

**TOPICS : Nature, Objective and Scope of Audit, & Company Audit**

**QUESTION NO.1**

- A. "An auditor who before the completion of the engagement is requested to change the engagement to one which provides a lower level of assurance should consider the appropriateness of doing so." Discuss. **(6 MARKS)**
- B. The first auditors of Bhartiya Petrol Ltd., a Government company, were appointed by the Board of Directors. Analyse. **(4 MARKS)**

**QUESTION NO.2**

- A. The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats.

In the above context, explain the guiding principles. **(5 MARKS)**

- B. The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit. **(5 MARKS)**

**QUESTION NO.3**

- A. The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Explain. **(4 MARKS)**
- B. Discuss the matters to be included in the auditor's report regarding statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders as per CARO,2016. **(6 MARKS)**

**QUESTION NO.4**

- A. M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of EnnLtd. for the Financial Year 2016 -17. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in Enn Ltd. having market value of Rs. 1,50,000. Whether M/s RM & Co. is disqualified to be appointed as auditors of Enn Ltd.? Advise. **(3 MARKS)**
- B. As per SA 220, "Quality Control for an Audit of Financial Statements" the auditor should obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of a new engagement with an existing client. Explain. **(4 MARKS)**

C. Explain Auditor's right to-

**(3 MARKS)**

Report to the members of the company on the accounts examined by him

**QUESTION NO.5: MCQs**

1. In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, \_\_\_\_\_, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company. **(1 M)**
  - (a) the board
  - (b) any director
  - (c) Managing Director
  - (d) Whole time director
  
2. According to SA 210 "Agreeing the Terms of Audit Engagements", The auditor shall agree the terms of the audit engagement : **(1 M)**
  - (a) with management and those charged with governance, as appropriate.
  - (b) with management
  - (c) with those charged with governance
  - (d) with management or those charged with governance, as appropriate.
  
3. An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of \_\_\_\_\_ exercised in performing the work and evaluating the results. **(1 M)**
  - (a) professional skepticism
  - (b) professional integrity
  - (c) professional judgment
  - (d) Professional sincerity
  
4. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall: **(1 M)**
  - (a) Withdraw from the audit engagement where possible under applicable law or regulation;
  - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

- (c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
- (d) Withdraw from the audit engagement where possible under applicable law or regulation or determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
5. Eeyore Pvt. Ltd. is incorporated on 1st July, 2017. During the Financial Year ending on 31<sup>st</sup> March, 2018, the company did not opt for any borrowing at any point of time and have a total revenue of Rs. 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus- **(2 M)**

Particulars	Amount (in Rs.)
<b>Paid-up Capital</b>	
- Consideration received in cash for equity shares	40,00,000
(including unpaid calls of Rs. 5,00,000)	
- Consideration received in cash for preference shares	25,00,000
- Bonus shares allotted	7,00,000
- Share application money received pending allotment	10,00,000
Sub-Total	82,00,000
<b>Reserve &amp; Surplus</b>	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	25,00,000
<b>GRAND TOTAL</b>	<b>1,07,00,000</b>

You are provided with the provisions regarding applicability of Companies (Auditor's Report) Order, 2016, (CARO, 2016) issued under section 143(11) of the Companies Act, 2013 to a private limited company that it specifically exempts a private limited company having a paid up capital and reserves and surplus not more than Rs. 1 crore as on the Balance Sheet date and which does not have total borrowings exceeding Rs. 1 crore from any bank at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 exceeding Rs. 10 crore during the financial year.

Considering the information given above, which of the following shall be considered as a reason regarding applicability or non-applicability of CARO, 2016?

- (a) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.07 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- (b) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.02 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- (c) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.92 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.
- (d) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.82 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.

6. CA. Donald was appointed as the auditor of PS Ltd. at the remuneration of Rs. 30,000. However, after 4 months of continuing his services, he could not continue to hold his office of the auditor as his wife got a government job at a distant place and he needs to shift along with her to the new place. Thus, he resigned from the company and did not perform his responsibilities relating to filing of statement to the company and the registrar indicating the reasons and other facts as may be relevant with regard to his resignation. How much fine may he be punishable with under Companies Act, 2013?

**(2 M)**

- (a) Nothing.
- (b) Rs. 30,000.
- (c) Not less than Rs. 50,000 but which may extend to Rs. 5,00,000.
- (d) Not less than Rs. 30,000 but which may extend to Rs. 5,00,000.

7. As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing", \_\_\_\_\_ is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

**(2 M)**

- (a) absolute assurance
- (b) limited assurance
- (c) reasonable assurance
- (d) reasonable or absolute assurance