Test Series: April, 2019

MOCK TEST PAPER - 2

FINAL (NEW) COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

All MCQs are compulsory

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the Rest.*

Time Allowed – 3 Hours **Maximum Marks – 100**

DIVISION A – MCQs (30 Marks)

Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non- consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?

    (a) M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters.

    (b) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.

    (c) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'

    (d) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non- consolidation of a subsidiary.

2. The audit team has obtained the following results from the trade receivables circularization of Oak Co for the year ended 31 March 2018.

Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment
	Rs.	Rs.	
M Co	2,25,000	2,25,000	
N Co	3,50,000	2,75,000	Invoice raised on 28 March 2018
O Co	6,20,000	4,80,000	Payment made 30 March 2018
P Co	5,35,000	5,35,000	A balance of Rs.45,000 is currently being disputed by P Co.
R Co	1,78,000	No reply	

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

(a) No further audit procedures need to be carried out in relation to the outstanding balances with M Co. and P Co.

(b) The difference in relation to N Co. represents a timing difference and should be agreed to a pre-year-end invoice

(c) The difference in relation to O Co. represents a timing difference and should be agreed to pre-year-end bank statements

(d) Due to the non-reply, the balance with R Co. cannot be verified and a different customer balance should be selected and circularised

3. MNC Ltd., India is subsidiary of MNC Inc, US. LLP & Associates has been appointed by MNC Ltd. for audit of statutory financial statements. MNP & Associates has been appointed as the auditors of the Reporting package of MNC Ltd. prepared for the year ended 31 March which is required for consolidation purposes. MNP & Associates are also the tax auditors of MNC Ltd. What should be format for reporting of MNP & Associates on Form 3CD of MNC Ltd.?

(a) MNC Ltd. should report as per the internal formats of the firm.

(b) MNC Ltd. should report as per the formats issued as per ICDS (Income Computation and Disclosure Standards).

(c) MNC Ltd. should report as per Form 3CB.

(d) MNC Ltd. should report as per Form 3 CA.

4. A Public Limited Company is having its Head Office at Mumbai and the employees from various branch offices used to visit Mumbai for official meetings. So, the company decided to construct guest house for their employees staying in Mumbai, as the stay in hotel was very expensive. The management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations. The building was ready for use by the year 2015 on which a total expenditure of Rs. 5 crores was done, but it was not used by the employees and they continued to stay in hotel. From the financial 2015-16 onwards the expenses were booked in company's profit and loss account for the upkeep and maintenance of the building and the hotel charges paid for the stay of employees. The company was having a separate internal audit department but one of the director demanded propriety audit to ensure compliance with section 186 of the Companies Act, 2013 and ensure that the transactions represented by books are prejudicial to the interests of the company. Do you think that there is any need for propriety audit?

(a) Propriety audit is not required when the company is already having a separate internal audit department and these areas can be covered in the scope of internal auditors.

(b) The director has no right to demand propriety audit, as in the case of Public Limited Company only Government is authorised to decide on whether a propriety audit is required or not.

(c) Propriety audit is concerned with the scrutiny of executive decisions and actions affecting the company's financial and profit & loss situation. So, in the above case it is required as huge expense has been done on construction of building and even then it was not used, which had a major impact on company's profit and loss statement.

(d) There is no need of propriety audit as the management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations.

5. FAC Chartered Accountants was appointed as statutory auditors by KMG Ltd. for the audit of their financial statements. During the course of audit the auditors noticed a fraud of Rs. 120 lakhs done by an officer of the company. The officer sanctioned and made the payment to fake vendors for purchase of fixed assets; however the assets were not entered in the Fixed Assets Register. The auditor reported the fraud in his audit report to the shareholders of the company presented in the Annual General

Meeting, but did not mentioned the name of the parties involved. The Board of Directors of the company asked ICAI to take necessary action against the auditor as he has not complied with his duty to report fraud as per Section 143(12) of the Companies Act, 2013. What is the duty of the auditor as per Companies Act in reporting the fraud done by officers or employees of the company?

(a) As per Companies Act, 2013, as the amount of fraud is more than 100 lacs; the auditor should have reported the matter within 2 days of his knowledge to the Board of Directors/ Audit committee of the company seeking their reply or observations within 45 days. After completion of 45 days the auditor should forward his report to the Central Government along with the reply if any received from Board/ Audit Committee.

(b) As per Companies Act, in the course of audit if the auditor has reason to believe that a fraud has been conducted by the officers or employees of the company, the auditor shall report the matter to the Central Government immediately.

(c) The auditor's duty is restricted to reporting the fraud to shareholders and he is not required to report the matter to Board of Directors/ Audit Committee/ Central Government.

(d) The auditor can submit his report on fraud to shareholders but is required to mention the name of the parties involved in fraud, as per Section 143(12) of the Companies Act, 2013.

6. Prabhakar & Associates were the statutory auditors of Inverto & Co for last 2 years. In the current year, one of the partners Mr. Anant Prabhakar, a qualified chartered accountant from ICAI also got qualified as a chartered management accountant from a foreign accountancy body CIMA. The management of Inverto & Co were glad to hear this and offered Mr. Anant to handle the management services of the company from this year. Is he allowed take up this assignment for Inverto & Co as per the Chartered Accountants Act 1949 and Schedules thereunder?

(a) Yes, being a qualified management accountant within their group, Prabhakar & Associates should take this assignment.

(b) Yes, Mr. Anant can cover the management services and another auditor from the firm can cover the statutory audit of Inverto & Co.

(c) No, the management services cannot be provided by the firm, who currently is the statutory auditor of Inverto & Co.

(d) No, Mr. Anant is newly qualified management accountant who does not have enough experience, hence should not take up the management services assignment.

7. One afternoon in the first week of June 2018, there was a heated discussion between the audit engagement partner of Shah & associates and the finance director of Pecker & Co. The discussion was mainly on non-co-operation of the company staff to provide the relevant information to the auditors. The staff thought that the auditors were a hindrance in their routine work. The finance director called an urgent meeting to discuss the removal of the auditor Shah & Associates. Within the next week the partner of Shah & Associates was called and informed that they are no more the auditors of Pecker & Co. Comment if the removal of the auditor was proper in accordance with the Companies Act, 2013.

(a) Yes, the finance director was correct in the procedure of the removal of auditors by a simple board meeting discussion.

(b) No, the removal of auditors before the expiry of the term should be done with the prior permission from the Central Government.

(c) Once appointed, the board of directors cannot remove the present auditors of the company.

(d) Yes, Pecker & Co is not a government company, hence the board of directors can remove the auditors by themselves.

8. Garg Ltd. has declared dividend of 9% on 15 April 2018, for the year ended 31 March 2018. The company has not paid or the warrant in respect thereof has not been posted till date 30 June 2018 to any shareholder whose is entitled to the payment of the dividend. Which of the following is correct in respect of the effect of non-payment of dividend?

   (a) Garg Ltd. shall be liable to pay simple interest of 15% p.a. during the period for which the default continues.

   (b) Garg Ltd. shall be liable to pay simple interest of 18% p.a. during the period for which the default continues.

   (c) Garg Ltd. can still make the payment of dividend by 31 July 2018, with no interest applicable.

   (d) Garg Ltd. can still make the payment of dividend by 15 July 2018, with no interest applicable.

9. TSV & Co, Chartered Accountants is an audit firm having two partners CA T and CA V. The firm TSV & Co. is already holding an appointment as auditors of 36 public companies and none of the partners hold any company audits in their personal capacity or as partners with another firm. TSV & Co. has been offered the appointment as auditors of 7 more private limited companies. Of the seven, one is a company with a paid up share capital of Rs. 150 crores, five are "Small Companies" as per the Companies Act and one is a "Dormant Company". Determine the number of companies out of 7 for which TSV & Co. can accept the appointment as an auditor.

   (a) 5

   (b) 6

   (c) 7

   (d) 1

10. Your firm has been appointed statutory auditor by a Nationalised Bank for the year 2017-18. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2018. While verification you observed that one of the accounts was regularised on 28th March 2018, for which the interest and instalment amount was overdue from the quarter ending 30th September 2017. The account was regularised after the repayment of overdue interest and instalment amounts was done on 26th March 2018. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank. As a statutory auditor will you agree with the Bank's policy?

   (a) As the interest charged in the account was overdue for more than 90 days from the end of quarter, it should be classified as NPA and should be considered as sub-standard asset for the balance sheet as on 31st March 2018.

   (b) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA.

   (c) The auditor should not agree with the Bank's policy to regularise the account before balance sheet date as overdue interest indicates more than normal risk attached to the business.

   (d) Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently. **(10 x 1 = 10 Marks)**

Questions (11-20) carry 2 Marks each

11 BC Ltd. is the business of manpower consulting. The company has a huge cash and bank balance including fixed deposits with banks. During the course of audit of the financial statements of the company for the year ended 31 March 2017, auditors circulated independent bank balance confirmations. The auditors received all the balance (covering fixed deposits) confirmations independently. Auditors observed that the fixed deposits balances as per the independent balance confirmation did not match with the books balances in some cases. Management produced the fixed deposit certificates to the

auditors wherein the balances of fixed assets matched with the balances as per the books. How should the auditor deal with this matter?

(a) Auditor should qualify the audit report in respect of differences in book balances of fixed deposits vis a vis independent balance confirmations.

(b) Auditor should consider the fixed deposit certificates produced by the management and basis that any differences in book balances of fixed deposits vis a vis independent balance confirmations should be ignored.

(c) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should obtain balance confirmations again.

(d) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.

12. SBC Private Limited appointed Mr. Vijay, Chartered Accountant as auditor of the company for the year 2017-18. While verifying the accounts Mr. Vijay noticed that the company has neither made any provision for accrued gratuity liability nor obtained the actuarial valuation thereon. Mr. Vijay obtained the actuarial valuation and includes the matter in his Audit Report to the Company's Board of Directors mentioning the amount of accrued liability not provided for. The Board agreed with the auditor's observation and the amount of liability quantified by him. But the auditor didn't disclose the same in his audit report to Member's. One of the members raised an objection on the audit report stating that it does not represent a true and fair view as even though the company has not maintained proper books of accounts as per accounting standards, the auditor has not qualified his report. Whether the auditor is require to give a qualified opinion in his report to members on non-provision of gratuity in company's accounts when the same has already been included in the report to Company's Board of Directors?

(a) As the auditor has already disclosed the matter of non-provisioning in his report to Company's Board of Directors, there is no need to disclose the same in report to Member's u/s 143 of the Companies Act, 2013.

(b) Non-provisioning for accruing gratuity is in contravention to applicable Accounting Standard (AS-15), therefore the auditor should qualify his report to members through a paragraph on failure of management to quantify the amount of liability.

(c) The auditor should revise the accounts as per the actuarial valuation obtained by him and the revised accounts only should be presented before the Board of Directors and Members. The auditor is not required to qualify his report.

(d) U/s 143 of the Companies Act, 2013, the auditor should qualify his report to members only when the matter reported by the auditor is answered in the negative or with a qualification by the Board. In the above case the board agreed with the auditor's observation so he need not qualify his report.

13. AHKPL Ltd. is an unlisted company in the business of the real estate following Accounting Standards. The company recognizes revenue on the basis of percentage completion as per AS 7. The company has various residential and commercial projects at different locations for which separate profitability statements are prepared by the management. Profitability statements are based on estimated costs of the projects. While reviewing the profitability statements, statutory auditors observed that the profitability of the projects have been fluctuating significantly year on year and the prime reason for that is the change in the estimated costs. As per the auditors, frequent changes are made by the management in the estimated costs to increase the percentage completion and through which revenue and profit numbers are manipulated. The auditors are not satisfied with the profitability statements of two major projects which account for 50% of the total turnover of the company. Management tried to explain the auditors saying that the changes would happen because of the dynamics of the industry which have

been changing significantly and are unfavourable to the industry as a whole. All of this is leading to changes in the estimated costs. How should the auditors deal with this matter?

(a) Management's view seems reasonable. Estimated costs are only estimates which are subject to changes and hence the auditors should drop this matter.

(b) The auditors view seems reasonable and if the management does not agree, the auditors should issue qualified report.

(c) The auditors should consider the impact of the adjustment on the financial statements and if the impact is pervasive, the auditor should issue adverse opinion.

(d) The auditors should consider the impact of the adjustment on the financial statements and may take the adjustment to unadjusted entry in the management representation letter and basis that issue a clean report.

14. OPP & Co LLP is the statutory auditor of ABBA Private Limited. The company has an annual turnover of INR 1000 crores and profits of INR 250 crores. The company is planning to get listed next year. The company appointed OPP & CO LLP as new auditors to have a fresh look on their financial systems so that the financial reporting can be improved wherever required.

During the course of audit, the auditors have been facing lot of challenges to obtain sufficient appropriate audit evidence and have discussed the same with the management. Now the auditors are determining the implications. Please suggest which one of the following should not be the implication in respect of this matter.

(a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion.

(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation.

(c) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

(d) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, report the matter to the Registrar of Companies.

15. Yellow Steels Ltd. was engaged in the business of manufacturing and selling steel products. The company was having sales offices at different locations in and outside India. The company decided to have a sales office at Kanpur on their own land. A Managing Committee of some officers from the company was formed in order to get a building constructed at land in Kanpur. Budget of Rs.35 crores was approved by the company for the same and it was proposed to complete the construction within two years. Rs. 32 crores were already released by the company within a year of start of the project and the managing committee raised a demand for Rs. 5 crores for further payments to vendors. The management of Yellow Steels wants to get the verification done of all the expenses incurred on site and identify the reasons for increase in construction cost. Which of the following will suffice the purpose of management?

(a) The management should go for operational audit, as it will evaluate the effectiveness, efficiency and economy of operations done at the construction site.

(b) The management should get a Forensic Audit done in order to rule out any possibility of fraud or any other financial crime.

(c) A Financial Due Diligence is required to be done as no fraud has been reported and the management just want to analyse the books of accounts and other financial matters pertaining to financial matters at site.

(d) A management audit should be done to ensure that the increase in cost of construction is not due to any discrepancies in the formulation of objectives, plans and policies of the top management.

16. APP Ltd. is listed on National Stock Exchange in India. Post audit rotation, KYP & Co LLP have been appointed as the statutory auditors of APP Ltd. The company has a pending litigation in respect of service tax matter which has been going on for long time now and exposure of the company towards that litigation is very significant.

The new auditors got the exposure of this case evaluated by involving their in-house tax experts who have shared a view that the exposure of the company would be medium. As per the requirements of accounting standards, medium exposure would be considered as a possible impact for which probability is 50%. The company has been disclosing this as a contingent liability in the previous years. However, the new auditors are of the view that this is a significant matter that requires user's attention by disclosing this in the financial statements and it is of such importance that it is fundamental to user's understanding of financial statements. Further there is a material uncertainty in respect of this matter (i.e. demand raised by service tax department).

Basis this, auditors want to include Emphasis of matter (EOM) in their report. Management is of the view that since this was not reported by previous auditors as EOM, hence it should not be included by new auditors also and also being a listed company, it is not appropriate to include EOM in the first year of audit by a new firm.

Please suggest which of the following is correct.

(a) EOM should be included by new auditors.

(b) EOM should not be included by new auditors if the previous auditors have not given that.

(c) EOM should not be given, however, there should be a disclosure of this matter in the financial statements and also the fact that auditors are in the first year of audit and this matter would require detailed evaluation.

(d) Auditors should quality the report instead of EOM.

17. NT 22 Group is a large group comprising of 22 subsidiary companies, 14 associate companies and 19 joint ventures. NT Ltd. is the holding company which is also listed on Bombay Stock Exchange and New York Stock Exchange. The Group prepares its consolidated financial statements every quarter for various reporting requirements – SEBI (Stock and Exchange Board of India), Stock Exchanges, Registrar of Companies in India and others. The turnover of the Group is INR 15,000 crores and many of its components have significant operations at standalone level.

The Group is audited by one audit firm, Seema & Co LLP. For the purpose of group audit of the current year, the auditors have considered perfoming testing of journal entries across the group to address the significant risk, however, the auditors are facing challenges to perform this audit procedure across the group because of the volume and limitation of resources. Please suggest the correct options in respect of this matter.

(a) The Group auditors have a choice to test journal entries of the components which is also backed up by the auditing standards.

(b) The Group auditors must test journal entries of all components.

(c) The Group auditors need not test journal entries of components requiring analytical response at group level.

(d) The Group auditors need not test journal entries of components scoped with comprehensive approach.

18. Rajaram is appointed as internal auditor for a finance company with 15 branches across the states. He needs to conduct a branch visit in the coming week. Based on management inputs and past year audit reports, he has shortlisted four branches.

    Rajaram is not able to decide which branch visit he should prioritize as an internal auditor. Based on the branch information given below, which branch should Rajaram visit first?

    (a) Sonpur – 15 people; two instances of fraud in the last year; regional manager present in the branch for supervision

    (b) Chandpur – 12 people; no fraud, no visit by internal auditor in last two years due to set processes

    (c) Rampur – 18 people; no fraud, 6 of 20 employees are new joiners in the last 6 months; newly opened branch

    (d) Laxmanpur–10 people; 1 fraud in the last year, all 10 are long term employees of the company; no audit visit in the last year

19. Don't Pay for Fun (DPF)' is a start-up who is trying to get funding from investors. One of the investors has expressed interest in looking at the investment proposal but has insisted that the proposal also contain DPF's financial statements which are audited by an independent auditor. DPF engages CA Abhishek to conduct an independent audit and Abhishek issues an engagement letter for the independent audit to the owner of DPF which is duly acknowledged. DPF while finalising the financial statements is facing some difficulties so its owner requests Abhishek to provide advice as it needs to furnish the proposal to the investor fast. Since Abhishek is already engaged in the audit of the transactions, he assists DPF's accounting officer and the financial statements are finalised. Abhishek also completes the audit and presents the audit report which is provided to the investor. Has the condition set by the investor been fulfilled?

    (a) No, the investor had asked for independent audit.

    (b) Yes, as the audit report is issued after proper audit engagement letter and also examination of the books of accounts.

    (c) No, because CA Abhishek did not change the terms of engagement to include the advice part alongwith the independent audit. In order for his audit report to be independent, he should have charged separate fees for the advice.

    (d) Yes, DPF has hired a qualified CA to conduct the audit. Not only there is no evidence to suggest that the auditor allowed any misrepresentation, but the auditor himself advised DPF in finalising the financial statements which speaks highly of the quality of financial statements.

20. The auditor has determined that there is a significant going concern uncertainty at PQR Ltd. due to the requirement to refinance the company's debt. Discussions with the management and the auditor's evaluation of management's plans for future actions in relation to its going concern assessment have revealed that plans to raise new equity finance are realistic and likely to deal with the problem. Is it appropriate for PQR Ltd. to prepare its financial statements on a going concern basis?

    (a) No, PQR Ltd. cannot prepare its financial statements on a going concern basis because a significant uncertainty exists.

    (b) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, the auditor is required to express a qualified opinion.

    (c) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. No additional disclosure is necessary in the financial statements or the auditor's report.

    (d) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, disclosure of both the nature of the uncertainty and management's plan is required. **(10 x 2 = 20 Marks)**

Division B- Descriptive Questions-70 Marks

Question No. **1** is compulsory.

Attempt any **four** questions from the Rest.

1. (a) NMN & Co LLP and ABC & Associates LLP are the joint statutory auditors of BHS Ltd. BHS Ltd. is a listed company and has been in existence for the last 50 years. Since beginning this company was audited by MQS & Associates but due to audit rotation, the company had to bring in new auditors. Considering the size of the company, two auditors were appointed as joint auditors. Since the company is new to these auditors and the concept of joint auditors to whom audit work has been divided, management had a discussion and understood that each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. Advise. **(4 Marks)**

   (b) ADKS & Co LLP are the newly appointed statutory auditors of PKK Ltd. During the course of audit, the statutory auditors have come across certain significant observations which they believe could lead to material misstatement of financial statements. Management has a different view and does not concur with the view of the statutory auditors. Considering this the statutory auditors are determining as to how to address these observations in terms of their reporting requirement. Please advise. **(5 Marks)**

   (c) O Ltd. is in the business of manufacturing of steel. The manufacturing process requires raw material as iron ore for which large stock was maintained by the company at year end – 31 March 2019. The nature of raw material is such that its physical verification requires involvement of an expert. Management hired their expert for stock take and auditors also involved auditor's expert for the stock take.

   The auditor observed that the work of the auditor's expert was not adequate for auditor's purposes and the auditor could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.

   Basis above, the auditor concluded that it would be necessary to express a modified opinion in the auditor's report because the auditor has not obtained sufficient appropriate audit evidence. However, the auditor issued a clean report and included the name of the expert in his report to reduce his responsibility for the audit opinion. Comment. **(5 Marks)**

2. (a) In the course of his audit assignment in M/s Bailey Ltd., CA Soft came to know that the company, due to financial crunch and unable to meet employees salary, has taken a loan of Rs. 50 lacs from Employees Gratuity Fund. The said loan was not reflected in the books of account of the company and the auditor ignored this transaction in his report. Comment with reference to the Chartered Accountants Act, 1949 and Regulations there to. **(4 Marks)**

   (b) Director (Finance) of Alpha Ltd. is of the opinion that total trade payables mentioned in the financial statement is sufficient disclosure in the Balance Sheet as per Part I of Schedule III to the Companies Act, 2013. They did not mention details regarding Micro, Small and Medium Enterprises (MSME). Give your view as statutory auditor of the Company and state the details required to be disclosed in notes regarding MSME. **(5 Marks)**

   (c) Yashu & Co., Chartered Accountants have come across in the course of audit of a company that certain machinery had been imported for production of new product. Although the Auditors have applied the concept of materiality for the Financial Statements as a whole, they now want to re-evaluate the materiality concept for this transaction involving foreign exchange. Give your views in this regard. **(5 Marks)**

3. (a) A special notice has been issued for a resolution at 2nd annual general meeting of Fiddle Ltd. providing expressly that CA. Smart shall not be re-appointed as an auditor of the company. Consequently, CA. Smart submitted a representation in writing to the company as provided under section 140(4)(iii) of the Companies Act, 2013. In the representation, CA. Smart incorporated his

independent working as a professional throughout the term of office and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the Company. Comment with reference to the Chartered Accountants Act, 1949 and Regulations there to. **(5 Marks)**

(b) Tee & Co., a firm of Chartered Accountants had been appointed by C & AG to conduct statutory audit of M/s Rare Airlines Limited, a Public Sector Company. They would like to check certain mandatory propriety points as required under section143(1) of the Companies Act, 2013. List the areas of check to meet these requirements. **(4 Marks)**

(c) In course of audit of Fair Prince Bank as at 31st March, 18 you observed that in a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government? **(5 Marks)**

4. (a) Compute the overall Audit Risk if looking to the nature of business there are chances that 40% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 75%. At his part the Auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk. **(5 Marks)**

(b) Comment on the following in the light of certificate of compliance of conditions of Corporate Governance to be issued for a listed company where the Board consists of 10 directors including a non-executive director as its chairman and further:

(i) There were 5 meetings held during the year as follows 01/04/2017, 01/06/2017, 01/09/2017, 03/01/2018, 25/03/2018.

(ii) There are 4 independent directors. One of them resigned on 25/05/2017. A new independent director was appointed on 01/09/2017.

(iii) The Chairman of Audit Committee did not attend the Annual General meeting held on 14/09/2017.

(iv) The internal audit reports were obtained by Audit Committee on quarterly basis. Quarter 1 internal audit report commented on certain serious irregularities as regards electronic online auction of scrap. The agenda of Audit Committee did not deliberate or take note of the issue.

(v) There is no women director. **(5 Marks)**

(c) OPQ Ltd. is in the business of software consultancy. The company has had large balances of accounts receivables in the past years which have been assessed as area of high risk. For the year ended 31 March 2018, in respect of the valuation of accounts receivable, the statutory auditor has assigned the checking of the accuracy of the aging of the accounts receivables and provision based on ageing to the internal auditor providing direct assistance to him. Please advise. **(4 Marks)**

5. (a) AKJ Ltd. is a small-sized 30 years old company having business of manufacturing of pipes. Company has a plant based out of Dehradun and have their corporate office in Delhi. Recently the company appointed new firm of Chartered Accountants as their statutory auditors.

The statutory auditors want to enter into an engagement letter with the company in respect of their services but the management has contended that since the statutory audit is mandated by law, engagement letter may not be required. Auditors did not agree to this and have shared a format of engagement letter with the management for their reference before getting that signed. In this respect management would like to understand that as per SA 210 (auditing standard referred to by the auditors), if the agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement, what should be included in terms of agreed audit engagement letter? **(4 Marks)**

(b) Ekbote Co. is currently a large organisation trading in items of office furniture. The entity wants to expand and hence are looking at acquisition of Rawat Co which deals in items of household furniture. Ekbote Co. hires a Chartered accountant to conduct a due diligence to consider whether there is the potential for additional value to be brought out of the target company by improving its operational function and also whether there are serious operational risks about which the potential buyer should be concerned (thereby allowing the buyer to consider aborting the deal or renegotiating the price). Which of the due diligence review would be helpful to achieve the above objective? You are also required to briefly discuss the contents of a due diligence report. **(4 Marks)**

(c) (i) While conducting the tax audit of A & Co. you observed that it made an escalation claim to one of its customers but which was not accounted as income. What is your reporting responsibility? **(3 Marks)**

(ii) While writing the audit program for tax audit in respect of A Ltd., you wish to include possible instances of capital receipt if not credited to Profit & Loss Account which needs to be reported under clause 16(e) of form 3CD. Please elucidate possible instances. **(3 Marks)**

6. (a) M/s. ABC, a firm of Chartered Accountants received Rs. 2 lakhs in July, 2018 from a client to pay the Advance Tax. However, the firm has used that money for its own purpose and later on adjusted the same with the outstanding fee payable. Comment with reference to the Chartered Accountants Act, 1949 and Regulations there to. **(3 Marks)**

(b) You are appointed as the auditor of a NBFC which is an Investment company registered with RBI. What shall be the special points to be covered for the audit of NBFC in case of Investment companies? **(6 Marks)**

(c) XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-19 for audit. The audit assistant observes and brings to your notice that the company's records show following dues:

- Income Tax relating to Assessment Year 2015-16 rupees 125 lacs - Appeal is pending before Hon'ble ITAT since 30-9-17.
- Customs duty rupees 85 lakhs - Demand notice received on 15-9-18 but no action has been taken to pay or appeal.

As an auditor, how would you bring this fact to the members? **(5 Marks)**