

TOPIC : FULL

SECTION –A

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

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

1. Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:
 - (a) Authorization.
 - (b) Performance reviews.
 - (c) Information processing.
 - (d) All of the above

2. When is evidential matter, generally, considered sufficient in case of stock exchange member audit?
 - (a) When it constitutes entire population
 - (b) When it is objective and relevant
 - (c) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
 - (d) When auditor collects and evaluates it independently

3. This year you were included in the audit team with portfolio of few not-for- profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?
 - a. Time card clocking in to ensure that the employees including resident doctors are only paid for those hours worked
 - b. Strict controls over the authorisation of overtime to ensure it is only worked where really needed
 - c. There are any restrictions imposed by the objectives and powers given by hospital's governing documents
 - d. A recognised plan of the organisation's structure clearly showing the areas of responsibility and lines of authority and reporting.

4. The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses?
 - a. You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions.
 - b. You observe that there is an existence of a software program for virus prevention.
 - c. You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards.
 - d. You identify that there are physical protection devices in use for hardware, software, and library facilities.

5. As per CARO, 2016, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.
 - a. Under Clause (xi) of paragraph 3 of the CARO, 2016,
 - b. Under Clause (xvi) of paragraph 3 of the CARO, 2016,
 - c. Under Clause (xv) of paragraph 3 of the CARO, 2016,
 - d. Under Clause (xiv) of paragraph 3 of the CARO, 2016,

6. You are the internal auditor of FCD Bank Limited for the year 2017-18 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:
 - a. Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
 - b. Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
 - c. Discuss the process followed for lien marking with the branch manager.
 - d. Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.

7. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion
 - a. Right and obligations
 - b. Valuation
 - c. Completeness
 - d. Existence

8. For the current year audit of Beta Co for the year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan the audit work on trade receivables. The financial statements of Beta Co showed trade receivables of Rs.243 crores in the current year. Which of the following procedures could not be performed by using computer-assisted audit techniques?
- Selection of a sample of receivables for confirmation
 - Calculation of receivables days
 - Production of receivables' confirmation letters
 - Evaluation of the adequacy of the allowance for irrecoverable receivables
9. The agreed terms of the audit engagement shall be recorded in an audit engagement letter which shall include the following except-
- Responsibilities of the auditor
 - Description of methods to be followed for obtaining audit evidence
 - Responsibilities of management
 - Objective and scope of the audit of the financial statements
10. The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is:
- Sufficiency of audit evidence
 - Appropriateness of audit evidence
 - Accounting estimates
 - Reasonableness of audit evidence
11. CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct .
- Clause (6) of Part I of the First Schedule
 - Clause 2 of Part I of the Second Schedule
 - Clause 12 of Part I of the First Schedule
 - Clause 2 of Part IV of the First Schedule
12. A Ltd. is a company in the business of buying and selling modern and contemporary Indian arts.
- Following are the assets (in millions) of the Company on 31 March 2017:
- Fixed assets: INR 10
 - Investments: INR 20
 - Loans and advances: INR 40
 - Inventories: INR 400
 - Trade receivables: INR 10
 - Cash and cash equivalents: INR 20

The management has not obtained valuation of inventories as at 31 March 2017 from a valuation expert in art forms. The auditors could not perform alternate procedures for valuation of inventories. Therefore, auditors were not able to comment on the carrying value of inventories. However, the auditors were able to obtain sufficient appropriate audit evidence in respect of all other captions of financial statements. The auditors qualified their opinion in the auditor's report. What are your views on auditors qualifying their report?

- a) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. The auditors may qualify their opinion in the auditor's report considering only one caption of the financial statements could be misstated.
- b) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should issue adverse opinion.
- c) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should disclaim their opinion.
- d) Inventory is considered to be an important component of the financial statements. This is one of the items wherein significant risk may exist from the audit's perspective. Auditor should take cognizance of this fact and accordingly decide his opinion – qualified/ adverse/ disclaimer.

13. X Ltd is in the business of trading of industrial equipments. The Company's operations are based out of India and Germany. For the purpose of hedge, the company has taken forward contracts. The Company is Phase 1 company as per the requirements of Ind AS and hence forward contracts have been fair valued for the purpose of preparation of financial statements. The Company also got its property, plant and equipment fair valued. The Company has shown its fair valuation reports in respect of above items to the auditors. What should be the responsibility of the auditors in this case?

- a. The auditor may refer to the work of the valuer in his report containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
- b. The auditor may refer to the work of the valuer in his report for forward contracts but not for property, plant and equipment, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
- c. The auditor may refer to the work of the valuer in his report for property, plant and equipment but not for forward contracts, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
- d. The auditor may involve his own expert for the purpose of audit of fair valuation of forward contracts and property, plant and equipment. But in any case he cannot reduce his responsibility for the audit opinion by referring to the work of the valuer in his report.

14. NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle.

There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers.

Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

- a. Management responses look reasonable and this matter should be dropped.
- b. The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored.
- c. Internal auditor need to report this matter.
- d. Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

15. XYZ Printers is a medium size printing press with turnover of Rs.100 crore for the financial Year 2015-16. The company buy paper rims for its press from different suppliers. You are the statutory auditor of the company for the year 2015-16 and the management has informed you that the company has bought paper rims from one of the supplier who is related to one of the director of XYZ Printers. What audit evidence do you need to collect for identifying and assessing the risk of material misstatement associated with related party transaction?

- a. Prior approval of the audit committee/shareholders for the transactions with the supplier, materiality/ significance of the transactions on company's financial statements, agreement entered into with the supplier and internal control for the transactions with the supplier.
- b. Only the prior approval of the audit committee/ shareholders for the transactions with the supplier is sufficient.
- c. Check whether the company has formulated any policy on dealing with related party transactions and materiality of transactions.
- d. As a statutory auditor you should check the internal controls and internal audit reports only.

16. You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files:

- As at 31 March 2017, the company had 350 employees
- On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line
- On 1 June 2017, all remaining staff received a 5% pay rise
- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018.

The following audit evidence has been gathered relating to the accuracy of wages and salaries for Bingham Co.

- (1) Proof in total calculation performed by an audit team member
- (2) Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries
- (3) Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries
- (4) Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co.

What is the order of reliability of the audit evidence starting with the MOST RELIABLE first?

- a. Audit evidence - 1, 2, 3, 4
- b. Audit evidence - 1, 4, 2, 3
- c. Audit evidence - 4, 1, 2, 3
- d. Audit evidence - 4, 1, 3, 2

17. You are an audit supervisor of Swanminathan & Associates and are currently planning the audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 and the forecast profit before tax is Rs 25.26 Lakhs.

At the beginning of the year, Zonal purchased a patent for Rs. 5.3 lakhs which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, the entity borrowed Rs. 4.5 lakhs from the bank which is repayable over five years.

Which of the following is a response to the audit risk identified by you in planning the audit for the reporting year?

- (a) The audit team need to agree the purchase price to supporting documentation and to confirm the useful life is five years. Recalculate the amortisation charge to ensure the accuracy of the charge and that the intangible is correctly valued at the year end.
- (b) The company has borrowed Rs.4.5 lakhs from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure.

- (c) In accordance with Ind AS 38 Intangible Assets, the patent should be included as an intangible asset and amortised over its five-year life.
- (d) Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.

18. You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll

- As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees.
- One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect.
- 10% of the employees were promoted and they received a 8% rise in their salaries.
- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018.

Which of the following are substantive ANALYTICAL PROCEDURES to be performed to complete the audit work for wages and salaries of Kapoor Industries?

- (1) Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries.
- (2) Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies.
- (3) Compare the current year total payroll expense to the prior year and investigate any significant differences
- (4) Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements

- a. Analytical procedure 1 and 2
- b. Analytical procedure 1 and 3
- c. Analytical procedure 2 and 4
- d. Analytical procedure 3 and 4

19. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For the purpose of consolidation, WEF Ltd is required to send financial information of the company for the year in the Reporting package comprising of balance sheet, statement of profit and loss, statement of cash flow and notes to accounts. Since WEF Holding Ltd has many group companies across the globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all the group companies. The group companies do not have any provision to change the groupings/ classifications which need to be reported as per the Group accounting manual which is prepared as per the Group's accounting policies. Group follows IFRS.

ABC & Co LLP is also required to audit the reporting package of WEF Ltd as per IFRS. During the course of audit, the auditor observed that some classifications are not in line with IFRS, however, due to the limitation of the reporting package no such corrections can be made. How should the auditor deal with this?

- a. Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report.
 - b. Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. However the auditor may also include a note separately in respect of the corrections required.
 - c. Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor cannot change anything. However, the auditor is required to issue to report as per IFRS wherein the classifications are wrong and hence the auditor should issue qualified report if the amount is material.
 - d. Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything. However the auditor should issue his report as per the Group accounting manual instead of IFRS.
20. ASM Motor Cars co. manufactures a range of motor cars and its year end is 31 March 2018. You are the audit supervisor of Khanna & Associates and currently preparing the audit programmes for the year-end audit of ASM. The entity undertakes continuous production of cars, 24 hours a day, seven days a week. An inventory count is to be undertaken at the year end and Khanna & Associates will attend. You are responsible for the audit of work in progress (WIP) and will be part of the team attending the count as well as the final audit. WIP constitutes the partly assembled cars at the year end and this balance is likely to be material. ASM values WIP according to percentage of completion, and standard costs are then applied to these percentages.

Which of the following is **NOT** a substantive procedure the audit could perform to obtain sufficient and appropriate audit evidence in relation to the valuation of work in progress?

- (a) Discuss with management how the percentage completions are attributed to WIP
- (b) Observe the procedures carried out in the count in assessing the level of WIP; consider reasonableness of the assumptions used
- (c) During the count, verify all the percentage completions if they are in accordance with ASM's policies
- (d) Review the level of variances between standard and actual costs

SECTION –B

QUESTION NO.1 is compulsory and attempt any four out of five questions.

QUESTION 1

- (a) Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2018-19. While verification of company's inventories as on 31st March 2019, you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties. What is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held and the stock as disclosed in company's records actually belongs to them? **(5 Marks)**
- (b) M/s Amudhan & Co., a firm of Chartered Accountants, received Rs. 2.8 lakhs in January, 2019 on behalf of one of their clients, who has gone abroad and deposited the amount in their Bank account, so that they can return the money to the client in July, 2019, when he is due to return to India. **(4 Marks)**
- (c) KPI Ltd. is a company on which International Standards on Auditing are applicable along with Standard on Auditing issued by the ICAI. The company appointed new auditors for the audit of the financial statements year ended 31 March 2019 after doing all appointment formalities. Therefore, the auditor's report referred the International Standard on Auditing in addition to the Standard on Auditing issued by the ICAI. As an expert, you are required to advise the auditor regarding auditor's report for audits conducted in accordance with both the Standards. **(5 Marks)**

QUESTION 2

- (a) CA Dabu has been appointed as an auditor of M/s MAP Technocraft Ltd. to conduct statutory audit. While conducting audit, he came across some difficulties which the management could not explain to him properly and, therefore, he decided to take services of Mr. Jay, an engineering consultant. Mr. Jay performed his work and submitted details to CA Dabu. State the specific procedure which CA Dabu should follow to evaluate the adequacy of work performed by Mr. Jay. **(5 Marks)**
- (b) ALM Associates has been appointed as auditor of M/s Hary Ltd. which acquired 55% shares-in M/s Sam Ltd. on 15th October, 2018. During audit of Harry Ltd., the auditors found that the company has not prepared consolidated financial statements because on the date of acquisition the fair value of certain assets & liabilities has not been ascertained which is significant and are accounted for on estimated basis only. Help ALM Associates in framing opinion paragraph of audit report. **(4 Marks)**
- (c) A professional accountant in public practice is always subject to various threats in compliance with fundamental principles of his profession and you, as a professional accountant, are worried about engagement specific threat in your audit assignment of M/s Soft Ltd. and want to implement some measures to eliminate and reduce the same. Enumerate some engagement specific safeguards which you may introduce in your work environment to ward off such threats. **(5 Marks)**

QUESTION 3

(a) You have been appointed as an auditor of M/s Real Ltd. in which total number of directors in the board is 9. As an auditor, state the points to be considered in verification of composition of Board under Regulation 17 of The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. **(6 Marks)**

(b) Banks, because of certain characteristics, are distinguished from other commercial enterprises and hence it needs special audit consideration.

As an auditor of a bank, specify the various peculiarities which may necessitate special audit consideration to be taken care by you. **(4 Marks)**

(c) CA Natraj, in practice, accepted an assignment as advisor and consultant to the public issue of shares by his client M/s Super Ltd.

Besides helping the company as an advisor, he also underwrote the public issue of the company to the extent of 25% at a commission of 1%. Remaining shares were underwritten by banks and other financial institutions at the same rate of commission. He contends that above assignments are part of management consultancy work permitted by the council of the Institute. Do you agree with the view of CA Natraj? Decide in the light of applicable code of conduct. **(4 Marks)**

QUESTION 4

(a) A newly qualified professional has received his first appointment as auditor of a large company and is very much concerned about the effectiveness of internal control and wants to assess and evaluate the control environment as part of his audit program. Towards achieving his objective, he seeks your help in knowing the Standard Operating Procedures (SOPs) of assessment and evaluation of control. **(5 Marks)**

(b) PQ & Co. is an audit firm with P and Q as partners. For the financial year 2018-19, the firm has been appointed as statutory auditor of M/s Mango Orchards Hotel Ltd. The audit firm is a regular customer of the hotel and the partners usually stay in the same hotel at various locations in the course of travelling for their various professional assignments. Normally, payments for such stay are settled against quarterly bills raised by the company. Give your comment with respect to the Companies Act, 2013. **(4 Marks)**

(c) On receipt of statutory audit report on 30-03-2018 of M/s Sunlight Ltd., a government company, C&AG on 25-05-2018 appointed M/s Veeru & Associates to conduct supplementary audit u/s 143(6)(a) of the Companies Act, 2013. They submitted their report to C&AG as per their scope of work. The Company held its AGM on 01-09-2018 but directors did not think it necessary to discuss supplementary auditor's report and comment of the C&AG. Is the approach of the directors of Sunlight Ltd. correct? Guide the company with the provisions related to supplementary audit. **(5 Marks)**

QUESTION 5

(a) The volatility, unpredictability and pace of fast changes that exists in the automated environment today is far greater than in the past and consequently it throws more risk to business which requires them to have a need to continuously manage such risks. State various risks which an enterprise may have to face and manage.

Or

A professional accountant is often required to give certificates or report for special purposes required by various authorities and statute and he needs to take careful evaluation of such engagement. However, issuing such special purpose certificates or reports has some inherent limitations which could limit his review and evaluation. Enumerate some of the limitations associated with such special purpose report or certificates. **(5 Marks)**

(b) In the course of your tax audit assignment u/s 44AB of the Income Tax Act, 1961 of Dream Bank Ltd., you have instructed your assistant to find out receipt of capital nature which might not have been credited to Profit & Loss Account and needs to be reported in Para 16(e) of Form 3CD. Your audit assistant seeks your guidance in reporting the same. Specify any four illustrative examples of such receipt.

(4 Marks)

(c) You have been appointed as a forensic accountant in M/s Secure Ltd. to carry out various analysis as a part of your assignment to arrive at a particular result. Specify the various analysis which might have to be carried out by you to arrive at your result.

(5 Marks)

QUESTION 6

(a) 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: **(5 Marks)**

(i) There were 5 audit committee meetings held during the year as follows 01/04/2018, 01/06/2018, 01/09/2018, 03/01/2019, 25/03/2019.

(ii) There are 4 independent directors. One of them resigned on 25/05/2018. A new independent director was appointed on 01/09/2018.

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

(c) While auditing FAIR Bank, you observed that a lump sum amount has been disclosed as contingent liability collectively. You are, therefore, requested by the management to guide them about the disclosure requirement of Contingent Liabilities for Banks. **(5 Marks)**