

**MODEL TEST PAPER 4**  
**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 carry 2 Marks each.***

1. Mr. Rajan, the CEO of a mid-sized company, has received an email requesting him to urgently update his account details due to a supposed security breach. The said email, appears to be received from the Company's bank accounts, looks official due to use of bank's logo and branding. Such email also includes a link to a website that resembles the bank's login page. Concerned about the security of the company's finances, Mr. Rajan clicks on the link and enters his login credentials.  
  
Later, the company's IT department detects unauthorized access to the company's financial accounts and identifies that the CEO's credentials were compromised. Identify the type of cyberattack that Mr. Rajan fell victim to:  
  
(a) Smishing  
(b) Whaling  
(c) Spear Phishing  
(d) Vishing
2. DFL Ltd. has invited tenders for the appointment of statutory auditors, as M/s Cross Ltd., the previous auditor has retired due to completion of terms of engagement. The tender is exclusively for Chartered

Accountants. M/s SDS & Co. has submitted its tender quoting the fees for audit engagement considering the size and nature of business. The contract was awarded to M/s SDS & Co., and they were appointed as statutory auditors for 3 years from the financial year 2023-24. Whether M/s SDS & Co. will be held guilty of professional misconduct as per the Chartered Accountants Act, 1949.

- (a) Yes, SDS & Co. will be held guilty of professional misconduct under clause (6) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
- (b) No, SDS & Co. will not be held guilty of professional misconduct under clause (6) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
- (c) Yes, SDS & Co. will be held guilty of professional misconduct under clause (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
- (d) No, SDS & Co. will not be held guilty of professional misconduct under clause (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.

3. M/s Pihu & Associates are the statutory auditors of Brick Ltd. for FY 2023-24. During the audit, CA Arpit, the engagement partner noticed the following:

- Notices received from various regulatory authorities.
- Payments of various fines and penalties.
- Unusual cash payments.
- Payments to various government employees not supported by any document.
- Heavy payments to legal counsels.

CA Arpit should consider the above as indicative of:

- (a) Doubt on Internal Controls of Brick Ltd.
- (b) Doubt of non-compliance with laws by Brick Ltd.
- (c) Doubt on the accounting system of Brick Ltd.

(d) Doubt on the going concern assumption of Brick Ltd.

**Case Scenario I [MCQ 4-8]**

MNO Ltd., incorporated in the financial year 1980-81, is a distinguished company specialising in the manufacturing of nickel-based batteries. As one of the oldest manufacturing companies in this sector, MNO Ltd. operates with two manufacturing plants and a comprehensive distribution network that spans across India. Remarkably, MNO Ltd. was among the first companies to be listed on the stock exchange, underscoring its longstanding presence in the market. The company has consistently adhered to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards.

M/s KP & Co. were the statutory auditor in the previous year and resigned from the role of statutory auditor. M/s JKL & Co. has been appointed as a statutory auditor of MNO Ltd. in the FY 2023-24. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of preceding period.

During the audit, the auditor observed that the company is unable to pay its creditors on time. The company is also not able to properly comply with the terms of the loan agreement with the banks. Moreover, several key ratios are also adverse. In view of the above, the auditor asked management to provide assessment of going concern, however the management did not provide the same. Despite following up, the management did not provide the requested assessment. As a result, the auditor documented the request and follow-up regarding the going concern assessment in the working papers.

Apart from the above, the company has one accounting software for maintaining its books of accounts, which does not have any feature of edit log (Audit Trail). Accordingly, the auditor reported the said fact of not having the facility of edit log under the heading Other Legal & Regulatory Requirements- Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 in the main audit report.

Apart from above facts, the several important financial information of MNO Limited during the year ended 31<sup>st</sup> March 2024 are tabulated as below:

(₹ In Crore)

Sr. No	Particular	Amount (₹)
1.	Paid Up Share Capital	10
2.	Deficit balance in Profit & Loss Account	11.47
3.	Turnover	85
4.	Inventory*	15
5.	Cash Loss	2.95
6.	Operating Loss	1.97

\*Out of Total inventory as above, inventory amounting to ₹ 12.35 Crore are lying with third party.

**Based on above facts, answer the following MCQs**

4. As per the requirement of SA 570, how auditor should deal in the matter of unwillingness of management to provide for the assessment relating to going concern?
  - (a) Auditor should report such matters in the section of Key Audit Matter.
  - (b) The auditor should properly document evidence relating to asking management and its subsequent follow up with the management for assessment on going concern and accordingly should express unmodified opinion.
  - (c) Auditor should report such matters in Emphasis of Matter Paragraph Section.
  - (d) Auditor should express modified opinion in his audit report.
5. As per SA 501, what is the correct audit procedure to be followed regarding the existence and condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?
  - (a) The auditor should rely on the management explanation regarding the inventory lying with the third party.
  - (b) The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate.
  - (c) The auditor should verify the inventory lying with the company.

- (d) The auditor should take written representation only from the management regarding the inventory lying with the third party.
6. State the amount required to be reported by the auditor of MNL Ltd., under clause 3(xvii) of Para 3 of CARO, 2020 on account of losses during the year under consideration.
- (a) ₹ 4.92 Crore
  - (b) ₹ 1.97 Crore
  - (c) ₹ 2.95 Crore
  - (d) ₹ 11.47 Crore
7. According to SA 510, which of the following audit procedures can be implemented by M/s JKL & Co. to obtain sufficient and appropriate audit evidence on the opening balances about whether it contain any material misstatement that could affect financial statements of current year?
- (i) Closing balances of the preceding period have been correctly brought forward to the current period.
  - (ii) Performing specific audit procedures to obtain evidence regarding its opening balances.
  - (iii) Determining whether the opening balances reflects the application of appropriate accounting policies.
- (a) Only (i)
  - (b) Only (iii)
  - (c) Only (i) and (iii)
  - (d) (i), (ii) and (iii)

**Case Scenario II [MCQ 8-10]**

EFG Ltd., incorporated in 1984-85, has distinguished itself as one of the most rapidly growing non-banking financial companies (NBFCs) having principal business of granting loans. Its head office is situated in Pune, a city renowned for its dynamic financial and industrial sectors. Remarkably, EFG Ltd. holds the notable achievement of being among the first NBFCs to be listed on the stock exchange, which underscores its longstanding and influential presence in the financial market. Over the years, the company has demonstrated an unwavering commitment to regulatory compliance by consistently adhering to the Securities and Exchange Board of India's (SEBI) Listing Obligations and

Disclosure Requirements Regulations of 2015. This steadfast adherence ensures that all its operations align with the rigorous standards set by regulatory authorities, thereby reinforcing its credibility and trustworthiness among investors and stakeholders.

M/s SDS & Co. thoroughly obtained the knowledge and background of the company, including an understanding of the legal and regulatory requirements applicable to the company.

During the audit of the financial statements, auditor observed that, the company has violated one of the prudential guidelines of RBI as applicable to the company relating to the acceptance of public deposit. Since the company was non deposit taking, and in one case during the year under consideration, the company had accepted the public deposit. In this regard, the management has also provided a detailed note in the financial statements and subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important and required attention of the users of the financial statements.

The auditor of EFG Ltd. sent confirmation requests to 14 debtors (to whom loan has been granted) to confirm the year-end balances as per SA 505. The said requests were designed in such a way that debtors will directly respond to the auditor only when they disagree with the same.

**Based on above facts, answer the following MCQs**

8. Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: -
- (i) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934
  - (ii) In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
  - (iii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

- (iv) Whether the company has provided any loans, guarantee or provided security to any other entity.
  - (a) Only (i) and (iii)
  - (b) Only (i), (ii) and (iii)
  - (c) Only (i) and (ii)
  - (d) Only (i), (ii) and (iv)
9. What is the auditor's responsibility when the audit of EFG Ltd. for the previous year has not been conducted by the current auditor i.e. M/s SDS & Co.?
- (i) The auditor needs to report such matters in the other matter paragraph in the main audit report.
  - (ii) The auditor needs to report such matter in the emphasis of matter paragraph.
  - (iii) The auditor shall be responsible for obtaining sufficient and appropriate audit evidence that the opening balances does not contain any material misstatement.
  - (a) Both (i) & (iii)
  - (b) Both (ii) & (iii)
  - (c) Only (ii)
  - (d) Only (i)
10. In the given case, what is the reporting requirement in relation to SA 250, on the part of auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?
- (a) The auditor is required to report such matters in the main audit report under the head Other Matter paragraph section only.
  - (b) The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only.
  - (c) Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.
  - (d) Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.

### **Case Scenario III [MCQ 11-15]**

CA Ram and CA Lakshman are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative, however, the person declined the same informing that this act was against professional ethics and will lead to disciplinary action from ICAI.

The partner of M/s AK & Associates is a close friend of CA Ram. The firm was involved in an audit of a listed company which was required to submit Business Responsibility and Sustainability Report (BRSR). The company being audited was into thermal energy production business in India. They had submitted details about the total emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years. Since CA Ram had undergone a course on Sustainability Reporting, he was approached for getting advice on what needs to be reported in the BRSR of the company. As a gesture for helping the firm, the partner of the firm suggested CA Ram's name to the post of becoming a member in the Board of Management of KYC Co-operative Bank, a Primary (Urban) Co-operative Bank and a client of AK & Associates. Upon hearing the same, CA Lakshman requested Ram not to take up the post as it would lead to professional misconduct.

CA Ram was acting as an internal auditor of PL Technologies Private Limited. The company decided to raise more funds for expanding its business across the country by including new age technological services such as AI. Ram was observing the business model and the way in which the company was operating for quite some time, and he was keen on investing in the company. As a result, he decided to invest in the company's shares and ended up acquiring 9.75% of the shares (total face value of the shares acquired was ₹ 4.75 lakhs) of the company during the financial year. CA Lakshman got to know about this information, and he immediately urged Ram to resign from the being the internal auditor of PL Technologies Private Limited, for the reason that an internal auditor cannot hold any shares in the company, and it will lead to professional misconduct and also failure to comply with the provisions of the Companies Act, 2013. However, Ram did not accept the argument of Lakshman, and he said that nothing will happen because of him



acquiring 9.75% shares in the company and continuing to act as its internal auditor.

CA Lakshman was the statutory auditor for GH Finance Private Limited, a NBFC head quartered in India. The company's treasury department had undergone changes in the recent past and the current set of team members did not have much experience in handling the treasury functions. Due to this situation, the company reached out to their auditor CA Lakshman who was also into equity research advisory apart from CA practice, to support the company and the members of its treasury department for a brief period by giving Investment Advisory Services, to ensure efficient utilization and management of the funds of the company. Before committing anything on the offer, CA Lakshman wanted to consult with CA Ram as to whether the service requested by the NBFC can be performed by him.

11. Whether the act of conducting joint training session on GST by CA Ram & Lakshman and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?
  - (a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Ram & Lakshman are guilty of professional misconduct.
  - (b) Yes, CA Ram & Lakshman will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949.
  - (c) Yes, this is a case of solicitation of client whereby CA Ram can influence clients of CA Lakshman and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule.
  - (d) No, as per the recent decisions of Ethical Standards Board, it is permissible for 2 or more CA in practice collectively to have joint training session for their clients on GST, and share the fee collected from the clients thereof.

12. With regards to the BRSR reporting on the data of total emissions & the future energy consumption plans of the company, how do you treat them?
- (a) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.
  - (b) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and need to be mandatorily disclosed in the BRSR.
  - (c) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.
  - (d) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.
13. The futuristic plan which the company has for its energy consumption can be categorized under which principle of National Guidelines on responsible business conduct?
- (a) Principle 1 – Ethics, Transparency and Accountability
  - (b) Principle 6 – Protection and Restoration of Environment
  - (c) Principle 4 – Respect for Stakeholder’s Interests and Responsiveness
  - (d) Principle 7 – Influence on Public and Regulatory Policy
14. By accepting the offer to become a member of the Board of Management of KYC Co-operative Bank, do you think that CA Ram would be held guilty of professional misconduct?
- (a) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

- (b) It is permissible for a CA in practice to become a member of the board of management in primary (Rural) co-operative banks. Hence, CA Ram would be held guilty of professional misconduct if he accepts the offer.
  - (c) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Ram would not be held guilty of professional misconduct if he accepts the offer.
  - (d) Yes. CA Ram would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Ram is getting this offer as a reciprocation for helping AK & Associates.
15. In the given case, it is mentioned that CA Lakshman is a practicing CA and is also engaged as an Equity Research Advisor. Do you think that CA Lakshman will be held guilty of professional misconduct as per the provisions of the Chartered Accountant Act, 1949?
- (a) No. A CA in practice may be an equity research advisor, but he cannot publish retail reports as it would amount to other business or occupation. Thus, if CA Lakshman doesn't publish any reports, he will not be held guilty of professional misconduct.
  - (b) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
  - (c) A CA in practice cannot be an Equity Research Advisor, for his existing clients or for any other person. Hence, CA Lakshman will be held guilty of professional misconduct.
  - (d) Yes. As per clause 11 of Part I of First Schedule read with Part III of Second Schedule, CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

## **PART II – Descriptive Question (70 Marks)**

*Question No.1 is compulsory.*

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

1. (a) Spice Ltd., FMCG company, having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in South Africa and Vietnam. M/s Dharam & Associates are the statutory auditors of the company for the financial year 2023-24. During the audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statements being Joint venture investment in Croptop Ltd. representing over 89% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Croptop Ltd. is carried at ₹ 120 crore in the group's consolidated balance sheet.

Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report. **(5 Marks)**

- (b) As auditor of Growth Limited, you have sent positive confirmation requests to 45 creditors of the company in March 2024. All of the creditors in the informal sector are small concerns. You choose to send positive confirmation requests to all the above parties at their business addresses stated on respective bills after discussing the matter with the CFO of the company. The CFO is cooperative and does not raise any hassles in the matter.

Responses to confirmation requests are received within a week's time. Your articled clerk informs you that out of above 45 creditors, GST registrations of 38 concerns have been cancelled during financial year 2023-24 itself by collating information from GST portal. He further informs you that there are no fresh registrations pertaining to PANs of these parties.

How would you proceed to deal with the situation as auditor of the company? **(5 Marks)**

- (c) CA Shobit is conducting an audit of XYZ Ltd. for the year 2023-24. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2024. However, it becomes known to CA Shobit that one of overseas buyers has made a legal claim against the company on 1st June 2024 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2023. The management of the company has decided to agree to an out of court settlement of ₹ 4 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss how CA Shobit should proceed to deal with the above issue. **(4 Marks)**
2. (a) CA J is the statutory auditor of a branch of a nationalized bank. During the audit, he is also focusing upon verification of Current Accounts & Savings Accounts (CASA) maintained at the branch. Suggest a few audit procedures he should follow. **(5 Marks)**
- (b) Mr. Aditya, a Chartered Accountant was the auditor of 'DRAW Limited'. During the financial year 2023-24, the investment appeared in the Balance Sheet of the company of ₹ 23 lakh and was the same amount as in the last year. Later on, it was found that the company's investments were only ₹ 76,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**
- (c) CA Kabir, an auditor assigned to conduct a remote audit of Beetal Limited. The audit will be conducted virtually using online platforms, with the client sharing documents and participating in video conferences. What key considerations should CA Kabir address to ensure the effectiveness and security of the remote audit? **(4 Marks)**
3. (a) Deepti & Co., Chartered Accountants, during the audit of Magma Ltd. found that certain machinery had been imported for production of new product. Although the auditors have applied the

concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard? **(4 Marks)**

- (b) Singh Ltd. is a company registered under the Companies Act, 2013. The company is engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures/securities issued by government or local authorities. For the year ended 31<sup>st</sup> March 2024 following are some extracts from the financial statements:

(i)	Paid-up share capital	₹ 50 Cr.
(ii)	Non-Current Assets - Loans & Advances	₹ 61.75 Cr.
(iii)	Current Assets - Loans and advances	₹ 312.25 Cr.
(iv)	Total assets of the company	₹ 620 Cr.
(v)	Intangible assets	₹ 12 Cr.
(vi)	Profit for the Year	₹ 7.25 Cr.
(vii)	Income from interest and dividends	₹ 68 Cr.
(viii)	Gross income	₹ 118.75 Cr.

Directors intend to apply for registration as Non-Banking Financial Company (NBFC) under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997. Advise **(5 Marks)**

- (c) CA Shubh, a Chartered Accountant in practice specializing in the field of Information Systems Audit. He is considered to be one of the experts in this field because of his command over the subject. ZX Limited, a company engaged in rendering management consultancy offered him to appoint as its managing director. CA Shubh accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA Varun informed him that now he cannot retain full time certificate of practice, thus cannot do attestation function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

**(5 Marks)**

- 4 (a) Discuss the reporting responsibilities of statutory auditor in the following situations for year 2023-24 under CARO, 2020:

- (i) In the financial year 2023-24, Candy Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the company sought to acquire an adjacent plot of land owned by Mr. Sidhant, who is also a director of Candy Ltd. Initially hesitant to sell, Mr. Sidhant was persuaded to transfer his property to the company in exchange for a larger plot owned by Candy Ltd. This plot, located on a nearby street, is double the size of Mr. Sidhant's land.

Satisfied with the exchange, Mr. Sidhant agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorised representatives and Mr. Sidhant. The registration of the properties was completed by December 31, 2023.

- (ii) On 15<sup>th</sup> May, 2023, a TDS survey was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income-tax Act, 1961. The survey team pointed out certain lapses regarding non-deduction of tax at source and subsequently Deputy Commissioner of Income Tax (TDS) raised a demand of ₹ 25 lacs on the company treating it as "assessee in default". The company has not deposited demand raised and filed appeal against impugned order on 1<sup>st</sup> March, 2024 under e-appeals scheme with JCIT (Appeals). **(5 Marks)**

- (b) One of the independent directors sought information regarding the appointment of internal auditors for the following Group Companies in accordance with the Companies Act, 2013 of which certain financial information is given below:

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

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposits
XYX Limited	Listed	100	230	20	48

MNM Limited	Unlisted Public	60	100	50	24
GFG Limited	Unlisted Private	70	180	80	-

You are required to evaluate the requirements regarding the appointment of internal Auditors for the Group Companies. Discuss. **(5 Marks)**

- (c) Pitch Private Limited requested CA Angad, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Ravi, one of the Director of Pitch Private Limited, along with the copy of resignation letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Ravi was simply copied and pasted by another Director of Pitch Private Limited. CA Angad, without verifying the genuineness of the resignation letter, digitally signed the form and the said form was uploaded on the website of Registrar of Companies. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**
5. (a) SPS & Associates, Chartered Accountants, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified and commenced providing software solutions in "e-commerce" in India as well as in certain African countries. SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. SPS & Associates does not possess the necessary expertise and infrastructure to carry out the audit of these diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw. **(5 Marks)**
- (b) CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA H regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations



(for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors?

**(5 Marks)**

- (c) During the audit of Indo limited, CA Harish observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Indo Limited used a service organisation to record transactions and process related data. What factors should CA Harish consider regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk.

Discuss with reference to the relevant Standards on Auditing.

**(4 Marks)**

6. (a) You are engaged by M/s Viva Limited to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state.

The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you while determining the nature, timing, and extent of examination procedure to be applied in the review of the same?

**(5 Marks)**

- (b) Shri Limited, a listed Company, having its registered office at Mumbai is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside the factory, the level of pollution is kept at a level below the prescribed standard. The company managed to get the pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. The amount of ₹ 18.75 Lacs had been incurred for arranging clearance

certificate and the amount incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached those in governance, and the Director-Finance, who is a Chartered Accountant, came to know of these matters on review of major expenditure incurred during the period. Comment on the action/responses expected of Director - Finance (CA Gopal) referring to any applicable requirements of Responses for NOCLAR under Code of Ethics. **(5 Marks)**

- (c) Vicky is a financial analyst working for a large corporation that is considering the acquisition of a mid-sized manufacturing company. The initial financial statements provided by the target company appear to be in order, showing profits and a solid asset base. However, his team is concerned about potential risks that may not be immediately visible in the financial documents provided.

Guide Vicky on what specific aspects should be focused during due diligence to ensure that there are no hidden liabilities in this deal? **(4 Marks)**

**OR**

CA Y is the auditor of Stekk Ltd., a company that recently faced material misstatements in its financial records, leading to an adverse opinion on the audited financial statements for the financial year 2023-24. Now, the management of the company has prepared summary financial statements derived from the audited financial statements and requested CA Y to express his opinion on these summaries. What additional points should CA Y consider when expressing an opinion on these summary financial statements? **(4 Marks)**