

MOCK TEST PAPER
FINAL (NEW) 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. Mr. KTK, was an employee of Youths Ltd, a company engaged in the business of electronics goods; who retired from his service on 30th September, 2018. As he is an electronic Engineer by profession, on 27th October, 2018 he started a retail business dealing in Electronic items under the name KTK Traders, a proprietary concern, in his hometown. Mr. KTK provides you the following information regarding the turnover of his proprietary concern for the financial year ended 31st March, 2020:

Date	Particulars	Amount
From 1.4.2019 to 31.3.2020	Gross Turnover	1.25 crore
25-05-2019	Less: Goods returned (sales made during the financial year 2018-2019)	0.08 crore
12-11-2019	Less: Cash discount allowed	0.05 crore
30-12-2019	Less: Goods returned (sales made on 10-12-2019)	0.11 crore
15-02-2020	Less: Discount allowed in the sales invoice	0.03 crore
31-03-2020	Less: Commission on sales	0.01 crore
	Net sales	0.97 crore

As per section 44AB of the Income tax Act, 1961, every person carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds one crore rupees in any previous year, get his accounts audited by an accountant before the specified date.

Considering the above, which of the following shall be considered as a reason for applicability or non-applicability of tax audit under section 44AB of the Income Tax Act, 1961.

- Tax audit under section 44AB of the Income Tax Act, 1961 shall be applicable as it is having an effective turnover of ₹1.25 crore, which is more than the limit prescribed.
- Tax audit under section 44AB of the Income Tax Act, 1961 shall be applicable as it is having an effective turnover of ₹1.03 crore, which is more than the limit prescribed.
- Tax audit under section 44AB of the Income Tax Act, 1961 shall not be applicable as it is having an effective turnover of ₹0.97 crore, which is less than the limit prescribed.
- Tax audit under section 44AB of the Income Tax Act, 1961 shall not be applicable as it is having an effective turnover of ₹0.98 crore, which is less than the limit prescribed.

2. MMH & Co, is a large firm of Chartered Accountants having 10 partners and 7 branches across India. The firm had undertaken Statutory Audit of the branches of some insurance companies and public sector banks. They were also the Central Statutory Auditors of a major Private Sector Bank in South India. On 1st September, 2019, the firm got an intimation from Peer Review Board ('Board') regarding the peer review of the firm. The Board recommended some names of reviewers. The practice unit, MMH & Co ('Firm'), selected CA. R and intimated the name to the Board. CA. R along with his qualified assistant did an on-site review. The Firm was not happy with the preliminary report issued by the reviewer arguing that the findings of the reviewer were baseless. The managing Partner of the firm wrote a letter to the Peer review Board doubting the eligibility of the reviewer.

In this backdrop, you are required to advise on the following matter.

- (a) A Peer Reviewer shall be a Chartered Accountant having at least 15 years of experience in practice and should have conducted audit of Level I entities for at least 7 years.
 - (b) A Peer Reviewer shall be a Chartered Accountant having at least 10 years of experience in practice and should have conducted audit of Level I entities for at least 7 years.
 - (c) A Peer Reviewer shall be a Chartered Accountant having at least 15 years of experience in practice and should have conducted audit of Level II entities for at least 7 years.
 - (d) A Peer Reviewer shall be a Chartered Accountant having at least 10 years of experience in practice and should have conducted audit of Level II entities for at least 7 years
3. Letter head of CA. Panaj, a Practicing Chartered Accountant, is reproduced below:

PANAJ De PANKAJ ACS, LLB, FCA Chartered Accountant & Member of parliament
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As per Chartered Accountants Act, 1949 you are required to choose the appropriate answer :

- (a) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he shall not use the designation 'Member of the Parliament' in addition to that of a 'Chartered Accountant'
 - (b) He shall not use the designation 'LLB' in addition to that of a 'Chartered Accountant' as he has not enrolled as an Advocate as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.
 - (c) He can use designations such as Member of Parliament, Member of the Legislative Assembly in addition to that of a 'Chartered Accountant' as these are specifically allowed as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.
 - (d) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he can designate himself as 'Chartered Accountant and Company Secretary' as he is a member of the Institute of Company Secretaries of India also.
4. In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector?
- I. Raj & Associates, a firm
 - II. CA Rahul
 - III. Mihim Pvt. Ltd, a body corporate
 - IV. ABC & Partners LLP, a body corporate
- (a) I, III & IV

- (b) I only
 - (c) III & IV
 - (d) II only
5. VAS Ltd, a subsidiary of KEP Ltd. is engaged in the business of manufacturing fertilizers. 15% shares of KEP Ltd are held by the Central Government, 25% by Kerala Government and 20% by Karnataka Government. M/s ABC & Associate, a firm of Chartered Accountants, has been appointed as first statutory auditor of VAS Ltd by its Board of Directors. You are required to suggest which of the following statements would be correct.
- (a) The first auditor of VAS Ltd shall be appointed by the Comptroller and Auditor- General of India within 60 days from the date of registration.
 - (b) The first auditor of VAS Ltd shall be appointed by the Comptroller and Auditor- General of India within 180 days from the date of registration.
 - (c) The first auditor of VAS Ltd shall be appointed by members in EGM within 30 days from the date of registration.
 - (d) The first auditor of VAS Ltd shall be appointed by the Board of Directors within 30 days from the date of registration.
6. During the audit of AMC Finance Ltd, an NBFC, the auditor found that a fraud was committed by its employees amounting to ₹ 107.80 lac. The management of the company took severe action against the employees and the auditors took all necessary steps to report the fraud. Which among the following steps auditor should take, with respect to the fraud committed by the employees of the NBFC?
- (a) Report in prescribed form should be sent to Central Fraud Monitoring Cell of RBI within 3 weeks from date of detection of fraud.
 - (b) Report in prescribed form should be sent to any Regional Office of Department of Non-banking supervision of RBI within a week from date of detection of fraud.
 - (c) Report the matter in prescribed form to the Central government within 21 days from date of detection of fraud.
 - (d) Report the matter to the promoters of the company, within 15 days from date of detection of fraud.
7. As per Regulation 20 and Part D of Schedule II of SEBI (LODR) Regulations, 2015, who among the following shall be appointed as Chairman of Stakeholder Relationship Committee?
- (a) Small Shareholder Director
 - (b) Whole time director
 - (c) Any of the Executive Director
 - (d) Any of the Non-Executive Director
8. M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. for the FY 2019-20. During the year, the company has entered into some related party transactions. CA Ram, the engagement partner has taken a management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions. Is there any further responsibility of CA Ram with respect to the other procedures to be performed for related party transactions?

- (a) No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter.
 - (b) No, there is no further responsibility of CA Ram as the audit firm is responsible for verifying the balances and disclosure of related party transactions. The identification of related party transactions is the responsibility of the management of Venus Ltd.
 - (c) Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances, and obtaining merely management representation letter can be considered to be sufficient appropriate audit evidence.
 - (d) Yes, the auditor has the responsibility to detect fraud and error with respect to the related party transactions.
9. CA Ajay was appointed as the statutory auditor of TUV Ltd. at Delhi. TUV Ltd has a branch office at Pune. A branch auditor, CA Suresh, was appointed to conduct the audit of the Pune branch of TUV Ltd. CA Ajay provided CA Suresh with a questionnaire regarding the details of the branch office of certain specific accounts and balances to be filled in by CA Suresh in which indication of material misstatements are involved. However, CA Suresh denied to fill such questionnaire as he explained that CA Ajay, as the principal auditor has no such right. Which is the relevant SA and which of the following course of action is correct in this regard?
- (a) SA 600 is the relevant SA; CA Ajay is correct in asking for information from CA Suresh through a questionnaire.
 - (b) SA 610 is the relevant SA; CA Suresh is correct in denying filling such questionnaire as a principal auditor can refer to branch auditor's report or other branch records but cannot ask the branch auditor to provide any specific information by filling a questionnaire.
 - (c) SA 600 is the relevant SA; CA Suresh is correct in denying filling such questionnaire as CA Ajay instead of asking CA Suresh to send the filled up questionnaire, should himself verify the specific branch details as indication of material misstatement is there.
 - (d) SA 610 is the relevant SA; CA Ajay should seek management's permission before asking the branch auditor for any information.
10. M/s Viaan Viraj & associates are the statutory auditors of ABC Ltd. for the FY 2019-20. The company has a strong internal control team. During the course of audit, CA Viaan, the engagement partner found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Viaan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Gaurank, the Chief Internal Auditor of ABC Ltd. to provide him a report on the wages expenses across all factories. Which of the following requirements as per SA 610 are required to be fulfilled by CA Viaan prior to using the direct assistance of the Internal Audit Team of the company?
- (a) CA Viaan should obtain written agreement from the management of ABC Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions.
 - (b) CA Viaan should obtain written agreement from Mr. Gaurank that his team will keep the matters confidential.
 - (c) Both a & b
 - (d) CA Viaan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required.

(10 x 1 = 10 Marks)

Questions (11-20) carry 2 Marks each

MCQ 11. -15.

Integrated Case Scenario 1

MINSAN Ltd, an unlisted company in South India, is engaged in the business of spice oil extraction. Total paid up capital of the company is ₹ 9 Crore. Details of annual turnover and profit of the company for the last 3 years are given below:

Year ended	Turnover (₹ in crore)	Profit (loss) before tax (₹ in crore)
31-03-2018	527.21 (Audited)	50.16
31-03-2019	301.37 (Audited)	01.25
31-03-2020	104.13 (provisional)	(10.25)

The company is using conventional method for extraction of oil from spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.

A new competitor viz, Natural Extracts Ltd, had come in the market during the year 2018 and by the end of March, 2019, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows whole range of automated extraction method, thus, minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of MINSAN Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 90 lac. The company approached SA Bank Ltd for a term loan of ₹ 80 lac which would be repaid in 5 years. On 28-12-2019, the bank had sanctioned the loan; and disbursed ₹ 40 lac till 31st March, 2020.

MINSAN Ltd has appointed M/s Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2019 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2019-2020 in February, 2020 and completed the work by the end of May, 2020. The audit team submitted following findings to the engagement partner:

- PX Ltd, one of the material suppliers, filed a case against the company on 12-09-2019 for a compensation of ₹ 3 crore.
- Company has made an estimate for allowance of debtors @5%.
- 70% of the value of inventory was only covered in physical verification during the year 2019-20 due to outbreak of Novel Corona Virus (COVID-19) and subsequent lockdown thereof.
- Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule.
- Three incidence of fraud noticed (Total ₹ 1.02 crore)- fraud committed by the Purchase manager ₹ 85 Lakh, by Accounts manager ₹ 15 Lakh and by a cashier ₹ 2 lac.

As an auditor of MINSAN Ltd for the year 2019-20, answer the following questions based on the facts given in the above paragraph:

- 11.** Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed?

- (a) Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.
 - (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.
 - (c) Evaluating management's future plan and strategy to increase market share of product.
 - (d) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts.
12. Company has made an estimate for allowance of debtors @5%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?
- (a) Judgments about the outcome of pending litigation with PX Ltd against the company.
 - (b) Estimates made for inventory obsolescence that are frequently made and updated.
 - (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in market place.
 - (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.
13. The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?
- (a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.
 - (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.
 - (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.
 - (d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.
14. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?
- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.

- (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.
 - (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
 - (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.
15. The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned an amount of ₹ 25 lac was earmarked for the purchase of the machinery-Oil Extractor; but, the company has acquired an improved model of machinery, viz, Oil extractor with Dryer in its stead. State which of the reporting option would be correct.
- (a) State the fact in CARO report that out of term loan taken for machinery-Oil Extractor, ₹ 25 Lakh was not utilized for acquiring the machinery for which it was sanctioned.
 - (b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.
 - (c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.
 - (d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive. **(5 x 2 = 10 Marks)**

MCQ 16. -20.

Integrated Case Scenario 2

Papa Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹2 crores, determination of amount of minority interest of ₹ 50 Lakh and some intra-group transaction adjustment of ₹ 15 lac were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of 30 lac.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	2 nd	Thursday
May	9 th	Saturday

June	5 th	Friday
July	31 st	Friday
August	31 st	Monday
September	1 st	Tuesday
October	30 th	Friday
November	1 st	Sunday
December	1 st	Tuesday
January	10 th	Sunday
February	8 th	Monday
March	7 th	Sunday

Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ₹ 200 Crores. It includes Margin held for funded facilities of ₹ 3 Crore, credit balance for one branch of ₹ 4 crores, adverse balance of nostro Mirror account of ₹ 2 Crores and unadjusted deposit for agency business of ₹ 6 Crore. Papa Limited has total 12 directors including 3 women directors. Out of them, Mr. Right was non executive chairman as well as promoter of bank. Papa Limited has a total of 5 independent directors in their board.

Wife of CA Das, was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of Papa Limited of ₹ 100 each for ₹ 15,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors.

16. Which of the following statement is true?

- (a) For giving the effect of merger, permanent consolidation adjustment of 250 lac and current period consolidation adjustment of 45 lac was made.
- (b) For giving the effect of merger, permanent consolidation adjustment of 280 lac and current period consolidation adjustment of 15 lac was made.
- (c) For giving the effect of merger permanent consolidation adjustment of 295 lac.
- (d) For giving the effect of merger, permanent consolidation adjustment of 265 lac and current period consolidation adjustment of 30 lac was made.

17. While verifying the compliance of corporate governance, in accordance with Regulation 17 and 17A, was there any non-compliance in composition of board?

- (a) No, as in this scenario there should be at least 1/3 i.e. 4 independent directors.
- (b) Yes, as in this scenario there should be at least 1/2 i.e. 6 independent directors.
- (c) No, as its upto the shareholder to decide the composition of board after complying with section 149(4) of companies act 2013.
- (d) Yes, as in this scenario there should be at least 2/3 i.e. 8 independent directors.

18. List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?

- (a) January, February and March.
- (b) July, August and October
- (c) June, July and October.
- (d) May and November.

19. While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March?
- (a) 191 crores
 - (b) 200 crores.
 - (c) 197 crores.
 - (d) 185 crores.
20. Will CA Das be disqualified after his wife purchased 100 shares for ₹ 15,00,000?
- (a) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares of more than ₹ 100,000 market value.
 - (b) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 20,00,000 market value.
 - (c) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value.
 - (d) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares in Papa limited irrespective of amount of investment. **(5 x 2 = 10 Marks)**

Division B- Descriptive Questions-70 Marks

Question No. 1 is compulsory.

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

1. Comment on the following:

- (a) ING Associates, Chartered Accountants, conducting the audit of XYZ Ltd., a listed Company for the year ended 31st March 2020 is concerned with the auditor's responsibilities relating to misstatements in other information, both financial and non-financial, included in the Company's annual report. While reading other information, ING Associates considers whether there is any material misstatement of the other information in the Company. After performing their procedures, the auditor concludes that a material misstatement of the other information exists. ING Associates discussed with the Management about the other information that appeared to be materially misstated to the auditor and also requested management to provide evidence for the basis of management's statements in the other information along with supporting documents. Guide ING Associates as to how to respond to that material misstatement of other information obtained prior to the date of auditor's report. Will your answer be different in case ING Associates conclude the same after the date of auditor's report? **(5 Marks)**
- (b) Whilst the Audit team has identified few matters, they need your advice to conclude on the same. Engagement Partner have asked them to review the Board minutes and other secretarial/regulatory records based on which the following additional matters were brought to the attention of the Partner:-
 - (i) The long term borrowings from the parent company has no written terms and neither the interest nor the principal has been repaid so far.
 - (ii) Certain computers were received from the parent company free of cost, the value of which is ₹ 0.23 lac and no accounting or disclosure of the same has been made in the notes to accounts.
 - (iii) An amount of ₹ 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹0.25 Lakhs per month. Whilst the transaction was

accounted in the financial statements based on the amounts' paid, no separate disclosure of this related party transaction has been made in the notes to accounts forming part of the financial statements highlighting the same as a 'related party' transaction.

Audit Manager has reported that she had asked certain information relating to another 'related party' transaction (amounting to approx. ₹ 47 lac) but the CFO refused to provide the same since the same is perceived to be confidential and cannot be shared with the Auditors.

You are required to advise about items to be reported to those charged with governance, where applicable, based on your audit findings in the given situation. **(5 Marks)**

- (c) CA. Pointer had been appointed as an Auditor of Textile Ltd. During the course of audit, it was observed that inventory including work-in-process has been valued by the Management by using experts hired by them. Analyse relevant factors to decide as to whether CA. Pointer should accept or not accept the findings from the work of Management expert in valuation of inventories. **(4 Marks)**
2. (a) It was observed from the modified audit report of the financial statements of ULFA Ltd. for the year ended 31st March, 2019 that depreciation of ₹ 4.25 crore for the year 2018-2019 had been charged off to the Statement of Profit and Loss instead of including it in "carrying value of asset under construction". State in relation to the audit for the year ended 31st March 2020, whether such modification in the previous year's audit report would have any audit implication for the current year i.e. FY 2019-20 and if yes, how the auditor is required to deal with the same in his audit report for the current year? **(5 Marks)**
- (b) BETA Ltd is the Subsidiary company of ALPHA Ltd. PQR & Associates has been appointed as auditor of ALPHA Ltd. for the Financial Year 2019-20 and MNO & Associates has been appointed as auditor of BETA Ltd for the year 2019-20. Explain the role of PQR & Associates and MNO & Associates as auditors of the parent company and subsidiary company respectively. **(4 Marks)**
- (c) Mr. Aniket, a Chartered Accountant was the auditor of 'Alpha Limited' for the year 2018-19 and 2019-20. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 11 lac and was the same amount as in the last year 2018-19. Later on, it was found that the company's investments were only for ₹ 45,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(5 Marks)**
3. (a) Solar Limited is a public sector undertaking engaged in production of electricity from solar power. It has started a new project near Puducherry with a new technology for a cost of ₹ 9,750 crore. Though there is delay in commencement of project and accordingly, there has been overrun in the cost. State the matters C&AG while conducting Comprehensive Audit may cover in reporting on the performance and efficiency of this project. **(4 Marks)**
- (b) (i) While conducting GST Audit of RST Limited., you have observed the following:
RST Limited has exported goods to MNP Limited located in USA. The value of goods is \$2,00,000. The exchange rate (₹/\$) on the date of filing Shipping Bill is-
CBEC notified rate ₹65
RBI reference rate ₹68
At the time of receiving money, the bank exchanged the foreign currency at ₹ 70.

How would you report the adjustments, if any, in turnover due to foreign exchange fluctuations in Reconciliation statement in Form GSTR 9C prescribed in terms of Rule 80(3) of CGST Rules, 2017.

- (ii) Will your answer be different if exchange rate (₹/\$) at the time of receiving money, the bank exchanged the foreign currency at ₹66. **(6 Marks)**
- (c) Mr. Dhruv, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**
4. (a) You have been appointed as an auditor of LCO Bank, a nationalized bank. LCO Bank also deals in providing credit card facilities to its account holders. The bank is aware of the fact that there should be strict control over storage and issue of credit cards. As an auditor of the bank, how will you evaluate the Internal Control System with respect to Credit Card operations maintained by the LCO Bank? **(6 Marks)**
- (b) The management of Amazon, a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management. **(4 Marks)**
- (c) Mr. Chintamani, a Chartered Accountant in practice has been elected as the treasurer the Regional Council of the ICAI. The Regional Council had organized an international tour through a tour operator during the year for its members. During the audit of the Regional Council, it was found that Mr. Chintamani had received a personal benefit of ₹ 40,000 from the tour operator. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**
5. (a) "Generating and preparing meaningful information from raw system data using processes, tools, and techniques is known as Data Analytics and the data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs." You are required to give illustration of a suggested approach to get the benefits from the use of CAATs. **(4 Marks)**
- (b) While auditing Innocent Insurance Ltd, you observed that a policy has been issued on 31st March, 2020 evening to LMN Company. LMN Company had signed all the papers and taken insurance policy (value insured = ₹ 11 lac) for its new godown and premium for the same was paid through cheque subject to realization. However, on the night of 31st March, a huge fire accident took place in LMN Company and goods worth ₹15 lac were destroyed. Further, cheque was also dishonoured due to insufficient fund. The Company informed the incident to Innocent Insurance Ltd and a claim was lodged for the same. The insurance company also made a provision for claim. Advise the Innocent Insurance Ltd in this regard. **(4 Marks)**
- (c) As an Auditor give your comments for the following disclosures made by a Company which adopted Ind AS for compilation of Financial Statements:
- (i) In the Balance Sheet, the sub-head inventories contained an item "goods in transit" against which a consolidated amount consisting of aggregate of the cost of raw materials in transit and loose tools which are billed on company but delivery not been made to the company had been specified.
- (ii) Provision for doubtful debts of trade debtors was grouped under, "Provisions" under current liabilities.
- (iii) Sale proceeds of scrap incidental to manufacture were included in "Other Income".
- (6 Marks)**

6. (a) A nationalized bank received an application from a Limited company seeking sanction of a term loan to expand its existing business. In this connection, the Loan Manager of the Bank approaches you to conduct a thorough investigation of the items of the Balance Sheet of this Limited company and submit a confidential report based on which he will decide whether to sanction this loan or not. List out the major steps an investigating accountant would keep in mind while verifying assets and liabilities included in the Balance Sheet of the borrower company which has been furnished to the Bank. **(5 Marks)**
- (b) R Limited has been paying dividend consistently over 15% year on year. The Financial year 2019-20 was so very bad for the Company and it was not possible for the Company to maintain the payment of consistent dividend as mentioned above. The Management, being hopeful of recovery of its performance in next year, felt that the depreciation of the year to the extent of 65% alone be charged to the Statement of Profit and Loss and the remaining 35% be kept in a separate account code in the Balance Sheet- 'Debit Balances Adjustable against Revenue account'. The Management was of the view that it would be fair practice of accounting if the depreciation for assets is charged before the expiry of the life of assets and the amount parked in asset code as above would unfailingly be adjusted to Revenue before the close of next financial year anyway. Analyse the issues involved and state how the Auditor should decide on this matter. **(5 Marks)**
- (c) Compute the overall Audit Risk if looking to the nature of business there are chances that 40% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 75%. On his part the Auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk. **(4 Marks)**

OR

ABC & Co LLP is a large firm of Chartered Accountants based out of Chennai. ABC & Co. LLP is subject to peer review which was last conducted 3 years back. For the peer review of the financial year ended 31 March 2020, the firm got an intimation on 31 May 2020. The process of peer review got started and was completed on 29 September 2020. In view of peer reviewer, the systems and procedures of ABC & Co. LLP are deficient / non-compliant. The peer reviewer did not share any of his observations with ABC & Co LLP as draft and final report was submitted to the Board. Comment. **(4 Marks)**