

FINAL COURSE: GROUP I
PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Mukund Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter, it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. Which basic system of control has been violated?
 - (a) Proper Authorization of Transactions.
 - (b) Segregation of Duties.
 - (c) Physical Control over Assets.
 - (d) Independent Internal Verification.
2. KNC Bank Ltd. was having 20 branches all over India by the year ending 31st March, 2024. At the Mumbai branch of the bank there were high value cash deposits in one of the current accounts during June 2023. Your firm has been appointed as the concurrent auditors for the Mumbai branch for the year 2023-24. The cash collected by the branch was remitted to the currency chest on the very same day but, during the concurrent audit for the month of April 2023 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to the currency chest for the cash remittance. How the discrepancy of not preserving the intimations of cash remittances to currency chest by Mumbai branch of the bank should be dealt by the concurrent auditor in his audit report? Select the correct option from the following:

- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
 - (b) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
 - (c) The auditor should verify the details from e-mail sent to currency chest and close the matter.
 - (d) As it is a minor irregularity the auditor can ignore the same.
3. MLP & Co., a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2023-24 for the company RST Ltd. CA. Kushal was the engagement partner for the said assignment. During the ongoing engagement of the audit, at the end of the third quarter, two limited review reports were issued by MLP & Co. Before the issuance of the third quarter's limited review report, the management of the company imposed a limitation on the scope of the audit that CA Kushal considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitations. However, the management refused to remove the said limitation.

What was the responsibility of MLP & Co. with respect to the issue of limited review report at the time of resignation?

- (a) Limited Review Report for third quarter was required to be issued.
- (b) Limited Review Report for third quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued.
- (c) No further Limited Review Report was required to be issued as it was already issued for the second quarter at the time of resignation.
- (d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement.

Case Scenario I [MCQ 4-7]

Simran Edible Oil Limited is a public company which has the business of manufacturing cooking oil. The company is in this particular business since last 25 years. The financial results of the company for the previous year FY 2022-23 are as under:

Sr. No.	Particulars	Amount
1.	Aggregate Outstanding Loans, debentures and deposits	₹ 10 crore
2.	Turnover of the company	₹ 100 crore
3.	Paid-up capital of the company	₹ 50 crore
4.	Net Profit (after tax) of the company	₹ 5 crore

For the year 2022-23, M/s Pesh & Associates were the auditors of the Company. The auditors found significant deficiencies in internal control and misrepresentation of amounts in the area of Trade Payables. Therefore, the Auditor issued qualified Audit Report.

Next year, management did not wish to re-appoint the same auditors, hence, Board of Director recommended Ms. Mansi as the Statutory Auditor for FY 2023-24 to the members of the Company.

After the appointment, Ms. Mansi went through previous year financials statements, audit report etc. and emphasised the understatement of Trade Payable balance as a significant audit risk. The auditor set the materiality at ₹ 15,00,000 for conducting audit of the year 2023-24.

Further, Ms. Mansi is in process of selecting the samples for testing so as to get the samples on which Vendor Balance Reconciliations can be performed, she is considering the following for the same:

- (i) Major Vendors where the confirmation balances agrees to General Ledger.
- (ii) Vendors which have high volume of business with Simran Edible Oil Limited.
- (iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.
- (iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.

As at March 31st, 2024, the balance of two vendor as per company's General Ledger and as per the balance of the External Confirmation which are received from vendors are as under:-

Vendor Name	Balance as per General Ledger	Balance as per External Confirmation
Pakhi Groundnut Seeds Limited	₹ 15,00,000	₹ 20,00,000
Krishi Sunflower Seeds Limited	₹ 65,00,000	₹ 80,00,000

Pakhi Groundnut Seeds Ltd.:

The difference in the balance is due to one of the order received by the Company. This order is under dispute as the Company claims that the received raw material is of sub-standard quality. The consignment received was sent back to the vendor on March 30, 2023.

Krishi Sunflower Seeds Ltd.:

The difference in the balance is due to the reason of two invoices of ₹ 10,00,000 and ₹ 5,00,000 dated March 25, 2024 & March 27, 2024 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03rd, 2024 and therefore, those were not recorded in the financial statement for the year ended March 31st, 2024.

Ms. Mansi took the samples to verify Trade payable balances, which covered 30% of population. During the Audit, she came across 2 errors amounting to ₹ 12,00,000:

- ₹ 4,00,000 was due to one invoice not being recorded due to weak inefficient control mechanism; and
- ₹ 8,00,000 error was made by Mr. Dhruv, an executive who came as a temporary replacement for one week in the place of Ms. Kamini, who is permanent accountant of the company. The mistake was clerical in nature.

Based on the above facts, answer the following:

4. Which items should Ms. Mansi select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed?
 - (i) Major Vendors where the confirmation balances agrees to General Ledger.
 - (ii) Vendors which have high volume of business with Simran Edible Oil Limited.
 - (iii) Vendors with balances of ₹ 15,00,000 or more outstanding at the year end.
 - (iv) Vendors with balances of ₹ 15,00,000 or less outstanding at the year-end.
 - (a) i & iii.
 - (b) ii, iii, & iv.
 - (c) i & ii.
 - (d) i, ii & iii.
5. How can Ms. Mansi audit the operating effectiveness of internal control around the accounting of Trade payables?
 - (a) Recalculating ageing of Trade Payables to identify the balances which may not be agreeing with the audit evidence.
 - (b) Select samples from the supplier balance based on scientific Random Sampling approach & verify the third-party evidence.
 - (c) Input a fake purchase invoice into the client system to see if it is processed accurately.

- (d) Calculate Trade Payables' days to use in the analytical procedures.
6. What are the audit procedures that Ms. Mansi should perform to verify whether the payable balances of Krishi Sunflower Seeds Ltd. are correctly recorded in the financial statements?
- (a) Send a confirmation to Krishi Sunflower Seeds Ltd. to request to confirm the outstanding balance as at March 31, 2024.
- (b) Verify the bank payments for the period of post March 31, 2024, for any evidence of payment of invoice.
- (c) Review the listing of purchase order to confirm whether it pertains to the current year 2023-24 or it pertains to the next financial year.
- (d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.
7. What would be proper course of action to be taken by Ms. Mansi for two errors amounting to ₹ 4,00,000 and ₹ 8,00,000 in the given scenario?
- (a) The total amount of error is below the materiality and therefore it should not be considered or further work upon.
- (b) Ms. Mansi should ask Simran Edible Oil Ltd. to adjust ₹ 12,00,000 in the Payable balance and rectify the same.
- (c) Different set of samples representing the same amount should be selected to check whether same errors are getting repeated, if it is not, then the observation should be waived off.
- (d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

Case Scenario II [MCQ 8-11]

Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments – printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange.

The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment.

The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable

towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2020.

The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2021.

Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out forensic accounting in the financial year 2021-22. During the audit, certain transactions were identified highly risky, on which the management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner.

For the financial year ended 31st March 2024, Due Diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself.

At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.

The company had various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from professionals and renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

At the time of investigation, the reviewer asked about the background of the promoters of the company. The management explained that there was no need for this investigation. Further, the management explained that the company has already gone through the processes of due diligence and forensic accounting in the previous years and there was no doubt raised on promoters of the company. So, the background of promoters cannot be shared with the reviewer.

Based on the above facts, answer the following:-

8. The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years.

Which of the following statement should be correct?

- (a) The contention of the management was correct.
- (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.

- (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer.
 - (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.
9. The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2024. However, the reviewer asked for financial statements for the year ended 31st March 2023, which was already audited by the statutory auditors of the company and the management of the company declined this request.
- (a) The management is correct.
 - (b) Reviewer can ask for documents even for the period for which audit is completed.
 - (c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards.
 - (d) Reviewer has no right to review the financial statements of the period other than the period under review.
10. The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.
- (a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management.
 - (b) The company should not have provided the documents as those are confidential.
 - (c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant.
 - (d) Tax and legal matters are not a part of review of due diligence exercise.
11. The management may refuse to share the details of promoters. Comment on this.
- (a) Since the company has already went through due diligence and forensic accounting in the previous years, the management may refuse to provide promoters details to the reviewer.

- (b) As the background of promoters has no bearing on the financials of the company, the reviewer should not ask for the details of promoters and the management may refuse to provide the same.
- (c) Since the company went through processes of forensic accounting in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters.
- (d) The contention of the management is not correct.

Integrated Case Scenario-III [MCQ 12-15]

CA Harman, a practicing Chartered Accountant, intends to fill out the Multi-purpose Empanelment Form (MEF) to be included in the panel for the statutory audit of bank branches for the financial year 2023-24, as hosted by the Professional Development Committee (PDC) of ICAI. The application process requires the submission of XML files of personal income tax returns along with the computation of income. During the relevant financial year for which the information is sought, CA Harman had engaged in currency and commodity derivatives transactions, declaring the resulting income under "Business Income" in her tax return.

Additionally, Pitch Private Limited approached CA Harman to digitally sign and upload a resignation form related to Mr. Rohit, one of its directors, on the Registrar of Companies (ROC) portal. However, the signature of Mr. Rohit had been copied and pasted by another director of the company. Without verifying the authenticity of the resignation letter, CA Harman digitally signed the form, which was then uploaded to the ROC portal.

Subsequently, CA Harman's actions were brought under scrutiny when the Director (Discipline) of the Institute of Chartered Accountants of India (ICAI) received complaints regarding alleged misconduct. Upon investigation, he was found guilty of misconduct, and the competent authority imposed the appropriate penalty in accordance with the provisions of the Chartered Accountants Act, 1949.

12. Whether CA Harman will be held guilty for reflecting income from currency and commodity derivatives as "Business Income". If yes, under which clause?
- (a) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
 - (b) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (6) of Part I of the First Schedule of the Chartered Accountants Act, 1949.

- (c) No, CA Harman will not be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under the Chartered Accountants Act, 1949.
 - (d) Yes, CA Harman will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
13. Whether CA Harman will be held liable for misconduct for uploading the digitally signed resignation letter. If yes, under which clause of the Chartered Accountants Act, 1949?
- (a) Yes, CA Harman will be liable for misconduct under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
 - (b) Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.
 - (c) Yes, CA Harman will be liable for misconduct under Clause (5) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
 - (d) Yes, CA Harman will be liable for misconduct under Clause (7) of Part I of the First Schedule of the Chartered Accountants Act, 1949.
14. Before which authority would CA Harman's misconduct case be placed for disciplinary proceedings?
- (a) The High Court.
 - (b) The Board of Discipline.
 - (c) The Disciplinary Committee.
 - (d) The Appellate Authority.
15. What is the minimum punishment that could have been imposed on CA Harman under the Chartered Accountants Act, 1949?
- (a) Reprimand the member.
 - (b) Removal of name from the register of members permanently or for a specified period and fine up to ₹ 5,00,000.
 - (c) Suspension of practice for up to 3 months.
 - (d) Warning and fine up to ₹ 50,000.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) Joseph Retail Pvt. Ltd. is a well-known luxury fashion retailer in Delhi, recognised for its premium collection of designer clothing and accessories. The company has recently implemented an advanced inventory management system, which tracks product availability, pricing, sales, and customer transactions in real time. This system has been developed and is managed by RealTrend Solutions, a third-party IT service provider.

CA Roop, the statutory auditor of Joseph Retail Pvt. Ltd., became aware of this system while conducting the audit. Concerned about whether the internal controls at TrendTech Solutions are operating effectively, CA Z requests an assurance report from a practicing Chartered Accountant regarding the description of TrendTech Solutions' system and the effectiveness of its controls.

Which type of report should CA Z obtain in accordance with the relevant Standard on Auditing?

What aspects should CA Z consider while using such an assurance report as audit evidence to determine whether controls at TrendTech Solutions are operating effectively? **(5 Marks)**

- (b) Fun Fiesta Ltd., an entertainment company that operates a traveling circus, has been facing a significant decline in popularity over the past few years, with attendance reportedly dropping by as much as 75% in the current financial year. The circus has also been continuously targeted by animal rights activists for its use of animals like elephants in performances. The CEO observed that audiences were shifting to other entertainment options, making the business model unsustainable due to the high costs of moving the show from city to city.

As a result, several key managerial personnel resigned, there were delays in the payment of wages and salaries, and the bank from which the company had obtained funds decided not to extend further financing or fund additional working capital requirements.

During discussions with management, the statutory auditor understood that Fun Fiesta Ltd. had no action plan to address these financial difficulties, making the use of the going concern assumption inappropriate. However, these critical circumstances were not disclosed in the company's financial statements.

What course of action should the statutory auditor take in the auditor's report in such situation? Discuss with reference to the applicable Standards on Auditing.

(5 Marks)

- (c) CA Raj has been appointed as the auditor of MARCO Pvt. Ltd., a private real estate company. During the audit, he requested information from the management to review the outcome of accounting estimates—such as estimated costs considered for percentage completion—used in the prior period financial statements. His objective was to assess their subsequent re-estimation for the current period. However, the management refused to provide the requested information, arguing that the auditor should not review prior period estimates. Please advise how should Raj deal with this situation? **(4 Marks)**
2. (a) ABC Bank recently faced a cyber-attack where hackers attempted to steal customer data. This raised concerns about their cybersecurity measures. Regulators now require financial institutions to assess their cyber risk management and improve their defence against such threats.
- To handle cyber risks effectively, it is important to understand its key stages. Elucidate the stages of cyber risks that any organisations should focus on?
- (5 Marks)**
- (b) Adboot & Co., a firm of Chartered Accountants, has been approached by Mix Ltd. to conduct a review engagement of its financial statements for the year ending 31st March 2024. Before accepting the engagement, the engagement partner, CA Jai, wants to ensure that the necessary preconditions for a review engagement are met.
- What preconditions should CA Jai evaluate before accepting the engagement? Discuss the responsibilities of Mix Ltd.'s management in this context and the necessary agreements that must be obtained from them. **(5 Marks)**
- (c) PMP Bank Ltd., received an application from a pharmaceutical company for the takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. PMP Bank Ltd., requires CA Arpan to conduct due diligence for valuation aspect of assets of the pharmaceutical company. State the areas of analysis in order to ensure that the assets are not overvalued. **(4 Marks)**
3. (a) Veda Ltd., a listed company having headquarter in Delhi, is engaged in the production and supply of unique chemicals to various industries. To comply with environmental regulations, the company installed pollution control equipment to

process and treat waste before its discharge. However, despite regulatory requirements, the company continued to violate pollution control laws regarding the disposal of industrial waste.

To obtain the necessary environmental clearance certificate, the company resorted to unethical means. An amount of ₹ 43.85 lakhs was unlawfully spent to secure the clearance, which was then misrepresented in the financial records as an environmental compliance expense. This matter had not been brought to the attention of those charged with governance. However, during a periodic financial review, the Director of Finance, CA Rohan, discovered the irregularities.

What actions should CA Rohan take in response to this situation, considering the applicable provisions of responses for NOCLAR (Non-Compliance with Laws and Regulations) under the Code of Ethics? **(5 Marks)**

- (b) CA. Jin, a recently qualified practicing Chartered Accountant, got his first audit assignment of Ordinary (P) Ltd. for the financial year 2023-24. 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. Jin left failed to obtain sufficient audit evidence, such as confirmations, for the outstanding Accounts Receivable amounting to ₹ 250 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year.

Relying merely on the management's affirmation that there were no receipts or further credits during the year, CA Rohan excluded the audit of accounts receivable from his audit program, assuming that the amount pertained to the prior year, which had already been audited by the predecessor auditor. Comment on the appropriateness of CA Rohan's approach. **(5 Marks)**

- (c) Rajveer & Associates have been the statutory auditors of Ish and Vish Ltd., a listed company. CA Vishav, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These assertions were not examined by him in previous years due to materiality or risk considerations.

Mr. Yug leads the internal audit department of the company and reports to the company's audit committee. During the audit, a senior member of the engagement team decides to engage Mr. Yug to provide direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing.

Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance. **(4 Marks)**

4. (a) Qura Capital Ltd., a Non-Banking Financial Company (NBFC) classified under the Scale-Based Regulation framework, is required to maintain a minimum capital ratio of 15% of its aggregate risk-weighted assets (RWA) and risk-adjusted off-balance sheet items. The company has provided the following financial data for computing of its Tier 1 and Tier 2 capital as per the RBI Master Directions:

Particulars	Amount in ₹
Owned Fund	₹ 1,000 crore
Investment in shares of other NBFCs and in group companies (exceeding 10% of owned fund)	₹ 150 crore
Perpetual Debt Instruments issued by Qura Finance Ltd.	₹ 120 crore
Preference Shares (not compulsorily convertible into equity)	₹ 80 crore
Revaluation Reserves	₹ 200 crore
General Provisions & Loss Reserves	₹ 50 crore
Hybrid Debt Capital Instruments	₹ 90 crore
Subordinated Debt	₹ 140 crore
Risk-Weighted Assets (RWA)	₹ 8,000 crore

Considering that Qura Finance Ltd. is neither an NBFC-MFI nor primarily engaged in lending against gold jewellery, compute the following:

- Tier 1 capital of Qura Finance Ltd. as per RBI guidelines.
- Tier 2 capital, ensuring it does not exceed the Tier 1 capital.

Also, determine whether Qura Finance Ltd. meets the minimum capital adequacy requirement of 15% of RWA. **(5 Marks)**

- (b) Pink Ltd., a leading manufacturing company, is expanding its operations globally. However, the company has received multiple complaints from stakeholders regarding misleading advertisements and a lack of transparent grievance redressal mechanisms.

As part of its Business Responsibility and Sustainability Reporting (BRSR) compliance, which principle is the company required to adhere to? This principle emphasizes engaging with and providing value to consumers responsibly and transparently.

What are the key consumer protection aspects that Pink Ltd. should focus on under this principle of BRSR? **(5 Marks)**

- (c) CA Dhanush is the auditor of Jivi Limited having a turnover of more than ₹ 300 Crores. The audit fee for the year is fixed at ₹ 2.25 crore. During the year, the company offers CA Dhanush an assignment of representation before Income-tax Appellate Tribunal for certain matter for remuneration of ₹ 2.85 crores. CA Dhanush accepted the assignment. Discuss action of CA Dhanush with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. **(4 Marks)**

5. (a) Rajni Ltd., a listed company, has appointed M/s Amit & Co. as its statutory auditor. CA Sunil, who recently joined the firm, has been appointed as the engagement partner for the first time. While preparing for the audit, he realises the importance of ensuring the audit team's independence, as required by standard audit practices. However, when reviewing the firm's framework, he is unable to find any documented policies or procedures addressing independence compliance.

What steps should CA Sunil take to ensure compliance with independence requirements for the audit engagement? Why is it necessary for an audit firm to have well-documented policies and procedures to maintain independence? Discuss with reference to the relevant Standards on Auditing. **(5 Marks)**

- (b) Kailash & Co., Chartered Accountants, has been appointed as statutory auditor of Diksha Ltd. for the F.Y. 2023-24. The audit team has completed the audit and is in the process of preparing the audit report. The management of the company has also prepared a draft annual report.

The audit in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating a downward trend in market prices of key commodities/raw material as compared to the previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management.

Is the partner's approach appropriate in this situation? Analyse the issue with reference to the relevant Standard on Auditing and the auditor's duties with regard to reporting. **(5 Marks)**

- (c) Hitesh, a Chartered Accountant, applied for obtaining a Certificate of Practice. However, while filling out the application form, he intentionally did not fill the

section requiring disclosure of any engagement in other occupations or businesses. Hitesh was actively involved in a business, making this non-disclosure a case of withholding crucial information that was explicitly sought by the Institute.

Analyse whether Hitesh's actions amount to professional misconduct as per the provision of the Chartered Accountants Act, 1949. **(4 Marks)**

6. (a) Mr. Chetan, a practicing Chartered Accountant, was involved in a family dispute over ancestral property. To gain an undue advantage, he allegedly forged the will of his late uncle, presenting it as a genuine document during legal proceedings. The forgery was later uncovered, and legal action was initiated against him.

Although the act was committed in his personal capacity and not in the course of his professional duties, a complaint was filed with the disciplinary committee of the Institute of Chartered Accountants of India (ICAI).

Analyse whether Mr. Chetan would be held liable for misconduct as per the provisions of the Chartered Accountants Act, 1949. **(5 Marks)**

- (b) Groof Limited is engaged in the business of executing construction contracts for its clients. As on 31st March, 2024, the company's financial statements reflect non-current receivables outstanding amount of ₹ 500 crore. Such amounts arise from claims raised by the company on its clients due to cost overruns caused by project delays, change in work specifications and related matters. Besides negotiations, the company has also gone for arbitration in some of the said cases. The management has stated in the notes to account that these amounts are fully recoverable.

CA Arohan, auditor of the company, has relied only upon management representation in this regard. Additionally, he has decided to include this matter in "Emphasis of Matter Paragraph" in audit report.

Evaluate the appropriateness of the auditor's decision to include this matter in "Emphasis of Matter Paragraph"? **(5 Marks)**

- (c) Joy World Pvt. Ltd. operates five amusement centres that offer recreational activities for families, especially children and young adults. These centres are spread across different locations within a 250-kilometer radius. Since ticket sales and ride fees are collected primarily in cash, ensuring proper control over collections is crucial to prevent fraud, mismanagement, and revenue leakage.

To maintain transparency and accuracy in cash handling, what internal control measures should Joy World Pvt. Ltd. implement for ticket sales and collections?

(4 Marks)

Or

- (c) DBH & Associates are the statutory auditors of MBPC Limited, a public sector undertaking in the power sector. It is engaged in constructing large sized thermal power stations to accelerate development of the power sector in the country. One of the financial committees of Parliament has decided to examine its physical and financial performance. It has also examined the audit findings of C&AG in respect of which action is yet to be taken by the said PSU. The committee also proposes to include in its report the performance of the company in various operational matters.

Which financial committee of Parliament deals with such matters? Outline its main functions.

(4 Marks)