.50	5.00

Following further information is also available in respect of above noted accounts: -

#### Information pertaining to KT Fab

(₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2022	9.00	9.61
31.01.2023	9.25	9.55
28.02.2023	9.50	9.60
31.03.2023	9.50	9.75

The outstanding balance in the account has remained more than ₹9.50 crore beginning from 31<sup>st</sup> December, 2022 till 31<sup>st</sup> March, 2023 on all days.

**Information pertaining to PM Décor**

(₹ in crore)

As on	Drawing power	Outstanding balances
31.12.2022	12.00	12.50
31.01.2023	12.50	12.25
28.02.2023	12.50	12.40
31.03.2023	12.50	12.50

Both units are working and their financial position is satisfactory. The branch has classified both accounts as Standard Assets.

[2] On reviewing "Statement of Accounts classified as NPA" as on 31.03.23, she finds that an education loan was granted to son of Mr. X, a customer of bank, for pursuing short duration technical higher studies abroad for ₹50.00 lakh sometime back repayable in 5 years. The loan was granted against security of residential house of Mr. X, valuing ₹60.00 lakh assessed by bank's empanelled valuer. However, the name of bank's empanelled valuer has now been removed due to certain irregularities. Later, value of residential house got reassessed from another valuer and he gave a report reflecting realisable value of residential house for ₹20.00 lakh. Meanwhile, the instalments in education loan account are overdue for 110 days as on 31<sup>st</sup> March, 2023. The account was classified as standard asset till last year i.e., 31<sup>st</sup> March, 2022.

[3] While verifying deposits of the branch, she noticed that inoperative accounts for less than 10 years are to the tune of ₹5 crore reflected in the balance sheet of the branch. She plans to focus her audit procedures on this segment too. One of her team members has suggested the following audit procedures in this regard:

- Verifying whether there exists a system of informing customers on accounts turning inoperative.
- Identification of cases where there is significant reduction in balances as compared to last year.
- Testing debits in inoperative accounts.
- Verifying auto activation of inoperative accounts.

[4] While gathering information to be included in LFAR, she comes across some cases of advance accounts which became non-performing within a relatively short span of time. The details of few such identified accounts are as under:

Account name	Sanctioned amount (₹ in crore)	Nature of facility	Date of first sanction	Date of renewal
ABC Industries	1.00	Cash credit	15/05/22	Not applicable
XY Pvt. Ltd.	0.50	Cash credit	01/07/22	Not applicable
SK & Sons	1.50	Cash credit	04/04/21	04/04/22
DK Creations	0.75	Term loan	01/10/22	Not applicable

[5] The branch also sends substantial number of Inland outward bills for collection. The bank has a system under which account of customer on whose behalf bill has been sent for collection is credited only after the bill has been actually collected from the drawee either by the bank itself or through its agents. One of her team members has jotted following audit procedures for Inland outward bills sent for collection:-

- Verification of outward bills for collection as on closing date.
- Verification of accrual of commission income in respect of bills outstanding as on closing date.
- Verification of accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.

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. Keeping in view information stated in respect of two borrower accounts at para [1] of case scenario, which of the following statement is correct?
- (a) The classification made by branch is not proper. Both accounts should be classified as non-performing assets.
  - (b) The classification made by branch is not proper. Borrower account of KT Fab should be classified as Standard asset. However, borrower account of PM Décor should be classified as non-performing asset.
  - (c) The classification made by branch is not proper. Borrower account of KT Fab should be classified as non-performing asset. However, borrower account of PM Décor should be classified as Standard asset.
  - (d) The classification made by branch is proper.
17. Considering issue relating to education loan described in para [1] of case scenario, how should it be classified in books of branch as on 31<sup>st</sup> March, 2023?
- (a) Sub-standard asset.
  - (b) Doubtful asset.
  - (c) SMA.
  - (d) Loss asset.
18. As discussed in para [3] of case scenario, one of team members has suggested certain audit procedures described in case scenario for verification of inoperative accounts. Which of audit procedure(s)/ combination of procedures are relevant in such a situation?
- (a) Identification of cases where there is significant reduction in balances as compared to last year, testing debits in inoperative accounts and verifying auto-activation of inoperative accounts.
  - (b) Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year and verifying auto activation of inoperative accounts.
  - (c) Verifying whether there exists a system of informing customers on account turning inoperative, testing debits in inoperative accounts and verifying auto activation of inoperative accounts.
  - (d) Verifying whether there exists a system of informing customers on account turning inoperative, identification of cases where there is significant reduction in balances as compared to last year and testing debits in inoperative accounts.
19. Quick mortality cases are required to be stated in LFAR by statutory branch auditor. With reference to the particulars in para [4] above, which of the following statement is correct?
- (a) All the four cases reflected in the table in para [4] are quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.
  - (b) Only the case of DK creations is in nature of quick mortality case. Quick mortality cases are indicative of shortcomings in credit appraisal.
  - (c) Cases of ABC Industries, XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit appraisal.
  - (d) Cases of XY Pvt Ltd and DK creations are in nature of quick mortality cases. Quick mortality cases are indicative of shortcomings in credit disbursement.
20. One of her team members has planned certain audit procedures described in case scenario at para [5] for verification of Inland outward bills for collection. Which of the following audit procedure(s)/combination of procedures are likely to be relevant in such situation?
- (a) To verify bills for collection on closing date.

- (b) To verify bills for collection on closing date and verification of accrual of commission in respect of bills outstanding as on closing date.
- (c) To verify accrual of charges in account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.
- (d) To verify accrual of commission in respect of bills outstanding as on closing date and verification of accrual of charges in the account of customer on whose behalf bill was sent for recovery where bill has been returned unpaid.

**(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) Sujit & Co., Chartered Accountants, have been appointed as Statutory Auditors of Anand Mills Ltd. for FY 2022-23. The audit team has completed the audit and is in the process of preparing the audit report. The Management of the company has also prepared a draft annual report. While reviewing the company's draft annual report, the auditor observed a section that stated a decline in market prices for essential products compared to the previous year. Surprisingly, the financial statements indicated that the company's profit margin had actually increased. The audit Manager discussed this issue with the firm's partner, who replied that the auditors are not responsible for disclosures made by management in the annual report. Do you think that the partner is correct in his approach to this issue? Discuss with reference to the relevant Standards on Auditing the Auditor's duties with regard to reporting. **(5 Marks)**
- (b) CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of the 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 an audit of a listed entity. She accepts the appointment to act as ECQR. She performs the review by ticking a Yes/No checklist and signing on some of the working papers prepared by the engagement team. The audit file does not contain any material misstatement 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? Comment. **(5 Marks)**
- (c) ABC Ltd. appointed Mr. Anand for the actuarial calculation of liabilities associated with insurance contracts and employee benefit plans. These calculations and valuations are then adopted by management in preparing the financial statements. Kindly guide Mr Sushil, the statutory auditor of ABC Ltd, on the use of information prepared by management's appointed expert as audit evidence. Also, explain Mr. Sushil the matters that can impact the nature, timing and extent of audit procedures regarding information to be used as audit evidence which has been prepared using the work of a management's expert. **(4 Marks)**
2. (a) Mr. Sunil was appointed statutory Auditor of M. Autotech Limited after Mr. Ram resigned from the position of auditor on 31-07-2022 for the financial year 22-23. Mr. Sunil received the appointment letter duly signed by the Board of Directors and a resolution of the Audit Committee recommending the name of Mr. Sunil to the Board. Mr. Sunil received the letter of appointment on 31-07-2022, which he accepted on 01-08-2022. On 15-08-2022, Mr. Sunil fixed a meeting with Mr. Ram to understand the reasons for his resignation and any concerns he should be aware of about the company. Prior to this, Mr. Sunil had not communicated with Mr. Ram. The Board of M Autotech Limited filed ADT-1 with the registrar on 31-08-2022.

Mr. Sunil, after performing the audit, issued his audit report on 31-05-2023. The registrar, after issuance of the audit report, suo moto initiated an inquiry regarding the appointment of Mr. Sunil as the auditor of the company. After the inquiry, Registrar issued a report to ICAI wherein it was

mentioned that Mr Sunil should be held guilty of professional misconduct. You are required to guide Mr. Sunil with respect to the recommendation of the registrar for him being guilty of professional misconduct. **(5 Marks)**

- (b) Namo Limited wants to acquire a unit of Sidha Limited. Namo Limited is uncertain about the future viability of the unit under consideration. You are appointed to investigate economic and financial position of the unit. What are the factors that you shall consider while studying the economic and financial position of the business? **(4 Marks)**
- (c) Super Non-Bank Limited, a “Systemically Important Non-Deposit Taking Non-Banking Financial Company”, was operating appropriately till the start of COVID-19 Pandemic. Due to unforeseen conditions during the Pandemic and after that, the operating revenue of the NBFC started decreasing. Following were the position of Net Owned Funds of the company during the last 4 financial years:

Financial Year	Net Owned Funds
FY19-20	₹ 15 Crore
FY20-21	₹ 6 Crore
FY21-22	₹ 4 Crore
FY22-23	₹ 1.5 Crore

Super Non-Bank Limited appointed Mr Shyam as their statutory auditor for the FY 22-23. Mr Shyam identified that the Net Owned Funds of the company have been less than ₹ 2 Crore since June 2022. Kindly guide Mr Shyam with respect to his reporting requirements as per relevant NBFC provisions. **(5 Marks)**

3. (a) CA Smriti is conducting tax audit of one of her clients viz. CB International, a proprietorship firm, engaged in the export of goods having a turnover of ₹.12 crore during the financial year 2022-23. The said client was availing packing credit facility of ₹1.00 crore from a nationalized bank for meeting its export commitments. Of late, the client was facing financial difficulties as ready shipments had been put on hold by major buyers in US due to the prevailing recession in North America. Recognising genuine business difficulties, the bank had restructured packing credit facilities into working capital term loan during the year 2022-23.

However, the interest unpaid in packing credit facility during the year 22-23 amounting to ₹6 lakh was converted into a Funded Interest Term Loan (FITL) by the bank. The interest of ₹ 4 lakh was paid during the year 2022-23 on restructured working capital term loan. The interest of ₹10 lakh is duly reflected in the profit & loss a/c of the client. No interest is chargeable by the bank on FITL. The client would file his return of income in September 2023 immediately after completion of tax audit. The monthly instalments in FITL are going to commence from January, 2024. Discuss the implications of above situation for CA Smriti while conducting tax audit for the financial year 2022-23 (AY 2023-24). **(5 Marks)**

- (b) You are appointed as an auditor of Jashan Limited, a listed company which is a main supplier to the USA building and construction market. With a turnover of ₹ 3.9 billion, the company operates through 13 business units and has nearly 167 branches across the country. As an auditor, how will you draft the report in the following cases:
- (i) When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework different than that of the Parent?
- (ii) When the Component(s) Auditor Reports under an Auditing Framework different than that of the Parent? **(4 Marks)**
- (c) Advances generally constitute the major part of the assets of the bank. There are substantial number of borrowers to whom a variety of advances are granted. The audit of advances requires major attention from the auditors. As an expert in bank audit, you are required to briefly discuss the area of focus and suggested audit procedures regarding the evaluation of internal controls over advances, substantive audit procedures and recoverability of advances. **(5 Marks)**

4. (a) Mr. Samyak, a newly qualified Chartered Accountant, started his practice and sought clients through telephone calls from his family and friends, almost all of them employed in one or the other retail trade business. One of his friends Mr. Darshan gave him an idea to start online services and give stock certifications to traders with Cash Credit Limits in Banks. Mr. Samyak started a website with colourful catchy designs and shared the website address on all his social media posts and stories and tagged 40 traders of his local community with the caption "Simple Online Stock Certification Services". Besides, Mr. Samyak entered into an agreement with a Digital Marketer to give him 8% commission on each service procured through him. Discuss if the actions of Mr. Samyak are valid in the light of the Professional Ethics and various pronouncements and guidelines issued by ICAI. **(4 Marks)**
- (b) As a part of the listing process, Sun Ltd. prepared and issued its prospectus to the public. The top executives thought that pending litigation against the company (which would cause a cash outflow of ₹ 1.25 crore) may affect the demand for share applications. Due to this, they omitted the fact, for the well-being of the company. Mr. A, who was well aware of this matter had authorised himself to be named in the prospectus as a director. However, Mr. A was a little reluctant, so he informed and agreed that he shall become such director after an interval of some time. Unfortunately, after a few days, but before joining of Mr. A as director, this matter got leaked and several subscribers sustained losses. Mr. A is now defending himself stating that he is currently not holding the director's post hence no action can be taken against him. Analyse and Comment on the situation. **(5 Marks)**
- (c) CA Rajul has been appointed as Management Auditor of XYZ Ltd. The principal reason for her appointment is that current managerial decisions are not up to the mark, especially in relation to investments made by the Company. The Company is going to make huge investments in one of the ventures identified. Management Auditor was required to ensure that systems and procedures of Company are working effectively and meeting the requirements. What aspects should be considered by CA Rajul to determine that the systems and procedures are meeting current requirements? **(5 Marks)**
5. (a) Mr. Rishabh, in the course of audit of PQ Limited, wants to perform external confirmation procedures to obtain audit evidence. Guide Mr. Rishabh, listing out the factors that may assist him in determining whether external confirmation procedures are to be performed as substantive audit procedures. **(5 Marks)**
- (b) Long Age Foundations Ltd. (LAF), a pharmaceutical company, collected the data from some hospitals and their experts tried to understand medical needs of elderly people. After complete study, their experts developed an application where LAF will provide complete health care after charging a nominal amount from the customers, if customers download this application in their mobile phones. CA P in his audit has used data analytics method also known as Computer Assisted Audit Techniques. Give illustrations of suggested approach to get the benefit from the use of CAATs. **(5 Marks)**
- (c) One of the independent directors sought information regarding the appointment of internal auditors for following Group Companies in accordance with the Companies Act, 2013 of which certain Financial Information are given below:

Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposits
AADI Ltd.	Listed	100	190	50	24
AJIT Ltd.	Unlisted Public	60	190	50	24
NEMI Ltd.	Unlisted Private	60	190	50	-

You are required to evaluate the requirements of the Companies Act, 2013 regarding the appointment of internal Auditors for the Group Companies. Discuss. **(4 Marks)**

6. (a) One of the objectives of Internal control relating to the accounting system is that all transactions are promptly recorded in an appropriate manner to permit the preparation of financial information and to maintain accountability of assets. To achieve this objective, certain matters should be ensured by accounting controls. List down matters to be ensured by accounting controls. **(5 Marks)**
- (b) CA S has been appointed as Statutory Auditor of SRT Ltd. for the financial year 2022-2023. The Company while preparing financial statements for the year under audit prepared one additional profit and loss account that disclosed specific items of expenditure and included the same as an appendix to the financial statements. CA. S has not been able to understand this as the additional profit and loss account is not covered under the applicable financial reporting framework. Guide him as to how he should deal with this issue while reporting on the financial statements of SRT Ltd. **(5 Marks)**
- (c) While auditing financial statements of Bharat Insurance Company Limited for year 2022-23, it is noticed by CA X, engagement partner, that company has significant presence in two hill states. These hill states were rocked by natural disasters including floods and landslides during the year gone by resulting in a large number of claims including motor vehicle claims and property claims. A large number of claims arising out of these two hill states were lodged during the year. However, magnitude of natural disasters was so huge that the possibility of claims being reported after close of year 2022-23 cannot be ruled out. Further, there is a distinct possibility that losses may exceed initial estimates. How should CA X proceed in such a scenario while performing audit of company for the year 2022-23? **(4 Marks)**

OR

M/s. SR & Associates is one of the three firms shortlisted by ARG Cooperative Bank for the assignment of Statutory Audit for the FY 2022-2023. Bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations. SR & Associates responded to the bank and submitted their quotation. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**