

**CODE : Adt P2532****MARKS : 100****CA INTERMEDIATE**  
**AUDITING AND ETHICS****TOPIC : FULL****TIME ALLOWED : 3 HOURS****DIVISION A (MCQ)****CASE SCENARIO - I**

Jin Kushal & Associates is a firm of Chartered Accountants practicing in Delhi. The firm consists of two partners namely, CA Jin and CA Kushal. The Statutory audit team is generally headed by CA Jin and his team consists of three articled assistants and one qualified Chartered Accountant, CA Reshu. With respect to the audit work of 4 clients for which the audit team intends to start the audit work, CA Jin discussed with the team members about the development of audit programmes for individual clients. One of the articled assistants, Mr. Sumit, was of the view that one single audit programme can be developed for all the 4 clients operating in different industries.

With respect to one of the clients namely, Saraswati Ltd., a labour-intensive company, CA Jin asked CA Reshu to compare the amount of wages paid by the company in the current year and last year. Also, she was asked to verify the relationship between the number of employees and wages paid in both the years by the company.

The audit firm started the audit of another client, namely, Sarthak Ltd. having maximum transactions in foreign currency. CA Jin asked one of the team members, Mr. Rahul, to verify whether the calculations related to conversion of the foreign currency into local currency is proper or not.

While verifying the share issue transactions of one client, namely, Laxman Ltd., CA Reshu found that the company has issued sweat equity shares during the year under audit. She asked one of the articled assistants, Mr. Saurabh, to further verify whether the relevant provisions of the Companies Act 2013, have been complied by the company in this regard. Also, with respect to Sarthak Ltd., there was reduction of share capital during the year. Mr. Saurabh was asked by the engagement partner to verify the compliance of relevant provisions of the Companies Act, 2013 in this regard also. Mr. Saurabh was of the view that there is requirement of passing of Special Resolution by the respective company for both.

While starting the audit work of another client, Rintex Ltd., the audit team noticed that the company has its internal audit team. Mr. Sumit was of the view that the statutory audit team can use and rely on the work of the Internal Auditors of the company and as such there is no requirement for the statutory audit team to perform audit procedures again as the internal audit team must have verified the financial transactions of the company in detail. Further, while verifying the expenses ledger, Mr. Sumit noticed that the company has implemented a system whereby the entries related to expenses incurred during the year can be entered into the accounting system by authorised personnels only. However, with respect to travelling expenses which constituted about 30% of the total expenses, the entries were made by employees who were not authorised to make such entries.

1. Is the view of Mr. Sumit with respect to the development of audit programme correct?

- (a) Yes, the view of Mr. Sumit is correct as developing one audit programme for all the clients will avoid duplication of efforts of audit team.
  - (b) No, the view of Mr. Sumit is not correct as all the four clients operate in different industries and evolving one audit programme for all businesses is not practicable.
  - (c) Yes, the view of Mr. Sumit is correct as development of audit programme is not affected by the nature of client business.
  - (d) No, the view of Mr. Sumit is not correct as development of audit programme is not the responsibility of the audit team. The individual clients will develop their respective audit programmes.
2. Identify the audit procedures Ms Reshu was asked by CA Jin to perform with respect to Saraswati Ltd.
- (a) Substantive Analytical Procedures.
  - (b) Test of details.
  - (c) Test of transactions.
  - (d) Test of Controls.
3. Whether understanding of Mr. Saurabh regarding the passing of Special Resolution is correct?
- (a) The understanding of Mr. Saurabh is partly correct as ordinary resolution is required in case of issue of sweat equity shares by the company though special resolution is required to be passed by the company in case of reduction of share capital.
  - (b) The understanding of Mr. Saurabh is partly correct as special resolution is required in case of issue of sweat equity shares by the company though ordinary resolution is required to be passed by the company in case of reduction of share capital.
  - (c) The understanding of Mr. Saurabh is correct as special resolution is required in case of issue of sweat equity shares by the company and reduction of share capital.
  - (d) The understanding of Mr. Saurabh is not correct as ordinary resolution is required in case of issue of sweat equity shares by the company as well as in case of reduction of share capital.
4. Is the view of Mr. Sumit correct with respect to using and relying on the work of the Internal Audit team of Rintex Ltd.?
- (a) Yes, the view of Mr. Sumit is correct.
  - (b) No, the view of Mr. Sumit is not correct as the statutory audit team cannot use the work of the internal audit team of the client company.
  - (c) No, the view of Mr. Sumit is not correct as the statutory auditor has the sole responsibility for the audit opinion expressed.
  - (d) The view of Mr. Sumit is partly correct as the statutory audit team can use and rely on the work of the internal audit team if the same is agreed while signing the engagement letter.
5. Identify the type of risk noticed by Mr. Sumit with respect to entries related to travelling expenses entered into the accounting system of Rintex Ltd.
- (a) Inherent Risk.
  - (b) Detection Risk.
  - (c) Control Risk.
  - (d) Audit Risk.

**(5\*2=10 MARKS)**

### **CASE SCENARIO - II**

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.

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. 6 to 9.

6. 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?
  - (A) They will have to agree with the opinion formed by the majority of auditors.
  - (B) 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.
  - (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.
7. The securities premium account of PAWAN Ltd. cannot be applied for which of the following purposes ?
  - (A) In writing off the debit balance in the Profit & Loss account.
  - (B) In writing off the expenses of, or the commission paid or discount allowed on any issue of equity shares of the company.
  - (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.
8. 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 ?
  - (A) contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund.
  - (B) contribute an amount at the appropriate rate as per class of the society.
  - (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.
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?

- (A) Significant and specific contracts and agreements.
- (B) Draft audit engagement letter.
- (C) Summaries of significant matters.
- (D) Checklists.

**(4\*2=8 MARKS)**

### **CASE SCENARIO - III**

Revanth, Manohar and Piyush are planning to set up a new business for trading of electronic goods. They have heard in business circles that many entrepreneurs are setting up their organisations as Limited Liability Partnerships (LLPs). However, they lack knowledge about such legal structures. So, they decided to approach CA S for understanding the difference between a partnership firm, an LLP and a private company.

They also want to gain the knowledge of legal provisions regarding number of partners and the paperwork involved in forming an LLP. Further, they also have doubts regarding maintenance of books of accounts and the audit requirement for such organisations. Revanth, being cost conscious, specifically asks CA S regarding requirement of audit of LLPs. During the discussion, he shares that they are expecting a turnover of ₹5 crores in the first year of their business and funds amounting to ₹50 lakhs would be brought by partners as their contribution.

Manohar is concerned about the rules regarding the maintenance of accounts in software with an audit trail feature. He has a vague understanding, gained through social media, that such rules have recently come into effect. Moreover, he believes that these features are useful only for auditors. To address his concerns, CA S attempts to explain these matters to him.

After resolving their doubts, they decided to constitute an LLP named Blitz Products LLP with the professional assistance of CA S, who helped them in completing the necessary paper formalities. After constituting an LLP, they acquired dealerships of few reputed companies and received a good response from market due to prominent location of their showroom and are confident of achieving their turnover expectation within the first year of business.

They plan to get their accounts audited after closure of the financial year 2023-24 from CA S. The finance and accounts function of business is being headed by Piyush and he plans to contact him somewhere around August 2024 for getting audit of financial statements conducted, filing income tax return and making necessary regulatory compliances on behalf of LLP.

Based on the above facts, answer the following: -

- 10.** Which of the following is correct regarding the difference in types of organisational structures and connected matters?
- (a) LLP gives the benefit of flexibility of limited liability of a partnership and good governance of a company. A Minimum of two individuals are required to form an LLP and at least 2 partners are required to take DIN. The regulatory authority in the case of LLPs is Registrar of firms of the respective state where the LLP is located.
  - (b) LLP gives the benefit of limited liability of a company and flexibility of partnership. A minimum of two individuals are required to form an LLP and at least 2 partners are required to take DPIN. The regulatory authority in the case of LLPs is Registrar of Companies (ROC).
  - (c) LLP gives the benefits of limited liability of a company and flexibility of partnership. A minimum of two individuals are required to form an LLP and at least 2 partners are required to take DIN. The regulatory

authority in the case of LLPs is Registrar of Companies (ROC).

- (d) LLP gives the benefits of limited liability of a company and flexibility of partnership. A minimum of three individuals are required to form an LLP and at least 2 partners are required to take DPIN. The regulatory authority in the case of LLPs is Registrar of Companies (ROC).

11. Which advice would have been provided by CA S to Revanth regarding audit of financial statements of LLP considering description provided in case scenario?
- (a) There is no provision for compulsory audit of LLPs under the LLP Act, 2008 and relevant Rules. However, partners may choose to get accounts audited due to advantages associated with an audit.
- (b) Every LLP is compulsorily required to get its accounts audited under the LLP Act, 2008 and relevant Rules.
- (c) There exist provisions under the LLP Act, 2008 and relevant Rules for audit of LLPs based upon twin criteria of turnover and contribution thresholds. However, the proposed business doesn't meet thresholds and would not be required to get its accounts audited.
- (d) There exist provisions under the LLP Act, 2008 and relevant Rules for audit of LLPs based upon twin criteria of turnover and contribution thresholds. The proposed business meets thresholds and would be required to get its accounts audited.
12. Which of the following statement is correct regarding Manohar's point of view?
- (a) Audit trails are useful only for auditors. However, maintenance of accounts in software having feature of audit trail is not compulsory for LLPs.
- (b) Audit trails are useful for businesses as well as auditors. However, maintenance of accounts in software having feature of audit trail is not compulsory for LLPs.
- (c) Audit trails are useful for businesses as well as auditors. Maintenance of accounts in a software having feature of audit trail is compulsory for LLPs.
- (d) Audit trails are useful for businesses as well as auditors. Maintenance of accounts in a software having feature of audit trail is compulsory for LLPs having certain turnover thresholds.
13. Which of the following statement is correct regarding Piyush's plan?
- (a) Auditor is required to be appointed at least 30 days prior to March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.
- (b) Auditor is required to be appointed at least 60 days prior to March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.
- (c) Auditor is required to be appointed at any time before March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.
- (d) Piyush's plan is proper and there are no specific provisions for appointment of auditor of an LLP in accordance with relevant rules and regulations.
14. Considering Piyush's plan to contact CA S in August 2024 for making necessary regulatory compliances could lead to \_\_\_\_\_
- (a) Default by LLP in filing its annual return.
- (b) Default by LLP in filing its Statement of account and solvency.
- (c) Default by LLP in filing its annual return as well as statement of account and solvency.
- (d) No default by LLP in making necessary compliances.
- (5\*2=10 MARKS)**
15. Gori told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of the following statements seems to be appropriate in this regard?
- (a) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.

- (b) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.
- (c) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare, odd cases.
- (d) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard.

**(2 MARKS)**

**(30 MARKS)**

### **DIVISION B (DESCRIPTIVE)**

**[Q-1 IS COMPULSORY. ANSWER ANY FOUR FROM THE REST.]**

**Q-1.(a)** AP & Co., Chartered Accountants, are appointed as statutory auditor of Heavy Industries Limited, a listed company engaged in manufacturing of electric vehicles, for the F.Y. 2023-24. As per the recent guideline issued by the regulatory authority, every listed company is required to maintain the digital database of all those personnel who could access the books of the company to avoid Insider Trading. In case of non-compliance, hefty fines may be imposed on the company. CA P is the engagement partner from auditor firm for the audit of Heavy Industries Limited. During planning, CA P planned that he would inquire from in-house IT Head of the company about the maintenance of the digital database to identify and assess the risk of non-compliance with regulatory guidelines. In the light of above facts, explain :

- (i) Whether CA P is required to consider about the maintenance of digital database while framing audit strategy ?
- (ii) Whether the procedures planned by CA P are in line with SA-300 ?

**(5 MARKS)**

**Q-1.(b)** While auditing a renowned four-star hotel in Pune, CA Shrey observes a gift shop operating within the hotel premises. On further enquiries, he comes to know that stocks in gift shop belong to gift shop owner and hotel receives rent for letting out this space. Discuss, how, auditor can verify payment of common amenities used by gift shop owner to the hotel.

**(5 MARKS)**

**Q-1.(c)** Calen Retail Ltd. is preparing its annual financial statements, and the auditors are tasked with determining materiality. The company has used revenue as the benchmark, as it is a key indicator of performance. However, Calen Retail has recently opened new stores and closed underperforming ones, which could significantly affect both revenue and profitability. As per given case, what factors should the auditors consider when selecting the most appropriate benchmark for materiality?

**(4 MARKS)**

**Q-2.(a)** No inspection under Section 79 of Multi-State Co-operative Societies Act, 2002 shall be made unless a notice has been given to the multi-state co-operative society. Explain clearly when and how such inspection can be made. Also state the powers available with the Central Registrar in this regard along with provisions relating to communication of the inspection report under the said section.

**(5 MARKS)**

**Q-2.(b)** The reliability of audit evidence depends on its source, nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance. Although exceptions may exist, few generalisations can be made about reliability of audit evidence. Considering above discuss such generalisations that can be

made about the reliability of audit evidence.

**(5 MARKS)**

**Q-2.(c)** M/s. PP & Co, a firm of Chartered Accountants, has been auditing the books of accounts of KALI Ltd. for the past 3 years. The company has recently made some major changes in its business policies. While planning to start the audit for the 4th year i.e. for financial year 2024-25, the audit manager of the firm, as per the routine practice, handed over the previous years' audit programme as it is to the audit team with the instructions to adhere unfailingly to the said audit programme. Evaluate the decision of the audit manager with reference to the use of audit programme.

**(4 MARKS)**

**Q-3.(a)** CA M is the engagement partner of the firm M/s YZZ LLP and he is auditing the financial statements of a listed entity ABC Ltd. The audit firm has determined that an engagement quality control review is required for this assignment. Discuss the responsibilities of CA M as an engagement partner for engagement quality control review as per SA-220.

**OR**

**Q-3.(a)** Sanskar Foundation is a Non-Governmental Organisation (NGO) for orphan children. They have received voluntary contribution of ₹50 lacs from the promoters, specifying that ₹20 lacs are towards the Corpus contribution and ₹30 lacs are towards Revolving fund. Explain the terms "Corpus contribution" and "Revolving fund".

**(4 MARKS)**

**Q-3.(b)** While it is true that companies can benefit immensely from the use of data analysis in terms of increased profitability, better customer service, etc. Analyse various functions that an auditor can perform using Data Analytics tools and techniques to obtain good results.

**(5 MARKS)**

**Q-3.(c)** CA X is contemplating the use of negative confirmation requests as the sole substantive audit procedure to verify certain accounts payable balances reflected in financial statements of a company. Which conditions need to be met to use negative confirmation requests as stated above? Additionally, CA X is of the view that negative confirmations provide same level of persuasive audit evidence as in case of positive confirmations. Do you agree with his viewpoint? Provide reasons for your answer.

**(5 MARKS)**

**Q-4.(a)** Pure Services Limited is into the litigation relating to some legal action initiated by the industry regulator. The matter has reached jurisdictional High Court. Keeping in view uncertainty related to future outcome of matter, statutory auditor of the company has decided to include Emphasis of Matter (EOM) Paragraph in auditor's report.

- (i) Briefly discuss the considerations to be taken care of by the statutory auditor when EOM paragraph is included in auditor's report.
- (ii) State any two examples of circumstances where the auditor may consider it necessary to include an EOM paragraph.

**(5 MARKS)**

**Q-4.(b)** CA Sumit has been appointed as statutory auditor of Core Limited. List out some matters that he may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a "significant deficiency".

**(5 MARKS)**

**Q-4.(C)** 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, CAP 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.

**(4 MARKS)**

**Q-5.(a)** CA H is managing partner of HK & Co., a Chartered Accountant firm, having registered office at Delhi. With the annual task of reviewing whether any threat to independence is observed in the firm, CA H noted down the following observations received from the staff and partners of the firm for the F.Y. 2023-24 :

- (i) CA J, partner of the firm, performed statutory audit as well as non audit engagement for M/s. Take Away Private Limited.
- (ii) CA M, partner of the firm, who has done income tax audit for M/s. Happy Associates where in CA M has material significant indirect financial interest.
- (iii) The costs of air travel and stay accommodation of family members of audit team for audit of Chennai was borne by the client stationed at Chennai.
- (iv) One of the clients, M/s. Chalk Limited, threatened to replace them as auditors because the audit team insisted to make provision for expected credit loss which the company was not willing to provide.
- (v) CA N, partner of the firm, who audited M/s. NM Private Limited became arbitrator for dispute between M/s. NM Private Limited and one of its vendors.
- (vi) CA N accepted the assignment of Tax audit (on behalf of firm) of TRF Industries. Management agreed to pay him contingent fee for tax audit.

You are requested to help CA H in classifying the type of threats to independence in each of the above observation received from the staff and partners of the firm.

In case such threats exist, what should the auditor do?

**(5 MARKS)**

**Q-5.(b)** WEQ Ltd. has issued shares for cash at a premium. In accordance with section 52 of the Companies Act, 2013, the company is required to transfer the premium received from the issuance of shares to the securities premium account. What are the specific applications allowed for the funds in the securities premium account, as per the provisions of the Companies Act, 2013?

**(5 MARKS)**

**Q-5.(c)** While performing statutory audit of Contra Industries Private Limited, a company engaged in manufacturing and assembling of LED lights, CA Varun has decided to attend physical inventory count process of the company on 30th and 31st March, 2024. The inventories are lying at three different locations - two such locations A and B are in one city and third location C is in another city. Further, company also sends inventories to some service providers for quality control and testing as such facilities are not available with the company.

CA Varun is well-versed with this type of industry and has prepared a list of following matters which could be relevant to him in planning attendance at physical inventory count process for discharging his responsibilities in accordance with SAs: -

- Nature of inventories i.e. LED light components, parts, circuits, panels, body, WIP and finished packed LED lights
- Materiality of inventories at different locations A, B and C



- Stage of completion of work-in-progress
- Maintenance of perpetual inventory system by company
- Materiality of inventories lying with service providers
- Timing of physical inventory counting i.e. year end

There are two important matters which do not find place in above list. Without considering these crucial matters, it would be difficult for the auditor to properly plan his attendance at inventory count process in accordance with relevant SA. Discuss such matters.

**(4 MARKS)**

**Q-6.(a)** ASD Limited's business has grown from one state of India to various countries of the world. Since the business has increased manifold, the management decided to appoint joint auditors for conducting the statutory audit of the company. They appointed three CA firms for it. For which audit work the joint auditors will be jointly & severally responsible?

**(5 MARKS)**

**Q-6.(b)** CDE Private Limited, a manufacturing company, had made investment in shares of some blue-chip companies. Additionally, it had temporarily deposited some of its extra funds in fixed deposits with a scheduled bank. Dividend from shares amounting to ₹1.80 lakhs (net of TDS, TDS = ₹0.20 lakhs) and bank interest of ₹2.70 lakhs (net of TDS, TDS = ₹0.30 lakhs) were credited in bank account of the company. During the year 2023-24, it has also sold some shares resulting in net gain of ₹5 lakhs. The company has shown above incomes under head "Other income" for consolidated amount of ₹9.50 lakhs in the statement of Profit and Loss. No other information is furnished in the financial statements put up for audit. As the auditor of the company, discuss whether the above situation constitutes "misstatement" in the financial statements of the company. Also state, few examples of misstatements.

**(5 MARKS)**

**Q-6.(c)** 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.

- 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.
- 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.

**(4 MARKS)**

**-0-0-0-0-0-0-0-0-0-**