MOCK TEST PAPER -I

FINAL (OLD) 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. Kinfin Private Limited had taken overdrafts from three banks (Bank A, Bank B and Bank C) with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution (Financial Institution X) of ₹ 36 lacs.

   As on 30th October 2019, the management used the overdraft fully of the A & C bank to the tune of ₹ 40 lacs each. However, the overdraft of second bank (Bank B) was not used until 31st December, 2020. On 31st December, 2020, Management took overdraft of B bank and very next day management paid the overdraft of C bank as the rate of interest charged by Bank C on overdraft facility was 15% whereas, the rate of interest charged by Bank B was 12%.

   As at 31st March 2021 only overdraft of Bank A and Bank B were used fully, overdrafts of Bank C and Financial Institution X were unused. The paid-up capital and reserves of the company as at that date was ₹ 85 lacs and its revenue for the financial year ended on 31st March 2021 was ₹ 8.95 crores. The management of the company is of the opinion that CARO, 2016 is not applicable to it because turnover and paid-up capital were within the limits prescribed. With respect to the loans, management was of the view that the total outstanding as at 31 March 2021 is less than the prescribed limit. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment.

   (a) The CARO 2016 is applicable to the company as the turnover of the company exceeds the prescribed limit.

   (b) The CARO 2016 is not applicable to the company as the turnover of the company does not exceeds the prescribed limit.

   (c) The CARO 2016 is not applicable to the company as the borrowing of the company does not exceeds the prescribed limit.

   (d) The CARO 2016 is applicable to the company as the borrowing of the company exceeds the prescribed limit.

2 SuperFin Rollers Ltd. has declared dividend of 10% on 22nd April, 2021, for the year ended 31 March 2021. The company did not pay or transfer the dividend declared to its 4 shareholders (Mr Sunil, Mr Mukesh, Mr Rakesh & Mr Haresh) who were entitled to receive the dividend. Upon inquiry by the auditor regarding the reason, the Executive Director Mr. Ram provided that there is a legal dispute regarding the right to receive the dividend for these four shareholders. Executive Director Mr. Ram decided not to take any further step to pay the dividend till the time the disputes were not resolved. In the light of the same, kindly guide the auditor with respect to the penalty in the current case as per section 127 of the Companies Act.

   (a) Executive Director Mr. Ram shall be liable shall be liable to pay simple interest at the rate of twelve per cent per annum during the period for which such default continues.

(b) Executive Director Mr. Ram shall be liable to pay simple interest at the rate of eighteen per cent per annum during the period for which such default continues.

(c) Executive Director Mr. Ram punishable with imprisonment which may extend to two years and with fine which shall not be less than one thousand rupees for every day during which such default continues.

(d) Executive Director Mr. Ram is not liable for punishment as there is no offence under section 127 section of the Act.

3. Ms Kee, the engagement partner of Best Hospitality Limited's audit team did not perform the necessary communication with those charged with governance over some critical issues identified during the course of the audit. Moreover, when management identified that the engagement partner has not communicated to those charged with governance of the Best Hospitality Limited, they also chose not to communicate. Upon identification of this issue, the personnel charged with governance inquired with management and auditors as to why there was no communication of the critical matters to them.

   Upon such inquiry, Engagement Partner contended that it was the responsibility of Management to communicate first, then only the audit team should communicate. However, Management was of the view that they are not liable to communicate to those charged with governance. As an Engagement Quality Control Reviewer, what will be your opinion?

   (a) The auditor is responsible for communicating matters required by SA 260 to those charged with governance. Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility.

   (b) SAs are not applicable to the management and hence the management was not responsible for communicating the same to those charged with governance. Also, as per SA 260, Auditor can only communicate when management has already informed those charged with governance about the matters. Auditors cannot communicate first without management's communication.

   (c) Communication by management with those charged with governance of matters that the auditor is required to communicate does relieve the auditor of the responsibility to also communicate them if the management has already communicated. Hence, in the current case Management should have communicated as it was their responsibility.

   (d) SA 260 requires the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance which includes matters already communicated by the management of non-material nature. Hence, it was the responsibility of the Auditor to communicate.

4. XYZ & Associate Chartered Accountants were appointed auditors for Weknow LLP. The engagement manager of the audit team, while designing the auditor response to assessed risk, concluded that there are no requirements of the applicable financial reporting framework for disclosing the related party transaction in the Firm's Financial Statement and hence the audit team is not required to perform any audit procedures with respect to identification and disclosure of related party relationship and transaction in financial statement. You as an engagement partner guide the engagement manager by selecting the appropriate response from below:

   (a) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions achieve a true and fair presentation and are not misleading.

(b) If the applicable financial reporting framework establishes minimal or no related party requirements, then the auditor is not required to obtain an understanding of the entity's related party relationships and transactions.

(c) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, as a whole, are free from all the material related party transactions.

(d) Because related parties are not independent of each other, hence auditor can obtain the written representation from the Related Party's auditor regarding the accuracy and completeness of the related party transactions disclosed in Firm's Financial Statement. This should only be carried where the applicable financial reporting framework establishes minimal or no related party requirements.

5. 50:50 test determination is popularly used in :

(a) Banking Company.

(b) Insurance Company.

(c) NBFC Company.

(d) Stock Trading Company.

6. Description of each key audit matter in the "key audit matters section" needs to cover except following aspects:

(a) Reference to related disclosures, if any, in the financial statements.

(b) Explanation on the matter given by management.

(c) How the matter was addressed in the audit.

(d) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter.

7. What is the difference between management audit and operational audit?

(a) Management audit is concerned with 'Quality of Operations' and it is 'Audit for Management', whereas Operational audit is concerned with 'Quality of managing' and it is 'Audit of Management'.

(b) Management audit is concerned with 'Quality of Managing' and it is 'Audit of Management', whereas Operational audit is concerned with 'Quality of Operations' and it is 'Audit for Management'.

(c) Management audit is concerned with 'Quality of Managing' and it is 'Audit for Management', whereas Operational audit is concerned with 'Quality of Operations' and it is 'Audit of Management'.

(d) Management audit is concerned with 'Quality of Operations' and it is 'Audit of Management', whereas Operational audit is concerned with 'Quality of managing' and it is 'Audit for Management'.

8. Andromeda Limited issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31st March, 2021. The issue was fully subscribed. During this year, there was an abnormal rise in the profits of the company for which it was found later that it was because of Dealer dumping technique used by the company to inflate the sales. Upon further investigation it was identified that the Whole-time director and other top officials of the company were involved in the scheme. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to

examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts.

The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. In response, the auditors were able to prove that they found internal controls to be satisfactory based on the samples which were selected for testing design and operating effectiveness and did not find any circumstance to arouse suspicion. Further, they were able to prove to the satisfaction that the sampling performed for substantive procedures was also appropriate as per sampling guidelines and was sufficient to reflect the population.

The company was not able to prove that auditors were negligent in performance of their duties. You are required to advise on the same.

(a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.

(b) The approach of the auditors appears to be reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.

(c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc, the manipulation could have been detected. Hence the auditors should be held liable.

(d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective, then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.

9. Mr Q, a peer reviewer appointed for the firm ABC & Co. for the period under review starting from 2017-18 to 2019-2020 decided to select 5 samples of audit engagement. All samples were appropriate, and no deviations or issues were identified in the review with respect to those samples. Post that, Mr Q reviewed the training & development program for the staff, article assistant and other assistant and he found that the training and development program were not appropriate and rather outdated. The staff, article assistant and other assistant placed on the audits were not trained related to the specific matters of the industries to which the audit client belonged. As a result, the peer reviewer included a comment in the preliminary report regarding training programmes for staff (including articled assistant and other audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. Upon receiving such preliminary report, the Practice Unit raised concerns that the said comment of peer reviewer is related to the matter which is out of scope of the peer review.

Kindly decide whether the comment of peer reviewer on the training programmes for staff (including articled assistants and other audit assistants) concerned with assurance functions is within the scope of peer review or not?

(a) The Review shall only cover Compliance with Technical, Professional and Ethical Standards, Quality of reporting, Systems and procedures for carrying out assurance services, Compliance with directions and / or guidelines issued by the Council to the Members and Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants. Hence the comment of peer reviewer on the training programmes for staff (including articled and other assistants) concerned with assurance functions is not within the scope of peer review.

(b) The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements. Hence the comment of peer reviewer on the training programmes for staff (including articled and other assistants) concerned with assurance functions is within the scope of peer review.

(c) The Statement of Peer Review makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical, Professional and Ethical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards but only seeks to ensure that they are implemented, both in letter and spirit. Therefore, it is evident that the scope of peer review is restricted to the compliance Technical, Professional and Ethical Standards

(d) The scope of Peer Review is decided by the Practice Unit and Peer Reviewer Mutually and hence if the Practice Unit is contending that it is out of scope then it should be considered as out of scope.

10. Mr. Chitragupta Bakutra, a Chartered Accountant is a sole proprietor of Bakutra & Co. which has been appointed as a statutory auditor of Kraftic Ltd. from F.Y. 2020-21, for a term of 5 years. Mr. Chitragupta is a director simplicitor of Kalavitur Ltd. which acquired 55% shares of Kraftic Ltd., for the first time, on 25th May, 2020. Mr. Chitragupta's term as a director of Kalavitur Ltd. got expired on 31st March, 2021 and he was not re-appointed. Kalavitur Ltd. made a proposal to Mr. Chitragupta for appointing Bakutra & Co. as its statutory auditor from F.Y. 2020-21, for a term of 5 years, which was accepted by Mr. Chitragupta. Is there any violation of the Code of Ethics by Mr. Chitragupta Bakutra?

(a) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor and also he cannot accept appointment of auditor of a Kalavitur Ltd. without finishing of the cooling period for the same.

(b) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor. However, by accepting appointment as an auditor of Kalavitur Ltd. without finishing of the cooling period for the same, he has violated the Code of Ethics.

(c) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor. However, there is no bar in becoming an auditor of a company of which a person has been its director.

(d) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor and also there is no requirement of following the cooling period by a director simplicitor who on expiry of its term, wants to become auditor of such company.

(10 x 1 = 10 Marks)

Questions (11-20) carry 2 Marks each

MCQ 11. – 15.

Integrated Case Scenario 1

Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for F.Y. 2020-21 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

Upshaant Ltd. changed its employee remuneration policy from 1st April, 2020, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2021, the company obtained an actuarial valuation for leave encashment liability. As and when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it and obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable.

Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company. Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness.

Mr. Sunil, based on the audit evidence available, narrowed his range for the purpose of evaluating the management's point estimate on particular items which required accounting estimates to be made as disclosed in the balance sheet of the company.

The financial statements of Upshaant Ltd. for F.Y. 2020-21 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.

Apart from receiving his remuneration as a partner in Verma & Associates, Mr. Sunil also received a sum of Rs. 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose.

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

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

11. For what type of control in inventory handling and maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing?

    (a) Application control

    (b) Automated control

    (c) Process Level control

    (d) Entity Level control

12. Whether Mr. Sunil is permitted to hold license as a life insurance agent?

    (a) Yes, general permission has been granted by the Council of the ICAI for the said purpose.

    (b) Yes, if specific permission has been obtained by Mr. Sunil for the same.

    (c) No, it is not permitted for a chartered accountant to do so as per recent Decisions of Ethical Standards Board.

    (d) License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession.

13. Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet?

    (a) To be equal to or less than materiality in order to cover all reasonable outcomes.

    (b) To be equal to or less than performance materiality in order to cover all reasonable outcomes.

    (c) To be equal to or less than materiality in order to cover all possible outcomes.

    (d) To be equal to or less than performance materiality in order to cover all possible outcomes.

14. Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?

    (a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.

    (b) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph.

    (c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.

    (d) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.

15. What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?

    (a) Provision should be created each time when the company makes provident fund contribution.

    (b) Provision should not be created because as and when the employees availed leave encashment, the provident fund contribution was made.

    (c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation.

    (d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.

MCQ 16. -20.

Integrated Case Scenario 2

Mr. Tushar Jalani is a CA as well as CMA, who is working as an internal auditor in Gomez Realty Ltd. on full-time employment basis. In his visiting card, he has mentioned that he is a Chartered Accountant as well as Cost Accountant. During the month of May, 2020, he was approached by the director of the company, Mr. Kunal Surpan, to write his personal books of accounts from F.Y. 2020-21 onwards and also to file his Income Tax Return which was accepted by Mr. Tushar.

Mr. Danish Bhadra, the partner of Badhra & Co., a CA firm, was appointed as an expert, during F.Y. 2020-21, by giving a written consent to Gomez Realty Ltd. with respect to issue of prospectus by the company whereby he provided a report on the valuation of the company and one person who had subscribed to the securities of the company alleged that he had suffered a loss because of omission of a matter in the valuation report provided in the prospectus. Mr. Danish had not withdrawn his consent at any time as an expert and he firmly believed that it was a correct and fair representation of the statement in the valuation report. The fees charged by Mr. Danish for the said assignment was on the basis % of valuation.

Vedya & Co. was appointed as the statutory auditor of Gomez Realty Ltd. from F.Y. 2018-19 onwards for five consecutive years. However, during F.Y. 2020-21, it did not offer itself for reappointment as an auditor of such company owing to certain professional reasons and communication with respect to the same was made to the relevant authorities.

Kesar & Associates was then appointed as the statutory auditor of Gomez Realty Ltd. for F.Y. 2020-21 and Mr. Raj Kesar was appointed as the engagement partner for the said assignment. Brother of one of the partners of the said firm holds 18% share in Badhra & Co., since 2017, and who is also a chartered accountant by profession.

Mr. Raj decided to take direct assistance from Mr. Tushar in accordance with the procedure as prescribed in SA 610 and in that connection he inquired about the fraud risks in the organization from him. Prior to taking such direct assistance, Mr. Raj communicated the same to the relevant authority in the company and also that he directed, supervised and reviewed the work performed by Mr. Tushar.

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. Whether Mr. Tushar can be held guilty under Part-I of First Schedule to the CA Act, 1949?

    (a) No, as he is not a member in practice.

    (b) Yes, as per Clause (7) he can be held guilty.

    (c) No, as it is permitted for member to mention such designations in his visiting card.

    (d) No, provided he has been permitted to do so.

17. Whether any civil liability can be imposed upon Mr. Danish?

    (a) No, if he is able to prove what he is contending.

    (b) Yes, as he had not withdrawn his consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.

    (c) Yes, provided such omission of a matter in the valuation report was misleading in nature.

    (d) Yes, as the omission of a matter was in the valuation report prepared by the expert himself irrespective of whether the consent was withdrawn or not.

18. Whether it was appropriate for Mr. Raj to take direct assistance from Mr. Tushar for the matter as aforesaid?

    (a) No, as it tantamount to taking direct assistance of internal auditor for making significant judgments in the audit.

    (b) Yes, as inquiry is allowed to be done and having a discussion with respect to the said matter is not appropriate.

    (c) No, as it tantamount to taking direct assistance of internal auditor relating to higher assessed risks of material misstatement.

    (d) No, as it tantamount to taking direct assistance of internal auditor relating to decisions the external auditor makes in accordance with SA 610 regarding the internal audit function and the use of its work or direct assistance.

19. In accordance with SA 610, with what Standards on Auditing, respectively, Mr. Raj would have made communication for taking direct assistance of Mr. Tushar and also directed, supervised and reviewed the work performed by him?

    (a) As per SA 580 and SA 500 respectively.

    (b) As per SA 260 and SA 240 respectively.

    (c) As per SA 265 and SA 220 respectively.

    (d) As per SA 260 and SA 220 respectively.

20. To which authorities, Vedya & Co. would have made the communication and whether there was any obligation on part of Kesar & Associates with respect to such communication made?

    (a) Vedya & Co. would have made the communication to the ICAI and to the management for circulation among the shareholders of Gomez Realty Ltd. However, it was not obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.

    (b) Vedya & Co. would have made the communication to the ICAI only and it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.

(c) Vedya & Co. would have made the communication to BOD of Gomez Realty Ltd. and the ICAI and it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.

(d) Vedya & Co. would have made the communication to the ICAI only and it was obligatory for Kesar & Associates to obtain a copy of such communication before making communication with the outgoing auditor relating to its appointment. **(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) ZED Limited is availing the services of MEA Private Limited for its payroll operations. Payroll cost accounts for 65% of total cost for ZED Limited. MEA Limited has provided the type 2 report as specified under SA 402 for its description, design and operating effectiveness of control.

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

CA Vasu 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 Vasu hence asked his assistant to remove such reference and modify report accordingly.

Comment whether CA Vasu is correct in removing the reference of the work done by service auditor? **(5 Marks)**

(b) Sudharma Limited is a listed company having its operation across India. Sudharma Limited appointed Mr. S, Mr. D and Mr. M, as its joint auditors for the year 2019-20. After making sure that all of them are qualified to be appointed as statutory auditor, Sudharma Limited issued engagement letter to all of them. But Mr. S was not clear on some points, so he requested Sudharma Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. In your opinion what was the discrepancy in the Audit engagement letter issued by Sudharma Limited? **(4 Marks)**

(c) OM Ltd. is a company engaged in the business of manufacture of spare parts. Shanti & Associates are the statutory auditors of the company for the FY 2020-21. During the course of audit, CA Shanti noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of OM Ltd. ended for an unforeseeable time period. When discussed with the management, CA Shanti was told that the company is in the process of identifying new customers for their products. CA Shanti understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly reflected in the financial statements of OM Ltd. for the FY 2020-21. How should CA Shanti deal with this matter in the auditor's report for the FY 2020-21 in accordance with relevant Standard on Auditing? **(5 Marks)**

2. (a) Mr. Bharat was appointed as statutory auditor of N Limited and O Limited. Both the Companies were having their base in Mumbai they had recently listed their shares on the Stock Exchange. For the financial year 2020-21, Mr. Bharat had signed limited review reports for each quarter, till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased workload, he tendered his resignation to N Limited on 30th January

2021 and asked the Company to appoint another auditor to issue audit report for the remaining quarter and the FY 2020-21 as a whole. But the management of the Company did not accept the same.

Mr. Bharat continued to as act as auditor for O limited. During the 1st week of March 2021, Mrs. D (wife of Mr. Bharat) had borrowed a sum of Rs. 5.85 lakh from the Company for her personal use. Having come to know about this, Mr. Bharat immediately informed the management that he had been disqualified to act as auditor and told them that he won 't issue audit report for last quarter. But management of the Company argued that it's the legal responsibility of Mr. Bharat to do the same.

Whether contention of management of N Limited and O Limited is justified in asking Mr. Bharat to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? Please comment on the above. **(5 Marks)**

(b) The financial statements of Prabhu Ltd. as on March 31, 2020 are to be prepared under Division II of Schedule III to the Companies Act, 2013. Comment on the disclosure compliances for Prabhu Ltd. from the following information in the financial statements which are required to be drawn up in compliance with Ind AS.

(i) Property, Plant and Equipment include ₹ 2.50 crore for a boiler-plant under construction.

(ii) Cash and cash equivalents include ₹ 1.25 crore deposited with a nationalized bank on 31st March, 2020 for 18 months. It is shown under current assets.

(iii) Non-current assets include under caption "Biological assets other than bearer Plants" a sum of ₹ 1.50 crore being cost of cultivation for bringing to yield level, the cashewnut trees whose yield period, according to estimate shall not be less than 10 years. **(4 Marks)**

(c) C.A. Bahubali is Special Executive Magistrate. He also took over as the executive chairman of Software Company on 1.4.2021. He is also a leading income tax practitioner and consultant for derivative products. He resides in Chennai near to the ION commodity stock exchange and does trading in commodity derivatives. Every day, he invests nearly 38% of his time to settle the commodity transactions. He has not taken any permission for becoming Special Executive Magistrate. However, he has got special permission of Council of ICAI for becoming executive chairman and for trading in commodity derivatives. Is C.A. Bahubali liable for professional misconduct? Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(5 Marks)**

3. (a) M/s Rajul & Associates, Chartered Accountants started the statutory audit of their client Concession Ltd., a General Insurance company, which has a paid-up capital of ₹ 18,600/- lac. During the course of the audit, it was found that the Company was not maintaining the required solvency margin as per the provisions of Insurance Act, 1938. When the issue was escalated to the management, they replied that solvency margin needs to be maintained as per limits prescribed only on last day of the financial year. Comment whether reply of management is tenable or not. **(4 Marks)**

(b) Excellent Ltd. is engaged in the business of manufacturing of threads. The company is expecting to record turnover of ₹ 8.13 crores during the financial year 2020-21 before adjusting the following:

Discount allowed in the Sales Invoice	₹ 8,20,000
Cash discount (other than allowed in	
Cash memo/ sales invoice)	₹ 9,20,000
Trade discount	₹ 2,90,000
Commission on Sales	₹ 6,00,000
Sales Return (F.Y. 2018-19)	₹ 1,60,000
Sale of Investment	₹ 6,60,000

You are required to ascertain the effective turnover to be considered for the prescribed limit of tax audit under the relevant Act and guide the company whether the provisions relating to tax audit applies. **(6 Marks)**

(c) CA. Paras, the auditor of Vardhman Pvt. Ltd. has delegated following works to his articles and staff:

❖ Asking for information or issue of questionnaire.

❖ Letter forwarding draft observations/financial statements.

❖ Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.

❖ Signing financial statements of the company.

Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements?

(4 Marks)

4. (a) Sheetal & Co LLP, a firm of Chartered Accountants, was appointed as auditor of an NBFC. The audit work has been completed. The audit team which was involved in the fieldwork came across various observations during the course of audit of this NBFC and have also limited understanding about the exceptions which are required to be reported in the audit report. They would like to understand in detail regarding the obligations on the part of an auditor in respect of exceptions in his report so that they can conclude their work. Briefly explain. **(5 Marks)**

(b) Employees of MIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Chinmay Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Chinmay travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by MIG Ltd. within 15 days of the bill date. The bills raised by Chinmay travels were of huge amount, so the management of MIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for? Also briefly discuss the qualities the auditor should possess for such audit. **(5 Marks)**

(c) Mr. Gautam & Mr. Mahaveer, partners of a Chartered Accountant Firm, one in-charge of Head Office and another in-charge of Branch at a distance of 80 km. from the municipal limits, puts up a name-board of the firm in both premises and also in their respective residences. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

5. (a) You are auditing a small bank branch with staff strength of the manager, cashier and three other staff P, Q and R. Among allocation of work for other areas, P who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. Q has possession of all bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. Give your comments. **(5 Marks)**

(b) Arham Bank Ltd., received an application from a pharmaceutical company for takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. Arham Bank Ltd., requires you to make a due diligence audit in the areas of assets of pharmaceutical company especially with reference to valuation aspect of assets. State what may be your areas of analysis in order to ensure that the assets are not stated at overvalued amounts. **(5 Marks)**

(c) Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO 2016:-

(i) The long term borrowings from the parent has no agreed terms and neither the interest nor the principal has been repaid so far.

(ii) An amount of ₹ 2.35 Lakh per month is paid to M/s. RARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹ 0.35 Lakh per month. Whilst the transaction was accounted in the financial statements based on the amounts' paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a 'related party' transaction. **(4 Marks)**

6. (a) Nalanda Limited is a public sector undertaking engaged in production of electricity from solar power. It had commissioned a new project near Puducherry with a new technology for a cost of ₹ 8,500 crore. The project had seen delay in commencement and cost overrun. State the matters that a Comprehensive Audit by C&AG may cover in reporting on the performance and efficiency of this project. **(5 Marks)**

(b) You are appointed as an auditor of NEMI Limited, a listed company which is a company providing information technology service across the globe. NEMI limited was having turnover for the financial year ended on 31 March 2021 ₹ 22 crore. The company operates through 15 business units and has nearly 130 branches across the world. As an auditor, how will you draft the report in case:

(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? **(5 Marks)**

(c) Adeshvar 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. Please advise. **(4 Marks)**

OR

(c) You are required to classify the following practice units into Level I entity or Level II entity for the purpose of peer review along with providing the reason for such classification, assuming the services have been undertaken in the period under review by such CA firms:

Name of the Firm	Data of assurance services provided by such firms
Abhinanadan & Co.	Conducted statutory audit of a private company which is an associate of a company, the net worth of which is ` 279 crore.
Sambhav & Co.	Conducted statutory audit of a mutual fund company and of a branch of a regional rural bank, respectively.
Kunthu & Associates	Conducted statutory audit of LLP which has raised has a loan of ₹ 29 crore from a bank and a loan of ₹ 18 crore from an NBFC, respectively.
Dharam & Co.	Conducted statutory audit of an unlisted public company having net worth of ₹ 3.79 crore and turnover of ₹ 63 crore. The net worth of its parent company is ₹ 295 crore.

(4 Marks)