

**All MCQs are compulsory Question No. 1 is compulsory.**

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

**Division A – Multiple Choice Questions**

**(30 Marks)**

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

1. The basic assumption underlying the use of analytical procedures is:
  - (a) It helps the auditor to study relationship among elements of financial information
  - (b) Relationship among data exist and continue in the absence of known condition to the contrary
  - (c) Analytical procedures will not be able to detect unusual relationships
  - (d) None of the above
  
2. Which of the following best suits the description – “The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls.”
  - (a) Inherent Risk
  - (b) Detection Risk
  - (c) Control Risk
  - (d) None of the above
  
3. The auditor is required to evaluate management’s assessment of the entity’s ability to continue as a going concern. Certain events/ conditions were identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances. If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company.  
In the given case, which one of the following options is correct?

- (a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date.
  - (b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements.
  - (c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date.
  - (d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements.
4. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways described hereunder except-
- (a) Proper Selection of Engagement Team
  - (b) Deciding the level of risk of material misstatement
  - (c) Timely resolution of Potential Problems
  - (d) Proper Organization and Management of Audit Engagement.
5. Which of the following statements is not correct?
- (a) Inherent risk and control risk cannot be controlled by the management i.e are uncontrollable
  - (b) Detection risk is related directly to the effectiveness of the auditor prosecutor
  - (c) Detection risk related inversely to control risk
  - (d) Inherent risk and control risk are highly interrelated
6. As per Rule 5 of the Companies (cost records and audit) Rules, 2014, every company under these rules including all units and branches thereof, shall, in respect of each of its financial year is required to maintain cost records in prescribed form
- (a) CRA 3
  - (b) CRA 2
  - (c) CRA 1
  - (d) All of the above

7. IF members do not agree with the auditor recommended by Board of Directors under section 139(8) of Companies Act 2013, in case of resignation, then members
- (a) do not have any right in this case.
  - (b) Exercise their right under section 140(4) for appointment of an auditor other than retiring auditor
  - (c) Can File a complaint with National Company Law tribunal for removal of the auditor
  - (d) None of the above
8. Which of the following is most appropriate for Key audit Matters concept
- (a) Selected from matters communicated with TCWG
  - (b) Matters of utmost significance
  - (c) Disclosure depends upon auditor's judgment
  - (d) All of these
9. As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, every listed company and the following classes of companies shall constitute an Audit Committee Except-
- (a) All private company with a paid up capital of ten crore rupees or more;
  - (b) all public companies with a paid up capital of ten crore rupees or more;
  - (c) all public companies having turnover of one hundred crore rupees or more;
  - (d) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.
10. For short duration crops, account is treated as NPA if..
- (a) Amount remains overdue for more than 90 days
  - (b) Account remains out of order
  - (c) Instalment remains overdue for two crop seasons
  - (d) Instalment remains overdue for one crop season

**Questions (11-20) carry 2 Marks each**

**11.** The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31 st March, 2019. Ten branches of the bank were already covered for concurrent audit and the Bank' s Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019 -20.

1. Allahabad branch which started foreign exchange business from February 2019.
2. Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Whether the decision of audit committee to include both the branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines?

- (a) The decision of audit committee is valid as according to RBI Guidelines, both the branches fulfil the criteria for compulsory concurrent audit.
- (b) Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines, however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits of the Bank is not required to be compulsorily covered for concurrent audit.
- (c) Allahabad and Rae Bareilly branch are compulsorily not required to be covered under concurrent audit as per RBI Guidelines.
- (d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered under compulsory concurrent audit criteria as per RBI Guidelines but the Rae Bareilly branch is covered under compulsory concurrent audit criteria.

**12.** Employees of LIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simon Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simon travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by LIG Ltd. within 15 days of the bill date. The bills raised by Simon travels were of huge amount, so the management of LIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?

- (a) Internal audit, as it relates to examine the operational efficiency of the organisation.
- (b) Management audit, as it is an audit desired by the management.
- (c) Performance audit so as to assess the performance of the Simon travels appointed by the organisation.
- (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simon travels for the organisation.

**13.** While conducting the current year audit of Finco Ltd, the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements. This misstatement was related to recognition of research and development expenditure. The provisions of Ind AS 38 Intangible Assets relating to capitalisation of development expenditure was not applied properly. On this, unmodified opinion had been previously issued. The current auditor verified that the misstatement had not been dealt with as required under Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the current auditor will:

- (a) Express a qualified or an adverse opinion in the auditor's report on the current period financial statements modified with respect to the corresponding figures included therein.
- (b) Express an unmodified opinion in the auditor's report on the current period financial statements since it was related to the prior year.
- (c) Express a qualified opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
- (d) Express an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

**14.** One of your audit client Vernon Co with a year ending 31 March 2019 is planning to prepare the financial statements from the next year as per Indian Accounting Standards (Ind AS). The finance director of Vernon Co has contacted the audit engagement partner, asking if your firm can provide training on Ind AS to the accounts department of the entity. This will help them to understand all the provisions of Ind AS and the transition process will be easier.

Which of the following options needs to be considered by the audit engagement partner?

- (a) The issue is whether there is a self-interest threat, as the auditor will receive separate training fees for the service provided. The audit partner should decline the training assignment.
- (b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such training to the staff of the entity. The audit partner should decline not all the qualified people are good trainers.
- (c) The audit partner could go ahead with the training service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.
- (d) The audit partner needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the training assignment.

15. AJ Private Ltd. was incorporated on 21 March, 2018 and has limited operations. However, the capital induction in the company was huge because it would be capital intensive. The company is in the process to set up a plant in Karnataka which should be completed by 31 May, 2019. The company's management prepared its financial statements for the year ended 31 March, 2019. The auditors were also called to start the work in April 2019. The auditors would be able to complete their work by 31 May, 2019 and accordingly would issue their audit report by 1st week of June, 2019 as per the plan agreed with the management. The auditors have some observations related to preparations of financial statements which are not in compliance with Schedule III and most importantly the point related to capitalization of the plant as Property, Plant and Equipment in the financial statements for the year ended 31 March, 2019. Please suggest which of the following statements would be correct.

- (a) The compliance of Schedule III shall start from 1 April 2019 for this company as per Companies Accounts (Amendment) Rules 2016.
- (b) The compliance of Schedule III shall start from first financial period, however, some exemptions would be applicable as per Companies Accounts Rules 2014.
- (c) There should be full compliance of Schedule III and plant should be kept as CWIP as per Schedule III.
- (d) There should be full compliance of Schedule III and plant should be shown as PPE as per Schedule III.

**Integrated Case Scenario 1**

M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the Financial Year 2019-20 (Assessment Year 2020-21):

- To conduct the management audit of M/s BR Ltd.
- To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd.
- Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of ₹ 15,000 lakhs, which includes preliminary expenses of ₹ 3400 lakhs. During the course of audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled.
- The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. Certain shareholders of the firm opposed the appointment and later the problem was solved.
- Statutory auditor of M/s FGH (P) Limited company, having paid up capital of ₹ 112 lakhs and a negative balance of ₹15 lakhs in reserves. After a long discussion between the auditors and the management of the company with respect to the applicability of CARO 2016, both of them arrived at a conclusion. During the year, the company had also received few other assignments with respect to valuation for purpose of direct taxes, actuarial valuation services, cost audit of a private limited company, etc. However, since the firm was not having enough expertise from its side with respect to those kinds of assignments, they could not accept the same. As a result of this, the partners of M/s QS & associates decided to induct three new partners into the firm. The new partners included:
  - I. Mrs. E, an engineering graduate from IIT Madras
  - II. Mr. C, a member of The Institute of Cost and Works Accountants of India
  - III. Mr. A, an architect and member of Indian Institute of Architects.

**16.** What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd?

- |                 |                  |
|-----------------|------------------|
| (a) ₹ 50 crores | (b) ₹ 7500 lakhs |
| (c) ₹ 5.8 cores | (d) ₹ 750 lakhs  |

17. What could be the possible reason for the objections raised by the shareholders of the listed company?
- (a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment.
  - (b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment.
  - (c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment.
  - (d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment.
18. Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?
- (a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty
  - (b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor
  - (c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor
  - (d) They are not guilty of any professional misconduct.
19. Whether CARO is applicable to M/s FGH (P) Limited? If so, why?
- (a) No. Since as per para 1 of CARO 2016, it is not applicable to any private limited company.
  - (b) Yes. Since the paid-up share capital of the company exceeds ₹ 1 crore, CARO is applicable.
  - (c) Yes. Since the total of paid-up share capital and reserves of the company exceeds ₹ 1 crore in absolute terms.
  - (d) No. Since the total of paid-up share capital and reserves of the company does not exceeds ₹ 1 crore.



20. As per Chartered accountants Act, what can you infer from the addition of three new partners in M/s QS & associates?
- (a) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants (i.e. Guilty for partnership with all three of them).
  - (b) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants or a member of professional body (i.e. Guilty for partnership with Mrs. E & Mr. A alone, who are Engineer & Architect respectively).
  - (c) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants or a member of professional body (i.e. Guilty for partnership with Mr. A, an Architect).
  - (d) The firm is not guilty of any professional misconduct.

### Division B - Descriptive Questions

Question No. 1 is compulsory.

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

**(70 Marks)**

- Q.1 (a)** Mr. Joey, an auditor, identified some events that cast significant doubt on the entity's ability to continue as a going concern. What are the additional procedures he should perform as per the related Standard on Auditing?  
**(5 Marks)**
- (b)** When a sub-service organization performs services for a service organization, there are two alternative methods of presenting the description of controls. The service organization determines which method will be used. As a user auditor what information would you obtain about controls at a sub-service organization?  
**(5 Marks)**
- (c)** The COVID-19 outbreak could create several potential challenges for management of an entity to conduct physical inventory counting and for the auditors to attend these counts. With scenarios like lockdown, travel restrictions etc. as imposed by Government of India, physical inventory counting would be challenging and in some cases it would be impracticable. Please suggest alternative audit procedure to Mr. Iyer, the statutory auditor of the company.  
**(5 Marks)**

**Q.2 (a)** MB & Associates is a partnership firm of Chartered Accountants which was established seven years back. The firm is getting new clients and has also, been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1.

(4 Marks)

**(b)** “ABC & Co.” is an Audit Firm having partners “Mr. A”, “Mr. B” and “Mr. C”, Chartered Accountants. “Mr. A”, “Mr. B” and “Mr. C” are holding appointment as an Auditor in 4, 6 and 10 Companies respectively.

**(i)** Provide the maximum number of Audits remaining in the name of “ABC & Co.”

**(ii)** Provide the maximum number of Audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C.

**(iii)** Can ABC & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than ₹ 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the Companies Act with the Registrar, 2 small companies and 1 dormant company?

**(iv)** Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of ₹ 110 crore each?

(5 Marks)

**(c)** CA. Jhunjunwala is a leading income tax practitioner and consultant for derivative products. He resides in Bangalore near to the XYZ commodity stock exchange and does trading in commodity derivatives. Every day, he invests nearly 50% of his time to settle the commodity transactions, though he has not taken any permission for this. Is CA.Jhunjunwala liable for professional misconduct?

(5 Marks)

**Q.3 (a)** As an auditor of a company registered under section 8 of the Companies Act, 2013 , you find that as per the notification of the Ministry of Corporate Affairs regarding applicability of Indian Accounting Standards (Ind-AS), the company has to prepare its financial statements for the year ended 31st March, 2019 under Ind-AS. The management of the company is, however, of the strong view that being a section 8 company having charitable objects, Ind-AS cannot apply to the company. The financial statements are, therefore, prepared by the management under the earlier GAAP and a note for the same is given in the financial statements. How would you report on these financial statements?

**(5 Marks)**

**(b)** As a bank branch auditor, what aspects will be considered while reporting on credit appraisal, sanctioning/disbursement and documentation In respect of advances in the LFAR?

**(5 Marks)**

**(c)** Identify the controls which are automated, manual or IT dependent manual for the below Mentioned case?

- I.** Price master configured in the sales master can only be edited by authorized personnel in the system.
- II.** Invoice cannot be hooked in SAP in case Purchase orders are not approved
- III.** Inventory ageing report is pulled out from the system based on which provisioning is calculated after analyzing the future demand by the inventory personnel and approved by the controller.
- IV.** All invoices are signed by warehouse personal before the goods are dispatched by customer.

**(4 Marks)**

**Q.4 (a)** A Chartered Accountant in practice, empanelled as IP (Insolvency Professional) has mentioned the same on his visiting cards, letter heads and other communications also. Mr. A, who is residing in his neighborhood has filed a complaint for professional misconduct against the said member for such mention of insolvency professional on circulations.

**(5 Marks)**

**(b)** While evaluating the risks and controls at entity level, the Auditor should take cognizance of the prevalent direct and indirect entity level controls operating in the entity. Explain what they pertain to, with few examples

**(4 Marks)**

**(c)** Explain how a Forensic Audit differs from an Assurance Engagement.

**(5 Marks)**

**Q.5 (a)** In the course of audit of Dant Kanti ltd, as the auditor of the company you observe the following: the company has advanced a loan to a firm in which a director was interested at a rate lower than the [prevailing market rate as well as there was no agreement on terms of payment.

How auditor will report in CARO, 2016?

**(5 Marks)**

**(b)** Give examples of Events and Conditions that May be Relevant in the Current Environment i.e during COVID 19

**(5 Marks)**

**(c)** A Mills Ltd is a textile company with aggregate turnover exceeding ₹ 2 crores. Keyur & Associates is a Chartered Accountant firm which has been appointed for GST audit of A Mills Ltd. Mr Keyur, Chartered Accountant from Keyur & Associates, observes on 23 July 2019 that A Mills Ltd has not filed its GSTR 3B for the month of July & its GSTR- 1 return is also not complied with. What should Mr Keyur advise the client before conducting GST audit of A Mills Ltd

**(4 Marks)**

**Q.6 (a)** Mr. P and Mr. Q are running a firm of Chartered Accountants in the name of PQ & Co. On 23.05.2020, 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 25.05.2020.

**(5 Marks)**

**(b)** Bhishm Limited decided to appoint Mr. Rajvir, chartered accountant, as the branch auditor for the audit of its Lucknow branch accounts for the year 2018-19. The decision to appoint branch auditor was taken by way of Board Resolution in the meeting of Board of Directors of the company, held in April 2018, subject to shareholders' approval in AGM of the company scheduled to be held in June 2018. Meanwhile, the Principal Auditor of the company raised an objection that the branch auditor cannot be appointed without his consent. Advise, whether the objection raised by company auditor is valid.

**(5 Marks)**

**(c)** Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward in case of General Insurance Company.

**(4 Marks)**