

DIVISION- A

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 31stJuly2018.

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 SA701:

- (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 setup 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. 2crores.
 - (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 caro2016 ?
- (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
- (a) Propriety and Financial Audit
 - (b) Financial and Regularity Audit
 - (c) Regularity and Propriety Audit
 - (d) 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 ?
- (a) Mr. Raju is incorrect, he cannot site name of expert in auditor's report.
 - (b) Mr. Raju can refer his name because there is qualification in his report based on the report of expert.
 - (c) He can refer experts name in the report but only after taking prior approval of expert in this regard.
 - (d) 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 ?
- (a) The auditor has failed to obtain reasonable assurance
 - (b) There is an absence of professional competence and due care
 - (c) The auditor is not responsible as there is a probability that the sales will be approved in the near future.
 - (d) 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 ?
- (a) The management should be held responsible as they did not took care of the documentation of the joint auditors
 - (b) Mr. Ramesh should be held responsible as expenses was taken care by him
 - (c) Mr. Suresh should be held responsible because of the negligence
 - (d) 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.

Based on below case scenario answer the following M.C.Q from 16 to 20

QRP Lifecare Private Limited, (the 'Company' or 'QRP'), is engaged in the pharmaceuticals. The Company is based in Hyderabad and has an annual turnover of INR 400 crores.

One of the directors of the Company did not give declaration to the Company under section 164(2) of the Companies Act 2013 as at 31 March 2018. The auditors of the Company have completed their audit of the financial statements for the year ended 31 March 2018 and are awaiting this declaration. But the management is of the view that they will not be able to receive this declaration. All other directors have given the required declarations and the auditors have also verified that.

QRP had given an advance amounting to INR 50 crores to its subsidiary, RPS Ltd (RPS), on 12 January 2014 for carrying out certain projects. The net worth of the subsidiary has eroded substantially as on 31 March 2018 and looking at the future projections there is no certainty in terms of the profitability of the subsidiary.

QRP has a subsidiary, SPS Ltd (SPS), in UK. The company has outstanding trade receivables amounting to INR 10 crores from SPS. QRP has observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of QRP but the management has an action plan which they have initiated and on the basis of which management is sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises, the impact would be significant for QRP. The auditors of QRP have evaluated this matter by involving a regulatory matters expert and also agree with the management's view.

QRP was using a customized ERP package upto 31 March 2018. However, with effect from 1 April 2018, QRP moved on SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP are of the view that for the financial year ended 31 March 2019, being the first year of SAP implementation, no work on IT controls would be required and they are also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past where the IT controls in the first year of ERP implementation were very weak.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

16. How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?
- (a) Auditors may perform some alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act.
 - (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality.
 - (c) There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on.
 - (d) Auditors would need to report this matter in their main report.
17. How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?
- (a) In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS.
 - (b) In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS.
 - (c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.
 - (d) In respect of QRP, auditors of QRP would need the management to include a note in the financial statements of QRP explaining about the recoverability of advances from RPS.
18. Please suggest the way auditors have handled the matter related to FEMA non-compliances is appropriate or not.
- (a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge.
 - (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.
 - (c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material.
 - (d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company.
19. QRP has been preparing consolidated financial statements but they do not consolidate financial statements of SPS every year. This is because the financial year followed by SPS is January to December as against April to March followed by QRP. The auditors have also been fine with this position of the management of QRP year on year. Please suggest.

- (a) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.
 - (b) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated financial statements.
 - (c) QRP's management's view is right because SPS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India.
 - (d) Auditors of QRP should have done materiality assessment in respect of non-consolidation of SPS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same.
20. As an expert what will be your advice about the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report.
- (a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files.
 - (b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.
 - (c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation.
 - (d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation.

DIVISION- B

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. 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)

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. CA. G, was appointed by DP Ltd., as Statutory Auditor. While doing the audit of DP Ltd., CA. G observed that certain loans and advances were made without proper securities; certain trade receivables and trade payables were adjusted inter se; and personal expenses were charged to revenue. As a company auditor comment on the, reporting responsibilities of CA. G.
- (6 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.

(4 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.

D Ltd., a company incorporated in India has six members in its Audit Committee. Due to recessionary conditions in India, the revenue of the company is going down and there is slowdown in other activities of the company. Therefore, it is expected that there would not be significant work for members of the Audit Committee.

Considering the overall recession in the company and the economy, the members of the Committee decided unanimously to meet only once at the year end. They reviewed monthly information system of the Company and found no errors

As an auditor of D Limited, would you consider the decision taken by the Audit Committee to hold the meeting once in a year, in complying with Listing Obligation and Disclosure Requirements (LODR)? Also state the quorum requirements for such meetings. (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 to 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.** (4 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. (5 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 PQRLtd. **(5 MARKS)**
- B. You have been appointed as an auditor of LCO Bank, a nationalized bank. LCO Bank also deals in providing credit card facilities to its account holder. The bank is aware of the fact that there should be strict control over storage and issue of credit cards. How will you evaluate the Internal Control System in the area of Credit Card operations of a Bank? **(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. Mr. PK is conducting the Tax audit under section 44 AB of the Income Tax Act, 1961 of MG Ltd. for the year ended 31st March 2019. There is a difference of opinion between Mr. PK and the Management in respect of certain information to be furnished in Form No. 3CD. As a tax auditor, Mr. PK has to report whether the statement of particulars in Form 3CD are true and correct and the same is to be annexed to the report in Form No. 3CA. Advise on the matters to be considered by Mr. PK while furnishing the particulars in Form No. 3CD. **(4 MARKS)**