

**PART A MULTIPLE CHOICE QUESTIONS (30 MARKS)**

**QUESTION 1**

**( 1\* 10 = 10 MARKS)**

1. Which of the following is not an analytical procedure?
  - (a) Tracing of purchases recurred in the purchase book to purchase invoices.
  - (b) Comparing aggregate wages paid to number of employees
  - (c) Comparing the actual costs with standard costs
  - (d) All of them are analytical procedures
2. Comptroller and auditor general of India shall hold office for a term of \_\_\_\_\_.
  - (a) Six years
  - (b) 6 years or upto the age of 65 years whichever is earlier
  - (c) 5 years or upto the age of 65 years whichever is earlier
  - (d) None of the above
3. Which of the following is not an Audit procedures to obtain audit evidence
  - (a) Inspection
  - (b) Observation
  - (c) External confirmation
  - (d) None of these
4. \_\_\_\_\_ are those adjustments that are made in the accounting period for which the consolidation of financial statements is done.
  - (a) Permanent
  - (b) Temporary
  - (c) Semi-permanent
  - (d) Current
5. Auditor of Nationalised Bank is appointed by
  - (a) Board of directors with prior approval of RBI
  - (b) Shareholders in General Meeting
  - (c) Comptroller and Auditor General of India
  - (d) Central Government
6. \_\_\_\_\_ is best practice IT Governance and Management framework published by Information Systems Audit and Control Association
  - (a) ISO 27001:2013
  - (b) CoBIT
  - (c) SOC
  - (d) SOX
7. The Following statement is not under the umbrella of power of Audit committee.
  - a) To obtain outside legal or other professional advice.
  - b) To secure attendance of outsiders with relevant expertise, if it is necessary
  - c) To remove any director in case of there is a conflict of interest in organization
  - d) To seek information from any employee
8. A flow chart, made by the auditor, of an entity's internal control system is a graphic representation that depicts the auditor's.....
  - a) understanding of the system
  - b) understanding of fraud risk factors
  - c) documentation of assessment of control risk
  - d) Both (a) and (c)

9. If a casual vacancy in the office of auditor arises by his resignation it should only be filled by the company in a \_\_\_\_\_.
- Board meeting
  - extraordinary general meeting
  - General meeting
  - annual general meeting
10. ICAI is responsible for monitoring the quality of the work of it's members for performing audits of financial statements?
- Yes - for all audits of financial statements
  - Yes - for all audits except those of listed entities
  - No, responsibility for quality assurance for all audits rests with another body
  - Yes - for all audits except those of unlisted entities

## QUESTION 2

(2\* 5 = 10 MARKS)

1. PMP Ltd is an associate of PMP Inc, a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures.

The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2018.

For the financial year ended 31 March 2019, the auditors made some changes in their audit team. While the audit partner remained the same, the field incharge has been replaced as the field incharge who was engaged in the audit of the financial statements for the year ended 31 March 2018 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the the firm has enough experience of engagement with this client.

The audit team commenced the work for audit of the year ended 31 March 2019 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant.

The audit partner without concurrence of the EQCR finalized the audit and issued the audit report.

In the given situation, please advise which one of the following is correct?

- The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).

- (b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner.
- (c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report.
- (d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.

2. LMN & Co LLP is a large firm of Chartered Accountants having its offices based in Delhi, Pune, Chandigarh and Bangalore.

The firm has staff of around 300 with 28 Partners. The firm has also created various departments for various services that it offers – statutory audit, risk advisory, mergers & acquisitions, indirect tax and direct tax, where dedicated teams are working who are specialized in those fields. The firm is also considering to create departments on the basis of industry sectors so that the staff can become specialized into specific industries as the same would help in the objective of the firm i.e. to offer best quality service to its various clients.

Statutory audit department of the firm has 13 partners across various offices in India out of which 6 are based in Delhi office.

The audit team of one of the prestigious clients, KSH Ltd, has concluded that audit where audit partner was AD Jain. As per the agreed timelines, the financial statements and the audit report were planned to be signed on 30 June, 2019, however, on 29 June, 2019, AD Jain was required to move out of India due to some exigency and would be back to India after a month's time. He was also not accessible during this period.

The management of KSH Ltd discussed the matter with another partner of the audit firm, SK Gupta, who eventually signed the audit report on 30 June, 2019 even though he was not part of the audit team which was involved in the fieldwork.

We would like to understand your views in respect of this matter.

- (a) The management in such a case should have waited for AD Jain to come back and then get the report signed. The audit report in this case would be considered to be invalid.
- (b) SK Gupta signed the audit report considering the client was prestigious for the firm which was unethical.
- (c) Signing of the audit report as per the agreed timelines by SK Gupta was fine as he was also the audit partner of the firm.
- (d) Signing of audit report by any other person interferes with the concept of clarity of responsibility.

3. JK 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 INR 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 deficiencies were observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders went for a civil action against the company including all the parties who had the responsibility in respect of those financial statements.

The statutory auditors of the company were also roped in. The statutory auditors went against this civil action and were able to prove that there was no professional negligence on their part.

It was decided that the loss was occasioned through the negligence of directors and the fault of the auditor in failing to verify the asset was considered to be only technical.

On the basis of above mentioned facts, what should be the correct option out of the following?

- (a) A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.
  - (b) Both the auditors and the directors should be held liable in respect of the deficiencies identified. Both of them should compensate these stakeholders in respect of the damages and a further penalty of INR 10 lakhs would be imposed on them.
  - (c) Auditors and directors should be held liable in this case. Further because the fault of directors is bigger, they would be subject to a penalty of INR 10 crores or losses suffered by the stakeholders, whichever is higher.
  - (d) Since the fault of the auditor is limited to technical in nature, he cannot be held liable for any penalty or damages. However, he would not be allowed to work for this company and any other company in similar industry for a period of next 5 years as per the requirements of the Companies Act 2013.
4. Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of articleship. Mr. Witty, the principal, offered him stipend at the rate of Rs. 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. As per Chartered Accountants Act, 1949, under which clause Mr. Witty is liable for misconduct.
- (a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949
  - (b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949
  - (c) Mr. Witty is paying interest thus he is not liable for misconduct
  - (d) Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949

5. SHRD Private Ltd is engaged in the business of software and consultancy. The company has an annual turnover of Rs. 2,000 crores but its profit margins are not very good as compared to the industry standards. For the financial year ended 31 March 2019, the company proposed appointment of its statutory auditors at its general meeting, however, the remuneration was not finalized. The statutory auditors completed the engagement formalities including the engagement letter between the company and the auditors and it was decided that the engagement letter be signed without fee i.e. with the clause that the fee to be mutually decided. Please provide your views on this.
- Such engagement letter is not valid.
  - Engagement letter with such arrangement is valid.
  - Engagement letter should specify the fee of last year, if applicable, if the fee for the current year is not yet finalized at the time of signing of the engagement letter.
  - Engagement letter should specify 10% increase in the fee as compared to last year as per the norms of the ICAI, in case the fee is not finalized at the time of signing of the engagement letter.

### **QUESTION 3                      Integrated Case Scenario**

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 31<sup>st</sup> 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:

- The effect on audit of significant transactions that took place in the financial year.
- Areas of high risk as assessed and reported by management's expert.
- 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.

**Question No.: (1-5)**

**(2\* 5 = 10 MARKS)**

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.

**PART B      DESCRIPTIVE QUESTIONS      (70 MARKS)**

**QUES. 4 IS COMPULSORY. AND ATTEMPT ANY FOUR OUT OF REMAINING FIVE QUESTIONS.**

**QUESTION 4(A)**

**(5 MARKS)**

**State** the main features of the Qualified and Independent Audit Committee set up SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

**QUESTION 4(B)**

**(5 MARKS)**

After accepting the statutory audit of M/s All in One Ltd., a departmental store, you became aware of the fact that management of the company have imposed certain limitations on the scope of your assurance function which may adversely affect and result in your inability to obtain sufficient appropriate audit evidence to discharge your responsibility required by the statute. **Indicate the consequences and your response to the limitations imposed by the management on your scope.**

**QUESTION 4(C)**

**(4 MARKS)**

H Limited is an Investment Company preparing its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need to consolidate accounts of any such investee companies with those of H Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. **Analyse the issues involved and give your views.**

**QUESTION 5(A)****(5 MARKS)**

**Indicate the precise nature of auditor's liability** in the following situations and support your views with authority, if a misstatement had occurred in the prospectus issued by the company.

**QUESTION 5(B)****(5 MARKS)**

Amudhan & Co., are the Auditors of XYZ Company Ltd., for the year ended on 31/03/2018. The Audit Report for that year was signed by the Auditors on 04/05/2018. The Annual General Meeting was decided to be held during the month of August 2018. On 06/05/2018, the Company had received a communication from the Central Government that an amount of Rs. 5800 crore kept pending on account of incentives pertaining to Financial Year 2017-18 had been approved and the amount would be paid to the Company before the end of May 2018. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31/03/2018. On 08/05/2018, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report on the Financial Statements for the year ended on 31/03/2018. **Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors.**

**QUESTION 5(C)****(4 MARKS)**

**Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto:** A special notice has been issued for a resolution at 3rd annual general meeting of LED Ltd., providing expressly that CA. Anoop shall not be re-appointed as an auditor of the company. Consequently, CA. Anoop submitted a representation in writing to the company with a request to circulate to the members. In the detailed representation, CA. Anoop included the contributions made by him in strengthening the control procedures of the company during his association with the company and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the company.

**QUESTION 6(A)****(5 MARKS)**

Auditors should evaluate various sub – processes, employed by the Insurance Companies in **accounting of premiums** like collection of premium from the policy holders, booking of premium, banking, accounting and reconciliation of the same. In view of above, you are required to briefly **discuss some illustrative points,** auditors are required to follow during the Audit of Accounting of Premiums in case of Life Insurance Companies.

**QUESTION 6(B)****(5 MARKS)**

Cineplex, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe, shops, pubs etc. located in the complex. Its other income includes advertisements exhibited within/outside the premises such as hoardings, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

Cineplex appointed your firm as the auditor of the entity. Being the head of the audit team, you are, therefore, required to **draw an audit programme** initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points relating to a complex.



**QUESTION 6(C)****(4 MARKS)**

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?**

**QUESTION 7(A)****(6 MARKS)**

Navjeevan Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, **which basis system of control has been violated?** Also list down the **other general conditions** pertaining to such **system which needs to be maintained and checked by the management.**

**QUESTION 7(B)****(4 MARKS)**

ABC Printing Press, a proprietary concern, made a turnover of above Rs.1.03 crore for the year ended 31.03.2019. The Management explained its auditor Mr. Z, that it undertakes different job work orders from various customers. The raw materials required for each job are dissimilar. It purchases the raw materials as per specification/ requirements of each customer and there is hardly any balance of raw materials remaining in the stock except pending work-in-progress at the year end. Because of variety and complexity of materials, it is impossible to maintain a stock- register. **Give your comments.**

**QUESTION 7(C)****(4 MARKS)**

In the case of companies carrying on the business of a non – banking financial institution, the auditor needs to report under CARO, 2016 whether the registration has been obtained under section 45 – IA of the Reserve Bank of India Act, 1934, if required.

**You are required to state in brief the audit procedure to be followed while reporting under above mentioned circumstances.**

**QUESTION 8(A)****(5 MARKS)**

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.**

**QUESTION 8(B)****(5 MARKS)**

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.**

**QUESTION 8(C)****(4 MARKS)**

The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognised as a 'friend, philosopher and guide' of the Committees. In view of above, **you are required to list down any four role.**

**QUESTION 9(A)****(6 MARKS)**

ABC nationalised bank received an application from an export company seeking sanction of a term loan to expand the existing sea food processing plant. In this connection, the General Manager, who is in-charge of advances, approaches you to conduct a thorough investigation of this limited company and submit a confidential report based on which he will decide whether to sanction this loan or not.

**Decide the points you will cover in your investigation before submitting your report to the General Manager.**

**QUESTION 9(B)****(4 MARKS)**

In a controls – based audit, the audit approach can be classified into three broad phases comprising of planning, execution, and completion. You are required to briefly **explain the relevant considerations of every phase in above audit approach in case of automated environment.**

**QUESTION 9(C)****(4 MARKS)**

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.**