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PART - I

1. M/s DEF & Associates have been appointed as the statutory auditor of JRL Ltd. a PSU engaged in generation of electricity from solar power. The Committee on Public undertakings with a view to examining PSU's physical and financial performance is examining the reports and accounts of public undertaking and also audit findings of the C & G. Following are some of the functions of specialised committees

- (i) to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament  
(Function of PAC)
- (ii) to examine the estimates to report what economies, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;  
(Function of Estimate committee)
- (iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.  
(Function of COPU)
- (iv) to examine public enterprises through comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking  
(Function of COPU)

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

- A. (i) & (iv)
- B. (ii) & (iii)
- C. (i) & (ii)
- D. (iii) & (iv)

(2 Marks)

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

- (i) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner. [Principle-9]
- (ii) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over consumption. [Principle-9]
- (iii) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products. [Principle-9]
- (iv) The entities are responsible to educate and make aware their consumers and clients about their rights. [Principle-2]

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

- A. (i) & (iv)
- B. (i), (ii) & (iii)
- C. (i), (iii) & (iv)
- D. (ii), (iii) & (iv)

(2 Marks)

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

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

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

(2 Marks)

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**Integrated Case scenario 1**

Tom Ltd. is in to the business of manufacturing and distributing of Toys for the past 25 years. Since inception, the company is having its own in-house dedicated internal audit department, having team of competent & qualified chartered accountants, headed by the Chief Internal Auditor, who with systematic and disciplined approach monitors various Internal Controls laid down at all levels of the functional areas. M/s Deva & Co., Chartered Accountants, have been newly appointed as the statutory auditors of the company for the F.Y. 2024-25.

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

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

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

4. M/s Deva & Co., in their auditor's report on the current period's financial statements wants to report that Tom Ltd. does not want to make provision for doubtful debts in F.Y. 2024-25. Identify the correct action to be resorted out of the following :
- A. As per SA 710, can modify their report for previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
  - B. As per SA 710, can modify their report for current year's figures of financial statements but need not refer to the previous year's modification.
  - C. As per SA 710, will have to modify their report for both current and previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion. (Refer Q. NO. 49 in chapter 7)
  - D. As per SA 710, cannot modify their report but need to refer to the earlier year's modification. (2 Marks)
5. M/s Deva & Co. assigned the following procedures to internal auditors to provide direct assistance.
- (i) that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited. (Cannot be assigned)
  - (ii) that relate to work with which the internal auditors have been involved and which will not be reported to management or those charged with governance by the internal audit function.
  - (iii) that relate to decisions the statutory auditor makes in accordance with SA. (Cannot be assigned)
- From the above, identify the appropriate procedure(s) that can be assigned to internal auditors :
- A. (i), (ii), (iii)
  - B. (ii) only
  - C. (ii) & (iii)
  - D. (iii) only
- (2 Marks)

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6. Issue identified by Deva & Co., with regard to holding significant bank accounts and having branch operations in tax-haven jurisdictions and significant related party transactions is a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?
- A. The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting.
  - B. The risk factor creates an incentive/ pressure for the fraud and results in a misstatement due to misappropriation of assets.
  - C. The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to fraudulent financial reporting. SA-240
  - D. The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to misappropriation of assets. (2 Marks)
7. Out of the following which view of M/s Deva & Co. is the correct one for complying the reporting requirement under CARO, 2020 as regards lump-sum deposit of estimated ESI collections and its adjustment against next months' deposit leaving the insignificant difference of ESI amount?
- A. the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported. [Refer Q. 62(iv)-Chapter 7]
  - B. depositing of ESI collections and the arrears of ESI dues cannot be considered as statutory dues under CARO 2020 and hence not to be reported.
  - C. lumpsum deposit of estimated ESI amount and adjusting excess/deficit against following months' deposit shall be considered as dues payable and hence to be reported under CARO 2020.
  - D. even though the difference between the total dues of ESI and lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited and hence to be reported under CARO 2020. (2 Marks)

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### Integrated Case Scenario II

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

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

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

You have calculated Eligible total capital funds comprising -

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

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

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

DTL balance as on 30<sup>th</sup> September, 2024 was Rs. 50,000 Crore which included the following -

	₹ Cr.
(i) Paid up capital	27,000
(ii) Reserves	1,650
(iii) Credit balance in Profit & Loss account	1,210
(iv) Loan taken from RBI	575
(v) Refinance taken from EXIM bank and NHB	480
(vi) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii) Net credit balance in branch adjustment accounts	105
(viii) Interest accrued but not accounted for in books	90
(ix) Margins held and kept in sundry deposits for funded facilities	80

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

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

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

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

(iv) XYZ & Associates LLP has been appointed as auditors of Heavy Electricals Corporation, a Public sector undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time schedule, well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.

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

(Q. Nos. 8 to 11) :

8. Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -

- A. Top Layer
- B. Upper Layer
- C. Middle Layer
- D. Base Layer

[Deposit-taking NBFC]

(2 Marks)

9. Based on facts given in para (i), you are required to arrive at the correct percentage of Capital Risk Adequacy Ratio for the Maha Bank Limited

- A. 9%
- B. 10.80%
- C. 8.33%
- D. 10%

$$\frac{\text{Capital funds (Tier I + Tier II)}}{\text{Risk weighted Assets and off Bds items}} = \frac{(200 + 20) + (30 + 20)}{25 + 5} = 9$$

(2 Marks)

10. Based on facts given in para (ii), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30<sup>th</sup> September, 2024.

- A. ₹ 18,000 crore
- B. ₹ 19,360 crore
- C. ₹ 18,790 crore
- D. ₹ 18,880 crore

$$50000 - 27000 - 1650 - 1210 - 575 - 480 - 125 - 80 = 18880$$

(2 Marks)

11. Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM) -

- A. Audit programme
- B. Evidence
- C. Audit Questions
- D. Data collection and Analysis Method

(2 Marks)

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**Integrated Case Scenario - III :**

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

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

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

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

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

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

12. Since there arose a doubt on the management representation and considering the responsibilities of M/s HVM & Co to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following :
- A. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
- B. The fact that management has provided reliable written representations <sup>does not</sup> affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.
- C. In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.
- D. The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230. (2 Marks)
13. CA V, engagement partner, in the course of audit of AST Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA260. Following are the circumstances for which communication with those charged with governance is required.
- Help CA V in getting identified incorrect circumstance from the below mentioned circumstances.
- A. when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.
- B. when the auditor consider it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.
- C. when a material uncertainty related to going concern is reported in accordance with SA 570.
- D. when there are no key audit matters to be communicated in accordance with SA 701. (2 Marks)

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14. In view of the Board of Directors of the VED Ltd. agreeing to include an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 in the financial statements of the company for the Financial Year ended on 31<sup>st</sup> March, 2024 by amending the accounts, CA H shall consider the following procedures. Identify the incorrect procedure from the following :

- A. Carry out the audit procedures necessary in the circumstances on the amendment.
- B. Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.
- C. Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.
- D. Modify the opinion as required by SA 705 and then provide the auditor's report.

(Refer Q.3 of Chapter 6)

(2 Marks)

15. In response to the management offer, guide CA M, whether to take up the assignment of statutory audit of HT institute of professional studies for the financial year 2023-24.

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

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

(2 Marks)

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