

MOCK TEST PAPER - 2
FINAL 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. You are the internal auditor of Fair Bank Limited for the year 2022-23 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Agra branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:
 - (a) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
 - (b) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
 - (c) Discuss the process followed for lien marking with the branch manager.
 - (d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.
2. M/s ABC & Co., Chartered Accountants have been approached by PQR Ltd., a company engaged in iron and steel manufacturing industry. The company has been facing following operational issues:
 - (1) Penal interest for delayed payments to the overseas vendors despite having enough cash flows; and
 - (2) Despite having regular production and enough inventory, delays in shipping the final goods to the customers leading to its deteriorating vendor rating.

As a partner of M/s ABC & Co., through detailed discussion with the Senior Manager of PQR Ltd., you have concluded that all these delays are because of long decision-making cycles in the company. The company approaches you to advise the type of audit it should get done:

 - (a) Internal audit.
 - (b) Management audit.
 - (c) Operational audit.
 - (d) Audit is not required.
3. While conducting the current year audit of Finco Ltd, the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements. This misstatement was related to recognition of research and development expenditure. The provisions of Ind AS 38 Intangible Assets relating to capitalisation of development expenditure was not applied properly. On this, unmodified opinion had been previously issued. The current auditor verified that the misstatement had not been

dealt with as required under Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the current auditor will:

- (a) Express a qualified or an adverse opinion in the auditor's report on the current period financial statements modified with respect to the corresponding figures included therein.
 - (b) Express an unmodified opinion in the auditor's report on the current period financial statements since it was related to the prior year.
 - (c) Express a qualified opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
 - (d) Express an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
4. XYZ Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third party organization and requests for audit access to such data centre. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organisation is regularly being conducted. What the auditor should do?
- (a) Do not ask for anything else since the Third Party is ISO certified.
 - (b) Insist on conducting audit in the Third Party.
 - (c) Take the ISO certificate.
 - (d) Take the Service Organisation control audit report to review.
5. Section 130 re-opening of accounts on Court's or Tribunal's orders: of the Companies Act, 2013 states that a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board of India (SEBI), any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that Muni Ltd. has an annual turnover of ₹ 375 crore and has been into losses for the last 2 years. The operations of the company are good. Due to some technology changes, the company started facing competition and hence, started incurring losses. The company plans to revive in the next 1-2 years with the improvements in its processes. During the year ended 31st March, 2023, the management of the company came across certain transactions relating to the financial year ended 31st March 2022 which were erroneously missed to be accounted for. This would result into losses and hence, the management is considering to take this to the right financial year and for that purpose to re-open its accounts for the financial year ended 31st March 2022. Please advise.
- (a) The position of the management is correct.
 - (b) The action of the management is correct, however, the reason behind reopening the accounts of last year does not seem to be correct.
 - (c) The action of the management would have been correct had it been advised by the auditors of the company and for the same management should have taken approval from SEBI.
 - (d) The action of the management is not correct.
6. Chandra Ltd. is a company engaged in the manufacture of iron and steel bars. VP & Associates are the statutory auditors of Chandra Ltd. for the FY 2022-23. During the course of audit, CA Vikash, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2023. The Company has been unable to re-negotiate or obtain

replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Vikash express in the case of Chandra Ltd.?

- (a) Unmodified opinion.
 - (b) Qualified opinion.
 - (c) Adverse opinion.
 - (d) Disclaimer of opinion.
7. As per the Quality Review Board, the term *technical standards* in the context of Chartered Accountants Rules 2006, includes which among the following?
- (a) ICDS notified under Income Tax Act, 1961.
 - (b) Accounting standards notified under Companies Act, 2013.
 - (c) Guidance notes on accounting and auditing matters issued by C&AG.
 - (d) Notifications/ Directions issued on accounting and auditing matters issued by RBI/ SEBI/ other regulatory bodies.
8. Which among the following are the skills to be possessed by M/s ABC & Associates as forensic accountants?
- (a) Criminology and evidence gathering.
 - (b) Confidence and curiosity.
 - (c) Discretion and creativity.
 - (d) Inquisitiveness and persistence.
9. You are the audit senior in charge of the audit of Swadhyay Co. and have been informed by your audit manager that during the current year a fraud occurred at the client. A payroll clerk sets up fictitious employees and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional frauds have taken place in the wages department. Which of the following audit procedures would be undertaken during the audit of wages as a result of the manager's assessment of the increased risk of fraud?
- (1) Discuss with the payroll manager the nature of the payroll fraud, how it occurred and the financial impact of amounts incorrectly paid into the payroll clerk's bank account.
 - (2) Review the supporting documentation to confirm the total of the fraudulent payments made and assess the materiality of this misstatement.
 - (3) Review and test the internal controls surrounding setting up of and payments to new joiners to assess whether further frauds may have occurred.
 - (4) Review the legal action taken by the management against the payroll clerk who was involved in the fraud and see whether he is punished for his actions.
- (a) Audit procedures 1,2,3.
 - (b) Audit procedures 2,3,4.
 - (c) Audit procedures 1,3,4.
 - (d) Audit procedures 1,2,4.

10. In case of audits of unlisted corporate entities, other information section is required in auditor's report when at the date of auditor's report:
- (a) Auditor has obtained some or all of the other information.
 - (b) Auditor has obtained all of the other information.
 - (c) Auditor has obtained or expects to obtain the other information.
 - (d) Auditor has obtained some of the other information.
- (10 x 1 = 10 Marks)**

Questions (11-20) carry 2 Marks each

MCQ 11. -15.

Integrated Case Scenario 1

M/s Sudharma & Associates have been appointed as the statutory auditors of Veer Ltd. for the FY 2022-23. Veer Ltd. is a listed company dealing in the manufacture of iron and steel bars and it is among the top 1000 listed entities. FY 2022-23 is the first year after the incorporation of the company. The company has duly complied with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

When the audit was started, the management of Veer Ltd. discussed with Mr. Sudharma (the engagement partner) about the strong internal control system of the company. The management discussed about the whistle blowing policy of the company, the HR policies, company code of conduct and ethics policies. Mr. Sudharma was told that the audit team can rely on the information provided to them and the entity level controls without any second thought. The management advised the auditor not to waste time in checking the direct entity level controls and instead to concentrate on indirect entity level controls during their conduct of audit. Further Veer Ltd. has constituted its qualified Audit Committee and a Risk Management Committee as per the relevant regulations. Since FY 2022-23 was the first year after incorporation of the company, the meetings of both the committees were held twice during the year based on the company's requirement where all the company's important matters were duly discussed.

Further, while conducting the audit, the auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

Since FY 2022-23 is the first year after the incorporation of Veer Ltd., the company is in the process of exploring the market and venturing towards its expansion plans. The management will be approaching the banks for the purpose of raising funds for its projects. The management accordingly, requested the auditor to mention in their audit report or the compliance certificate about the entity's future viability. Further, in one of the meetings of Audit Committee conducted during the FY 2022-23, the internal control system and auditor's report of Veer Ltd. were discussed. Mr. Sudharma was also present at the meeting and the Audit Committee called for the comments of Mr. Sudharma, if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

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. What should be Mr. Sudharma's audit plan regarding the checking of direct entity level controls and indirect entity level controls after considering the management's advise?
- (a) Mr. Sudharma should check the indirect entity level controls in detail and he can skip the checking of direct entity level controls as the company has a strong internal control system.

- (b) Mr. Sudharma should check the direct entity level controls in detail and he can skip the checking of indirect entity level controls as the company has a strong internal control system.
 - (c) Mr. Sudharma should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures.
 - (d) Mr. Sudharma should check the indirect entity level controls in detail as it relates the business process and account balance and contribute indirectly to the effective operation of direct ELC. Thus, he can skip the checking of direct entity level controls.
12. Is the company justified in holding meeting of its Audit Committee and Risk management Committee twice in the FY 2022-23?
- (a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings.
 - (b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year.
 - (c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company is justified in holding two meetings of Risk management committee.
 - (d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.
13. With respect to the meeting of Audit Committee attended by Mr. Sudharma, what all rights can be exercised by Mr. Sudharma?
- (a) Mr. Sudharma has right to be heard and to vote in the meeting of Audit Committee of Veer Ltd. when it considers the auditor's report.
 - (b) Mr. Sudharma has right to vote in the meeting of Audit Committee of Veer Ltd. when it considers the auditor's report.
 - (c) Mr. Sudharma, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of Veer Ltd. even if it considers the auditor's report. Such rights vest with the internal auditors of the company.
 - (d) Mr. Sudharma has right to be heard in the meeting of Audit Committee of Veer Ltd. when it considers the auditor's report but shall not have right to vote.
14. What is the responsibility of M/s Sudharma & Associates so far as the Management Discussion and analysis report of Veer Ltd. is concerned?
- (a) M/s Sudharma & Associates should verify and comment on the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.
 - (b) M/s Sudharma & Associates should verify the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analysing and commenting on the same.
 - (c) M/s Sudharma & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report.

- (d) M/s Sudharma & Associates can verify and comment on the non financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.

15. What should M/s Sudharma & Associates do with respect to the management's request to the auditor regarding mentioning about company's future viability?

- (a) M/s Sudharma & Associates can mention about the company's future viability in its compliance certificate as auditor's report is not an assurance as to future viability of the entity.
- (b) M/s Sudharma & Associates can mention about the company's future viability in its audit report as compliance certificate is not an assurance as to future viability of the entity.
- (c) M/s Sudharma & Associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity.
- (d) M/s Sudharma & Associates can mention about the company's future viability in either its compliance certificate or auditor's report as both the documents act as an assurance as to future viability of the entity.

MCQ 16. -20.

Integrated Case Scenario 2

Sidharth Ltd. is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of Girnar Ltd. The total shareholding of Girnar Ltd. includes the following:

- The Government of Tamilnadu and Government of Lakshadweep each hold 18% of the paid-up share capital,
- The Government of Goa's share is 15.5%.

On 27th August 2022, Mr. Jambu, the auditor of Sidharth Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of Maniprabh & Co. Chartered Accountants as statutory auditors of Sidharth Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, Maniprabh & Co. agreed to do the following:

- Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company (however, Mr. Jambu had agreed to charge only ₹ 45,000/-),
- Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd.

The company was having an annual turnover of ₹ 1020 crore, and hence it was also liable to tax audit under section 44 AB of Income Tax Act, 1961.

During the current financial year, Sidharth Ltd. had changed its method of accounting compared to the previous financial year and had reported a closing stock of raw material amounting to ₹ 2 lakh only as on 31st March 2023. Also, the company had borrowed a sum of ₹ 10 crore equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to ₹ 75 lakh to the deposit holders through electronic mode.

As far as Maniprabh & Co. Chartered accountants are concerned, Mr. Eshan, who is one of the partners of the firm (*NOTE-* Mr. Eshan does not sign the financials of Sidharth Ltd.) had borrowed a sum of ₹ 3.91 lakh from Girnar Ltd. He had also purchased goods worth ₹ 1.07 lakh from the company which was in ordinary

course of business, at arm's length price. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. Eshan. Another partner of the firm, Mr. Shantinath, who is also responsible for signing the financials statements of Sidharth Ltd. was also engaged in the teaching profession during his free time approx 3 to 4 hours weekly.

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

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

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. To whom should have Mr. Jambu informed about his resignation? What could be the possible consequence for his non-compliance?
- (a) He should have informed the registrar and Sidharth Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 2 lakh.
 - (b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than ₹ 50,000/-.
 - (c) He should have informed the registrar and Maniprabh & Co. As a consequence of his failure, he is liable to a fine of ₹ 500 per day for each day of failure.
 - (d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of ₹ 45,000/-.
17. With respect to the acts carried out by Mr. Eshan, the partner of the audit firm, what can you infer about the appointment of Maniprabh & Co. as auditors of Sidharth Ltd.?
- (a) It is valid since the indebtedness is within prescribed limits.
 - (b) It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakh.
 - (c) It is valid since Mr. Eshan is not signing the financials of Sidharth Ltd.
 - (d) It is valid since the indebtedness is not with Sidharth Ltd.
18. Which among the below are permitted as per Chartered Accounts Act, 1949?
- (i) Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company.
 - (ii) Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd.
 - (iii) Mr. Shantinath, one of the partners who is responsible to sign the financials of Sidharth Ltd. was into teaching profession during his free time approx 3 to 4 hours weekly.
- (a) (i) & (ii).
 - (b) (iii) only.
 - (c) (ii) & (iii).
 - (d) (i), (ii) & (iii).

19. With respect to the fees to be charged for its new assignment, which option can be opted by Maniprabh & Co.?
- (i) To charge fees as percentage of Net Profits, or
 - (ii) To charge fees of ₹ 501/-.
 - (a) (i) Only.
 - (b) (ii) Only.
 - (c) Either (i) or (ii).
 - (d) Neither (i) nor (ii).
20. Among the below transactions which were undertaken by Sidharth Ltd., which needs to be reported by the auditors under fiscal laws?
- (i) ₹ 10 crore loan taken, which is exceeding the limit specified u/s 269 SS of Income tax Act.
 - (ii) Changed its method of accounting from the previous financial year.
 - (iii) Repayment of deposits of ₹ 75 lakh, which is exceeding limit specified u/s 269 T of Income tax Act.
 - (iv) Reporting of Closing stock of raw material worth ₹ 2 lakh only.
 - (a) (i), (iii) & (iv).
 - (b) (ii) & (iv).
 - (c) (i) & (iii).
 - (d) (i), (ii), (iii) & (iv).
- (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) Shreyansh & Co., Chartered Accountants, have been appointed Statutory Auditors of Mani Ltd. for the financial year 2022-23. The audit team has completed the audit and is in the process of preparing audit report Management of the company has also prepared draft annual report.
- Audit in-charge was going through the draft annual report and observed that the company has included an item in its Annual Report indicating downward trend in market prices of key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. Audit Manager discussed this issue with partner of the firm who in reply said that auditors are not covered with such disclosures made by the management in its annual report, it being the responsibility of the management.
- Do you think that the partner is correct in his approach on this issue. Discuss with reference to relevant Standard on Auditing the Auditor's duties with regard to reporting. **(5 Marks)**
- (b) M/s. Abhinandan & Co. was appointed as an auditor of Nandan Limited, a company operating its business in telecom sector. As per spectrum allocation agreement with Government, Nandan Limited is required to pay certain percentage of its annual revenue as license fee. Nandan Limited paid the license fee on its core business for last two years. At the end of third year, the communication was received from Government that it needs to pay agreed percentage on its total revenues and not only on core business revenues. Matter was disputed and went to court of law. On prudence basis, Nandan Limited made a provision on estimated business in its books of accounts of agreed percentage on non-core business receipts also. The amount of provision was

of such huge amount that the Nandan Limited's profit and loss account for that quarter reflected loss due to that provision. How you as an auditor can evaluate this accounting estimate which involves significant risk and what if Management has not addressed the effects of estimation uncertainty on provision made? **(4 Marks)**

- (c) In the financial year 2022-23, Saaransh Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of Saaransh Ltd. issue in such circumstances and why? Also, draft the opinion and basis for opinion para for the same.

(5 Marks)

2. (a) JIN Ltd., at its annual general meeting, appointed Mr. J, Mr. I and Mr. N as joint auditors to conduct audit for the financial year 2022-23. For the valuation of gratuity scheme of the company, Mr. J, Mr. I and Mr. N wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuarial reports. However, Mr. J agreed to Mr. I's actuary report, though, Mr. N did not. Mr. J contends that Mr. I's actuary report shall be considered in audit report due to majority of votes. Now, Mr. N is in dilemma. Explain the responsibility of auditors, in case, report made by Mr. I's actuary, later on, was found faulty. **(5 Marks)**

- (b) The volatility, unpredictability and pace of fast changes that exists in the automated environment today is far greater than in the past and consequently it throws more risk to business which requires them to have a need to continuously manage such risks. State various risks which an enterprise may have to face and manage. **(4 Marks)**

- (c) CA Vasu, a newly qualified professional with certificate of practice, approached CA Anant, the auditor of his father's company Crest Ltd., to allow him to have some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA Anant allowed him to sit in his office for 6 month and allotted a small chamber with other office infrastructure facility. In the course of his association with CA Anant's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT returns and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA Anant's office, he did not get any salary or share of profit or commission but only re-imbursement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 2,00,000 by CA Anant for his association out of gratitude. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

3. (a) You have been appointed to carry out the audit of Paradise Life Insurance Company Ltd. for the year 2022-23. During the course of audit, you observed that the commission payable to agents constituted a major expense in operating expenses of the Company. Enumerate the audit concerns that address to the assertions required for the Auditor to ensure the continued existence of internal control as well as fairness of the amounts in accounting of commission payable to agents. **(5 Marks)**

- (b) Mr. Nemi is a contractor dealing in food catering, flower decorating and light decorating activities. He has received contract in respect of food catering and flower decorating from one NGO for holding Annual Talent evening event to celebrate completion of 15 years of their establishment. For the said event Mr. Nemi has received in cash ₹ 1,85,000 for food catering and ₹ 1,25,000 for flower decoration. As a tax auditor how would you deal and report on the above? **(5 Marks)**

- (c) Vishal, a practicing Chartered Accountant issued a certificate of circulation of a periodical without going into the most elementary details of how the circulation of a periodical was being maintained i.e. by not looking into the financial records, bank statements or bank pass books, by not examining

evidence of actual payment of printer's bills and by not caring to ascertain how many copies were sold and paid for. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**

4. (a) Chandanbala Ltd. had 5 subsidiaries as at 31st March, 2023 and the investments in subsidiaries are considered as long term and valued at cost. Two of the subsidiaries had their net worth eroded as at 31st March 2023 and the prospects of their recovery are very bleak and the other three subsidiaries are doing exceptionally well. The company did not provide for the decline in the value of investments in two subsidiaries because the overall investment portfolio in subsidiaries did not suffer any decline as the other three subsidiaries are doing exceptionally well. Comment in view of relevant IND-AS. **(5 Marks)**
- (b) CA Nabhiray is conducting the statutory audit of Hastinapur Ltd., a non-banking financial company. It has branches in various parts of India. The company with a focus on housing finance, has outstanding non-convertible debentures worth ₹ 170 crore. The company reportedly missed interest payments of ₹ 17 crore on its debts because of inadequate liquidity. As a result, Hastinapur Ltd. faced a series of downgrades by rating agencies on its debts over the past two months. Rating was cut to D from A4 implying that the company was in default or expected to be in default soon. What aspects CA Nabhiray should look into in relation to the activity of mobilization of public deposits (particularly in relation to downgrading of credit facilities) by Hastinapur Ltd? **(5 Marks)**
- (c) Mr. Sheetal is a practicing chartered accountant. Due to natural calamities and misfortune during the year 2021, he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 2023, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto, (especially from the point of section 8: Entry of name in Register of Members). **(4 Marks)**
5. (a) Sudarshan Ltd. is a company engaged in the business of manufacture of spare parts. Prakash & Associates are the statutory auditors of the company for the FY 2022-23. During the course of audit, CA Prakash 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 Sudarshan Ltd. ended for an unforeseeable time period. When discussed with the management, CA Prakash was told that the company is in the process of identifying new customers for their products. CA Prakash 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 Sudarshan Ltd. for the FY 2022-23. How should CA Prakash deal with this matter in the auditor's report for the FY 2022-23? **(5 Marks)**
- (b) CA. Bharat has appeared before the Income Tax Authorities as an authorized representative of his Auditee and submitted a false declaration to the Income Tax Authorities. Comment. **(3 Marks)**
- (c) CA. Rajul is acting as Credit manager in branch of DFC Bank Limited. A company has approached the branch for a request to sanction credit facilities worth ₹10 crore for meeting usual business requirements. It is a prospective new client. She checks past history of the company, back ground of promoters & directors, shareholding pattern and nature of business. Assessment of financial results of past years and future projections is also undertaken. She also carries out SWOT analysis of the company.

Besides, assessment of net worth of directors is also undertaken. Status of CIBIL score and position of name of promoters/directors in RBI defaulter list is also verified.

She also makes discreet inquiries from few clients of the branch engaged in similar line of activity regarding credit worthiness of company, its promoters and directors.

Based on above:

- (i) Identify activity being performed by CA Rajul and discuss its nature.
- (ii) Would your answer be different if this activity was to be performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.
- (iii) Name any three other areas where identified activity can be undertaken. **(6 Marks)**
6. (a) C & AG appointed a chartered accountant firm to conduct Performance audit of OM Ltd., a PSU of Govt. of India. The firm conducted the audit with a view to check all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by audit firm was rejected by C&AG. Give your opinion on the action of C&AG. **(5 Marks)**
- (b) You are auditing a small bank branch with staff strength of the manager, cashier and three other staff S1, S2 and S3. Among allocation of work for other areas, S1 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. S2 has possession of all bank forms (e.g. cheque books, demand draft/pay order books, travellers' 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)**
- (c) You are appointed as an auditor of Moksh Ltd., a company engaged in export of agricultural equipment. During the course of audit, your audit team informed you regarding non-deduction of TDS on huge payments made to legal counsel of Moksh Ltd. You want to alert your team on the possibility of non-compliance with Laws and Regulations by Moksh Ltd. Help your audit team in identifying any other indications of non-compliance with Laws and Regulations particularly related to payments made by the company. **(4 Marks)**

OR

Secretarial staff of the Quality Review Board (QRB) is in the process of preparing a panel for submission to Board to enable it to initiate reviews of the quality of audit services provided by members of ICAI. The draft panel has been prepared by Mr. Paras, a junior staff in QRB secretariat and it has moved up in hierarchy for vetting by a senior staff, Mr. Suparas, before being put up in the upcoming meeting of Quality review board for its consideration.

The draft panel contains details of following entities audited by different audit firms: -

Name of entity	Listing status	Sector	Paid up capital*	Annual turnover*	O/s loans & deposits*	Name of audit firm
PQR Ltd.	Listed in BSE, NSE and NYSE	Manufacturing	1000	5000	750	GPR & Co.
X Insurance Ltd.	Unlisted	Health insurance	250	1500	400	DS & Co.
AB Banking Co.	Unlisted	Banking	400	900	300	PS & Co.
AAZ Ltd.	Unlisted	Manufacturing	200	800	200	CT & Co.

* Figures are of immediately preceding year and are in ₹ Crore.

Is the inclusion of names of audit firms of corresponding entities in the draft panel to be put up before QRB appropriate? Guide Mr. Suparas.