

Mock Test Paper - Series II: April, 2024

Date of Paper: 5 April, 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. An auditor was auditing the quarterly financial results prepared in accordance with Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The financial results are prepared using recognition and measurement norms of Ind AS 34 and include disclosures as prescribed by SEBI. These financial results would be hosted on the website of the entity and the stock exchange. Should the auditor include Key Audit Matters in the audit report on such financial results?
 - (a) No, SA 701 applies to audit of complete set of general-purpose financial statements of a listed entity.
 - (b) Yes, SA 701 applies to audits of any entity.
 - (c) No, SA 701 applies to review of the complete set of general-purpose financial statements of any entity.
 - (d) Yes, SA 701 applies to any audit of listed entity.
2. CA. Arvind and CA. Deepak were jointly appointed as auditors of Pullcord Ltd. to ensure efficient audit and reporting, Arvind and Deepak took the following steps:
 - i. After identification and allocation of work among themselves, the work allocation document was signed by both of them. Since in any case they were jointly responsible, they did not think it necessary to inform those charged with governance about the allocation.
 - ii. They decided to obtain a common engagement letter since their appointment was common.

- iii. Since their area of work was different, they decided to obtain a separate management representation letter so as not to mix up the matters.

Which of the above were not correct in view of SA 299?

- (a) i, ii and iii
(b) i and iii
(c) i and ii
(d) ii and iii
3. Mr. L, (friend of Mr. M) a CA in practice invited Mr. M 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 LM & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. L informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of the Chartered Accountant Act, 1949 and Regulation was accepted by all the four partners.

Which among the name shall be suitable to the newly started 'Network Firm'?

- (a) LM and Co.
(b) LM & Associates.
(c) LM & Affiliates.
(d) LM and Networks.

Case Scenario I [MCQ 4-8]

Maulik and Javeri Associates is a Firm of Chartered Accountants that provides assurance services to many companies, including listed companies. The Firm have offices across many locations in India, with subject matter experts in most of these locations. The firm has established a comprehensive quality management system covering leadership responsibilities for quality within the firm, ethical requirements, acceptance, and continuance of client relationships and specific engagements based on the SQC 1 issued by the ICAI. During the current year, the audit engagement of a listed company was picked up for an inspection by an appropriate authority. The inspection covered various aspects of the audit of financial statements and included an assessment of the firm's quality control system. The reviewer decided to discuss the following with the audit team members:

1. The reviewer enquired about the roles and responsibilities of CA Maulik. CA. Maulik explained that the engagement team is comprised of him as the engagement partner and other professionals, including the engagement in-charge. CA. Javeri was the engagement control quality reviewer. As the engagement partner, he was responsible for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and the auditor's report being

appropriate in the circumstances take responsibility for reviews being performed in accordance with the Firm's review policies and procedures. He also explained that he has already completed 7 years as an engagement partner and has decided to continue as an engagement partner for the next year as well. The Firm's policy permits that an engagement partner can continue consecutively for 15 years.

2. The reviewer enquired about the roles and responsibilities of CA. Javeri, the engagement control quality reviewer. CA. Javeri explained that the EQCR plays an important role in the quality control process of an audit and is key to safeguarding audit quality. The Firm has established a comprehensive system that prescribes the eligibility of EQCR, the need to maintain objectivity by EQCR, and considerations for carrying out effective EQC reviews. Specifically, in this engagement, CA. Javeri explained that he has rich experience in handling direct and indirect tax matters and was selected by CA. Maulik. There was no formal letter confirming his selection as EQCR. The listed company had significant GST litigations. CA. Javeri ensured that he was involved in forming the audit team's judgments relating to these litigations, including making relevant provisions. CA. Javeri confirmed that the EQC review was conducted in periodic intervals, and the engagement team had resolved all the observations raised during the EQC review.

3. The reviewer enquired about the areas that require discussion with management/ those charged with governance or areas that require significant efforts. CA. Maulik explained that during the current year, the engagement team observed material prior errors in recognition of revenue, including errors in recognition of revenue on a gross basis instead of a net basis. These errors were identified after the year end and required significant judgement and efforts by the engagement team. After many deliberations, the management agreed to correct the material prior to the period errors by restating the comparative information as per applicable GAAP. Relevant internal controls were accordingly modified after the year end. Considering the complexities involved, the measurement of revenue was identified as a key audit matter.

4. The reviewer enquired about the rational for material difference between the amount of revenue stated in the financial statements and the corresponding amount in the Board report included as a part of the Annual Report. CA. Maulik explained that auditors are required to comment on the true and fair view of the financial statements and are not required to comment on the Annual Report. He also explained that the Board Report was not provided to the auditor till the date of the audit report. Accordingly, after considering the requirements of SA 720, a specific statement was made in the audit report regarding the non-availability of the Board Report and that the auditor is not responsible to consider the Board Report which is expected to be received the date of the audit report. Thus, any discrepancy between the Board Report and the audited financial statements does not require any consideration. However, as good governance, CA. Maulik has obtained a reconciliation of the amount of revenue between the Board Report and the financial statements.

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

4. Whether the selection of EQCR is as per the requirements of SQC 1?
 - (a) No. EQCR's objectivity was not maintained since it was selected by the engagement partner, and no formal communication was made regarding such selection.
 - (b) Yes. CA. Javeri is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to the company's tax litigations.
 - (c) No. The EQCR's objectivity could not be maintained since it was selected by the engagement partner and made decisions for the engagement team.
 - (d) Yes. CA. Javeri is a perfect match for the engagement team, as his experience as a tax professional is directly relevant to tax litigation. The EQC review was conducted in a timely manner before the issuance of the audit report.
5. In the given situation, which threat will be created if CA. Maulik serves for the assurance engagement over a long period of time?
 - (a) Self-interest threat.
 - (b) Self-review threat.
 - (c) Familiarity threat
 - (d) Intimidation threat
6. Can CA. Maulik serve another year as the engagement partner?
 - (a) Yes. Companies Act, 2013 do not provide for mandatory rotation of engagement partner.
 - (b) No. SEBI Listing Regulation require mandatory rotation of engagement partner after completion of 5 years each.
 - (c) Yes. Since permitted as per Firm policies.
 - (d) No. Existing engagement partner of a listed company cannot serve as engagement partner beyond 7 years.
7. The reviewer is of the view that the audit opinion on internal controls under section 143(3)(i) of the Companies Act 2013 should have been modified as material weakness existed in the comparative information. Do you agree with the reviewer?
 - (a) Yes. Restatement of comparative information due to error is a strong indicator of material weakness in internal controls. Also, relevant internal controls were not corrected by the end of the year.
 - (b) No. All prior-period errors were corrected as per applicable GAAP by restating the comparative information.

- (c) No. Judgemental matters, where divergent views are possible, are not indicative of material weakness.
 - (d) No. Internal controls were corrected by the date of the audit report.
8. Whether CA. Maulik should consider the Board Report or not as the audit report was already issued:
- (a) The Board Report should not be considered as auditors don't have any obligation to consider Other Information obtained after such date.
 - (b) The Board Report should be considered since auditors' responsibility in relation to Other Information is uniform irrespective of the point of their availability.
 - (c) The Board Report should be considered since subsequent events are required to be assessed.
 - (d) The Board Report should not be considered to align with the audit report, which specifically excludes Other Information obtained after the date of the audit report.

Case Scenario II [MCQ 9-11]

Meera Films Ltd. is a distributor of movies in the state of West Bengal. The Company has a significant interest in other operating segments and operates through multiple subsidiaries. At the consolidated level, major operating segments comprise of movie distribution, selling tea from self-owned tea gardens at Darjeeling, real estate development for commercial purposes and investment in start-up entities. The Group was founded jointly by Mr. Madan Mohan (the Group Managing Director) and Mr. Kishore Kumar, an old confidant of Mr. Madan Mohan.

Unfortunately, Mr. Madan Paul met with an accident and expired. His untimely death rattled the entire Group and disrupted the business operations of the Group. The Board of the Parent Company decided to induct his son – Mr. Manish Paul – as the Managing Director of the Parent Company and the Group. The appointment of Mr. Manish Paul enraged Mr. Kishore Kumar, and he filed an application of oppression of mismanagement with the National Company Law Tribunal alleging various wrongdoings, including inappropriate related party transactions, siphoning off funds through connected entities and manipulation of financial statements. Considering the gravity of the allegations, the existing auditor of the Parent Company tendered its resignation. The Board appointed Mukesh and Rafi LLP as the new auditors. Mukesh and Rafi LLP informed the previous auditor over the phone and accepted the appointment.

After 5 months, Mukesh and Rafi LLP sent an email to the previous auditor as a professional courtesy stating that the appointment was for the auditor. The previous auditor replied by stating 'Received'.

To deal with these allegations, the Board of the Parent Company initiated a forensic investigation covering all the major operating segments through an independent professional services firm. The conclusion of the investigation significantly delayed the submission of financial statements for the current year of

the Parent Company. The outcome of the forensic investigation included the following:

1. SaltLake Ltd.—a subsidiary—is the real estate arm of the Group and has significant receivables from various Partnership Firms/ LLPs. The investigation revealed that these advances, which have been outstanding for more than a decade, were given for the purchase of land. Further, the identity of these entities could not be traced as no PAN/ GST details were available with the subsidiary company. Any attempt to contact these entities proved futile.

It was also noted that the auditors of SaltLake Ltd. had already completed the audit under the Companies Act 2013. Hemant and Manna LLP - the auditor of SaltLake Ltd. – informed the investigator that, in their view, the allegations do not affect the financial statements of SaltLake Ltd. and accordingly have issued an unmodified audit opinion on the financial statements of the current year. The financial statements and the audit report were adopted by the shareholders in the AGM.

2. Meera Films Ltd. - the parent company historically purchases music rights from Gaana Ltd., which is approximately INR 20 crores per annum. Gaana Ltd. is controlled by Mr. Kishore Kumar. At the beginning of the current year, an advance of INR 50 crores was given to Gaana Ltd. for the purchase of music rights. Any amount remaining unadjusted would be repaid over a period of 5 years. The advance amount is highly disproportionate to the expected purchase amount to be made, and the credit period is not in line with normal credit terms. The investigation revealed that the advance was given to provide financial support to Gaana Ltd. as it was undergoing financial distress. At the end of the year, INR 30 crores remained unadjusted. No interest was charged on the unadjusted amount.

3. Darjeeling Tea is a cash-generating unit of Chai Ltd., a subsidiary company. The unit generates negative cash flows and is expected to do so in the future. Accordingly, it should have been impaired. However, the cash flow projection was fabricated to avoid recognition of impairment expenses in the previous years.

There was a disagreement between the subsidiary management and its auditor. The auditor in the audit report under the Companies Act 2013 issued a qualified opinion stating that impairment loss was under-recorded. From the context, the consolidated financial statements understatement of impairment expense would reduce the consolidated:

- Net Profit by 1%
 - Total assets by 0.5%
 - Net worth by 2%
9. Is Mukesh and Rafi LLP guilty of professional misconduct for accepting the audit of Meera Films Ltd.?
- (a) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. The email response of the previous auditor does not include reasons for their resignation.

- (b) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should have intimated its appointment as auditor to the previous auditor through registered post (instead of sending an email).
 - (c) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should not have intimated its appointment by telephone.
 - (d) Yes, Mukesh and Rafi LLP are guilty of professional misconduct. As a matter of professional courtesy, Mukesh and Rafi LLP should have communicated to the predecessor auditor via email before accepting appointment.
10. Management of Meera Films (Parent Company) reconciled its balances with the customers and vendors at an interim period. Mukesh and Rafi LLP also decided to send independent requests to the customers and vendors to confirm their balances as of the year's end. With the risk of material misstatement assessed to be low, the top 15 parties, comprising 5% of customers and 7% of vendors, were selected to obtain external confirmations. Is the sampling strategy appropriate?
- (a) Inappropriate. Sample size appears to be insufficient. Method of sample selection does not allow each item in the population a chance of selection.
 - (b) Inappropriate. Sampling method is judgmental and not statistical based.
 - (c) Inappropriate. Considering the underlying audit risk, external confirmation from all customers and vendors should have been obtained.
 - (d) Inappropriate. Rely on confirmations obtained by management and perform roll-forward procedures to arrive at the year-end balance.
11. Would the advance for purchasing music rights to the extent remaining unadjusted as at the year-end (i.e. INR 30 crores) require reporting under Clause 3(iii) of CARO 2020 (i.e. grant of loans, etc.)?
- (a) No. Advance for purchase of goods is not a loan/ advance in the nature of loans. Thus, it is not covered under the above clause.
 - (b) No. In the absence of interest charges, the advance would neither qualify as a loan nor be an advance in the nature of a loan. Thus, it is not covered under the above clause.
 - (c) Yes. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan.
 - (d) Yes. Advance for purchase of goods is covered under the above clause.

12. Mukesh and Rafi LLP considered the qualification of the auditor of Chai Ltd. They conclude that the audit opinion on the consolidated financial statements of the Group should be:
- (a) Unmodified as the effect of misstatement is not material to the Group.
 - (b) Unmodified as the effect of misstatement is not material. However, the subsidiary auditor's issued qualified opinion should be highlighted in the audit report through an Emphasis of Matter paragraph.
 - (c) Qualified as the subsidiary auditor has issued a qualified opinion.
 - (d) Qualified to the extent it relates to the subsidiary and unmodified to the extent it relates to the remaining part of the Group.

Case Scenario III [MCQ 13-15]

M/s Vrinda & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of ICCB Bank, (referred to as 'Bank') for the Financial Year 2022-23.

During the course of the audit, the auditor found that the bank has a balance with a Swiss based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank.

The engagement partner, Mr. Mitansh, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.

Amount of interest accrued and not due on deposits amounting to ₹ 87,75,000/.

The balance of Interest rate swaps amounting to ₹ 81,26,500/-.

Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements.

The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team. The details with respect to unaudited branches are as under:

Interest Income: ₹ 27,86,000/-.

Interest Expense: ₹ 13,38,220/-.

Total advances: ₹ 5,10,22,000/-.

Total deposits: ₹ 3,38,00,000/.

The auditors also discussed the following with the audit staff and the bank management during the course of the audit:

Computation of Demand and Time Liabilities.

Computation of Tier I & Tier II capital of the Bank.

Based on the above facts, answer the following:

13. What should be the treatment of Interest on deposits accrued but not due amounting to ₹ 87,75,000/- appearing in the financial statements of ICCB Bank.
- (a) The amount should be included in deposits amount.
 - (b) The amount should not be included in amount of deposits.
 - (c) The amount should be shown under the head other liabilities and provisions.
 - (d) Both b & c.
14. The amount of Interest Rate Swaps amounting to ₹ 81,26,500/- should appear as in the financial statements of the bank :-
- (a) Contingent Liabilities.
 - (b) Other Liabilities and provisions.
 - (c) Current Liabilities.
 - (d) Deposits.
15. Which of the following is correct statement related to the requirement laid down by the RBI for Vrinda & Associates while verifying the compliance with the SLR requirements of the bank?
- (a) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.
 - (b) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.
 - (c) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays.
 - (d) M/s Vrinda & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

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

1. (a) Nandini Ltd. a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2022-23 appointed Vasu & Co. as their statutory auditors. During the course of the audit, Vasu & Co. identified that Nandini Ltd. received a show cause notice from National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Nandini Ltd. was dumping toxic solid waste, without treating it, on the nearby

grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the penalty of an amount of ₹700 crore. The unaudited profit for the financial year 2022-23 of Nandini Ltd. was ₹ 49 crore and the unaudited turnover was ₹ 120 crore. Upon inquiry it was identified that Nandini Ltd. has disclosed this matter in the financial statements by way of footnote, the extract of which is provided below:

“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company’s legal department has assessed and found that the judgment would be in favour of the company. Accordingly, no provision has been created for such notices.”

In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter. **(5 Marks)**

- (b) Pine & Associates is the statutory auditor of BB Ltd., a listed company and started its operations 6 years ago. The fieldwork during the audit of the financial statements of the company for the year ended 31st March, 2023 was completed on 1st May, 2023. The auditor’s report was dated 15th May, 2023. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 18th May, 2023. The engagement partner had completed his reviews in entirety by 12th May, 2023. Comment **(4 Marks)**
- (c) Aditya Ltd. was engaged in the business of owning and managing hotels and resorts, selling tourism packages and performing airline bookings for corporate and individuals. It appointed Sanjay & Co. as its statutory auditor for the financial year 2022-23. While planning the audit, the audit team decided that the risk of improper revenue recognition from hotel business should not be treated as a fraud risk. This conclusion was based on the assessment of earlier years, wherein no fraud was identified in revenue recorded from such business. While testing the internal financial controls over the process of revenue recognition, it was identified that the controls are not properly designed to mitigate the risk of fraud and risk of improper revenue recognition. As a result, the audit team decided to perform additional substantive testing. However, the audit team still were to the conclusion that there is no risk of fraud in revenue recognition. During the course of substantive testing, it was identified that the management did not account for revenue received from corporate hotel bookings amounting to ₹ 43 crore. These amounts were partially received in the company’s bank accounts and partially received in the CFO’s personal account.

The amounts received in the bank account of the company were disclosed as advances received against the future bookings.

In the light of above scenario, kindly guide the statutory auditors with respect to their responsibility relating to fraud in an audit of a financial statement. **(5 Marks)**

2. (a) Suneel was appointed as the auditor of PCM Ltd. for the financial year 2022-23. During the course of planning for the audit, CA. Suneel intends to apply the concept of materiality for the financial statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose.

What benchmark should be adopted by CA. Suneel, if PCM Ltd. is engaged in:

- (i) the manufacture and sale of air conditioners and is having regular profits.
- (ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic.

(5 Marks)

- (b) Gravity Ltd. is a medium-sized manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Ravi as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the organization. In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively.

(4 Marks)

- (c) Mr. S is a practising Chartered Accountant based out of Chennai. During the weekends, he involved himself in equity research and used to advise his friends, relatives and other known people who are not his clients. Apart from this, he was also involved as a paper-setter for Accountancy subject in the school in which he studied. He also owned agricultural land and was doing agriculture during his free time. During the year 20X1, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 20X3, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

3. (a) BPMR and Associates, a renowned audit firm in the field of CA practice for the past three decades, was appointed to conduct the statutory audit of Rexlon Ltd., an unlisted company engaged in the business of paper manufacturing. The firm decided to commence the audit for the

recently concluded financial year. After making significant progress in the audit, the auditors made the following observations:

Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

Observation 2: Due to the flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material.

You are required to advise whether BPMR and Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported? **(4 Marks)**

- (b) NRF Bank Ltd. is suffering from huge number of NPAs. During the month of April 2023, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale:

Name	NPA since F.Y.	Amount (₹ In Lakh)
Fin Pvt. Ltd.	2019-20	36.55
Dairy Works	2021-22	55.24
Book Store	2018-19	29.85
Fancy Corp.	2017-18	61.42
RSM and Associates	2020-21	19.25

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered. **(5 Marks)**

- (c) A special notice has been issued for a resolution at 4th annual general meeting of TRIM Ltd., providing expressly that CA. Lucky shall not be re-appointed as an auditor of the company. Consequently, CA. Lucky submitted a representation in writing to the company with a request to circulate to the members. In the detailed representation, CA. Lucky included the contributions made by him in strengthening the control procedures of the company during his association with the company and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the company. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(5 Marks)**
4. (a) Naveen Ltd. is a chair manufacturing company having its corporate office in Maharashtra. The company is in the process of expansion and has acquired five companies during the year. Soni & Co. is the principal auditor of the company while the audit of all the companies acquired during the year is being conducted by Rahul K & Associates.

During the course of audit, CA. Soni, the engagement partner asked the management of Naveen Ltd. at the corporate office that in order to conduct the audit of the consolidated financial statements, his audit firm is required to conduct audit of the financial statements of all the components also (Companies acquired during the year). To this, the management asked CA. Soni to consider the audit reports of the component auditor already provided to his audit team and to communicate with the component auditor for any discussion they wish to have. CA. Soni contended that for the purpose of audit of consolidated financial statements either his firm is required to conduct an audit of all the component's financial statements, or he needs the working papers of the component auditors. Is the contention of CA. Soni correct? **(5 Marks)**

- (b) You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by ICAI. The company you have joined is not amongst top 1000 listed companies in the country. However, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting.

In above context, dwell upon what is your understanding of "Sustainability reporting"? You are also required to list its expected benefits. **(4 Marks)**

- (c) STU & Associates have been the statutory auditors of the listed company "First and Last Ltd.," operating in the petrochemical industry, for the past three years. CA. K, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These particular assertions were not examined by him in previous years due to materiality or risk considerations.

Mr. X leads the internal audit department of the company and reports to the company's audit committee. During the course of audit, a senior member of the engagement team decides to engage Mr. X for providing direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing.

Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance. **(5 Marks)**

5. (a) Jinchandra & Co., Chartered Accountants, has been appointed statutory auditor of Gurudeva Ltd. for the F.Y. 2022-23. The audit team has completed the audit and is in the process of preparing the 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 the 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 the relevant Standard on Auditing the Auditor's duties with regard to reporting. **(5 Marks)**

- (b) During the course of an audit of a state government department, the Office of the Comptroller & Auditor General of India (CAG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit
- Buildings with a total area surpassing a threshold limit

However, it was noted during the audit that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Identify type and nature of audit being performed by Office of Comptroller & Auditor General of India. To whom report of such audit was likely to have been submitted **(5 Marks)**

- (c) CA. Evan has been in practice for two years and runs his proprietorship firm in the name of "Evan & Co." He maintains notes in his mobile where he records the fees received from various clients. Using these records, he prepares and files his income tax return. Comment with respect to the provisions of the Chartered Accountant Act, 1949.

(4 Marks)

6. (a) You have been appointed to compile the financial statements of the Kings & Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly understated, and the company has failed to apply applicable standards on accounting. On pointing out the same, the partners of the Kings & Co., inform you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment. **(5 Marks)**

Or

SAE 3400 explains that prospective financial information can take the form of a forecast, a projection, or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400. **(5 Marks)**

(b) The manager of Miskin (P) Ltd. approached CA. Rahul in need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (CoP), CA. Rahul issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute. **(4 Marks)**

(c) Mr. Rajat, while reviewing the anti-fraud controls for a construction company, found that the company has witnessed a few frauds in the past mainly in the nature of material theft from the sites and fake expense vouchers.

Mr. Rajat is evaluating options for verifying the process to reveal fraud and the corrective action to be taken in such cases. As an expert in fraud prevention, you have been asked to brief Mr. Rajat about the inventory fraud and verification procedure with respect to defalcation of inventory? **(5 Marks)**