

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

CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around Rs. 50 lakhs. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2019-20, the following observations with respect to the company were made by the auditors:

- The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to Rs. 1.50 crores approximately.
- Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2018.

As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order 2016. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.

CA & Co. Chartered Accountants, were also acting as auditors for another company, LS Ltd. and KD Bank Ltd. During the course of audit of LS Ltd, there was a difference of opinion between the management and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (i) The effect on audit of significant transactions that took place in the financial year.
- (ii) Areas of high risk as assessed and reported by management's expert.
- (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement

During the audit of KD Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

- 59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to Rs. 29 lakhs were overdue for more than two years.
- 73 (guaranteed by Government of India) agricultural loan accounts amounting to Rs. 25 lakhs were overdue for more than two years.
- 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to Rs. 25 lakhs for each company were overdue for more than three and a half months.

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered the following new assignments:

- A GST assessing officer approached for conduct of special audit under section 66 of CGST Act for a company named MD Ltd. which was having an annual turnover of Rs. 1 crore. He had requested for the special audit as per the opinion that the company had not availed input tax credit within normal limits.
- Offer to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of Rs. 113 crores, of which preliminary expenses of Rs. 17 crores were included.

The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them.

Based on above case scenario answer the following M.C.Q from 1 to 5

Question No: (1-5)

1. Is the decision of CA & Co. of not reporting the issues of ZXC in CARO 2016 justified? If so, under what reason?
 - (a) No. CARO 2016 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO.
 - (b) Yes. CARO 2016 is not applicable to ZXC and hence the same need not to be reported.
 - (c) No. As per SA 240, the auditor has to maintain professional skepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.
 - (d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.
2. What is the total amount of loans that should be classified as NPA by KD Bank?
 - (a) Rs.79 lakhs.
 - (b) Rs.100 lakhs.
 - (c) Rs.204 lakhs.
 - (d) Rs.104 lakhs.
3. Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?
 - (a) Guarantee given by KD Bank on behalf of constituent located in Myanmar.
 - (b) A percentage of the total bills purchased by KD Bank.
 - (c) Claims against the bank acknowledged as debt.
 - (d) Unpaid salary of Rs. 5 lakhs to five staffs of KD Bank Ltd., who are currently undergoing a court trail.
4. What could be the possible reason for not accepting the special audit under section 66 of CGST Act?
 - (a) Such audit is applicable only if the turnover of the company exceeds Rs. 2 crores.
 - (b) Such audits need to be conducted by cost accountants.
 - (c) Such audit has to be called upon by assistant commissioner.
 - (d) Such audit has to be called upon by the central government.

5. Whether CA & Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason?
- (a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India.
 - (b) Yes. The insurance company should have a minimum paid up share capital of Rs. 100 crores which shall exclude the preliminary expenses.
 - (c) No. The insurance company should have a minimum paid up share capital of Rs. 100 crores which also includes the preliminary expenses.
 - (d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority.
6. Which of the following are to be included mandatorily in the audit report ?
- (a) Whether all the information and explanation relevant for the audit has been obtained.
 - (b) Whether personal expenditure is debited to revenue account.
 - (c) Whether the loans and advances given are unsecured and prejudicial to the interest of the company.
 - (d) Whether the book entries are prejudicial
7. The company has advanced a loan to a firm in which director was interested at a lower rate than prevailing rate. How you will report in caro 2016 ?
- (a) No reporting (b) Clause iv (c) Clause xii (d) Clause iii
8. Segregation of duties includes –
- (a) To minimize the occurrence of fraud and errors
 - (b) Considering the cost and efficacy
 - (c) None of above
 - (d) (a) add (b)
9. Factors to be considered in development of overall audit plan are.
- (a) Accounting policies adopted by client
 - (b) Nature and extent of audit evidence to be obtained.
 - (c) Identification of significant areas.
 - (d) All of above
10. Which of these is not a disqualification for being a peer reviewer
- (a) Have net worth of less than 50 crore
 - (b) Disciplinary action pending against peer reviewer
 - (c) Conflict of interest in practice unit.
 - (d) Convicted by competent court

11. Compliance Audit is the independent assessment of whether subject matter is in compliance with the applicable authorities identified in criteria. It is concerned with
- Propriety and Financial Audit
 - Financial and Regularity Audit
 - Regularity and Propriety Audit
 - Performance and Comprehensive Audit
12. BAS & Co. are appointed as statutory auditor of Satyam Ltd. There were some critical areas which they found during the course of audit for which they took help of an expert. Mr. Raju, engagement partner was going through the experts report and found some material irregularities in the affairs of the company which will attract qualification in his report. Mr. Raju wanted to refer the expert's name his report as a gesture of recognition. Which of the following is most appropriate in the given case ?
- Mr. Raju is incorrect, he cannot site name of expert in auditor's report.
 - Mr. Raju can refer his name because there is qualification in his report based on the report of expert.
 - He can refer experts name in the report but only after taking prior approval of expert in this regard.
 - He can refer experts name in the report to explain the nature of qualification but only after taking prior approval of expert in this regard and not as a gesture for recognition.
13. The financial Statement of Parvati Ltd. stated a sales of Rs. 100 crore for the F.Y. 2016 – 17. Mr. N's (Auditor of Parvati Ltd.) article clerk stated that the sales was properly recorded. Later on it was found that goods to the extent of Rs. 55 crore were sent on approval basis but included in the statement. Which statement is correct for the above situation ?
- The auditor has failed to obtain reasonable assurance
 - There is an absence of professional competence and due care
 - The auditor is not responsible as there is a probability that the sales will be approved in the near future.
 - Both a and b
14. Mr. Ramesh and Mr. Suresh were appointed as a chartered accountant of RST Ltd. A special audit was conducted u/s 233A of the companies Act, 1956 and it was observed that the expenses of the company was overstated. The revenue aspects was taken care by Mr. Ramesh, but there was no documentation for the division of work between the joint auditors. Who should be held responsible ?
- The management should be held responsible as they did not took care of the documentation of the joint auditors
 - Mr. Ramesh should be held responsible as expenses was taken care by him
 - Mr. Suresh should be held responsible because of the negligence
 - Both the auditor will be held responsible and will be guilty of negligence

15. Mr. Kumar was working on an assignment for a very long time. After the completion of work he raised the bill to the client. The client even after several reminders did not pay the fees to him as a consequence Mr. Kumar kept the documents of client with him till the time client pays him the full fees, according to the rights given under section 143. Client opposed the contention of Mr. Kumar and said that he cannot exercise lien. Which of the following is correct in the given case ?
- (a) Mr. Kumar is correct as he has exercised lien on the document on which he has worked and fees is due for the same and the documents are obtained with the consent of client.
 - (b) Mr. Kumar is not correct as CA cannot exercise lien on clients document even if it came on the will of client.
 - (c) Mr. Kumar should waive of the fees.
16. Company has not disclosed about material frauds that has happened in the company in its Board Report. The penalty for the officers in default for the contravention shall be
- (a) Fine ranging from Rs. 50,000 to 5,00,000 or upto 3 years imprisonment or both
 - (b) Fine ranging from Rs. 50,000 to 5,00,000 and upto 3 years imprisonment.
 - (c) Fine ranging from Rs. 50,000 to 5,00,000 or upto 1 years imprisonment or both.
 - (d) Fine ranging from Rs. 50,000 to 5,00,000 and upto 1 years imprisonment or both
17. In the task of _____, an operational auditor is heavily dependant upon availability of acceptable standards and he is not expected to possess technical background in so many diverse technical fields.
- (a) Appraisal of Objectives and Plans
 - (b) Appraisal of Controls
 - (c) Evaluation of Performance
 - (d) Appraisal of Organizational Structure
18. Negligence and cash shortages is one of the classification of Frauds by NBFC. Such cash shortages is treated as intentional fraud if amount is more than _____ if detected by management / auditor/ inspecting officer and not reported on the occurrence by the persons handling cash.
- (a) Rs. 10,000 (b) Rs. 15,000 (c) Rs. 20,000 (d) Rs. 5,000
19. Mr. A, commerce graduate, for the purpose of getting work represented himself to be a CA in front of his client. One of the clients came to know about the fact and complained to the ICAI about this act. What can be the actions that can be taken against Mr. A ?
- (a) He will be warned by the institute to not to do that again.
 - (b) A fine of Rs. 2,000/- will be imposed.
 - (c) A fine upto Rs. 1000/- can be imposed.
 - (d) No action will be taken

20. A non performing financial asset should be held by purchasing bank in its books of accounts for a period of before it is sold to other banks.

- (a) 6 months (b) 9 months (c) 15 months (d) 18 months

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

QUESTION NO.1

A. You are the Auditor of Power Supply Corporation Limited, a Government Company for the year ended on 31st March 2018. The turnover of the Company for the period was Rs. 12,000 crores from sale of power. During your audit, you found that the Company had procured Spares for Transmitters for Rs. 850 crores from abroad through a Corporation by name Procurement and Supply India Limited which is also owned and controlled by Government of India. The Financial Statements of the Power Supply Corporation Limited, prepared in compliance with Ind AS for the year ended on 31/03/2018 did not contain any additional disclosure regarding the procurement of spares as referred to above. To your query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises.

Analyse this issue in finalizing the Audit Report.

(5 MARKS)

B. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (i) Circumstances beyond the control of the entity;
- (ii) Circumstances relating to the nature or timing of the auditor's work; or
- (iii) Limitations imposed by management. Explain with the help of examples.

(5 MARKS)

C. General objective of an audit is to find out whether the financial statements show true and fair view. On the other hand, investigation implies systematic, critical and special examination of the records of a business for a specific purpose.

In view of the above, you are required to brief out the difference between Audit and Investigation.

(4 MARKS)

QUESTION NO.2

A. Neverpermit Limited refuses to allow you to get direct confirmation of the outstanding balances of trade receivables. You want to ensure on grounds of materiality that at least outstanding above a threshold limit needs to be confirmed and reconciliation is to be carried out before finalising the audit. If the Company does not relent, how will you respond?

(4 MARKS)

B. Mr. X, a Chartered Accountant in Practice filed his income tax return for the Assessment Year 2018-19 under section 44ADA of the Income Tax Act, 1961, declaring his income on presumptive basis. In a disciplinary proceeding against him for an alleged misuse of funds of his clients, it was asked that he should submit his books of accounts for the financial year ended on 31/03/2018. Mr. X refused to submit books of accounts on the ground that he had not maintained any books and even for income tax purposes, he submitted his Return of Income on a presumptive basis. Is he

right in putting such a defence? **Analyse the issues in the light of Professional Code, if any.** (4 MARKS)

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

Mr. P and Mr. Q are running a firm of Chartered Accountants in the name of PQ & Co. On 23.05.2019, they included the name of Mr. R, a practicing Chartered Accountant, without his knowledge, as a partner while submitting an application for empanelment as auditor for branches of a public sector bank, to the Institute. However, they added Mr. R as a partner to their firm offering a share of 25% of the profits, on 25.05.2019.

(6 MARKS)

QUESTION NO.3

A. "Generating and preparing meaningful information from raw system data using processes, tools, and techniques is known as Data Analytics and the data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs." **You are required to give a suggested approach to get the benefit from the use of CAATs.** (4 MARKS)

B. Beneathminerals Limited is a Public Sector Company engaged in extraction of minerals from land. It has to pump out water in the first layer of the soil if the minerals are to be excavated. The Company pumps out water and diverts the water through a water course constructed by it to nearby villages and the water is allowed to be used by villagers for drinking purposes. The cost of construction of water course amounted to Rs. 5.25 crores and the Company had disclosed this amount as CSR expenses in the Statement of Profit and Loss. Comment. (5 MARKS)

C. The elements of skill, experience and independence of reviewers are ensured before initiating them in Peer Review process. In the above light, state few eligibility criteria fixed for a person to be empanelled and also for being appointed as a Peer Reviewer. (5 MARKS)

QUESTION NO.4

A. Anvisha Ltd. is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of Rs. 25,000 crores. The operations of the company are increasing constantly, however, the focus of the management is more on cost cutting in the coming years to improve its profitability. In respect of the financial statements of the company which are used by various stakeholders, some fraud was observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders applied to Tribunal for change of auditor on the basis that auditor is colluded in the fraud. **Elucidate the power of tribunal to change the auditor of a company if found acted in a fraudulent manner as provided under sub-section (5) of section 140 of the Companies Act, 2013.** (5 MARKS)

B. Perfect Steel Ltd. has reported a higher turnover of Rs. 560 crores in the year 2018-19 as compared to earlier years but its sales return has also increased to 10% from only 4% upto the last year. The management is concerned about the high sales returns and feels a need to get the operational audit done for sales and production department of the company. The company is also having an internal audit system in the company. Elaborate the possible reason/s, why management is getting operational audit done when internal audit has already been done for both the

departments by stating the shortcomings of conventional information sources.

(4 MARKS)

- C. There are certain circumstances in which Emphasis of Matter in Auditor's Report is mandated to be included. Explain this statement in the light of mandatory requirements of matters that are to be emphasised in Auditor's Report when the Audit Report is on Financial Statements prepared in accordance with Special Purpose Framework.

(5 MARKS)

QUESTION NO.5

- A. PQR Ltd is a textile company with aggregate turnover exceeding ` 2 crores. XYZ & Associates is a Chartered Accountant firm which has been appointed for GST audit of PQR Ltd. Mr Sandhu, Chartered Accountant from XYZ & Associates, observes on 23 July 2019 that PQR Ltd has not filed its GSTR 3B for the month of July & its GSTR- 1 return is also not complied with. What should Mr Sandhu advise the client before conducting GST audit of PQR Ltd.
- (5 MARKS)**
- B. In the course of audit of Skip Bank Ltd., you found that the Bank had sold certain of its non-performing assets. Draft the points of audit check that are very relevant to this area of checking.
- (5 MARKS)**
- C. During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system.
- (4 MARKS)**

QUESTION NO.6

- 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.
- (6 MARKS)**
- B. Mr. Anil, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements. Comment
- (4 MARKS)**
- C. Sunlight Limited is a public sector undertaking engaged in production of electricity from solar power. It had commissioned a new project near Goa with a new technology for a cost of Rs. 5,750 crore. The project had seen delay in commencement and cost overrun. State the matters that a Comprehensive Audit by C&AG may cover in reporting on the performance and efficiency of this project.
- (4 MARKS)**