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PART - II

1. (a) SS Ltd. is a company listed in India. The Company has appointed M/s Z & Co. as auditors. Mr. Q a CA has recently joined the firm and has been appointed as the engagement partner for the first time. He understands that it is necessary to ensure the compliance of independence for the audit team as per standard audit practices. But he could not find as such, any policies and procedures available with the firm in documented form. 5

Why do you think that the firm should have policies and procedures to ensure the independence of the firm in every assignment ? How does an engagement partner ensure the compliance of independence ? Discuss with reference to relevant SAs.

(b) Mr. Bal a CA has been appointed as the auditor of Healthy Foods Pvt. Ltd. The company purchases various types of grains and converts them into flour. While obtaining an understanding of the control environment of the company, he found that entity's risk assessment procedure has some loopholes at various points in the purchase process and company is required to make certain material assertions in financial statements on the basis of fair value estimation. CA Bal foresees a risk of material misstatement due to these fair value estimations. Suggest him as to how he should deal with such risks ? Elucidate with reference to relevant SAs. 5

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(c) Dreams Pvt. Ltd. is a Travel management Company which provides its customers with customized packages of domestic and international tours. During the period of COVID-19 and a year after that, company suffered losses due to which it went under cost cutting regime. As a part of the process, the company has adopted various courses of actions one of which is appointment of internal auditor. The internal auditor observed that the company has given a huge hall for providing a gym facility to its employees. The internal auditor observed that the gym is being used only 1-2 days a week on an average basis by the employees. There is a huge balance lying in the company's bank account, but the management could not take a decision regarding investing the same, due to fluctuating market situations. The Company has taken a hall on rent for the purpose of sitting cum waiting lounge for its customers. Besides, everyday there is downtime of one hour during the working hours for computers and other machines. The internal auditor of the company wants to cover these matters and report them, but Mr. X the manager of the company, is of the opinion that these matters are not related to internal audit and, therefore, should not be commented upon. Express your opinion in this regard and suggest appropriate course of action. 4

2. (a) PQR Ltd. supplies uniforms across the country. The company has 4 warehouses at different locations throughout India and 5 warehouses at the borders. The major stocks are generally supplied from the borders. 5

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PQR Ltd. appointed M/s STU & Co. to conduct its audit for the financial year 2022-23. Mr. U, partner of M/s STU & Co., attended all the physical inventory counting conducted throughout India, but could not attend the same at borders due to some unavoidable reasons.

You are required to advise M/s STU & Co.,

- (I) How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained ?
- (II) How is an auditor supposed to deal, in case attendance at physical inventory counting is impracticable ?

(b) CA. Pack, a qualified Chartered Accountant got the audit assignment of F(P) Ltd. for the financial year 2022-23. 5

He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Pack left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting to ₹ 150 lakhs.

He continued as it is from the last year, on the affirmation of the management that there are no receipts and further credits during the year.

CA. Pack, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by the predecessor auditor.

In your opinion, what measures need to be taken by the auditor. Also, suggest the correct audit procedure in this regard.

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- (c) Fam Associates have been appointed auditors of Home Ltd. which acquired 55% shares in Sam Ltd. on 15<sup>th</sup> October, 2022. During the audit of Home Ltd., the auditors found that the company has not prepared consolidated financial statements because, on the date of acquisition, the fair value of certain assets & liabilities has not been ascertained, which is significant and are accounted for on estimated basis only. 4

Help Fam Associates in framing the opinion paragraph of the audit report.

3. (a) While doing Tax Audit, under Section 44 AB of the Income Tax Act, 1961, of the accounts of Gum Private Limited for the Assessment Year 2023-24, it was found that during the Financial Year 2022-23, Gum Private Limited had received 8,000 shares, the market value of which was ₹ 80,000 on the date of transfer, at a price of ₹ 45,000 from Paste Private Limited. The Management of Gum Private Limited maintained that the transaction was as per the terms of negotiations and there would be no cause for the Auditor to bring this matter in his Tax Audit Report. 5

Discuss this aspect with relevant provisions of Section 44AB of the Income Tax Act, 1961.

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(b) DK Finance Ltd. is registered with RBI as an NBFC. Its financial statements have already been prepared and approved. A US based company is interested in investing in the equity of DK finance Ltd. but they want the company to present their financial statements under IND AS.

What points do you think should be kept in mind while preparing the financial statements of an NBFC under IND AS.?

(c) In an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates.

This data can be useful for preparation of Management Information System (MIS) reports and electronic dashboards that give a high-level snapshot of business performance.

In view of the above facts, you are required to briefly discuss the meaning of data analytics and give examples of circumstances, when auditors can apply the concept of data analytics.

4. (a) CA Honest is the statutory Auditor of Wax Ltd; which is a company listed in India with a turnover of ₹ 2500 Cr. as per latest financial statements. CA Honest is the auditor of the company since last 3 years. During the year 2021-22, Company has changed its CFO. The newly appointed CFO is not much happy with CA Honest due to his strict audit

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procedures as well as his harsh comments in the review reports. He always tries to avoid giving detail information on certain important matters. During the month of October, 2022, CA Honest decides to resign and after informing the management he finally resigned on October 12, 2022. CA Honest has completed the limited review for the quarter ended September 2022 and has submitted his review report to the company.

Do you think CA Honest has performed all the required duties before resigning as auditor, in accordance with Companies Act 2013 or SEBI LODR ?

How can the company ensure the compliance of the requirements of LODR in case of resignation of the auditor ?

- (b) Mr. D has an expertise in navigation software used in vehicles. His customers are overseas companies. During the last financial year, Mr. D had to incur losses due to non-payment by two of his customers of different countries, one of them being insolvent and the other due to some sanctions imposed by newly appointed government of that country. Being more cautious this time, Mr. D is looking for some legal way out, through which he can ensure timely payment of his software. 5

Do you think there is any type of insurance cover, which can serve the purpose of Mr. D ? If yes, what shall be the basic requirements of that insurance cover if Mr. D wants to go with the same ?

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- (c) MNS Bank Ltd. is suffering from huge number of NPAs. During the month of April 2023, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale :

Name	NPA since F.Y.	Amount (₹ In Lakh)
S store Ltd.	2018-19	27.5
V Pvt. Ltd.	2017-18	55.23
AV Fab Corp.	2020-21	34.20
MN Iron works.	2021-22	45.30
D G and Associates	2019-20	50.00

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered.

5. (a) Sonar Limited is a public sector undertaking engaged in production of electricity from solar power. It had commissioned a new project near Mumbai with new technology for a cost of ₹ 4,750 Cr. The project had seen delays in commencement and cost overruns.

State ANY FIVE matters that a Comprehensive Audit by C & AG may cover in reporting on the performance and efficiency of this project.

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- (b) CA T was appointed as a Technical Reviewer of M/s. ABC & Co., Chartered Accountants, for the year ending on 31<sup>st</sup> March 2023 by Quality Review Board. CA T has completed the review of M/s. ABC & Co. within the stipulated time. 5

What matters shall be considered by CA T in deciding on the type of Quality Review Report to be issued to the Quality Review Board for M/s. ABC & Co.? Mention ANY FIVE matters.

- (c) CA. Sonu has been practising since 2008, specialising in Corporate audits and Company Law matters. Due to his good practical knowledge, he was offered editorship of a 'Company Audit' Journal, which he accepted. However, he did not take any permission from the Council regarding such editorship. 4

Discuss the act of CA Sonu with reference to the Chartered Accountants Act, 1949 and the Rules made thereunder.

6. (a) Explain the provisions & requirements of the Companies Act, 2013 for preparation and Consolidation of Financial Statements of a company which is mandatory. Also, state in which cases the requirement related to preparation of consolidated financial statements shall not apply to a company. 5

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(b) P Ltd has more than one subsidiary where Mr. K and Mr. X are interested. K and X are also directors in P Ltd. These concerns have numerous inter-company transactions for past many years. Some of the subsidiary companies are continuously bearing losses, but are being financed by one or the other agencies in the market. One of the independent directors of a Subsidiary, reported the matter to the central government and requested for an investigation, as he is of the opinion that these companies are being operated to benefit certain specific persons. Mr. Q, a practicing Chartered Accountant has been appointed by the Central Government as inspector to investigate the matter.

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You are required to guide Mr. Q regarding the type of investigation to be conducted and matters to be considered in such investigation.

(c) Mr. R has been appointed as the statutory auditor of Famous Ltd. which is a listed company. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 3 lakh each, and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be done after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 25<sup>th</sup>, 2023 along with the remaining part of the Audit Fee.

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Discuss the validity of above fee structure and terms of payment in the light of applicable provisions given by ICAI.

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OR

CA P has been representing M/s VS and Associates before Income Tax Appellate Tribunal for a case of income escaping assessment for F.Y. 2016-17. There were unidentified credits in the books of accounts. CA P was the statutory auditor of the company that time and did not mention any thing about such credit in his audit report. Later, it was found that he had sufficient evidences to believe that these credits were liable to be taxed. In order to make his case stronger, he produces false documents and made witness present false statements.

What do you think are provisions against CA P under different Acts ?