

Mock Test Paper - Series I: March, 2024

Date of Paper: 8 March, 2024

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carries 2 Marks each.

1. Rohita & Co. Chartered Accountants, mainly into statutory audit and tax audit, has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation. Rohita & Co. is contemplating getting the assistance of an expert with respect to certain matters.

Can Rohita & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?
 - (a) Yes, Rohita & Co. should consider whether the assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.
 - (b) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert’s assistance for investigation.
 - (c) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.
 - (d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.
2. During the audit of Good Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:
 - 79 agricultural loan accounts (guaranteed by Government of Delhi) amounting to ₹ 26 lakh were overdue for more than two years.

- 93 (guaranteed by Government of India) agricultural loan accounts amounting to ₹ 32 lakh were overdue for more than two years.
- 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to ₹ 29 lakh for each company were overdue for more than three and a half months.

What is the total amount of loans that should be classified as NPA by Good Bank?

- (a) ₹ 58 lakh.
 - (b) ₹ 145 lakh.
 - (c) ₹ 113 lakh.
 - (d) ₹ 174 lakh.
3. Sam Ltd. appointed M/s Ajeet & Co., Chartered Accountants as Statutory Auditor. The Statutory Auditor found the Internal Audit function reliable and effective. The Statutory Auditor assigned the task of assessing the inventory levels of a few branches where the Statutory Auditor believed that there might be some risk of material misstatement to one of the Internal Auditor Mr. Krushna. Since the Internal Auditor had recently done such assessment as a part of their Internal Audit program, therefore, the Statutory Auditor believed that they could rely on the former's report. Besides this, because of the paucity of time the Statutory Auditors also requested Mr. Krushna to help them in some paperwork including audit documentation.

Before the audit was concluded, Mr. Krushna got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Krushna was not complete. Accordingly, Statutory Auditor further checked the inventory work delegated to the Internal Auditor, however, it was found to be satisfactory.

In view of the above case scenario, state which of the following statement(s) hold true:

- (a) The working of Internal Audit function was reliable and satisfactory; therefore, the allocation of inventory level work was within the authority of the Statutory Auditor. This was further confirmed by the satisfactory work of Internal Auditor, as found out later.
- (b) The documentation would be considered complete as far as the Statutory Auditor's responsibility is concerned as the missing documentation was because of the oversight of the Internal Auditor.
- (c) Since the Internal Audit had conducted the similar inventory level checking activity recently, therefore, because of familiarity with the audit the Statutory Auditor was right in delegating the same to the Internal Auditor.
- (d) The Statutory Auditor should not have delegated the inventory level checking to the Internal Auditor, as the risk assessed was material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain

confidentiality during all the stages of the audit. Therefore, it was wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.

Case Scenario I [MCQ 4-6]

ABC Limited is a public company listed on the National Stock Exchange, having its registered office in Delhi. The company is primarily engaged in the manufacturing of pharmaceutical products. During the preceding financial year, the company recorded a remarkable turnover of ₹ 5000 crores, accompanied by a net profit of ₹ 805 crores. Additionally, the company has secured a loan facility from the State Bank of India amounting to ₹ 1000 crores.

PQR & Co., a firm of chartered accountants based in Delhi, has been appointed as a joint auditor along with PK & Co. and XYZ & Co., an esteemed chartered accountant's firm in the same location i.e. Delhi. ABC Limited has already completed the appointment-related formalities as well as they have also signed engagement letters. The engagement letter contains the details on the objective and scope of the audit, responsibilities of the auditors, management, and identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 50 Crore as the materiality threshold, calculated at 1% of turnover.

Now, during the audit, PK & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 201 Lakhs.

Additionally, as a part of the audit procedure, the auditor has also sent confirmation requests to 100 suppliers to confirm the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, in this regard the confirmation responses were received only from 37 Suppliers.

Moreover, as a part of the audit procedure, auditors of the ABC Limited also wants external confirmation from the 37 Debtors to confirm the year end balance, however in this process, the management refuses auditors to allow to send the confirmation and after asking the reason for such refusal, auditors came to the conclusion that, such refusal is unreasonable and the auditor is also unable to obtain relevant and reliable audit evidence from alternative audit procedures.

In addition, while forming an opinion, PQR & Co. had a different opinion on the valuation of inventories, but PK & Co. and XYZ & Co. had the same opinion and accordingly, given their majority stance, both PK & Co. and XYZ & Co. assert that PQR & Co. must endorse a Common audit report aligned with their opinion.

Apart from this, XY Private Limited, an associate enterprise of ABC Limited, the company XY Private Limited appoint ZMR & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor of XY Private Limited for the first time for the current financial year. The financial statement of XY Private Limited was audited by its predecessor auditor in the previous financial year. During the audit for the current financial year, ZMR & Co. came across a material misstatement in the opening balance, that affects the current year financial statement. In this regard, the auditor also discusses the said facts with the

management. However, the management does not accurately pay attention to the same and does not either adequately account during the year or disclose or present the same in the financial statement of current year.

The Other Important financial information of XY Private Limited is as below:

(₹ in Crores)

Sr. No.	Particulars	Current Year	Previous Year
1.	Paid up Share capital	2.00	2.00
2.	Credit Balance of Profit & Loss Account	1.75	0.75
3.	Turnover	35.00	25.00
4.	Borrowing from Banks and Financial Institution	3.50	2.50

On the basis of the above-mentioned facts, you are required to answer the following MCQs,

4. In the above given case, what should be the next course of action on the part of auditors of ABC Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable and auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures,?
 - (a) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.
 - (b) Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.
 - (c) Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.
 - (d) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.

5. Whether PQR & Co. should adhere to the opinion formulated by PK & Co. and XYZ & Co. or explore alternative options.
 - (a) PQR & Co. will have to go with the opinion framed by the majority of auditors.
 - (b) PQR & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.
 - (c) PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should

be prominently highlighted within the emphasis of the matter paragraph.

- (d) PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.
6. In the above given case, what should be the course of the action on the part of ZMR & Co., when they found material misstatement which has not been accurately accounted or presented or disclosed in the financial statement of current year?
- (a) ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.
 - (b) ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).
 - (c) ZMR & Co. should take such matter in the written representation received from the management and no need to report such fact in audit report.
 - (d) ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.

Case Scenario II [MCQ 7-10]

MN & Associates, a firm of Chartered Accountants, having CA. M and CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. M realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. N provides management consultancy and other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N posted his framed photograph on his website wherein he was receiving the said award from the Institute.

Upon hearing about the efficient services provided by MN & Associates Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 501/-.

Based on the abovementioned facts, you are required to answer the following MCQs:

7. With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates.?
- (i) To charge fees as percentage of Net Profits, or
 - (ii) To charge fees of ₹ 501/-.
- (a) (i) Only.
- (b) (ii) Only.
- (c) Either (i) or (ii).
- (d) Neither (i) nor (ii).
8. MN & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
- (a) CA. IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.
 - (b) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610
 - (c) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
 - (d) MN & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

9. As per the Chartered Accountants Act, 1949, under which clause CA. N is liable for misconduct?
- (a) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (b) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
 - (c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
 - (d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
10. Before signing the tax audit report, CA. M sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
- (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
 - (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
 - (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.
 - (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

Case Scenario III [MCQ 11-15]

Sun Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Sun Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, and basic chemicals. These products find application in various sectors, from pharmaceuticals and textiles to paints and coatings, construction, and agriculture.

RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2023-24 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity.

During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitation. But the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, Finally, Mr. Rahul with his engagement team, derived on a conclusion that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 15th November, 2023. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

11. What was the responsibility of Mr. Rahul when the management refused to remove the said limitation?
 - (a) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (b) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.
 - (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.

12. What was the responsibility of RKM & Co. with respect to the issue of limited review report at the time of resignation?
 - (a) Limited review report for third Quarter was required to be issued.
 - (b) No further limited review report was required to be issued as already it was issued for the second Quarter at the time of resignation.
 - (c) Limited review report for third Quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued
 - (d) Limited review report for third Quarter was required to be issued subject to the terms of the audit engagement.

13. Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal?
- (a) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
 - (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
 - (c) In the given circumstance withdrawal from engagement mandatory was and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
 - (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
14. Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper?
- (a) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.
 - (b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.
 - (c) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management and refusal to provide reasons for the same and accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.
 - (d) No, the reasons should have been a little lengthier and further the exact reason must be provided to the new auditor to be appointed by the company.
15. Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM & Co. with respect to withdrawal from engagement and issue of limited review report at the time of resignation?
- (a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third Quarter were required to be issued.
 - (b) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would

have given rise to a modification of the opinion and the limited review report for second Quarter was required to be issued.

- (c) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.
- (d) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second Quarter was required to be issued.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

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

1. (a) While conducting the statutory audit of Tasty Foods Limited, CA. Careful has planned attendance at physical inventory count of the company from 29th March to 31st March 2024. The company is engaged in business of extracting rice from paddy grains and caters to domestic as well as international market particularly in Gulf region. It has its plant spread in area of about 20 acres located in National Capital Region (NCR). Paddy contained in jute bags of nearly standard sizes is purchased from dealers/agents. It is stored in heaps on pallets (kind of wooden structures) in open area covered by protective sheets and in steel silos (silos are huge steel containers with measuring strain gauges) in company's premises.

The company mainly produces three rice brands viz. "Raja" and "Shehzada" (both for the domestic market) and "Badshah" (for the international market). The process of obtaining rice from paddy consists of various steps like cleaning of paddy, removing outer husk layer from paddy grains to obtain brown rice, whitening, polishing, grading and sorting, packaging which is accomplished by means of various types of machineries installed in plant.

The company's management has prepared a set of instructions and procedures to be followed for recording and controlling results of company's physical inventory counting which are listed as under: -

- The physical inventory count process is to be supervised by a responsible officer of company responsible for storage functions.
- There should be no disturbance to the routine process of receiving goods and despatch during the counting time period.

- Counting process is to be undertaken by constituting different teams of 3 members each for counting/verifying raw material, work in progress and finished goods.
- Paddy in steel silos is to be estimated using their capacity.
- Quantity of work in progress is to be estimated considering plant capacity as whole.
- The responsible officer should ensure that stocks have been counted/verified in all areas.

Before proceeding to attend physical inventory count process of company, evaluate management's instructions and procedures sent to CA. Careful as stated above. You may suggest modification, addition or removal of such instructions to ensure effective count process.

(5 Marks)

- (b) While conducting audit of CGX Limited, a listed company, for year 2022-23, CA. Srishti notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under: -

S. No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	₹ 3.50 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	₹ 2.00 crores

The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on financial statements would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstandings were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability.

She is contemplating inclusion of above matters under "Key audit matters" in audit report. Analyse the situation threadbare. **(5 Marks)**

- (c) FAB Limited is availing the services of Atiya Private Limited for its payroll operations. Payroll cost accounts for 63% of total cost for FAB Limited. Atiya Limited has provided the type 2 report as specified under SA 402 for its description, design, and operating effectiveness of control.

Atiya Private Limited has also outsourced a material part of payroll operation M/s RST & Associates in such a way that M/s RST & Associates is sub-service organization to FAB Limited. The Type 2 report which was provided by Atiya Private Limited was based on carve-out method as specified under SA 402.

CA. Akram while reviewing the unmodified audit report drafted by his assistant found that, a reference has been made to the work done by the service auditor. CA. Akram hence asked his assistant to remove such reference and modify report accordingly.

Comment whether CA. Akram is correct in removing the reference of the work done by service auditor? **(4 Marks)**

2. (a) TPX & Co., Chartered Accountants is a large audit firm. It maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by engagement team. How do you view above situation from point of view of quality control system in audit firm? Analyse. **(5 Marks)**
- (b) IT dependencies also arise due to “system generated reports” and “interfaces”. How do such IT dependencies arise? Why it is important to identify IT dependencies to develop an effective and efficient audit approach? **(4 Marks)**
- (c) CA. Gyan is a Chartered Accountant in practice and also an engineer by qualification. He wants to pursue a registered valuer course and work as a registered valuer for plant and machinery under the Companies Act, 2013. Comment on above with reference to provisions of the Chartered Accountants Act, 1949. **(5 Marks)**
3. (a) Jagdish Pvt. Ltd. is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.
- The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Comment **(4 Marks)**
- (b) RML & Associates are one of the joint auditors of IND Bank for the year 2022-23. While auditing IND Bank, they are analysing industry data relating to NPAs in select public sector banks as part of risk assessment procedures:

Name of Bank	Gross NPAs (in ₹ crore)	Net NPAs (in ₹ crore)	Ratio of Net NPAs to Net advances
BIC Bank	55,000	13,000	1.72%
ABD Bank	45,000	10,000	2.34%
RIN Bank	55,000	18,000	2.65%
IND Bank	28,000	6,500	3.97%
CRB Bank	35,000	8,800	2.27%

In the above context, what do you understand by “Gross NPAs” and “Net NPAs” as on reporting date in the context of financial statements of a Bank? As an auditor of IND Bank, what inference would you draw by comparing the “Ratio of net NPAs to net advances” with other public sector banks? **(5 Marks)**

- (c) Mr. Mayank, a Chartered Accountant was the auditor of 'Chew Limited' for the year 2021-22 and 2022-23. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 7.5 lac and was the same amount as in the last year 2021-22. Later it was found that the company's investments were only for ₹ 56,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(5 Marks)**
4. (a) The audit report of Rare (P) Ltd for F.Y. 2022-23 was issued by SRM & Co. on 23rd July, 2023. However, a case was filed against Rare (P) Ltd on 9th August, 2023, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2023, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

Mr. Rishabh discussed the said matter with the management, and it was determined to amend the financial statements for F.Y. 2022-23. Further, Mr. Rishabh inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a “Contingent Liability for a Court case” to the foot note in the balance sheet with no additional disclosures.

The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the ‘Emphasis of Matter’ paragraph in his amended audit report.

In the context of aforesaid case-scenario, please answer to the following questions: -

- (i) Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?

(ii) Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the financial statements? **(5 Marks)**

(b) CTO Limited is engaged in the fintech business. It is a member of few prominent industry chambers and trade associations and has come under mandatory purview of Business Responsibility and Sustainability Reporting (BRSR) for year 2022-23.

The company had submitted inputs on draft Digital personal data protection bill to concerned Ministry during year 2022-23. It had also submitted to one of the industry chambers during the same year certain key inputs on leveraging India's digital public infrastructure for creating solutions by banks and fintechs together as its taskforce member on the subject. Considering the above, discuss how above information would likely be disclosed by company in "Principle-wise performance disclosures" as part of BRSR for year 2022-23?

Whether information discussed above would require to be disclosed mandatorily? **(4 Marks)**

(c) CA. Navya is the statutory auditor of Lakshay Ltd. for the Financial year 2022-23. In respect of loans and advances of ₹ 75 Lakh given to Hariharan Pvt. Ltd., the Company has not furnished any agreement to CA. Navya and in the absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.

Justify the type of opinion which CA. Navya should give in such a situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph. **(5 Marks)**

5. (a) Naresh & Co., Chartered Accountants, have been appointed Statutory Auditors of Suchi Ltd. for the F.Y. 2022-23. The audit team has completed the audit and is in the process of preparing audit report Management of the company has also prepared draft annual report.

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

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

Discuss with reference to relevant Standard on Auditing the Auditor's duties with regard to reporting. **(5 Marks)**

(b) Direct Benefit Transfer (DBT) is a major reform initiative of the Government of India to ensure better and timely delivery of benefits from Government to people. It marks a paradigm shift in the process of

delivering benefits like wage payments, fuel subsidies, food grain subsidies, etc. directly into the bank accounts of the beneficiaries removing leakages and enhancing financial inclusion.

The office of C & AG of India is likely to undertake a performance audit for a block of years in a state of some selected social security pension schemes and scholarship schemes under DBT. What are likely to be objectives of such performance audit? Explaining meaning of “audit criteria”, discuss how these can be determined in above case.

(5 Marks)

- (c) GeM (e-market place) is a public procurement portal which provides opportunities to start-ups, entrepreneurs etc. to showcase their innovative products and services to government buyers and engage in public procurement. The Government e Marketplace Special Purpose Vehicle (GeM SPV), a 100% government owned and section 8 (Non-Profit) company under the Ministry of Commerce, Government of India has been incorporated under the Companies Act, 2013 to develop, manage and maintain GeM platform. Whether a firm of Chartered Accountants can register on GeM portal for rendering professional services to government departments? **(4 Marks)**

6. (a) When auditor’s report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria, which other matters shall the auditor’s report on the summary financial statements contain in addition to elements of auditor’s report described in SA 810?

If summary financial statements are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor’s opinion on summary financial statements?

(5 Marks)

Or

In a review engagement performed under SRE 2400, practitioner relies mainly on certain procedures. Naming such procedures, discuss importance of these procedures in a review engagement.

Practitioner’s report containing outcome of review engagement in form of “conclusion” also contains a description of a review of financial statements and its limitations. Which statements in this respect are to be included in practitioner’s report in accordance with SRE 2400?

(5 Marks)

- (b) CA. Z, in practice, is desirous of filling Multi-purpose Empanelment form (MEF) for inclusion of his name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns

along with computation of income. During relevant year for which information is being sought for by PDC, CA. Z has transacted in futures and options derivatives (equity) and has reflected income from such transactions in his return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA. Z had earned income from transacting in currency derivatives and commodity derivatives?

(5 Marks)

- (c) CA. Puranjay is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under terms of a contractual agreement with the company.

The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, team has failed to take care of aspects such as keeping record of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications it may have on forensic accounting engagement as such?

(4 Marks)