

QUESTION NO.1 (M.C.Q)

M.C.Q NO. 1 to 10 carries 1 mark each

M.C.Q NO. 11 to 20 carries 2 marks each

1. Comment on the situation – CA Raj a FCA did not followed SA 505 external confirmation to test the Balance Sheet of creditors. When asked about the reason he simply said he was unaware that any such announcement is issued by ICAI.
 - (a) He can modify his report as he is unaware
 - (b) He is lacking in professional competence.
 - (c) The institute reprimand his for lifetime
 - (d) All of the above
2. Which Standard deals with the relationship between a principal auditor who is appointed to report on the financial statements of an entity and another auditor who is appointed to report on the financial statements of one or more component.
 - (a) SA 600
 - (b) SA
 - (c) Partially True and partially False
 - (d) Can't form an opinion
3. If management refuses to correct some or all the material misstatement communicated by the auditor, the auditor shall ____ for not making the corrections and shall take that understanding into account when evaluating whether financial statement as a whole are free from material misstatement.
 - (a) Modify the report
 - (b) Withdraw the assignment if permissible
 - (c) Take legal advice
 - (d) Obtain an understanding of management's reasons
4. Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance. Identify whether the statement is
 - (a) True
 - (b) False
 - (c) partly True and Partly false
 - (d) None of the above
5. Sampling risk can lead to two types of erroneous conclusions one of them is when from test of details it appears that material misstatements exist when in fact it does not which affects _____ and is more likely to lead to an inappropriate audit opinion
 - (a) Audit efficiency
 - (b) audit effectiveness
 - (c) audit quality
 - (d) none of the above

6. The auditor is liable for penalty under Section 147 for contravention of the following sections :
- (a) 139 to 146
 - (b) 139, 143, 144 and 145
 - (c) 139, 140, 141 and 143
 - (d) 139 to 141
7. Sahil Ltd has its factory building, appearing as fixed assets in its financial statements in the name of one of its director who was overlooking production activities. How would you report.
- (a) Clause 1(a)
 - (b) Clause 1(b)
 - (c) Clause 1(c)
 - (d) No reporting
8. Factors to be evaluated to assess inherent risk at level of financial statements.
- (a) Integrity of management
 - (b) Unusual pressure on management
 - (c) A & b both
 - (d) None of above
9. Audit Programme considers following –
- (a) Accounting and Management policies
 - (b) System of internal control and accounting procedures
 - (c) None of above
 - (d) (a) and (b) both
10. Assurance services not include which of the following
- (a) Management consultancy engagement
 - (b) Engagement of due diligence
 - (c) Testifying as an expert witness
 - (d) All of the above
11. The CAG shall within days from the date of receipt of audit report, can order supplementary audit u/s 143(6).
- (a) 30 days
 - (b) 60 days
 - (c) 45days
 - (d) 15 days
12. C.A. Sabir was auditor of XYZ Pvt. Ltd. In valuation of financial instruments and antiques owned by company he took the help of a valuation expert and the report indicated nothing abnormal. The valuation of these items was material from audit point of view. Mr. Sabir wanted to indicate in his report that while forming opinion he has taken help of report of expert. Which of the following statement is most appropriate in this regard ?

16. The AGM of ABC Ltd. is Scheduled at May, 2019. However, the company makes a default and does not conduct AGM at all. Which of the following statement is incorrect ?
- (a) Company is not required to file the financial statements as per Section 137 to ROC since the AGM is not held
 - (b) Company is required to file financial statements to ROC whenever the AGM is held.
 - (c) Company is required to file financial statements to ROC within 30 days from the last day in which AGM should have been held.
17. PXL Ltd. is a public company having Rs. 40 lakhs paid up capital in previous year which raised Rs. 60 lakhs in current year under audit. The company had turnover of previous three consecutive financial years being Rs. 49 crores, 145 crores and 150 crores. During the previous year, the company borrowed a loan from Public financial institution of Rs. 110 crores but squared up Rs. 20 crores by the year end.
- The Company does not have any internal audit system. In the view of manage, internal audit is not mandatory.
- (a) Contention of management is correct
 - (b) Contention of management is not correct
 - (c) It is not mandatory for public companies to conduct internal audit
 - (d) Can't say in the above situation
18. As per CARO 2016, the auditor is required to report that – “Whether the company is required to be registered under section 45 – IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.” Such reporting is done under which clause ?
- (a) Clause (xiii)
 - (b) Clause (xiv)
 - (c) Clause (xvi)
 - (d) Clause (xv)
19. The Respondent was a Taxation Advisor of a group of Companies. During search and seizure under Section 132 of The Income Tax Act, 1961 of the group and also of the Chartered Accountant, the Complainant found that the Respondent was colluding with this group in evasion of tax. The Respondent had signed two sets of financial statements of the same auditee, for the same financial year. The two financial statements showed different figures of contract receipts, net profits and balance sheet. He was grossly negligent in the conduct of his professional duties. The Respondent admitted that he was managing partner / partner in two partnership firms where there were other partners who were not Chartered Accountants. Held, the respondent is guilty under –
- (a) Clause 4 of Part I of First Schedule and Caluse 5,6,7 of Part I of Second Schedule to CA Act
 - (b) Clause 4 of Part I of First Schedule and Clause 5,6,7,8 of Part I of Second Schedule to CA Act
 - (c) Clause 4 of Part I of First Schedule and Clause 5, 6, 7 of Part II of Second Schedule to CA Act
 - (d) Clause 4, 5, 6 & 7 of Part I of First Schedule to CA Act

20. As per the provisions of the relevant enactments, the auditor of a banking company is to be appointed by _____ whereas the auditor of a nationalized bank is to be appointed by _____.

The auditors of the State Bank of India are to be appointed by _____.

- (a) Members; Board of Directors; Comptroller and Auditor General of India
- (b) Board of Directors ; Comptroller and Auditor General of India ; Board of Directors
- (c) Members ; Comptroller and Auditor General of India; Board of Directors
- (d) Comptroller and Auditor General of India ; Board of Directors; Members

Question No. 1 is compulsory and attempt any four questions out of remaining five.

QUESTION NO.1

A. Ram Ltd. is a private company. Its balance sheet shows paid up share capital of Rs. 5 crore and public borrowings of Rs. 100 crore. The company appointed M/s Shyam & Co., a chartered accountant firm, as the statutory auditor in its annual general meeting held at the end of September, 2017 for 11 years.

You are required to state the provisions related to – rotation of auditors and cooling off period as per the section 139(2) of the Companies Act, 2013 in case of an individual auditor or an audit firm, both, and comment upon the facts of the case provided above with respect to aforesaid provisions.

(5 MARKS)

B. Y & 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)

C. During the course of audit of CT Ltd. for the financial year 2017-18, it is noticed that Rs. 3.00 lakhs of employee contribution and Rs. 7.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that Rs. 5.00 lakhs only has been deposited with ESIC department during the year ended 31st March, 2018. The Finance Manager informed the auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. Comment as a statutory auditor.

(4 MARKS)

QUESTION NO.2

A. X Ltd. had a net worth of INR 1300 crores because of which Ind As became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course

of the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise. **(4 MARKS)**

B. **Write short note on** : Technical, ethical and professional standards as per statement on peer review. **(4 MARKS)**

C. A special notice has been issued for a resolution at 3rd annual general meeting of Fiddle Ltd. providing expressly that CA Smart shall not be re – appointed as an auditor of the company. Consequently, C.A. 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. Advise on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(6 MARKS)**

QUESTION NO.3

A. As at 31st March 2018 while auditing Safe Insurance Ltd, you observed that a policy has been issued on 25th March 2018 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5th April, 2018. You further noticed that there was a fire accident in the premises of the insured on 31st March 2018 and a claim was lodged for the same. The insurance company also made a provision for claim. Please advise. **(4 MARKS)**

B. Ayush, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What are the areas excluded from the scope of peer reviewer? **(5 MARKS)**

C. CA. T, in practice, was appointed to carry out internal audit of a stock broker, listed with BSE. However, he failed to intimate his appointment to the statutory auditors of the company. The statutory auditor feels this is violation of professional ethics. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(5 MARKS)**

QUESTION NO.4

A. CA. Mack, a recently qualified practicing Chartered Accountant got his first audit assignment of Captura (P) Ltd. for the financial year 2017-18. 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. Mack left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs. 145 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. CA. Mack, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by predecessor auditor. Comment.

(5 MARKS)

- B. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto :

CA Kumar who is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaigning promising him that he will come in contract with influential people which will help to enhance his career after completion of his training period. **(4 MARKS)**

- C. As an auditor of ABC Limited, in view of given circumstances, you are required to draft qualified opinion and basis for qualified opinion due to the departure from the applicable Financial Reporting Framework:
- i. Audit of a complete set of financial statements of an company other than a listed company (registered under the Companies Act, 2013) using a fair presentation framework.
 - ii. The financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).
 - iii. The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
 - iv. A departure from the applicable financial reporting framework resulted in a qualified opinion.
 - v. The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.
 - vi. Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised).
 - vii. Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
 - viii. The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.
 - ix. Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
 - x. In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

(5 MARKS)

QUESTION NO.5

A. DLF Ltd., a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management.

(5 MARKS)

B. 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)

C. In an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates. This data can be useful for preparation of management information system (MIS) reports and electronic dashboards that give a high – level snapshot of business performance. In view of above you are required to briefly discuss the meaning of data analytics and example of circumstances when auditing in an automated environment, auditors can apply the concepts of data analytics.

(4 MARKS)

QUESTION NO.6

A. In terms of Sl. No. 5G of Form GSTR 9C, the turnovers included in the audited financial statement for the period April 2017 to June 2017 shall be declared and deducted from the annual turnover to arrive at the turnover as per the GST Laws.

Please specify which of the following supplies would form part of reporting under turnover for the period April 2017 to June 2017

- a. Goods were manufactured and cleared from a factory on 1.6.2017 on sale or approval basis. The goods were not approved by the recipient and returned back on 25.12.2017.
- b. Goods were manufactured and cleared from a factory located in Bangalore on 30.4.2017. The goods were cleared to its showroom located in Hyderabad and eventually been sold from there on 30.8.2017. The audit under the GST Law will be conducted for Bangalore GST IN.
- c. Continuous supply of service in the nature of telecommunication service has been provided for the period 1.6.2017 to 30.6.2017. The bill is raised on 3.7.2017. The bill is payable by the customer only on 21.7.2017. Should the revenue be recognized in the month of June 2017 and reduced from total turnover or should it form part of turnover for the period July 2017 to March 2018 since the due date for payment of consideration is 21.7.2017. The entity recognized the revenue in the month of June 2017.

(6 MARKS)

B. PRSH & Co is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2000 crores and profits are INR 190 crores. During the planning meeting of the management and the auditors, it was discussed that the management need to provide written representation letter to the auditors for the preparation of the financial statements and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of and period covered by written representation in view of SA 580.

(4 MARKS)

C. In the course of audit of ZED Ltd., its auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of retesting the same during the current audit. As an advisor to the auditor kindly caution him about the factors that may warrant a re – test of controls.

(4 MARKS)