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PART – I

1. M/s DEF & Associates have been appointed as the statutory auditor of JKL Ltd. for the first time for the financial year 2024-25. The engagement partner, CA D, is briefing his engagement team about the need of Engagement Standards and quality control standards in the areas of financial statement audits and in other types of assurance services. Out of the following which one point is not correct about why standards are needed ? 2
- (A) Standards ensure audit quality.
 - (B) Standards equip professional accountants with professional knowledge & Skill.
 - (C) Standards promote uniformity as audit of financial statements is carried out following these Standards.
 - (D) Standards ensure carrying out of audit against established benchmarks at par with local practices.
2. RDB & Co. have been appointed as statutory auditors of INA Group of hotels. This is the first time the firm is auditing an industry in food & beverage. The engagement partner, CA R, and other key members of the engagement team have undertaken the activity of development of an audit plan of INA Hotels after thorough understanding the Hotel's business and its environment. As per SA 300, description of which of the following matters is not a part of developing an audit plan ? 2
- (A) The nature, timing and extent of planned further audit procedures at assertion level.
 - (B) The nature, timing and extent of planned risk assessment procedure.
 - (C) The nature, timing and extent of resources necessary to perform the engagement.
 - (D) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

3. The Board of Directors of a company wanted the auditor to certify Export sales during the year for submitting to the authorities. The auditor also signed the Confirmation letters to be sent to various debtors and creditors for confirming their balances as on 31.03.2024.

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UDIN is required to be generated by the auditor for:

- (A) Confirmation letters only.
- (B) Export sales during the year certificate only.
- (C) Both Export sales during the year certificate and Confirmation letters.
- (D) No UDIN is required to be generated.

Case Scenario – 1 :

GHB Ltd., a listed company, having its registered office at New Delhi, is in the business of blending, processing, packing and selling various brands of Tea. BPP & Co. LLP, Chartered Accountants, are appointed as the statutory auditors of the company for the financial year 2023-24. CA B is the engagement partner for the assignment.

The company has a centralised warehouse near the border of Himachal Pradesh. CA B's attendance, on 31st March, 2024, at the physical inventory counting in respect of the said warehouse became impracticable on account of natural calamity in that area. It also became impossible for CA B to perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory.

The company had spent huge amount on employee benefits. Hence, CA B instructed his assistants to test the controls that the company had set around the employee benefit expenses. After being satisfied with the controls maintained by the company, he instructed his team to bifurcate the employee benefit expenses into salaries and wages, contribution to PF, expenses on ESOP/ ESPP and staff welfare expenses.



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(5)
SMR1

The engagement partner CA B, while evaluating, validating and reporting on the design and efficiency of internal financial controls at GHB Ltd., also impressed upon the directors, independent directors and the audit committee the way in which the Companies Act, 2013 has placed a greater emphasis on the effective implementation and reporting on the internal controls of a company.

Due to time constraints, CA B is under pressure to issue a clean report in the limited time frame. He has insufficient time to properly perform or complete the relevant duties and issue appropriate audit report.

The Board of Directors want CA B to certify the debtors to be sent to the bank without checking. CA B agrees, as most of the professional income of BPP & Co. LLP comes from GHB Ltd. They have undue dependence on the fees from GHB Ltd. hence; they are concerned about losing the engagement.

Based on the above facts, answer the following Q. Nos. 4 to 8.

4. Due to tight deadlines, CA B has insufficient time to properly perform or complete the relevant duties and he has to sign off clean audit report. Which fundamental principle governing professional ethics is disregarded by him ? 2

- (A) Professional behaviour
- (B) Professional competence and due care
- (C) Integrity
- (D) Objectivity

5. Undue dependence on the fees from GHB Ltd. creates which threat of independence for the auditors ? 2

- (A) Familiarity threat
- (B) Intimidation threat
- (C) Self-interest threat
- (D) Advocacy threat

SMR1

SMR1

6. Since it became impracticable for CA B, on 31st March, 2024, to attend physical inventory counting at the warehouse and also became impossible to perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and conditions of inventory, CA B shall : 2
- (A) Rely on GHB Ltd.'s perpetual inventory records as audit evidence and express unmodified opinion.
 - (B) Take Management Representation regarding the existence and valuation of inventory and mention in Emphasis of Matter paragraph.
 - (C) Omit altogether the audit procedure of physical inventory counting from the audit programme because of impracticability.
 - (D) Modify the opinion in the auditor's report in accordance with SA 705 as a result of the scope limitation.
7. Which assertion concerning the bifurcation of employee expenses into various heads is being verified by CA B ? 2
- (A) Measurement
 - (B) Occurrence
 - (C) Completeness
 - (D) Disclosures
8. With reference to reporting on the internal financial controls system under the Companies Act, 2013, which of the following does not fall within the nature of responsibility of GHB Ltd. ? 2
- (A) Directors' responsibility statement to state that the Directors had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
 - (B) In accordance with the terms of reference specified in writing by the Board, act of every audit committee to include evaluation of internal financial controls and risk management systems.



SMR1

(7)

SMR1

- (C) Board of Directors have to appoint an expert to state that the internal financial controls of the company are commensurate with the size and nature of its business.
- (D) In terms of code for Independent Directors, independent directors to get themselves satisfied that financial controls and systems of risk management are robust and defensible.

Case Scenario – 2 :

M/s KRISH & Company is a firm of Chartered Accountants based in Punjab. CA K, CA R, CA I, and CA SH are the partners of the firm. The firm is engaged in various audit assignments. The engagement partners, who were handling their respective assignments for the financial year 2023-24, dealt with the following issues raised during the course of their respective audits.

- M/s KRISH & Co. is appointed as the joint auditor along with M/s. PK and Associates and M/s. RS and Associates for the audit of a large manufacturing company for the financial year 2023-24. CA K is in charge of this audit. They have divided their audit areas and have also identified the common audit areas, which will be applicable to all the joint auditors. While forming the opinion, CA K had a different opinion whereas, the other two audit firms shared the same opinion. Both of them contended that as they were forming a majority, M/s KRISH & Co. will have to agree with their opinion.
- CA R is conducting the statutory audit of PAWAN Ltd. He observed that, during the year, the company has issued shares at premium and has transferred the amount received as premium to securities premium account. He wants to ensure that PAWAN Ltd. has utilised the amount available in the securities premium amount for the purposes permitted under the Companies Act, 2013.



SMR1

- Registrar of Co-operative Societies has appointed M/s KRISH & Co. as the statutory auditor of NAND Co-Operative Society for the financial year 2023-24. CA I is looking after the audit of the said registered society. During the year, in terms of Section 34 of the cooperative societies Act, with the sanction of the Registrar, Society has contributed for charitable purposes as defined in section 2 of the Charitable Endowments Act, 1890. CA I is ensuring whether requirements, as regards contribution made, have been complied with.
- All the engagement partners and the audit team of M/s KRISH & Co. have deliberations and discussions every week through google meet to review the progress of their respective assignments. During last such meet, CA SH, the managing partner, briefed to the team about the form, content, and extent of audit documentation in terms of SA 230, while citing examples of records to be excluded as well as to be included as a part of audit documentation.

Based on the above facts, answer the following Q. Nos. 9 to 12.

9. Which of the following need not be included by the audit team as a part of audit documentation during handling of their respective assignments ? 2
- (A) Draft audit engagement letter.
(B) Significant and specific contracts and agreements.
(C) Summaries of significant matters.
(D) Checklists.
10. In case of difference of opinion between the joint auditors, what course of action can M/s. KRISH & Co. take while issuing the audit report ? 2
- (A) They will have to agree with the opinion formed by the majority auditors, but they can mention their view in the Emphasis of Matter Paragraph.
(B) They will have to agree with the opinion formed by the majority of auditors.



SMR1

SMR1

- (C) They can add a separate audit opinion paragraph in the common audit report.
- (D) They can issue a separate audit report and the audit reports issued by the joint auditors shall make a reference to each other's audit report.

11. The securities premium account of PAWAN Ltd. cannot be applied for which of the following purposes ?

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- (A) In writing off the expenses of, or the commission paid or discount allowed on any issue of equity shares of the company.
- (B) In writing off the debit balance in the Profit & Loss account.
- (C) For the purchase of its own shares or other securities under section 68.
- (D) In paying up unissued equity shares of the company to be issued to the members of the company as fully paid bonus shares.

12. CA I, who is in charge of audit of NAND Co-Operative Society, wants to ensure that the society has contributed for charitable purposes within the limits prescribed. How much is the society allowed to contribute for charitable purposes ?

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- (A) contribute an amount at the appropriate rate as per class of the society.
- (B) contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund.
- (C) contribute an amount not exceeding 20% of the net profits remaining after the compulsory transfer to the reserve fund.
- (D) contribute annually at prescribed percentage of the profits as approved by the General body of the society.

Case Scenario - 3 :

Mega Power Ltd. is a manufacturer of solar lanterns, which are used in remote villages where there is no reliable supply of electricity. However, due to power projects undertaken by the government, the demand for their solar lanterns has significantly declined over the past few years.

The company was in need of ₹ 2 crores for working capital and other expenses but was not able to fund this amount. Consequently, their suppliers were paid much later than usual and hence some of them withdrew the credit terms, meaning the company had to pay cash on delivery. This created a severe cash crunch and the auditor feels that other than the cash crunch, there are several other financial indicators that cast a significant doubt on the company's ability to continue as a going concern.

The management of the company, however, assures the auditor that this is temporary and the situation will change soon as they are planning to diversify their business. They are ready to provide written representation for the same. The auditor feels that a material uncertainty still exists. The auditor wants the management to make adequate disclosure about this in the financial statements. The auditor wants to include a separate section about this in his audit report. He is also contemplating about the kind of audit report that should be issued.

The auditor has concerns about ethical values and diligence of management. He is concerned about the reliability of the representations made by the management and the audit evidence in general. The auditor is of the opinion that the written representations from management are not reliable.



Based on the above facts, answer the following (2) Nov 13/14

13. Financial events or conditions that may cast significant doubt on the entity's ability to continue as a going concern does not include

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- (A) Inability to pay creditors on due dates.
- (B) Inability to comply with the terms of loan agreements.
- (C) Shortage of important supplies.
- (D) Substantial operating losses.

14. Which kind of audit report will the auditor issue, if the use of going concern basis of accounting is appropriate, but a material uncertainty exists and adequate disclosure of the material uncertainty is made in the financial statements by the management ?

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- (A) Disclaimer of opinion
- (B) Adverse opinion
- (C) Unmodified opinion
- (D) Qualified opinion

15. If the auditor is of the opinion that the written representations are not reliable, what kind of audit opinion should be issued by him ?

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- (A) Adverse opinion
- (B) Disclaimer of opinion
- (C) Unmodified opinion and mention the facts in Other Matters Paragraph
- (D) Unmodified opinion and mention the facts in Emphasis of Matter Paragraph

1. (a) CA Rashmi is the auditor of ABC Ltd. for the financial year ending 31/03/2024. The audit report for the year was signed by her on 19/04/2024.

On 25/4/2024, the company received a communication from the Central Government that an incentive amount of ₹ 5 crores pertaining to financial year 2023-24 was approved. It was paid to the company before the end of April 2024. The financial statements of the company were not yet issued to the shareholders.

The Board of Directors wished to include the incentive amount in the financial statements and requested the auditor to issue a fresh audit report for the year ended 31/03/2024.

Analyze the issue involved and give an overview of the auditor's responsibility in such a situation.

- (b) Auditors cannot normally examine all the information available to them as it would be impracticable to do so and using audit sampling will produce valid conclusions. Samples should be selected in such a manner that it is representative of the population from which the sample is being selected.

Which sample selection method is used in the following two cases ? Identify and explain them briefly.

- (i) Auditor divided the trade receivables in three groups : balances above ₹ 20 lakhs, balances between ₹ 10 lakhs to ₹ 20 lakhs and balances below ₹ 10 lakhs. He selected different percentages of items from each group.
- (ii) Auditor uses the sample of 50 consecutive cheques to test whether the cheques are signed by authorized signatories, rather than picking 50 single cheques throughout the year.

(c) PD & Co., Chartered Accountants, were appointed as the statutory auditors of MR Limited for the financial year 2023-24. MR Limited included the following clause in the appointment letter to the auditors :
“The Auditor shall be responsible for detecting the frauds that may happen in the company during the financial year 2023-24.”
The auditor objected to inclusion of such a clause in the appointment letter. Discuss in the light of scope of audit. 3

(d) M/s. PQ Limited has a turnover of ₹ 807 crores during the financial year 2023-24. It has outstanding dues towards Goods and Services Tax (GST) of ₹ 10 lakhs since June 2023. When enquired by the auditor, the company’s management informed him that they have filed an objection letter for the said demand with the GST Authorities, however, no response is received from the GST Department. State the reporting responsibility of the auditor under paragraph 3, clause (vii) of the Companies Auditor’s Report Order, 2020 [CARO, 2020]. 3

2. (a) CA B, was the auditor of Star Limited. He wanted to ensure that the company had correctly reconciled its bank accounts and also wanted to understand whether and how far the internal control system was operating in the company. What kind of test of control was CA B performing ? What are the other procedures that can be applied while undertaking test of controls ? 4

(b) Alfa Limited has availed bank overdraft facility from a nationalized bank. The company received balance confirmation certificate for bank overdraft balance as on 31.03.2024 from the bank. 4

Particulars	Amount (₹)
Bank overdraft balance as per Bank Certificate	25,66,200/-
Bank overdraft balance as per Ledger	26,45,300/-

How will you vouch/verify borrowings from Bank taken by Alfa Limited ?

- (c) Schedule III of the Companies Act, 2013 prescribes disclosure of certain ratios as a part of Additional Regulatory Information. Mention any 3 ratios that should be disclosed along with the Rules relating to disclosure of these ratios. 3
- (d) The engagement partner, of a firm of auditors, is explaining to his audit team, undergoing practical training, the inter relationship between audit strategy and audit plan. Discuss the points which the engagement partner will explain to his team in this regard. 3
3. (a) CA Amit is the auditor of LMN Ltd. While conducting the audit, he wanted to analyze the different components of internal control of the company. Identify and explain which component of internal control he is trying to understand in the following two cases : - 4
- (i) Whether controls in LMN Ltd. are operating as intended and they are modified as appropriate for change in conditions.
- (ii) Whether there exists proper segregation of duties in the company and the person responsible for recording a transaction is different from the person authorizing it.
- (b) M/s. PK & Company, Chartered Accountants, are the statutory auditors of JC Limited. CA Tarun, partner of M/s. PK & Company, was entrusted to supervise and verify the inventory items as on 31.03.2024. During the process of verification, a large chunk of draft inventory sheets were accumulated and then a final inventory sheet was prepared. The audit assistant has kept all these drafts and the final inventory sheet in the audit file. Is the approach of the audit assistant correct ? Which papers/documents may not be included in the audit documentation ? 4

- (b) K Ltd. is availing cash credit limit of ₹ 25 crores from LMN Bank Ltd. The drawing power of the company ranged between ₹ 22 crores and ₹ 25 crores during the year 2023-24. The limit availed by the company remained less than ₹ 20 crores during all the days of the financial year 2023-24. The company has not deposited any amount in the cash credit account and there are no other credits to this account during the last two quarters. How will this account be classified in the books of LMN Bank Ltd. as on 31-03-2024 ? Explain. 3
- (c) You are the statutory auditor of NP Ltd. Looking at the huge size of similar transactions, you directed your team members to use statistical sampling. One of the team members, Mr. Q, wants to select samples based upon his personal experience & knowledge as he is not aware of statistical sampling. You are required to explain to Mr. Q why the use of statistical sampling method is more scientific and appropriate. 3
4. (a) EFG Ltd. has appointed M/s. MN & Co., Chartered Accountants, as the statutory auditors for the year 2024-25. CA N, the engagement partner, completed his risk assessment procedure. However, he is concerned about the management of human resources to be employed to conduct the audit. For this purpose, he wants to establish an overall audit strategy for setting the scope, timing and direction of the audit. Describe how the process of establishment of overall audit strategy will assist him in managing deployment of his human resources for various audit areas. 4
- (b) JB Limited has invested huge sums of money on establishment of new Property, Plant and Equipment during the year under audit. They have incurred an amount of ₹ 5,70,000/- on dismantling of an old plant, which had become obsolete, so that a new plant can be set up at the existing location. The Auditor is in the process of verifying the cost incurred towards addition to Property, Plant and Equipment. What should be the accounting treatment of the amount spent on dismantling of old plant in the financial statements ? Which elements of cost should be considered for valuing Property, Plant and Equipment ? 4

- (d) Mr. J is an articled clerk with a big Chartered Accountants' firm. He is a part of the engagement team which is conducting the audit of a company for the first time. They are assigned with the work of preparing the draft audit engagement letter. Mr. J is not sure how to go about with this work. Explain what is Audit Engagement Letter and what are its contents ? 3

6. (a) You are the auditor of Plus Bank Limited. The bank has made following provisions for the year ended on 31.03.2024 : 4

Particulars	Amount (₹ in crores)
Provision for Bad Debts	66
Provision for Sub-standard Assets	78
Provision for Expenses	24
Provision for Income Tax	55

You are in the process of verifying the provisions and contingencies of the bank. What audit approach and procedures will you adopt to verify the above ?

OR

- (a) CA Vasu was appointed as the statutory auditor of M/s. Pizza Limited for the financial year 2023-24. While reviewing the internal controls, he observed that the company has entered into many transactions with firms in which the directors are interested. The company's specified procedure was by-passed in such transactions. CA Vasu considered it as a significant deficiency in internal control over related party transactions. He communicated this deficiency to Those Charged With Governance (TCWG) as under, 4

"Controls over significant transactions with related parties are weak."

In view of the above, please explain : -

- (i) What is meant by deficiency in internal control ?
(ii) As per SA 265, whether the significant deficiency communicated by CA Vasu to TCWG is appropriate ? Explain.

(b) CA P is a professional accountant in service. In terms of employment and professional relationships with employer he has to be alert to the possibility of inadvertent disclosure of any information outside the employing organization. However, in view of disclosure required by law, CA P had to divulge the information and documents as evidence in course of legal proceedings. Whether CA P has violated any fundamental principle governing professional ethics in this case? Explain.

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(c) During the audit of accounts for the year ended 31.03.2024, the auditor of FD Limited wanted confirmation from a Trade Receivable, which was outstanding for more than six months, amounting to ₹ 4,25,000/-. The auditor sent a Confirmation letter to the party requesting them to respond directly to him, whether or not they agree with the amount outstanding from them.

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That trade receivable confirmed to the auditor of FD Limited, that they were required to pay an amount of ₹ 4,20,000 to FD Limited as per their books of accounts.

State and explain the type of Confirmation Request sent by the auditor and the course of action that he should take on the confirmation received from the trade receivable.

(d) P Financial Services Ltd. (PFSL) is a leasing & hire purchase company. You, as an auditor of PFSL, are in the process of examining finance lease agreements executed by them for equipment given on lease. Which points shall be noted by you while examining a particular finance lease agreement entered into by PFSL in respect of a leasing transaction?

3