

MODEL TEST PAPER 6
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 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. M/s DEF & Associates have been appointed as the statutory auditor of JKL Ltd., a PSU engaged in the generation of electricity from solar power. The Committee on Public undertakings with a view to examining PSU's physical and financial performance is examining the reports and accounts of public undertaking and also audit findings of the C & AG. Following are some of the functions of specialised committees:
 - (i) to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament;
 - (ii) to examine the estimates to report what economies, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;
 - (iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices;
 - (iv) to examine public enterprises through comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.

From the above functions, which are the functions of Committee on Public Undertakings (COPU)?

- (a) (i) & (iv)
- (b) (ii) & (iii)
- (c) (i) & (ii)
- (d) (iii) & (iv)

2. KALI Ltd. is India's one of the largest FMCG Company with 50-year heritage in the country. In terms of compliance of reporting under Business Responsibility and Sustainability Report (BRSR), for the F.Y. 2023-24, CEO & MD of the company reports that "At KALI Ltd. our BRSR adheres to the nine principles of the SEBI framework on sustainability reporting, informing stakeholders of our sustainability endeavours." While giving principle wise performance the following core elements associated with the respective principle need to be covered in the report:

- (i) Entities, when in the business of providing essential goods and services (e.g. Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
- (ii) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over consumption.
- (iii) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.
- (iv) The entities are responsible to educate and make aware their consumers and clients about their rights.

From the above information, identify which core elements are related to Principle-9?

- (a) (i) & (iv)
- (b) (i), (ii) & (iii)
- (c) (i), (iii) & (iv)
- (d) (ii), (iii) & (iv)

3. For conducting the statutory audit for the financial year 2024-25, CA P has been appointed by SEA Ltd., which is on the verge of becoming sick unit and has accumulated losses but the said losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24. The audited accounts for the year 2021-22, 2022-23 were showing liability for payment of undisputed audit fees payable to predecessor auditors but were settled completely during last F.Y. 2023-24.

In terms of Council General guidelines, 2008, Chapter 7, read with relevant proviso of the said guideline, which of the following statement is correct in respect of the aforesaid scenario?

- (a) CA P shall be deemed to be guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which had not paid undisputed audit fee for the year 2021-22 and 2022-23 of predecessor auditor, though settled in F.Y. 2023-24.
- (b) CA P would not be held guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is on the verge of becoming sick unit but whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-2024.
- (c) CA P would not be held guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd., which is not a sick unit, whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24 and there are no unpaid undisputed audit fees of predecessor auditors.
- (d) CA P shall be deemed to be guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is on the verge of becoming sick unit and it had not paid undisputed audit fee of predecessor auditor though settled in subsequent year.

Integrated Case scenario I

Tom Ltd. is in to the business of manufacturing and distributing of Toys for the past 25 years. Since inception, the company is having its own in-house dedicated internal audit department, having team of competent & qualified chartered accountants, headed by the Chief Internal Auditor, who with

systematic and disciplined approach monitors various Internal Controls laid down at all levels of the functional areas. M/s Deva & Co., Chartered Accountants, have been newly appointed as the statutory auditors of the company for the F.Y. 2024-25.

- M/s Deva & Co. want to use the work of the internal audit function in respect of testing of the operating effectiveness of controls and in respect of substantive procedures involving limited judgement. Due to time constraints and the extensive scope of statutory audit, M/s Deva & Co. want to take direct assistance of internal auditors in the areas of Physical verification of fixed assets, inventory verification and Goodwill impairment assessment. Accordingly, M/s Deva & Co. are in the process of determining in which areas and to what extent internal auditors can be used and in which areas statutory auditors shall not use internal auditors to provide direct assistance to perform procedures.
- M/s Deva & Co. during the course of identifying and assessing the risks of material misstatement through understanding the entity and its environment and during the course of performing the audit procedures finds that the company is holding significant bank accounts and having branch operations in tax-haven jurisdictions for which there appears to be no clear business justification. Also, there were significant related party transactions which do not appear to be in the normal course of business.
- The audit report of Tom Ltd. for the last F.Y. 2023-24, audited by predecessor auditor, contained a qualification regarding non provision of doubtful debts. In F.Y. 2024-25 also, the company does not want to make provision for doubtful debts. The statutory auditors, M/s Deva & Co., in their auditor's report on the current period's financial statements want to report the same.
- Pursuant to the reporting requirements under CARO, 2020 in respect of the company's regularity in depositing undisputed arrears of outstanding statutory dues to the appropriate authorities, M/s Deva & Co. are considering to take a view on the following issue observed during the audit of Tom Ltd.

The company in view of voluminous pay roll data consistently follows the method of making lump sum deposit of estimated amount of ESI collections and adjust the excess or deficit against next following months' deposit and the difference of the said amount always remains insignificant.

Based on the above facts, answer the following Questions (Q.Nos.4 to 7):

4. M/s Deva & Co., in their auditor's report on the current period's financial statements wants to report that Tom Ltd. does not want to make provision for doubtful debts in F.Y. 2024-25. Identify the correct action to be resorted out of the following:
 - (a) As per SA 710, can modify their report for previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
 - (b) As per SA 710, can modify their report for current year's figures of financial statements but need not refer to the previous year's modification.
 - (c) As per SA 710, will have to modify their report for both current and previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
 - (d) As per SA 710, cannot modify their report but need to refer to the earlier year's modification.
5. M/s Deva & Co. assigned the following procedures to internal auditors to provide direct assistance.
 - (i) that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited.
 - (ii) that relate to work with which the internal auditors have been involved and which will not be reported to management or those charged with governance by the internal audit function.
 - (iii) that relate to decisions the statutory auditor makes in accordance with SA.

From the above, identify the appropriate procedure(s) that can be assigned to internal auditors:

- (a) (i), (ii), (iii)
- (b) (ii) only

- (c) (ii) & (iii)
 - (d) (iii) only
6. Issue identified by Deva & Co., with regard to holding significant bank accounts and having branch operations in tax-haven jurisdictions and significant related party transactions is a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?
- (a) The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting.
 - (b) The risk factor creates an incentive /pressure for the fraud and results in a misstatement due to misappropriation of assets.
 - (c) The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to fraudulent financial reporting.
 - (d) The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to misappropriation of assets.
7. Out of the following which view of M/s Deva & Co. is the correct one for complying the reporting requirement under CARO, 2020 as regards lump-sum deposit of estimated ESI collections and its adjustment against next months' deposit leaving the insignificant difference of ESI amount?
- (a) the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported.
 - (b) depositing of ESI collections and the arrears of ESI dues cannot be considered as statutory dues under CARO, 2020 and hence not to be reported.
 - (c) lumpsum deposit of estimated ESI amount and adjusting excess/deficit against following months' deposit shall be considered as dues payable and hence to be reported under CARO, 2020.
 - (d) even though the difference between the total dues of ESI and lump sum deposit is not significant, as per materiality concept, it shall

be considered that dues have not been regularly deposited and hence to be reported under CARO, 2020.

Integrated Case Scenario II

XYZ & Associates LLP, is a firm of Chartered Accountants, consisting of 12 partners has been allotted Central statutory audit of Maha Bank Limited, a scheduled commercial bank.

- (i) During the course of audit, you, as the Engagement partner, have been asked by the GM to calculate CRAR. For this purpose, you have referred to the Master circular on "Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)", which provides the guidelines to be followed by banks for capital adequacy.

You are informed that the basic approach of capital adequacy framework is that a bank should have sufficient capital to provide as table resource to absorb any losses arising from the risks in its business. You have observed that Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument. For supervisory purposes capital is split into two categories: Tier I and Tier II, representing different instruments quality as capital.

You have calculated Eligible total capital funds comprising -

1. Tier I capital of Share capital ₹ 200 Crore, and disclosed Reserves ₹ 20 Crore.
2. Tier II capital of Other Reserves ₹ 30 Crore, and subordinated debt ₹ 20 Crore.

The Risk weighted assets constitute ₹ 25 Crore, while Off-balance sheet items are ₹ 5 Crore.

- (ii) As a part of the scope, the audit firm has been asked to find out the correct position of Demand and Time liabilities of Maha Bank.

DTL balance as on 30th September 2024 was ₹ 50,000 Crore which included the following-

	₹ Cr.
(i) Paid up capital	27,000
(ii) Reserves	1,650

(iii)	Credit balance in Profit & Loss account	1,210
(iv)	Loan taken from RBI	575
(v)	Refinance taken from EXIM bank and NHB	480
(vi)	Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii)	Net credit balance in branch adjustment accounts	105
(viii)	Interest accrued but not accounted for in books	90
(ix)	Margins held and kept in sundry deposits for funded facilities	80

- (iii) During the FY 2024-25, XYZ & Associates LLP is appointed as Statutory auditors of APP Ltd., an NBFC, which was set up under the Companies Act, 2013 and got itself registered as non-banking financial company (NBFC) with the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31st March 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification and regulation like Capital requirements, Government standards, Prudential regulations, etc. based on four layers that are defined based on their size, activity and perceived riskiness.

During the FY 2024-25 APP Ltd. has accepted deposits of ₹ 900 Crore, while its asset size is ₹ 990 Crore. It has also undertaken following activities -

- (i) Standalone Primary Dealers (SPDs)
- (ii) Infrastructure Debt Fund
- (iii) Housing Finance
- (iv) Infrastructure Finance

The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit checklist.

- (iv) XYZ & Associates LLP has been appointed as auditors of Heavy Electricals Corporation, a Public Sector Undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time schedule,

well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.

On the basis of above details, you are required to answer the following questions.

8. Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -
 - (a) Top Layer
 - (b) Upper Layer
 - (c) Middle Layer
 - (d) Base Layer
9. Based on facts given in para (i), you are required to arrive at the correct percentage of Capital Risk Adequacy Ratio for the Maha Bank Limited
 - (a) 10%
 - (b) 10.80%
 - (c) 8.33%
 - (d) None of the above
10. Based on facts given in para (ii), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30th September 2024.
 - (a) ₹ 18,000 crore
 - (b) ₹ 19,360 crore
 - (c) ₹ 18,790 crore
 - (d) ₹ 18,880 crore
11. Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM)
 - (a) Audit programme

- (b) Evidence
- (c) Audit Questions
- (d) Data collection and Analysis Method

Integrated Case Scenario - III

M/s HVM & Co. is a firm of Chartered Accountants based in Chennai. CA M, CA V and CA H are the partners of the firm. The firm is engaged in various assignments including Audits and its engagement partners who were handling their respective assignments for the financial year 2023-24 dealt with the following issues raised during and after the course of their respective audits.

M/s HVM & Co. are appointed as statutory auditors of AST Ltd. for the financial year 2023-24. CA V, the engagement partner while conducting audit of AST Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of AST Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA V wants to communicate this and other circumstances as additional information in his report with those charged with the governance.

Financial statements of VED Ltd. for the year ended on 31st March 2024 were signed by CA H, the engagement partner on 15th May 2024. The AGM was decided to be held during the month of August 2024. On 17th May 2024 the company had received a communication from the Central Government that an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 which was kept in abeyance would be released to the company by 15th June 2024. Accordingly, the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the financial statements of the company for the Financial Year ended on 31st March, 2024 and requested CA H to consider this matter.

During the course of audit of SIM Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain Machineries. The management gave a certificate to prove the existence and value of Machinery as appearing in the books of account. The certificate from the Registered valuer shows a value which is inconsistent with the written representation of management.

HT institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professionals. CA M of M/s HVM & Co. is an alumnus of the institution, and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the HT institute of professional studios is highly satisfied with his teaching skills and level of knowledge he possesses. Due to his capabilities, the management offers CA M to take up the assignment of statutory audit of their institute for the financial year 2023-24.

Based on the above facts, answer the following Questions (Q. Nos. 12 to 15):

12. Since there arose a doubt on the management representation and considering the responsibilities of M/s HVM & Co. to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:
- (a) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
 - (b) The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.
 - (c) In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.
 - (d) The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230.

13. CA V, engagement partner, in the course of audit of AST Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required.

Help CA V in getting identified incorrect circumstance from the below mentioned circumstances.

- (a) when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.
 - (b) when the auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.
 - (c) when a material uncertainty related to going concern is reported in accordance with SA 570.
 - (d) when there are no key audit matters to be communicated in accordance with SA 701.
14. In view of the Board of Directors of the VED Ltd. agreeing to include an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 in the financial statements of the company for the Financial Year ended on 31 March, 2024 by amending the accounts, CA H shall consider the following procedures. Identify the incorrect procedure from the following:
- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
 - (b) Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.
 - (c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

- (d) Modify the opinion as required by SA 705 and then provide the auditor's report.
15. In response to the management offer, guide CA M, whether to take up the assignment of statutory audit of HT institute of professional studies for the financial year 2023-24.

Select the correct option in terms of professional code of conduct.

- (a) CA M can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.
- (b) CA M cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.
- (c) CA M can accept the statutory assignment as he does not have any substantial interest in the HT Institute of professional studies.
- (d) CA M cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

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

1. (a) PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA. R is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA. R noted that the promoters' brother, is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates and is planning to provide some accounting services to one of the associate

companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector.

Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationships considering the above issues. **(5 Marks)**

- (b) Fancy Limited is a foreign company providing software support services having its Branch Office at Delhi. During the year 2023-24, Fancy Limited incorporated a subsidiary Nancy Private Limited in Gurgaon. For furtherance of objectives, Fancy Limited entered into a Business Transfer Agreement dated 5th October 2023 with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited on a going concern basis effective from 01st April, 2023. Further necessary approval from regulatory authorities is also received on 20th December, 2023 for such transfer. Fancy Limited promised that it shall provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited.

During the year 2023-24, Delhi Branch of Fancy Limited have prepared its financial statements on the basis that the Branch Office does not continue to be a going concern and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the financial statements. Delhi Branch has incorporated above matter in detailed form in Note XX to the financial statements.

You are the statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24. According to you, Delhi Branch has correctly disclosed about the matter in Note XX to the Financial Statements regarding management's intention to close the operations of the branch office. Further you have obtained sufficient appropriate audit evidence concerning audit and on the verge of finalization of audit report.

Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard. **(5 Marks)**

- (c) Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment. Guide him the factors affecting auditor's determination of the acceptability of applied criteria as per relevant Standard on Auditing. **(4 Marks)**
2. (a) Happy Hospital is a very renowned hospital for Orthopedic Surgeries in Mumbai having sophisticated infrastructure. Happy Hospital has started using a novice system which includes complete record of Indoor Patient i.e. their diagnosis, their treatment, their medications, their billings, and receipts thereon which is developed and managed by CT Contractors. CA Z is a statutory auditor of Happy Hospital. CA Z came to know about this system while auditing. CA Z is concerned whether the controls at CT Contractors Associates are operating effectively or not. For this purpose, CA Z demanded from CT Contractors, an assurance report from a practicing chartered accountant about their opinion on the description of CT Contractor's system, and the effectiveness of the control. Which type of report should be obtained by CA Z in terms of relevant Standard on Auditing? What aspects are to be considered by CA Z in using such assurance report as audit evidence that controls at CT Contractors are operating effectively? **(5 Marks)**
- (b) PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to PN and Associates for accepting the audit. CA N, the engagement partner communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA N has complied with same. **(5 Marks)**

- (c) The management of High Limited is concerned with the reporting requirement cast through Rule 11 of the Companies (Audit and Auditors) Rules, 2014 for the financial year 2023-24 with regard to the Audit Trail (edit log). Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software. Consequently, the management of the company approached CA J and asked him to suggest them list of internal controls which may be required to be implemented and operated to demonstrate that the Audit trail (or Edit Log) feature was functional, operated and was not disabled. Help CA J. **(4 Marks)**
3. (a) Core Limited submitted a credit proposal XYZ Bank Limited for the sanction of a Term Loan of ₹ 150.00 crore required for procuring and installing a latest Plant and machinery for their upcoming project. Based on the application, XYZ Bank Limited approached CA P to investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by Core Limited, as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan. Elucidate the steps that should be undertaken by CA P? **(5 Marks)**
- (b) CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA N is planning to issue an Audit Report on 5th August, 2024 covering these restated financial statements. Before issuing the audit report, CA N requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period.
- How would CA N deal with the above situation as per relevant Standard on Auditing? **(5 Marks)**

- (c) CA Raj, a practicing chartered accountant, is offered to take up an appointment as a "Secretary" in his professional capacity by the Central Government for a Metro Project for a term of 2 years not on a salary-cum-full-time basis. After giving deep thought to the offer, CA Raj accepted the appointment. Comment in terms of the Chartered Accountant Act, 1949 and Schedules thereto. **(4 Marks)**
4. (a) CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associates is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects, which would be looked into by CA Giri as an EQCR in relation to the engagement?
- Upon completion of the review, CA Giri has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Giri and the engagement partner. **(5 Marks)**
- (b) MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit engagements and do not have exposure to compilation engagements. Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differ from assurance engagements. Give your views on the applicability of SQC 1 to this engagement. **(5 Marks)**
- (c) SU Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it requires SU Limited to make disclosures on their performance against the various principles of the "National

Guidelines on Responsible Business Conduct". One of the principles emphasizes that the business decisions in an organization should be open to disclosure and accessible to the relevant interested parties. Elucidate the essence of core elements associated with the aforesaid principle. **(4 Marks)**

5. (a) PQ Pharma Limited, a company dealing in research and development and manufacture of pharmaceuticals is coming up with an Initial Public Offer (IPO). PQ Pharma Ltd has prepared the prospective financial statements for the next 3 years and included the same in the prospectus as part of its IPO. The prospective financial information includes projected balance sheets, statement of profit and loss and cash flow statements, which are prepared on the basis of several key assumptions like favourable government regulations, planned research and development of more effective medicines at reasonable prices, etc.

The company approaches CA Z to provide assurance on the prospective financial information and to assess the presentation and disclosure of the prospective financial information included in the IPO. List out the aspects that must be considered for making such assessment. **(5 Marks)**

- (b) R Limited is a listed company engaged in manufacture of round bars. The company is having investment in the following components:
- (i) 2 Subsidiary Companies
 - (ii) 1 Joint Venture Company
 - (iii) 2 Associate Companies
 - (iv) 3 Business entities under common control
 - (v) Interest in assets, liabilities, revenues, and expenses in a joint operation with 1 Company

R Limited and all its components are required to present their accounts as per Ind AS. While preparing consolidated financial statements, R Limited consolidated its components on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows.

R Limited seeks your advice on the accounting treatment in respect of the above components for consolidation in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

(5 Marks)

- (c) TP Limited is a listed company engaged in the business of manufacturing of kids garments under the brand name of MM. M/s R & Associates, firm of chartered accountants, are appointed as a Statutory Auditor of the Company for the year 2023-24. CA R is looking after the audit of the Company. During audit, CA R observed that there are number of notices received from GST Department and Income-tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". According to CA R, the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same. Do you agree? If not, give your comments. **(4 Marks)**

6. (a) You are appointed as a Statutory Auditor of SDA Limited for the year 2023-24 in the place of CA T. During audit you found an order dated 01.05.2023 under section 148 of the Income-tax Act, 1961 wherein tax of ₹ 50 lakhs were demanded owing to undisclosed cash sales of ₹ 150 lakhs for the financial year 2020-21 which was accepted by the company and the applicable tax was paid by the Company during the year 2023-24. The company has not recorded such undisclosed income in their books of account during the year 2023-24. On further inquiring the matter with CA T, you came to know that CA T resigned due to non-recording of such transaction by the company. Is there any reporting responsibility casted on you regarding the above matters under CARO, 2020 for the year 2023-24? **(5 Marks)**

- (b) MNC Limited, is engaged in manufacture & sale of FMCG products. It has manufacturing locations across various states in India and engages dealer channels to sell its products. One dealer is appointed for each district within the state and products are

despatched from the nearest manufacturing location to the dealer. Considering the voluminous transactions, MNC Limited has a robust ERP network, for recording the transactions. As statutory auditors of MNC Ltd., your firm is about to commence the current year audit. The audit team includes certain IT experts and discussions are underway amongst the team members. As an IT manager of the engagement team, explain the key areas for an auditor to understand IT environment. **(5 Marks)**

- (c) CA Kumar, a practicing-chartered accountant, is well known in the field of pleading of Income-tax cases at Income-tax Tribunal and does not provide any assurance services. Considering the long standing in the field, CA Kumar is approached by XYZ Limited to file an appeal in the Tribunal against the Income-tax Demand of ₹ 10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case with the following fee structure:

The fees for filing an appeal and to plead at Income-tax Tribunal will be higher of the following (a) or (b):

- (i) ₹ 5,00,000/-
- (ii) 10% of Tax Demand Reduced.

Comment on the act of CA Kumar in terms of the Chartered Accountant Act, 1949 and Schedules thereon. **(4 Marks)**

OR

Kushal Pvt Ltd is a company engaged in trading activities, it also has made investments in shares of other Companies and advanced loans to group companies amounting to more than 50% of its total assets. However, trading income constitutes majority of its total income. Whether the Company is an NBFC? **(4 Marks)**