

Roll No. ....

Total No. of Questions : 6

Total No. of Printed Pages : 12

Maximum Marks : 70

**GENERAL INSTRUCTIONS TO CANDIDATES**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book or on Part I question paper, will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

**PART - II**

**70 Marks**

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate has not opted for Hindi Medium, his/ her answers in Hindi will not be evaluated.

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**PART - II**

Question : 1(a)

STA and Associates, Chartered Accountants, is an upcoming firm and its good professional services are hired by diverse clients for assurance services. With a standing of seven years in practice, the firm has clients in various industries like health care, education, hospitality, manufacturing and many more. With the increasing assignments, changes in regulatory compliances and appointment of new personnel, the senior partner CA T is concerned with the proper functioning of the system of Quality control within the firm. He wants to ensure that policies and procedures relating to the system of quality control of the firm are complied with properly. CA T suggests that a proper monitoring of quality control will be the right approach. Discuss the factors that are to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC. (5 Marks)

Question : 1(b)

TEA Ltd., a public company is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year 2023-24, it had availed credit facilities from Kuber Bank Ltd. The bank had sanctioned a working capital cash credit facility on 21<sup>st</sup> April, 2023, for a limit of ₹ 4.50 crore and Letter of Credit facility for a limit of ₹ 2.50 crores aggregating to ₹ 7 crore on the basis of the hypothecation of stocks and book debts of the company against which utilisation of the limits by TEA Ltd during the year in the case of cash credit facility was ₹ 3.90 crore and of Letter of credit was ₹ 1.05 crore aggregating to ₹ 4.95 crore. During the year under review, the company had faced sluggish market conditions for its various brands of teas due to its inability to cater to the requirements of its customers' expectations. It faced severe cash crunch and found it difficult to manage working capital stress. In order that the bank does not reduce its drawing power of working capital limit, the management decided to peg up the values of the stock statements it submitted to bank by a hike of 15% during the quarters ended June 2023, September 2023 and December 2023. When an engagement partner leading the audit team happened to review the stock statements submitted to the bank, it was noticed that the stock figures declared were not in agreement with book figures and had been hiked as above. The matter was taken up with CFO of the company who contended that auditors need not examine and compare the quarterly statements with the books of accounts as the utilisation of working capital limits is less than the specified sanctioned limit as on 31<sup>st</sup> March 2024 and hence this case is beyond the scope of reporting under CARO, 2020. Is the contention of CFO correct? Analyse the issue and discuss the reporting responsibilities of the auditor. (5 Marks)

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**FBA2**

Question : 1(c)

Best Textiles Ltd makes an investment in Prime Textiles Ltd with a view to expand its business, capture more market share and to earn higher returns. While forming an agreement for the same, Best Textiles Ltd puts a clause in the contract that Prime Textiles Ltd will get its financial statements reviewed on a quarterly basis for a period of 2 years from the commencement of the contract i.e. 01-04-2023. To comply with the provisions of the contract the management of Prime Textiles Ltd appoints CA Sumit to conduct the quarterly review of financial statements for the first quarter of the financial year 2023-24. Discuss from the practitioner's point of view, the preconditions for accepting a review engagement in accordance with the relevant SRE. (4 Marks)

Question : 2(a)

PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to PN and Associates for accepting the audit. CA N, the engagement partner communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA N has complied with the same. (5 Marks)

Question : 2(b)

UV Limited is a large multinational company with a global outreach. Due to the voluminous business, it has an in-house internal audit function to monitor the day-to-day operations of the company. LK and associates, Chartered Accountants have been engaged to conduct the statutory audit for the financial year 2023-24. Since the company has large scale operations and there is a limited time to perform statutory audit, CA L, the engagement partner decides to take direct assistance from the internal auditors for certain areas of audit. CA L assigns the audit documentation part to one of his audit assistants and instructs him to do the requisite documentation of working papers. Further he tells his audit assistant not to document the working papers prepared by the internal auditors who directly assisted them, as it does not form part of statutory audit.

Is CA L right in excluding the working papers prepared by internal auditor from the audit documentation? Guide him as to the matters to be included in the Audit Documentation in this scenario. (5 Marks)

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Question : 2(c)

TP Limited is a medium-sized company involved in manufacturing and retailing of home appliances to cater to the daily needs of a wide range of consumers. The company has in place proper cyber security policies, procedures and framework. Regular assessment of the same is also carried out by the management. The company faced a cyber attack incident of email phishing scam which resulted in inappropriate disbursements to various individuals posing as vendors and caused a substantial financial loss. This incident highlighted the need for strong and updated internal controls to mitigate the cyber risks. As the statutory auditor of the company, how will you evaluate the controls around the vendor setup and modifications. (4 Marks)

Question : 3(a)

The Director (Discipline) of The Institute of Chartered Accountants of India had received the matters in respect of cases of alleged misconduct against CA H, the proprietor of M/s HA & Co, Chartered Accountants and was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949 and Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, and penalty was imposed by an order passed against him dated 15<sup>th</sup> June, 2024.

Against the said order, CA H preferred an appeal with the Appellate Authority on 5<sup>th</sup> August, 2024 by submitting the statement of appeal along with application form of appeal. During such appellate proceedings, it was discovered that the said statement of appeal contained some facts which were false to which CA H admitted it to be false and apologized for it.

Based on the above stated scenario of the matters placed before The Director (Discipline) of ICAI against CA H, you are required to answer the following :

- (i) Comment on violation of provisions of the Chartered Accountants Act, 1949 and its schedules thereto by CA H.
- (ii) Before which authority, the matters of CA H would have been placed and what maximum punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?
- (iii) Has CA H filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? (5 Marks)

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Question : 3(b)

MK Electronics Limited is a listed company with eight subsidiaries spread across various states. The financial statements of MK Electronics Ltd are audited by CA Amar, the principal auditor. CA Amar relies on the work of other auditors for auditing the financial statements of subsidiaries. You are required to :

- (i) Explain the procedures that CA Amar will perform to obtain sufficient appropriate audit evidence to ensure that the work of other auditors is adequate for his purpose.
- (ii) Explain how he will document the working papers with respect to the subsidiaries audited by other auditors. What matters need to be documented if the other auditor's report is modified. (5 Marks)

Question : 3(c)

CEP Ltd., a manufacturing company, has a diverse range of suppliers for raw materials and components. Several new suppliers have been added during the past year. It is the responsibility of the Accounts payable department for managing the Suppliers' Ledger, processing invoices and making payments. The management of CEP Ltd has experienced unexpected financial discrepancies and they suspect fraudulent activities within the Suppliers' Ledger. The management assigns CA K to conduct a detailed investigation to identify any potential fraud that might have occurred. Discuss the ways in which frauds can be committed through Suppliers' Ledger. Explain the procedures that CA K will adopt to investigate the potential fraud. (4 Marks)

Question : 4(a)

M/s JPP & Associates have been appointed as auditors of ABC Ltd., an ISO certified listed Indian multinational Jewellery Company having headquarters at Mumbai for F.Y. 2024-25. The company has more than 100 showrooms in India and 60 showrooms across the globe. During the course of audit, from the matters communicated with those charged with governance the auditors determined certain matters as most significant in

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**FBA2**

the audit of the financial statements of the current period which are related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA). Public disclosure of this specific matter by the auditor is not precluded by authorities under PMLA since the same may not prejudice investigation which has already been officially completed and settled on 30<sup>th</sup> September 2024. What would be the considerations of M/s JPP & Associates in determining the matter requiring significant attention in performing the audit? State the introductory language that JPP & Associates would use while communicating such matter in their audit report as per relevant Standard on Auditing. (5 Marks)

Question : 4(b)

CA Rajni is appointed as the statutory auditor of STS Ltd for the financial year 2023-24 for auditing complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Rajni as a separate engagement for the financial year 2023-24. While drafting the audit report of complete set of financial statements, CA Rajni decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion.

Comment with reference to the relevant Standard of Auditing regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment. (5 Marks)

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Question : 4(c)

ESG disclosure and reporting is mandatory for top 1000 listed companies in form of Business Responsibility and Sustainability Reports (BRSR). As reporting of sustainability information becomes the trend being observed globally, the demand for independent assurance of sustainability information is anticipated to grow as entities around the globe look to enhance the integrity of their sustainability reporting. In developing the understanding of an entity, the auditor should include the consideration of climate – related risks and how these risks may be relevant to the audits. Many investors and stakeholders are seeking information from auditor’s report about how climate-related risks are addressed in the audit.

In the context of the above, describe the role of auditor in an audit of financial statements of the company. (4 Marks)

Question : 5(a)

PQR Ltd. is engaged in the business of construction and real estate having various projects across the states. M/s ST & Co., Chartered Accountants have been appointed as statutory auditors. CA T, an engagement partner, who leads engagement team, during preliminary verification, identified a few agreements entered by PQR Ltd. for the provision of services to some parties under terms and conditions that are outside PQR Ltd.’s normal course of business, suggestive of the indications about existence of related party transactions that management has not previously disclosed to the auditor. Highlight the aspects that M/s ST & Co., shall consider on identification of previously undisclosed related party transactions with reference to the relevant standard on auditing. (5 Marks)

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P.T.O.

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**FBA2**

Question : 5(b)

PQ Pharma Limited, a company dealing in research and development and manufacture of pharmaceuticals is coming up with an Initial Public Offer (IPO). PQ Pharma Ltd has prepared the prospective financial statements for the next 3 years and included the same in the prospectus as part of its IPO. The prospective financial information includes projected balance sheets, statement of profit and loss and cash flow statements, which are prepared on the basis of several key assumptions like favourable government regulations, planned research and development of more effective medicines at reasonable prices, etc.

The company approaches CA Z to provide assurance on the prospective financial information and to assess the presentation and disclosure of the prospective financial information included in the IPO. List out the aspects that must be considered for making such assessment.

(5 Marks)

Question : 5(c)

CA Gosh, newly qualified Chartered Accountant, joins a reputed CA firm as a partner. He is full of confidence about his qualification and feels he possesses complete knowledge of his profession for the future assignments. The senior partner of the firm calls a meeting to brief the new partner and other newly appointed audit assistants in his firm regarding the ethics that need to be kept in mind while carrying out assurance and non-assurance services. One of the areas he touches upon is the professional competence and due care that a Chartered Accountant needs to possess all the time. Enumerate the matters envisaged in subsection 113 of Revised Code of Ethics that needs to be complied with by a professional accountant with respect to Professional Competence and Due Care.

(4 Marks)

**FBA2**



(9)

**FBA2**

Question : 6(a)

CA M is appointed as the Statutory auditor of Fincorp Limited for the financial year 2023-24. This company is an NBFC covered under Non-Banking Financial Company – Systemically Important Non-Deposit-taking company. To comply with the RBI Prudential Norms for asset classification, Fincorp Limited has made the following provisioning in respect of loans, advances and other credit facilities as on 31<sup>st</sup> March, 2024 :

Particulars	Balance outstanding as on 31 <sup>st</sup> March, 2024	Provision for the Financial year 2023-24
Standard Assets	₹ 200 crores	NIL
Sub-standard Assets	₹ 15 crores (Fully secured)	₹ 1.50 crores
Doubtful Assets (one to three years)	₹ 8 crores (Fully secured)	₹ 2.00 crores
Loss Assets	₹ 2 crores	₹ 2.00 crores
Total Provision for NPA		₹ 5.50 crores

CA M is of the opinion that the company has not done the provisioning correctly. Is the opinion of CA M, correct? In this context, explain the provisioning requirements applicable to this NBFC and comment on the provision for NPA made by the company.

(5 Marks)

Question : 6(b)

ATP Limited, a large manufacturing company, is planning to invest funds in RS Ltd with a future vision of taking over the company at a later stage. On studying the financial statements of RS Ltd, the investing company wants to get detailed status regarding the Accounts receivable and Inventory appearing in the Balance Sheet. ATP Limited approached you to perform agreed upon procedures for the two elements of financial statement of RS Ltd and submit a detailed report for the same. As the engagement partner, you are responsible for drafting the engagement letter. Enumerate the key matters that need to be agreed to form a clear understanding regarding agreed upon procedures and the conditions of the engagement. What matters will you include in the engagement letter addressed to the management of ATP Ltd?

(5 Marks)

**FBA2**

P.T.O.

( 10 )

**FBA2**

Question : 6(c)

CA F is the Chief Financial Officer of ABC General Insurance Limited. Being in insurance business, the company gets majority of its clients through their agency contracts. CA F has the practice of releasing the commission payments on the condition that he gets 20% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. (4 Marks)

Or

Question : 6(c)

The Government of India launched a rural development scheme to undertake projects aimed at improving infrastructure, healthcare and education in the rural areas. To execute the projects the Central Government provided funds to the state government. The Comptroller and Auditor General of India wants to ensure that the funds provided to the State Governments have been utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized by the state government for building hospitals, school buildings and roads and submit a report on the wastefulness in public administration and cases of improper, avoidable and infructuous expenditures, if any, has been done. What functions as an auditor will be performed by you?

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**FBA2**

( 11 )

**FBA2**

**SPACE FOR ROUGH WORK**

**FBA2**

**P.T.O.**

( 12 )

**FBA2**

**SPACE FOR ROUGH WORK**

**SEAL**

**FBA2**