Author's Note

- This is a compilation of all MCQs released by the ICAI till 23/08/2019 (Sample, Level2, RTPs, MTPs).
- I have removed all duplicate MCQs for making a good compilation.
- If you do not have time to study 1000s of MCQs then I recommend to do only these MCQs before the exam.
- If you want to score exemption in Audit then I recommend to make optimum use of my Fast track lectures, Free voice clips and Sanjeevani Course and do not forgot to write High Quality Tests organised by Apnamentor.
- I have also compiled limited number of extra MCQs in my MCQ Book including all these MCQs at nominal cost.
- I have tried my best to make it error free. However if you find any error then do mail me at sanidhyasaraf@gmail.com
- For getting regular updates and more pdfs you all can be part of my Apnamentor family on telegram by clicking on below links of my channels.
- Click Here to Join My Telegram Channel
- Click Here to Join Apnamentor Telegram Channel

– CA SANIDHYA SARAF

(You can also click on my name to join my telegram channel directly)

"QUESTIONS"

Q 1. Basic assumption underlying use of analytical procedures is: -

A) It helps auditor to study relationship among elements of financial information
B) Relationship among data exist & continue in absence of known condition to contrary
C) Analytical procedures will not be able to detect unusual relationships
D) None of above

Q 2. Direct confirmation procedures are performed during audit of accounts receivable balances to address following balance sheet assertion: -

A) Right & obligations
B) Valuation
C) Completeness
D) Existence

Q 3. Auditor shall express opinion when auditor, having obtained Sufficient Appropriate Audit Evidence, concludes that misstatements, individually or in aggregate are both material & pervasive to financial statements

A) Adverse
B) Qualified
C) Disclaimer of opinion
D) Clean

Q 4. Agreed terms of audit engagement in audit engagement letter include following except: -

A) Responsibilities of auditor
B) Description of methods to be followed for obtaining audit evidence
C) Responsibilities of Mgt.
D) Objective & scope of audit of financial statements

Q 5. Measure of quality of audit evidence about its relevance & reliability in providing support for conclusions on which auditor's opinion is based is: -

A) Sufficiency of audit evidence
B) Appropriateness of audit evidence
C) Accounting estimates
D) Reasonableness of audit evidence

Q 6. Auditor's _______________safeguards the auditor's ability to form audit opinion without being affected by any influences: -

A) Objectivity
B) Independence
C) Confidentiality
D) Integrity

Q 7. Which of following company is not exempted from reporting under CARO, 2016?

A) Banking company.
B) Insurance company.
C) Company licensed to operate under section 8 of Companies Act, 2013.
D) Private limited company having paid up capital of 5 Crore.

Q 8. Sec 144 of Co Act, 2013 not excludes statutory auditor of company to render services of: –

A) Investment advisory
B) Investment banking
C) Branch auditor
D) Actuarial

Q 9. In SA 550, existence of which relationship indicate, control or significant influence?

A) Friend of a family member of a person who has authority & responsibility for planning
B) Holding debentures in entity.
C) The entity's holding of debentures in other entities
D) The entity's holding of equity in other entities.

Q 10. When does auditor shall modify opinion in auditor's report?

A) Based on audit evidence, financial statements as whole are not free from material misstatement.
B) Unable to obtain SAAE to conclude financial statements as whole are free from MM
C) (A) & (B) both.
D) Either (A) or (B).

Q 11. For given level of audit risk, acceptable level of detection risk bears _____________________ relationship to assessed Risks of Material Misstatement at assertion level.

A) Direct.
B) Inverse
C) Either (a)or(b)
D) none of above

Q 12. Control activities, whether in IT or manual systems, have various objectives & are applied at various organizational & functional levels. Example of control activities is: -

A) Authorization
B) Performance reviews.
C) Information processing.
D) All of above

Q 13. If, as a result of a misstatement resulting from fraud, auditor encounters exceptional circumstances that bring into question his ability to continue performing audit, he shall

A) Withdraw from engagement immediately.
B) Report to Audit team regarding withdrawal.
C) Determine professional & legal responsibilities applicable in circumstances.
D) Ask Mgt. for his withdrawal.

Q 14. In order to form opinion, auditor shall conclude whether auditor has obtained ______________________about whether financial statements as whole are free from material misstatement, whether due to fraud or error.

A) Reasonable assurance
B) Absolute assurance
C) Limited assurance
D) None of above

Q 15. When is evidential matter considered sufficient in case of stock exchange member audit?

A) When it constitutes entire population
B) When it is objective & relevant
C) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
D) When auditor collects & evaluates it independently

Q 16. Scope of audit of Depositories including reference to pronouncements of ICAI, which auditor adheres to, generally is communicated to client in: -
i) Auditor's report
ii) Engagement letter
iii)Representation letter

A) (a) only (i)
B) Both (i) & (ii)
C) Both (i) & (iii)
D) All of above

Q 17. Successor auditor to obtain in inquiry of predecessor auditor before accepting engagement: -
i) Info about integrity of Mgt. ii) Disagreement with Mgt. in auditing procedures
iii) Review of internal control system iv) Organization structure

A) (i) & (ii)
B) (ii) & (iii)
C) (i), (ii) & (iii)
D) (i) & (iii)

Q 18. In investigation relating to possible misappropriation of cash, cashier says that every day cash is counted & is reviewed by Finance Head. Your specimen review indicates that daily cash summary was not signed off by of Finance Head. In this situation you should: -

A) Conclude that cashier is not telling truth
B) Consider extending investigation procedures like corroborative enquiry with Finance Head, review of appropriate daily cash summaries etc.
C) Conclude that Finance Head is not a responsible person
D) Conclude that daily cash summary is not relevant for investigation

Q 19. Current period adjustments are those adjustments that are made: -

A) Only on first occasion of preparation & presentation of consolidated financial statements
B) Only on first occasion of audit of consolidated financial statements
C) In accounting period for which consolidation of financial statements is done
D) None of above

Q 20. Which of following best suits description – "Susceptibility of assertion that could be material, either individually or in aggregate, before consideration of related Internal Controls."

A) Inherent Risk
B) Detection Risk
C) Control Risk
D) None of above

Q 21. CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 CHEQUES towards repayment of said loan as per instalments due. However, both CHEQUES were returned back by bank with remarks 'Insufficient funds'. As per CAs Act, 1949, under which clause CA. D is liable for misconduct.

A) Clause (6) of Part I of First Schedule
B) Clause 2 of Part I of Second Schedule
C) Clause 12 of Part I of First Schedule
D) Clause 2 of Part IV of First Schedule

Q 22. As auditor appointed u/s 44AB of Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits & gains u/s 32AC/AB/ABA/AC?

A) Clause 24
B) Clause 40
C) Clauses 31
D) Clause 23

Q 23. As per CARO, 2016, auditor to report whether company is required to be registered under 45-IA of RBI Act, 1934. If so, whether registration has been obtained.

A) Under Clause (xi) of paragraph 3 of CARO, 2016
B) Under Clause (xvi) of paragraph 3 of CARO, 2016
C) Under Clause (xv) of paragraph 3 of CARO, 2016
D) Under Clause (xiv) of paragraph 3 of CARO, 2016

Q 24. As per Clause (i) (c) of Paragraph 3 of CARO, 2016, auditor to report on: -

A) Whether title deeds of immovable properties are held in name of company. If not, provide details.
B) Whether company entered in any non-cash transactions with directors or persons connected to it
C) Whether any fraud by company or any fraud on Company by its officers or employees has been noticed or reported during year; If yes, nature & amount involved is to be indicated
D) Whether company is maintaining proper records showing full particulars, including quantitative details & situation of fixed assets

Q 25. XYZ Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for construction of a factory. Since there was a delay in construction activities, said funds were temporarily invested in short term deposits. Under which clause of CARO 2016 auditor is required to report: -

A) Clause (viii) of paragraph 3 of CARO, 2016
B) Clause (xi) of paragraph 3 of CARO, 2016
C) Clause (x) of paragraph 3 of CARO, 2016
D) Clause (ix) of paragraph 3 of CARO, 2016,

Q 26. YOYO Ltd is in business of retail & suffering losses. Turnover same over last 3-5 years & has Oracle as its ERP package. Internal auditor observed that: -

- **There is no process to review supplier master on periodic basis to identify cases of incorrect update / redundant supplier codes, key fields were not made mandatory in Oracle at time of vendor empanelment & maker checker mechanism was also not enabled in Oracle.**
- **There is no mechanism to track redundant supplier codes & block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction occurred in past 180 days.**
- **For 4,972 out of these 5750, no transaction occurred in past 1 year. For 35 out of 9,076 active suppliers, state code in GSTIN updated in supplier master not match state in supplier's address.**

• Payments valuing INR 27 crores have been made to such suppliers.
Mgt. explained that for redundant supplier codes, annual review will be conducted by purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for respective vendors. For GSTIN & State mismatch, Mgt. has already commenced assessment to identify reasons for such errors & all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

A) Mgt. responses look reasonable & this matter should be dropped.
B) Matter is more of related to hygiene & may not impact financial reporting & hence should be ignored.
C) Internal auditor need to report this matter.
D) Internal auditor to look at significance of matter. Material & on basis of it decide on reporting this.

Q 27. D Ltd is in business of software & is in growing phase with turnover increasing year on year & profit margins are good. Company planning IPO in next 2-3 years depending on market assessment at that point of time. It was observed by internal auditors that it doesn't have documented Segregation of Duty (SOD) Matrix. Access controls were tested on basis of leading practices & following observations were identified: -

- **Users apart from Finance & Accounts team have access to critical financial transaction**
- **Users apart from Quality dpt. have access to Quality Clearance transaction for RM & FG**
- **Multiple users have access to Purchase Order Approval but confined to HODs/Purchase Heads.**

Mgt. of company explained to auditor that company is new & this may be required for a well-established company. Please advise.

A) Generic accounts increase risk associated with accountability & might lead to unauthorized access which could result into impact on financials. It will also affect transparency & auditing trail that corresponds with account. Hence there should be a proper SOD matrix.
B) Generic accounts increase risk associated with accountability & might lead to unauthorized access which could impact financials. It will affect transparency & auditing trail that corresponds with account. There to be process of SOD though it is not necessary to document that.
C) Mgt. is right & accordingly it is not relevant for internal auditor.
D) Since currently operations of company are running smoothly, there is no need for complicating internal business environment by setting up SOD matrix.

Q 28. KRIZZ Ltd, listed company, is in business of stainless steel & is more than 50 years old. Company's turnover is INR 11000 crores & has good profit margins improving over last 2 years. Company is also planning to raise funds in another 5-6 months & has SAP as its ERP package. Recent change in internal audit team. New internal auditors observed that there have not been any approved policies & procedure in place in their audit period from 1.4.18 to 30.9. 2018. For e.g.: -

- **User Access Mgt. Policy**
- **Info Security Policy & Procedure**
- **Change Mgt. Policy**

Also policies & procedures do not have version control, owner & review details, etc. Mgt. explained to auditor that company does not require this & hence this point should be ignored. Please advise.

A) Absence of well defined & approved policies & procedures may lead to Mgt. intended practices & objectives not being clearly communicated to & understood by organization's employees & hence there should be approved policies & procedures in place.

B) Absence of well defined & approved policies & procedures may lead to Mgt. intended practices & objectives not being clearly communicated to & understood by organization's employees. There should be a process to follow policies & procedures though it is not necessary to document that.

C) Mgt. is right & accordingly it is not relevant for internal auditor.

D) Absence of well defined & approved policies & procedures has not impacted company till date & if Mgt. has reasons not to keep this then same should not be considered by internal auditor.

Q 29. ACE Pvt. Ltd is a large company & has diverse operations. company is planning to get listed to raise funds. Over last years, company did not use much of technology & with changing times, Mgt. has also identified need to bring mechanisms in place to improve upon use of technology. internal auditors of company while review of Business Continuity Planning/ Disaster Recovery Plans observed that Identified Disaster Recovery Site of company was in same seismic zone as Primary Site. Therefore effectiveness of Disaster Recovery (DR) Plan was not verified.
The Mgt. discussed this matter with internal audit team & explained that present DR plan is to protect against hardware failure & building level exposure. They will plan for city level DR along with Annual Business Plan in another year. Please suggest which one of following options is correct.

A) DR plan is not of much relevance & should not be focused upon by internal auditor in his report.

B) DR plan is outdated plan & in today's scenario it's not required. Hence internal auditor to drop this.

C) Absence of Disaster Recovery Site in different seismic zone might lead to failed or delayed recovery of business operations in an event of natural disaster. It is important for Mgt. to plan this & hence internal auditor should also report this.

D) Since Mgt. has a plan for DR in near future this matter is not relevant to be reported.

Q 30. ASOP Ltd is in business of trading & manufacturing of FMCG. turnover of company has been increasing, however, company has not been able to maintain its margins constant which are declining. internal auditors of company raised observations on sales schemes of company. As per SOP, all schemes are required to be approved by CEO of company. However, per process it was observed that all schemes were approved by Chief Sales & Marketing Officer (CSMO). Review of sample 89 support schemes for months of May 2018 & June 2018 highlighted that 19% (i.e. 17 schemes) were not approved by CSMO. Mgt. replied that there is a need for revision of SOP to reflect current paradigm. They shall amend SOP to reflect same. Please advise how should these matters be dealt by internal auditors?

A) Since Mgt. has agreed on observation of internal auditor, internal auditor should drop these points.

B) SOPs are not aligned to on-ground practices followed by concerned officials. SOPs should be updated & till then there should be a mechanism to follow existing SOP.

C) SOPs are not aligned to on-ground practices followed by concerned officials & same should be reported by internal auditor.

D) Internal auditor to look at materiality & basis that can ignore this as this will not have much impact.

Q 31. BCP Ltd is in business of manufacturing of cranes & is wholly owned subsidiary of Chinese company & follows policies & procedures of parent company. Company's annual turnover is INR 1000 crores & operates through dealers in India for making sales & pays incentives to them on basis of delivery based schemes & other schemes introduced from time to time.
It was observed by internal auditors that incentives amounting to INR 10 crores were paid to dealers on account of delivery based schemes for month of Oct 2018. Review of cranes installations for same period highlighted that incentive amounting to INR 30 lakhs had been paid against invalid claims. This was primarily because of absence of verification of delivery claims with installation data.
Mgt. replied that disbursement basis 100% verified installations has been defined as per process. Revision in process has been done to prevent inordinate delays in reimbursements to dealers. Please advise how should these matters be dealt by internal auditors?

A) Since Mgt. has agreed on observation of internal auditor, internal auditor should drop these points.
B) The impact of matter is not significant & hence same should be dropped.
C) Incentive paid against non-genuine claims bear financial implications for Company. Verified installation data should be taken for considering incentive payout. This matter should be highlighted by internal auditor in his report.
D) Internal auditor should ask Mgt. to take corrective action & basis that drop this point as this is matter which is of financial implication which needs to be considered by statutory auditors of company.

Q 32. PRP Ltd is service company in business of manpower consultancy & has manufacturing operations based out of Orissa. Annual turnover of company is INR 1500 crores. Employee base big. Advise Internal audit procedures to consider by audit team for audit of labor cost vis- à-vis wages:-
i. Comparing time booked in booking sheets with clock cards on a sample basis.
ii. For a Piece rated wage job: -
a. In case of in-process job, checking output booked in booking sheet is in line with standard output possible in stated time. If a major variance, enquiring its justification & authenticity.
b. In a finished job, checking output booked in booking sheet with actual output generated for period as per production sheet.
c. In case of variances, enquiring into same.
iii. In case of a person doing more than one piece - rated job during period, checking that: -
Total Time Booked (–) Overtime Hours = Normal Hours Available in Period.
iv. Test checking following with master lists: -
a. Grade booked b. Operator code c. Job code.
v. Average Earning Job: -
a. Verifying on a sample basis that job categorized as "average earning" job does not have any piece rate as per master file.
b. Comparing standard time required for output booked as per master file with actual time booked. In case of a major variance, enquiring into its justification & authenticity.
c. Test checking calculation of wages as per laid down formula for arithmetical accuracy.

A) i, ii, iii, iv & v
B) i, ii, iii & iv
C) i, iii, iv & v
D) i, ii, iii & v

Q 33. ONO Ltd manufacture tractors & cranes & has Policy to give after sales services to customers on its products. Advise what internal audit procedures to consider by internal audit team for audit of after sales service: -
i. Assess replacement trends, nature of failures & replacement policies.
ii. Examine percentage of replacements of manufacturing defects vis-à-vis off-take.
iii. Examine which type of products/models has a higher failure record & why.
iv. Check whether particular dealer's failure % vis-à-vis his turnover higher than norm. If so, why.
v. Check whether there are adequate technical audit on awards of replacement.
vi. Evaluate effectiveness of after-sales service w.r.t. its scope & consumer satisfaction. Is this service prompt & timely?

A) i, ii, iii, iv & vi
B) i, iii, iv, v & iv
C) i, ii, iii, iv & v
D) i, ii, iii, iv, v & vi.

Q 34. ZEE Ltd steel manufacturer having turnover of INR 10,100 crores has many plants. Each plant has canteen & some income generated in canteen every year. Being internal auditor what internal audit procedures may be applied to audit canteen income?
i. Check records maintained for canteen operations to support all financial transactions.
ii. Review agreements & contracts in case canteen is run by an outside party.
iii. Compliance with laws & regulations applicable for operation of canteen - Prevention of Food Adulteration Act & Rules, 1954, Shops & Establishment Act, FEMA, GST, Co Act, etc.
iv. Verify leakages that may take place, e.g., non-deductions from staff or excessive consumption of food in mess, despite fixed menus helpful to measure likely consumption of food articles.
Which of above mentioned procedures would be relevant?

A) i, ii, iii & iv
B) i, ii & iii
C) i, ii & iv
D) i, iii & iv.

Q 35. TINTIN Pvt. Ltd is in business of software & consultancy services. Annual turnover is INR 899 crores & profits are INR 199 crores. Company is planning to get listed in overseas market within a year. If that doesn't happen then company may look for funding from private placement. For some projects company receives grants from government. These projects run up to 5-10 years. XYZ & Co LLP is internal auditor of company. Please advise what internal audit procedures should be considered by internal audit team for audit of grants received: -

i. Check donations received with copies of receipts.
ii. Check sanction letters for any conditions attached with donations.
iii. Examine statements submitted for utilization of grant.
iv. Verify grants from Govt. or other authorities with reference to all correspondences.
v. Verify all bank statements of company to trace grants received & its utilization.

A) i, ii, iii, iv & v
B) i, ii, iii & iv
C) i, iii, iv & v
D) i, ii, iii & v.

Q 36. OM Ltd trading consumer equipment with turnover INR 347 crores not been doing well over last few years due to which its profitability has gone down significantly. Company charges cartage/ freight from its customers. Because huge cost incurred in this respect, company ensures this amount is recovered on time. Internal auditors found that in some cases freight was charged in bills manually, rather than through automated generating Invoice. Internal auditor raised this point to Mgt. Mgt. replied that it happens only in exceptional cases that freight is charged manually on automated generated invoice. How would you deal with this as an auditor?

A) Internal auditor should report this matter.
B) Internal auditor should discuss with Mgt. about way forward & drop this point.
C) Internal audit observation is not right.
D) Internal auditor should ignore on grounds of materiality.

Q 37. MNO Ltd borrowed INR 5 crores from financial institution for 1st time during year & existing borrowings of INR 1800 crores from various banks. Rate of interest charged on new loan was based on market rate of interest & there no security for this loan. During course of internal audit, internal auditor could not find borrowing agreement for new loan & raised this point with Mgt. Mgt. explained that new loan was required for special purpose for which all other documents are available for auditor to verify – disbursement proof in bank statements, repayments. However, agreement not prepared because person who arranged loan from financial institution was known to company & basis verbal understanding this has been done. Please advise internal auditor.

A) Internal auditor should report this matter as this can be a serious deficiency.
B) Because all other proofs are available, internal auditor should ignore this point.
C) Internal auditor should report this matter to Reserve Bank of India
D) Considering insignificant amount of this new loan as compared to total borrowings, this be ignored.

Q 38. AAS Ltd is in business of fast food chains. During internal audit of accruals/ expenses of company, internal audit team observed that for some of entries passed narration was wrongly written as if expense is related to travelling expense. vouchers were passed by finance personnel of company but no review mechanism was seen for this. Mgt. explained that there is a review mechanism but this is only about narration of expenses which should not be relevant for internal auditor. How should internal auditor deal with this matter?

A) Company to perform review of entries to check such cases & same be reported by internal auditor.
B) Company's Mgt. seems reasonable here.
C) This matter should be considered on basis of materiality.
D) Internal auditor should further investigate as this is indicative of fraud.

Q 39. M Industries designs & manufactures spectacles. M's year end was 31 March 2018 & its draft financial statements show PBT Rs.60 Lac. Fieldwork stage for this audit has largely been completed but there are few outstanding issues. On 1 January 2018, M began commercial production of new lightweight frames which keep their shape regardless as to how roughly they are treated. Up to 31 Dec 2017, Company correctly capitalized development costs of Rs.45 lakh relating to this project. Directors believe new frames have life of 3 years. Financial statements show development costs at carrying amount Rs.45 Lac. M's accounting policy states that it amortizes intangible assets on SLM.
Auditor's report for M is due to be signed in next week or so & you are unable to resolve disagreement with directors concerning amortization of development costs. Directors refused to include any amortization on basis that sales of product have not yet commenced.
Which option correctly summarizes impact on auditor's report if issue remains unresolved?

A) 'Unmodified opinion', since directors are correct not to include any amortization on basis that sales of product have not yet commenced.
B) 'Unmodified opinion' with EOM para on amortization charge on capitalized development costs
C) Modified opinion - Adverse opinion as got SAAE & concludes misstatement both material & pervasive
D) Modified opinion – Qualified opinion due to material misstatement of not recording amortization charge on capitalized development costs, which is material, not pervasive.

Q 40. You are an audit supervisor of S & Associates & are currently planning audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 & forecast profit before tax is 25.26 Lakhs. At beginning of year, Zonal purchased a patent for 5.3 lakhs which gives them exclusive right to manufacture specialized elevator equipment for five years. In order to finance this purchase, entity borrowed 4.5 lakhs from bank which is repayable over five years.
Which of following is a response to audit risk identified by you in planning audit for reporting year?

A) Audit team to agree purchase price to supporting document & to confirm useful life is 5 yr. Recalculate amortization charge to ensure accuracy of charge & that intangible is correctly valued at year end
B) Company borrowed Rs.4.5 lakhs from bank via 5-year loan. This loan be correctly split in current & non-current liabilities in order to ensure correct disclosure.
C) IND AS 38- Patent be included as an intangible asset & amortized over its 5-year life.
D) Also, as level of debt increased, there to be additional finance costs. There is a risk that this has been omitted from statement of profit or loss leading to understated finance costs & overstated profit.

Q 41. THINK is manufacturer of electrical equipment. It has factories across country & its customer base includes retailers as well as individuals, to whom direct sales are made through their website. company's year-end is 31 March 2018. You are audit supervisor of S & Co & currently reviewing documentation of THINK's internal control in preparation for interim audit. In past six months THINK has changed part of its manufacturing process & some new equipment purchased. However, considerable levels of plant & equipment are now surplus to requirement. Purchase requisitions for all new equipment have been authorized by production supervisors & little has been done to reduce surplus of old equipment. Which of following control can be recommended to address internal control deficiency in respect of acquisition of new equipment & treatment of old equipment?

A) Regular review of data on unused equipment on master file by responsible official & review evidenced

B) Supplier statement reconciliations should be performed monthly for all suppliers & these should be reviewed by a responsible official.

C) Capital expenditure authorization levels to be established. Production supervisors should only be able to authorize low value items any high value items should be authorized by board.

D) Observe review process by senior factory personnel, identifying treatment of any old equipment.

Q 42. You are a manager in audit department of N & Co, & you are dealing with several ethical & professional matters raised at recent Mgt. meetings, all of which relate to audit clients of your firm: - One of your client Bern Co has a year ending 31 March 2018. During this year, company established a pension plan for its employees, & this year end company will be recognizing for first time a pension deficit on balance sheet, in accordance with IND AS 19 Employee Benefits. finance director of Bern Co has contacted audit engagement partner, asking if your firm can provide an actuarial valuation service in respect of amount recognized.
Which of following options needs to be considered by audit engagement partner?

A) Issue is whether there is a self-review threat, as valuation of amount recognized would be recorded in financial statements. audit partner should decline work of valuation service.

B) Issue is whether audit firm be likely to possess requisite competence to provide such a valuation service. audit partner should decline since not professionally qualified to provide valuation service.

C) N & Co to assess materiality of figure, & degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce threat to an acceptable level, then it can go ahead with both audit & valuation service.

D) The audit partner could go ahead with valuation service & disclose fact in its audit report about service provided during period. This will safeguard & reduce threat to an acceptable level.

Q 43. PR Co. designs & manufactures specialized furniture for offices in & around city of Mumbai. revenue has been gradually increasing over last few years. main concern for PR Co is finding credit-worthy customers who will make payment on due dates. You are assigned as audit team member to test controls in sales & purchase system of entity. Year- end of entity is 31 March 2018. One of control objectives of sales system of PR Co is to ensure that goods & services are sold

to credit-worthy customers. Which of following control activities would assist entity in achieving this objective?

A) All sales orders above Rs.10 Lakh is based on authorized price lists.
B) Credit limits for all customers are checked before sales orders are accepted.
C) Overdue debts are chased each month by credit controller.
D) The aged-debt listing is reviewed by finance director of PR Co on a monthly basis

Q 44. You are audit manager of DC & Co & you are currently responsible for audit of Beauty Co, a company which develops & manufactures health & beauty products & distributes these to wholesale customers. Its draft PBT is Rs.43 lakhs & total assets are Rs.38 lakhs for financial year ended 31 March 2018. Final audit is due to commence shortly, & following matter has been brought to your attention: - Beauty Co has large portfolio of property, plant & equipment (PPE).

In January 2018, company carried out a full review of all its PPE & updated useful lives, residual values, depreciation rates & methods for many categories of asset. finance director felt changes were necessary to better reflect use of assets. This resulted in depreciation charge of some assets changing significantly for this year. Which of following substantive procedure auditor to perform to obtain sufficient & appropriate audit evidence in relation to matter of depreciation on PPE?

A) Review capital expenditure budgets for next few years to assess whether revised asset lives correspond with planned period until replacement of relevant asset categories.
B) Inspect non-current asset accounts for sample of purchases to ensure they been properly allocated.
C) Consider whether proceeds on disposals of PPE are reasonable & recalculate profit or loss disposal.
D) For a sample of fully depreciated assets, inspect register to ensure no further depreciation is charged.

Q 45. As an internal auditor of LMN Bank Ltd., you have to verify vouchers for quarter ending 30th June 2018 of a branch at Ahmedabad. While verifying vouchers, your team noticed that many of bearer CHEQUES processed by teller have not been stamped as "paid", when discussed with branch manager he stated reason as ignorance on part of official who has been assigned duty of verifying vouchers. As an internal auditor, what should be your next course of action: -

A) Considering matter as immaterial, ignore it for internal audit report.
B) Branch manager advised to rectify discrepancy & observation is closed in internal audit report noting corrective action taken.
C) Matter should be immediately reported to those charged with governance of LMN Bank Ltd
D) Report it in Executive summary para of Internal Audit Report as its significant internal control lapse.

Q 46. ALM Ltd. trading company engaged in selling readymade garments with Turnover of 85 Crore in year 2017-18. Your firm appointed as statutory auditors for year 2018-19. In process of audit for half year ending 30.9.2018 your senior has instructed you to verify debtors of company. While verifying same it came to your notice that company not taking balance confirmations from debtors & balance shown in books is considered final for preparation of accounts.
As a statutory auditor what should be your decision on debtor's balances: -

A) Statutory auditor should review internal audit report & ensure as per section 143 of Companies Act, 2013 that company has adequate internal financial controls in place

B) There is no need to take debtors confirmation as it is immaterial for purpose of Audit Report.

C) The auditor is required to take external confirmation independently & wherever auditor gets negative or no response or response is doubtful an alternative audit procedure should be followed.

D) A Mgt. representation letter should be obtained by auditor.

Q 47. As Central Statutory auditor of K Ltd. for year 2018-19 you need to verify bank balances for half year ending 30.9.18. Company is holding Bank a/c in 5 different banks, but you find that BRS isn't complete for some of bank accounts. Mgt. explained that no. of transactions in these accounts is very huge on daily basis & some old entries (existing in reconciliation statement from yr. 2008 aren't material in nature) so it is difficult to reconcile these bank accounts. Your decision: -

A) Unusually old outstanding entries, as are not material in nature, should be removed from reconciliation statement & balance in books of accounts should be considered as balance for balance sheet purpose.

B) Confirm appropriateness of old outstanding entries by taking bank confirmations to reduce audit risk & obtain Mgt. representation letter on pending reconciliation.

C) Disclose matter in Notes to accounts of audit report with respect to incomplete bank reconciliation.

D) Communicate it to those charged with governance as deficiency in internal control.

Q 48. You are article assistant in PQR & Associates. You are assigned Internal audit of X Ltd. in business of dairy products. While evaluating internal controls associated with related party relationships & transactions, you come across some discrepancies. What is basic info to be collected by you related to related party relationships & transactions?

i. Identity of entity's related parties including changes from prior period

ii. Nature of relationships between entity & these related parties

iii. Understanding of business activities of related parties

iv. Whether entity has entered into any transaction with these related parties during period & if so, nature & extent, & purpose of transaction

v. Materiality of related party transactions

A) i, ii & v

B) i, ii & iv

C) ii, iii & iv

D) iii, iv & v

Q 49. AMS & Co is computer hardware specialist & trading for over 6 years. Company is funded through overdrafts & loans & by several large shareholders. financial year end is 31 March 2017. AMS had significant growth in business in previous years; however, in current year new competitor BOM & Co, has entered market & through competitive pricing has gained considerable market share from AMS. One of AMS's customers stopped trading with them & moved to BOM. Few specialist developers left company & joined BOM. AMS found it difficult to replace these employees due to level of their skills & knowledge. AMS just received notification

that its main supplier who provides company with specialist electrical equipment has ceased to trade. Which of following audit procedures should NOT be performed in assessing whether or not AMS is a going concern?

A) Evaluating Mgt. plans for future of business, by finding out from financial director whether company has gained any new customers to replace customers lost

B) Review board meeting minutes for evidence of progress on recruiting specialist developers to replace ones who have left to join BOM.

C) Analyze & discuss entity's last 2 years of financial statements to determine whether it is consistent with cash flow forecast.

D) Review correspondence with shareholders to assess probability that any of shareholders choose to increase or sell their investment

Q 50. ASM Motor Cars co. manufactures a range of motor cars & its year end is 31 March 2018. You are audit supervisor of Khanna & Associates & currently preparing audit program for year-end audit of ASM. Entity undertakes continuous production of cars, 24 hours a day, seven days a week. Inventory count is to undertaken at year end & Khanna & Associates will attend. You responsible for audit of WIP & will be part of team attending count as well as final audit. WIP constitutes partly assembled cars at year end & this balance is likely to be material. ASM values WIP according to % of completion, & standard costs are then applied to these percentages. Which of following is NOT a substantive procedure audit could perform to obtain sufficient & appropriate audit evidence in relation to valuation of work in progress?

A) Discuss with Mgt. how percentage completions are attributed to WIP

B) Observe procedures in count in assessing level of WIP; consider reasonableness of assumptions used

C) During count, verify all percentage completions if they are in accordance with ASM's policies

D) Review level of variances between standard & actual costs

Q 51. XYZ Printers is a medium size printing press with turnover of 100 Crore for financial Year 2015-16. company buy paper rims for its press from different suppliers. You are statutory auditor of company for year 2015-16 & Mgt. has informed you that company has bought paper rims from one of supplier who is related to one of director of XYZ Printers. What audit evidence you need to collect for identifying & assessing risk of material misstatement associated with related party transaction?

A) Prior approval of audit committee/shareholders for transactions with supplier, materiality/ significance of transactions on company's financial statements, agreement entered into with supplier & internal control for transactions with supplier.

B) Only prior approval of audit committee/ shareholders for transactions with supplier is sufficient.

C) Check whether company has formulated any policy on dealing with related party transactions & materiality of transactions.

D) As a statutory auditor you should check internal controls & internal audit reports only.

Q 52. You are internal auditor of FCD Bank Limited for year 2017-18 & bank maintains all data on computer. You are instructed by your senior to verify loan against fixed deposits of Mumbai branch. As per scope of audit, you need to ensure that proper lien has been marked on all fixed deposits against which loan has been issued.
Which procedure you will follow: -

A) Ensure that all fixed deposit receipts are attached along with approved loan documents.
B) Ensure that all fixed deposit receipts, against which loan has been sanctioned, are discharged in favor of bank & check that lien is marked in computer software
C) Discuss process followed for lien marking with branch manager.
D) Ensure that all fixed deposit receipts, against which loan has been sanctioned, are discharged in favor of bank, check that lien is marked in computer software & fixed deposit should be kept separately with branch manager.

Q 53. Mr. Vijay Kapoor, Chartered Accountant, has been appointed statutory auditor by M/s. XYZ Private Limited for audit of their financial statements for year 2015-16. company has mentioned in audit terms that they will not be able to provide internal audit reports to Mr. Vijay during course of audit. Advise, whether Mr. Vijay should accept proposed audit engagement & on what grounds he can accept/ refuse proposal?
i) As per SA 210 auditor can refuse to accept audit engagement as Mgt. is not giving access to internal audit reports which are necessary in determining internal controls in company.
ii) There is no limitation on scope of auditor's work, so auditor should accept appointment.
iii) The auditor can accept audit engagement if Mgt. gives representation on its responsibility.
Which of following option is correct: -

A) (ii) only
B) Both (i) & (iii)
C) Both (ii) & (iii)
D) (iii) only

Q 54. Best Manufacturers Limited is a manufacturing company & has entered into an agreement in February 2017 with CISCA Brothers for buying land in order to set up their new manufacturing unit. As per agreement, Best Manufacturers were required to pay 20 Lakhs as signing amount & balance amount was required to be paid in three instalments of 25 lakhs each in month of May, July & September 2017. title deed for land was to be transferred after payment of second instalment in July 2017, so in accounts for year 2016-17 of Best Manufacturers payment of signing amount was booked as an expense.
Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for year 2016-17. There is conflict between Financial Reporting Framework & Legal requirement, so what will be duty of your firm in such case?

A) Incorporate changes in financial statements as per legal requirement
B) As title deed has not been transferred in favor of company in year 2016-17, there is no need to review payment in terms of Accounting Standard or any other legal requirement

C) Take Mgt. representation on same.
D) Discuss matter with Mgt. & ensure disclosure of same in notes to accounts, otherwise modified opinion

Q 55. BSF Ltd trading leather goods. You internal auditor for year 2017-18 to review internal controls of sales department you visited department & noticed work division as follows: -
i) An officer was handling sales ledger & cash receipts.
ii) Another official was handling dispatch of goods & issuance of Delivery challans.
iii) One more officer was there to handle customer/ debtor accounts & issue of receipts.
As an internal auditor do you think that there was proper division of work? If not, why?

A) Proper division of work as dispatch & sales ledger maintenance allotted to different officials
B) No proper division of work as receipts of cash not to be handled by official handling sales ledger
C) Delivery challans to be verified by authorized official other than officer handling dispatch of goods.
D) Both B & C are correct.

Q 56. Your firm appointed as statutory auditors of G Pvt. Limited for financial year 2017-18. While verification of company's inventories as on 31st March 2018 you found that significant amount of inventories belonging to company are held by other parties. Company kept all records of inventories maintained by other parties, what is your duty as auditor to ensure that 3rd parties aren't such with whom stock should not be held & stock as disclosed in company's records actually belongs to them?

A) Ensure that total stock including stock with third party tally with stock register maintained by company.
B) Obtain confirmation from 3rd party/s with whom inventories held & reconcile same with stock register.
C) Conduct a physical verification of stock maintained with third party/s.
D) Obtain written confirmation from dpt. head for inventories maintained at other places as audit evidence

Q 57. BOOM Ltd decided to appoint Mr. Raj, CAs as branch auditor for audit of its Lucknow branch accounts for 2017-18. Decision to appoint branch auditor was taken by Board Resolution in meeting of Board of Directors held in April 2017, subject to shareholders' approval in AGM scheduled to be held in June 2017. Principal Auditor raised objection that branch auditor can't be appointed without his consent. Whether objection raised by company auditor is valid?

A) Objection raised not valid as per 143(8) of Co Act, 2013 & Board authorized to appoint branch auditor but should be approved by shareholders in General Meeting.
B) Objection valid as must consult/get consent of Principal Auditor before appoint Branch Auditor
C) Board has no authority to appoint Branch Auditor so objection by Principal Auditor is valid
D) Objection raised not valid as it is compulsory to appoint branch auditor as per Sec.139 of Co Act, 2013.

Q 58. Prakash & Co. CAs are internal auditor of Textbook Private Limited, for year 2016-17. You instructed by your senior to check internal controls for investments done by company during year. While verifying same you noticed that property documents, share certificates & other investment documents kept in a safe custody locker, whose keys are kept with an authorized official of Accounts Department of company & none other than that official has access to locker. As Internal auditor do you consider as material weakness in internal controls? If yes, how will you report matter?

A) Not a material weakness in internal control as company might not have any other reliable employee
B) The safe custody locker should always be under control of two authorized officials. Therefore, auditor should communicate such material weakness to Mgt. or audit committee.
C) It is not material weakness to be reported as giving keys to ≥ 2 persons can lead to confusion only.
D) The auditor should discuss observation with Mgt. & there is no need of any written communication.

Q 59. DSP CAs appointed statutory auditors of Flakes Private Limited for 2016-17. Company's net profit has declined by 5% as compared to previous year in spite of increase in sales. On verification of company's profit & loss account it is noticed that in current year a huge amount is debited as loss on sale of fixed assets due to which profits has reduced. auditor discussed matter with Mgt. & was told that since lot of fixed assets were lying idle due to their non-working condition, they have been sold at less than their written down value. As an auditor do you think that fact regarding disposal of assets should be disclosed in auditor's report/ notes to accounts?

A) If assets been sold as per company's policy & under applicable Financial Reporting framework, then separate disclosure is not required in auditor's report/ notes to accounts.
B) As sale of assets has impact on profit for current year, it be disclosed in notes to account of FS
C) Even if assets sold as per company's policy & under applicable FRF, auditor to disclose facts in EOM Para of Audit Report as loss booked in P/L account has material impact on net profit of company
D) As loss on sale of fixed assets debited in P/L Account, as per AS no need to disclose it in any report.

Q 60. Auditor to evaluate Mgt.'s assessment of entity's ability to continue as a going concern. Certain events/ conditions were identified that may cast significant doubt on entity's ability to continue as a going concern but, based on audit evidence obtained, auditor concludes that no material uncertainty exists, & no disclosures are explicitly required by applicable financial reporting framework regarding these circumstances. If Mgt.'s assessment of entity's ability to continue as a going concern covers less than 12 months from date of Financial Statements (FS), auditor is required to request Mgt. to extend its assessment period to at least twelve months from that date. Mgt. of company would provide financial support letter extended by its parent company. In given case, which one of following options is correct?

A) Auditor obtain financial support letter from parent company for 12 months from year end date.
B) Auditor obtain financial support letter from parent company for 12 months from date signing FS
C) Auditor obtain financial support letter from parent company for 12 months or less from year end date
D) Auditor obtain financial support letter from parent company for 12 month or less from date FS signed

Q 61. Auditor's report on prior period year ended 31.3.17 included modified opinion on unresolved matter. If such matter not relevant/ immaterial to current period figures in FS for year ended 31.3.18, how auditors deal with this matter in his auditor's report for year ended 31 March 2018?

A) Since matter not relevant/ material to current period figures, no reporting in respect of this matter would be required in auditor report for year ended 31 March 2018.

B) Modify opinion on current period's FS because of effects or possible effects of unresolved matter on comparability of current period & corresponding figures in auditor report for yr. ended 31 March 2018.

C) Considering matter is not relevant/ material to current period figures, Mgt. may include note in FS & basis that no reporting w.r.t. this matter be required in auditor report for year ended 31 March 2018.

D) Include an emphasis of matter because of effects or possible effects of unresolved matter on comparability of current period & corresponding figures in auditor report for yearend 31.3.18.

Q 62. DEF Ltd has outsourced its payroll to 3rd entity (service organization). What should be basis followed by auditor of DEF Ltd w.r.t. audit of payroll?

A) Auditor should obtain Type 2 report as audit evidence to support his understanding of design & implementation of controls at service org. Type 2 report also serve as audit evidence about operating effectiveness of those controls.

B) The auditor may refer to work of service auditor in his report containing an unmodified opinion & diminish his responsibility for audit opinion.

C) Auditor should obtain Type 1 or Type 2 report as audit evidence to support his understanding of about design & implementation of controls at service organization. Type 2 report would also serve as audit evidence about operating effectiveness of those controls.

D) Since payroll process is outsourced to a service org, there is nothing much an auditor can do. Auditor should audit other information for financial statements & accordingly should issue his opinion.

Q 63. Profits of XYZ Ltd was 1000 crores for financial year ended 31 March 2018. While planning audit of financial statements of XYZ Ltd, auditor determined materiality of 50 Crores. materiality was taken as 5% of profits of XYZ Ltd. During audit, audit adjustments were passed which resulted in significant decline in profits of XYZ Ltd. Post audit adjustments, profits reduced to 500 crores. Because of changes in profits of company, materiality get reduced to 25 Crores.
XYZ Ltd is a large size company having turnover 20,000 crores for FY ended 31 March 2018. Considering size of company, auditor believes materiality amount should not go below 50 crores as that would result in significant increase in their work & work of auditor may not get completed within required timelines. Accordingly, auditor wants to change basis of materiality by increasing percentage of profits or taking revenue as basis for computation of materiality. In given situation, which one of following options is correct?

A) Considering size of company, auditor appropriate in changing basis of materiality to save his work.

B) The basis of materiality cannot be changed to save increased work of auditor if there has been additional information which resulted in decline of profits during course of audit.

C) The auditor need not change materiality basis. He can complete his audit using materiality of 50 Crores which was determined initially by him while planning audit

D) Since profits of XYZ Ltd have got reduced due to audit adjustments, same cannot be considered to be basis for computation of materiality. Materiality has to be based on Mgt. computed numbers.

Q 64. M/s ABC & Co LLP has been appointed as statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. For purpose of accepting position as statutory auditors of WEF Ltd, M/s ABC & Co LLP has sent a written communication to M/s LMN & Co LLP to obtain no objection letter. In given case, which one of following options is correct?

A) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per provisions of Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.

B) M/s ABC & Co LLP needs to make communication with LMN & Co LLP & obtain his no objection letter for accepting position of statutory auditors of WEF Ltd. Once this is done, M/s ABC & Co LLP can be appointed by WEF Ltd. In that case not mandatory to follow provisions of Co Act 2013.

C) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per provisions of Companies Act 2013. ABC & Co LLP also needs to make a communication with M/s LMN & Co LLP to obtain his no objection letter.

D) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per provisions of Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.

Q 65. Auditor is required to audit a complete set of annual financial statements for year ended 31 March 2018 prepared under IND AS by Mgt. solely for preparation of consolidated financial statements of holding company. Is auditor required to include 'Other Legal & Regulatory Requirements' to comment on matters such as maintenance of proper books of accounts, compliance with accounting standards etc. in audit report?

A) Since auditor is required to audit complete set of annual financial statements for year ended 31 March 2018 prepared under IND AS, it be mandatory for auditor to include 'Other Legal & Regulatory Requirements' in his audit report.

B) The audit report is not issued pursuant to requirement of section 143 & hence 'Other Legal & Regulatory Requirements' is not required to be included in audit report.

C) Audit report not issued pursuant to requirement of Sec 143 & some of requirements related to 'Other Legal & Regulatory Requirements' be included in audit report as per discretion of Mgt. of Company.

D) Auditor may include 'Other Legal & Regulatory Requirements' in audit report but he would need approval of Board of Directors for doing so.

Q 66. A Ltd. is a company in business of buying & selling modern & contemporary Indian arts. Following are assets (in millions) of Company on 31 March 2017: -

- **Fixed assets = INR 10**
- **Loans & advances = INR 40**
- **Trade receivables = INR 10**
- **Investments = INR 20**
- **Inventories = INR 400**
- **Cash & cash equivalents = INR 20**

Mgt. not obtained valuation of inventories as at 31.3.17 from valuation expert in art forms. Auditors could not perform alternate procedures for valuation of inventories. Therefore, auditors were not able to comment on carrying value of inventories. Auditors able to obtain sufficient appropriate audit evidence on all other captions of financial statements. Auditors qualified their opinion in auditor's report. What are your views on auditors qualifying their report?

A) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. auditors may qualify their opinion in auditor's report considering only one caption of financial statements could be misstated

B) Total assets amount to 500 million, out of which, 400 million pertaining to inventories comprises of 80% of total assets. This signifies that auditors are not able to obtain sufficient appropriate audit evidence on 80% of assets. Hence, possible misstatement, if any, could be pervasive. Therefore, auditors should issue adverse opinion.

C) Total assets amount to 500 million, out of which, 400 million pertaining to inventories comprises of 80% of total assets. This signifies that auditors are not able to obtain sufficient appropriate audit evidence on 80% of assets. Hence, possible misstatement, if any, could be pervasive. Therefore, auditors should disclaim their opinion.

D) Inventory is considered to be important component of financial statements. This is one of items wherein significant risk may exist from audit's perspective. Auditor should take cognizance of this fact & accordingly decide his opinion – qualified/ adverse/ disclaimer.

Q 67. X Ltd is in business of trading of industrial equipment. Company's operations are based out of India & Germany. For purpose of hedge, company has taken forward contracts. Company is Phase 1 company as per requirements of IND AS & hence forward contracts have been fair valued for purpose of preparation of financial statements. Company also got its property, plant & equipment fair valued. Company has shown its fair valuation reports in respect of above items to auditors. What should be responsibility of auditors in this case?

A) The auditor may refer to work of VALUER in his report containing an unmodified opinion & accordingly reduce his responsibility for audit opinion

B) The auditor may refer to work of VALUER in his report for forward contracts but not for property, plant & equipment, containing unmodified opinion & then reduce his responsibility for audit opinion.

C) Auditor may refer to VALUER work in his report for PPE but not for forward contracts, containing unmodified opinion & accordingly reduce his responsibility for audit opinion

D) The auditor may involve his own expert for purpose of audit of fair valuation of forward contracts & property, plant & equipment. But in any case he cannot reduce his responsibility for audit opinion by referring to work of VALUER in his report.

Q 68. PQR Ltd has 3 subsidiaries, 2 associates & 5 joint ventures. Standalone & consolidated financial statements of PQR Limited are audited by M/s Jain & Co LLP (Group auditors) for statutory reporting in India. Standalone financial statements of other group companies of PQR Ltd are audited by some other audit firms (component auditors). For consolidation, instructions sent by M/s Jain & Co LLP to component auditors state that principal auditors would be working on principle of division of responsibility. Instructions further state that Group auditor may review

selected working papers of component auditors covering identified areas of emphasis, if required. Considering local regulatory requirements, component auditors do not agree to get their working papers reviewed from Group auditors. Choose course of action for Group auditors in given case.

A) As per SA in India, "When principal auditor has to base his opinion on financial info of entity as a whole relying upon statements & reports of other auditors, his report would be stating division of responsibility for financial information of entity by indicating extent to which financial information of components audited/reviewed by component auditors have been included in financial information of entity." Group auditor not required to audit financial statements of components.

B) For purpose of consolidation, Group auditor would have to issue his opinion on consolidated financial statements which would comprise financial statements of components & hence Group auditor is required to audit financial statements of components.

C) For purpose of consolidation, Group auditor would have to issue his opinion on consolidated financial statements which would comprise financial statements of components. Hence Group auditor may either audit financial statements of components or review work of component auditors.

D) For purpose of consolidation, Group auditor would have to issue his opinion on consolidated financial statements which would comprise financial statements of components. Hence Group auditor would be required to review work of component auditors. If component auditors do not provide access to their working papers to Group auditors, Group auditors may qualify his auditors report.

Q 69. M/s ABC & Co LLP has been appointed as statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For purpose of consolidation, WEF Ltd is required to send financial information of company for year in Reporting package comprising of balance sheet, statement of profit & loss, statement of cash flow & notes to accounts. Since WEF Holding Ltd has many group companies across globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all group companies. group companies do not have any provision to change groupings/ classifications which need to be reported as per Group accounting manual which is prepared as per Group's accounting policies. Group follows IFRS. ABC & Co LLP is also required to audit reporting package of WEF Ltd as per IFRS. During course of audit, auditor observed that some classifications are not in line with IFRS, however, due to limitation of reporting package no such corrections can be made. How should auditor deal with this?

A) Since all classifications are in line with requirements of Group as per Reporting package, auditor need not change anything & should issue clean report.

B) Since all classifications are in line with requirements of Group as per Reporting package, auditor need not change anything & should issue clean report. However, auditor may also include a note separately in respect of corrections required

C) Since all classifications are in line with requirements of Group as per Reporting package, auditor cannot change anything. However, auditor is required to issue to report as per IFRS wherein classifications are wrong & hence auditor to issue qualified report if amount is material.

D) Since all classifications are in line with requirements of Group as per Reporting package, auditor need not change anything. Auditor should issue his report as per Group accounting manual instead of IFRS.

Q70. AKB Ltd is a large sized company having diversified business activities. company's operations are spread across various locations within India & outside India. company has many units & plants. no of transactions of company is large & it uses SAP as its ERP package. company appointed LLM & Associates as their new tax auditors for current year. Tax auditors were reviewing statutory compliances & observed that currently there is no process of company to check whether TDS has been correctly deducted on all transactions or not. Since transactions of company may be running in thousands & covers various provisions of TDS, Mgt. believes that such a process cannot be established. Also in past this exercise was never done & no case of any short/non-deduction of TDS has been reported in Form 3CD in past. How should tax auditor deal with this matter in his report?

A) Mgt. is right & hence it should be ignored by tax auditor.
B) Tax auditor should test check & basis that he should close this point.
C) Mgt. should provide a reconciliation to auditor reconciling accruals/ expenses with TDS deducted during year to ensure TDS is deducted appropriately. If same is not available, tax auditor should qualify his report.
D) Mgt. should set up a process as per requirement of tax auditor. For current year, tax auditor should obtain Mgt. representation on this matter & should close this accordingly.

Q7 1. AJ & Co LLP is firm of CAs. Firm has 10 Partners. Firm has good portfolio of clients for statutory audits but same clients had some other firms as their tax auditors. In current year (FY 2018-19), many existing clients for whom AJ & Co LLP happens to be statutory auditor have requested firm to carry out their tax audits as well. Firm is expecting no of tax audits to increase significantly this year. One of partners of firm has also raised a point that firm can accepts tax audits up to a maximum limit. However, other partners are of strong view that limits on audits is applicable in case of statutory audits & not for tax audits. This needs to be decided as soon as possible so that appointment formalities can also be completed. You are requested to advise firm in this matter.

A) There is no limit on no of tax audits in case of LLP.
B) All partners of firm can collectively sign 450 tax audit reports.
C) All partners of firm can collectively sign 600 tax audit reports.
D) All partners of firm can collectively sign 450 tax audit reports. However, 1 partner can individually sign maximum 60 tax audit reports

Q 72. R & S Co LLP is an old firm of CAs with R & S as audit partners. firm has various statutory audit & internal audit engagements which are looked after by R & S respectively. In PY ended 31 March 2018, one of audit engagements of firm was picked up for peer review & peer reviewer raised observations regarding audit documentation. Some of info regarding audits were missing from audit files as per observation of peer reviewer. R & S are in process of establishing a robust mechanism for audit documentation so that same is available for a long duration & would lead to audit efficiencies also in future years. R & S would like to understand period for which audit documentation should be maintained by them as per SA 230. Please advise.

A) 10 years.
B) 9 years.
C) 8 years.
D) 7 years.

Q 73. KJA Ltd is in business of manufacturing of tiles & sanitary ware. Company has large inventory every year. Annual turnover of company is INR 3000 crores. Company has 7 plants in India. Mgt. of company carries physical verification of inventory every year at time of reporting date. During year ended 31 March 2018, it was found by Mgt. that inventory sheets of 31 March 2017 did not include five pages containing details of inventory worth INR 24.5 crores. Mgt. included this inventory in valuation of inventory as of 31 March 2018. Mgt. explained that considering size of company this may happen at times as inventory is huge & lying at various locations. Amount of inventory is insignificant if considered as percentage of revenue or inventory. State how you will deal with this matter as auditor in accounts of company (towards substantive audit procedures & excluding impact on auditor's assessment under Internal Financial Control Framework) for year ended 31 March 2018.

A) Since matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in auditor report for year ended 31 March 2018.
B) Mgt. should restate financials to adjust error. Otherwise auditor may modify his opinion on current year's financial statements considering materiality.
C) Considering matter not relevant/ material to current period figures, Mgt. may include note in financial statements & basis that no reporting w.r.t. this matter be required in auditor report for yr. end 31.3.18.
D) Include an emphasis of matter because of effects or possible effects of error in auditor report for year ended 31 March 2018.

Q 74. IRC Ltd is in business of construction & infrastructure & listed in India wit annual turnover of INR 2500 crores. Company has various projects offices/ operations in India & outside India. Functional currency of company & its project offices is INR. Company has 5 joint ventures & various jointly controlled operations. company has been audited by LUTHRA & Associates, a firm of CAs, since beginning. During year ended 31 March 2018, new auditors appointed as statutory auditors of company for audit of financial statements for year ended 31 March 2018. New statutory auditors have raised various points related to consolidation procedures followed by company. Mgt. didn't agree to observations of auditors as they have been following this since many years now & there was no observation of previous auditors on same. Auditors have highlighted a point that joint ventures have been consolidated by company in its standalone financial statements. Mgt. has argument that those are in nature of its operations & hence to reflect true & fair view it would be appropriate to consolidate same in standalone financial statements. Please advise as auditors how would you deal with this matter.

A) Since matter related to consolidation which is more relevant for consolidated financial statements, hence no reporting on this matter required in auditor report for year ended 31 March 2018.
B) Auditor should look at materiality & conservatism principle. Company included extra information in financials which can be considered by auditors & basis that clean audit report should be given.

C) Mgt. should restate financials to adjust error related to consolidation of JV in standalone FS. Otherwise auditor may modify his opinion on current year's financial statements considering materiality.

D) As per requirements of AS, joint venture if consolidated in standalone financial statements not be consolidated again in consolidated financial statements. Basis that this point be dropped by auditor.

Q 75. WCO Private Ltd is joint venture of WGM & O Ltd. WGM is based out of Germany & is listed in Germany. WGM prepares financial statements as per IFRS. O Ltd is company based out of India & listed in India. O Ltd prepare financial statements as per IND AS. For reporting of financial info to WGM & O Ltd for consolidation purposes, WCO Private Ltd uses reporting package (which comprises B/S, P/L & other notes to accounts). WCO Private Ltd prepares its financial statements as per IND AS. WCO Private Ltd take useful life of some fixed assets in its Ind AS financial statements based on useful lives different from useful lives of similar nature fixed assets taken by WGM (in line with their accounting policies). Reporting package of WCO Private Ltd is audited before reporting to WGM. Auditor audits reporting package which is prepared in line with Group accounting policies of WGM & mentions in his report that reporting package prepared as per Group accounting policies of WGM.

WCO Private Ltd makes adjustment for changes in useful lives in reporting package on basis of Group accounting policies of WGM. Auditor asked Mgt. to take same useful lives of fixed assets in reporting package which have also been taken by them in its IND AS financial statements. Mgt. not agreed with view of auditor. Please suggest right course of action.

A) Position taken by Mgt. is correct.

B) Position suggest by auditor correct & if Mgt. not agree then auditor modify report on materiality basis

C) Matter relates to estimate (useful life) which changes under different GAAPs & auditor to ignore this.

D) The report would be for special purpose which should always be a clean report.

Q 76. DCHI Ltd is in business of optics & imaging products. It is a wholly owned subsidiary of Japanese company, DCHJ Ltd. DCHI Ltd has many expatriates (Expats) working in company whose tenure range from 2 to 5 years. During course of audit of financial statements of company, statutory auditors observed that company has not been deducting & depositing TDS (tax deducted at source) on salaries of expats. auditors assessed that impact of this can be significant as company has many expats & salary amount is significant. Mgt. explained that TDS on salary of expats would lead to unnecessary hassles to expats & they serve company only for a short period. How should auditors of DCHI Ltd deal with this matter?

A) Considering this as a statutory non-compliance, auditor should look at significance of matter & accordingly should report same in CARO.

B) Considering this as a statutory non-compliance, auditor should look at significance of matter & accordingly should consider reporting this in main report along with CARO.

C) Auditor to agree to Mgt. view as expats are temporary workers & this may not be convenient for Mgt.

D) Since matter relates to statutory liability only, reporting requirements not arise till it becomes disputed.

Q 77. You have only 8 working hours for raw material inventory verification. Based on observation during these 8 hours, you have to form opinion w.r.t. correctness of inventory value calculated by Mgt. Company uses ERP system for updating & recording raw material inventory. ERP system of company has passed all ITGC checks & inventory rates are calculated by ERP on moving average price (MAP) basis. Company did ABC analysis of all raw material inventory items & has vast number of items in each category. You will form opinion based on: -

A) Based on ABC analysis, check physical inventory of all "A" class items during allotted time & matching it with ERP stock.

B) Understand process of recording of inventory in ERP to ascertain potential weaknesses & checking physical inventory of mostly "A" class items, some "B" class items & some "C" class items.

C) Check physical inventory of "A" class items as much possible along with certain "B" class items & certain "C" class items on sample basis in value wise descending order, compare physical stock with ERP system, & tabulate result. exercise should be continued till end of allotted eight hours.

D) Check physical stock of only those items, which have standard packaging so that verification is faster considering 8 Hour time limit.

Q 78. ABC Pvt. Ltd had turnover of 39 crores as at 31 March 2018. Company had taken a loan of 39 crores from various banks & financial institutions during year ended 31 March 2018. These loans were paid by Company before 31 March 2018. Company is of view that auditors' reporting on adequacy & operating effectiveness of internal financial controls (IFC) u/S143(3)(i) of Co Act, 2013 would not be required. Auditors have a different view. What should be correct option?

A) Turnover of ABC Pvt. Ltd is below required threshold & hence IFC will not be applicable.

B) Turnover of ABC Pvt. Ltd is below required threshold & loan amount was fully paid before year end i.e. 31 March 2018. Hence IFC will not be applicable.

C) Turnover of ABC Pvt. Ltd is below required threshold but loan amount was above required threshold. Irrespective of fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable.

D) Here because of repayment of loan before year end i.e. 31.3.18, applicability of IFC becomes optional.

Q 79. AS Ltd. is manufacturing company & started its business in year 2000. Net PAT of company was 15% up to FY 2014-15, but for FY 2015-16 & 2016-17 company's profit declined even when there was increase in sales & production of goods by company. So, Mgt. of AS Ltd. felt a need to get Mgt. audit conducted with objective of detecting & overcoming current managerial deficiencies. What criteria do you think Mgt. should keep in mind while selecting Mgt. auditor for purpose?

A) Qualification & experience, courage to report facts & relationship with staff of department/s that's functioning, has to be audited.

B) Qualification & experience, courage to report facts, clear understanding of org structure & working environment, understanding purpose for which audit is conducted, healthy relationship with staff of department that's functioning has to be audited & with top Mgt. & analytical skill.

C) Mgt. auditor should have required qualification & experience only.
D) Mgt. auditor to have healthy relationship with various dpt. staff in organization & with top Mgt.

Q 80. The Advances Bank Ltd. has sanctioned overdraft limit of 44 Crore to ASG Ltd. on working capital of company as on 31st March 2015. As per bank norms drawing power in overdraft account need to be reviewed on quarterly basis as per audited stock statement of company. As a central statutory auditor for year 2016-17, while verifying advances for year ending 31st March 2017, you noticed that bank has not obtained stock statement of ASG Ltd. for two quarters ending 31st Dec 2016 & 31st March 2017 & no provision of NPA has been made for this account in financial statements for year 2016-17. What will be your decision as a central statutory auditor?

A) Classify borrower's account as NPA as borrower's financial position can't be determined due to non-submission of stock statement.
B) Instruct bank to obtain audited stock statement for both quarters & review credit limit accordingly.
C) As per bank norms drawing power need to be determined on basis of stock statement & it was more than three months old as on 31st March 2017, so outstanding in account deemed as irregular.
D) You should give a QUALIFICATORY NOTE in audit report as per SA700.

Q81. This year you were included in the audit team with portfolio of few not-for- profits organization. MJ Hospital was one such non-for-profit organization with the year end 31 March 2018. MJ Hospital was government funded organization & was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?

A) Time card clocking in to ensure that employees including resident doctors are only paid for those hours worked
B) Strict controls over the authorization of overtime to ensure it is only worked where really needed
C) There are any restrictions imposed by objectives & powers given by hospital's governing documents
D) A recognized plan of the organization's structure clearly showing the areas of responsibility & lines of authority & reporting.

Q82. The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses?

A) You verify policy document which has stringent corporate hiring policies for staff working with computerized functions.
B) You observe there is existence of a software program for virus prevention.

C) You also verify there are prudent management policies & procedures instituted in conjunction with technological safeguards.

D) You identify there are physical protection devices in use for hardware, software & library facilities.

Q83. As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co manufactures tools required for heavy machinery & year under audit is 31 March 2018. Which further audit procedures would you perform in response to this?

1. For a sample of purchase invoices around the period end, inspect the dates & compare with the dates of goods received notes & the dates recorded in the purchases & payables to confirm the application of correct cut-off.

2. Trace sample of shipping docs. to purchases invoices & into purchases & payables ledger.

3. For a sample of purchase transactions recorded in the ledger, vouch purchase invoice back to supplier orders & shipping documentation.

4. For a sample of purchase invoices, examine for proper classification into purchase accounts.

A) Procedure (1) & (2)

B) Procedure (1) & (3)

C) Procedure (2) & (4)

D) Procedure (3) & (4)

Q84. You are middle of audit of one of your client Amy & Co for year ended 31 March 2018. Following is bank reconciliation statement for month end 31 March 2018.

*** Balance per bank statement 31 March 2018**			=	**1,35,111.00**
*** Add: - Deposits outstanding: -**				
	30 March (Ref 112)	**1,10,222.00**		
	31 March (ref 113)	**25,000.00**	=	**1,35,222.00**
				2,70,333.00
*** Less: Outstanding CHEQUES: -**				
	240	**20,250.00**		
	272	**12,300.40**		
	274	**25,000.00**		
	276	**21,345.25**		
	280	**19,000.00**		
	281	**22,200.00**	=	**(1,20,095.65)**
*** Balance per bank in general ledger 31 March 2018**			=	***1,50,237.35***

Which of following procedures would not be followed to verify bank reconciliation statement?

A) Verify by checking paying-in slips that un-cleared banking (deposits outstanding – ref (112 & 113) were paid in prior to year-end & review whether they cleared quickly after year end. Any that have not cleared soon after year end should be investigated.

B) Verify that year-end balance per general ledger according to reconciliation (Rs.1,50,237.35) agrees with general ledger account balance at 31 March 2018 & that this has been properly reflected in financial statements.

C) Scrutinize cash book & bank statements before & after period end for exceptional entries or transfers which have a material effect on balance shown to be in hand.

D) Agree balance per bank statement at 31 March 2018 as shown on reconciliation (Rs.1,35,111.00) to bank statement and to the amount for that account shown on bank letter.

Q85. You are an audit senior at G & Co & are currently performing final audit of B Co. for year ended 31 March 2018. company is a manufacturer & retailer of table lamps. current audit senior is ill, & you have been asked to complete audit of payroll in their absence. On arrival at head office of B Co, you determine following data from a review of current year & prior year audit files: -

*** As at 31 March 2017, company had 350 employees**

*** On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line**

*** On 1 June 2017, all remaining staff received a 5% pay rise.**

*** Over course of year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018.**

Following audit evidence gathered relating to accuracy of wages & salaries for B Co.: -

(1) Proof in total calculation performed by an audit team member

(2) Written representation from directors of B Co. confirming accuracy of wages & salaries

(3) Verbal confirmation from finance director confirming accuracy of wages & salaries

(4) Recalculation of gross & net pay for sample of employees by internal audit team of B Co.

What is order of reliability of audit evidence starting with MOST RELIABLE first?

A) Audit evidence - 1, 2, 3, 4

B) Audit evidence - 1, 4, 2, 3

C) Audit evidence - 4, 1, 2, 3

D) Audit evidence - 4, 1, 3, 2

Q86. Your firm has been appointed as auditors of Stuart Limited, a well-established consumer goods manufacturing company. During audit you were provided with various oral representation during meetings & discussions. While finalizing audit you requested management to provide such representations in writing. management has however informed you that they are not accustomed to providing any representations to external auditor in writing. Management is of view that it has provided full access to whatever records, documents & evidences were available with it without any exception & that now it is auditor's responsibility to correlate same with oral representations. What would be your response to above?

A) Agree with management since you have been provided full access to whatever records, documents & evidences were available with management without any exception.

B) Document that Mgt. gave oral representation in audit working paper & issue unmodified opinion.

C) After corroborating audit evidences, consider this as a scope limitation & then consider to express a qualified opinion or disclaimer of opinion or re-assess continuation of engagement with audit client if integrity of management is in question.

D) Give unmodified opinion & include observation in "other matter" paragraph, stating that written representations of concerned matters could not be obtained.

Q87. The year-end audit of your client Alpha Co began shortly after reporting period 31 March 2018. Alpha Co deals in manufacture & retail of stationery items. Last year, you had worked on non-current assets. This year you requested your manager to give you work on revenue. You have been given a list of procedures to carry out on revenue & you have decided to prioritize those which deal with key assertion of occurrence.
Revenue for current year has increased by 10% from previous year. Which of following substantive procedures provide evidence over OCCURRENCE assertion for revenue?
(1) Compare reported revenue to budget & to previous year, investigating significant differences
(2) Select a sample of goods dispatched notes (GDNs) & agree to invoices in sales day book
(3) Select a sample of invoices from sales day book & agree to GDNs of Alpha Co
(4) Select a sample of invoices & recalculate invoiced amount agreeing to price list shared by finance director of Alpha Co.

A) Procedure 1 & 3
B) Procedure 1 & 2
C) Procedure 2 & 4
D) Procedure 3 & 4

Q88. You are an audit senior of PAA Accountants & are currently conducting audit of Stalwart Co for year ended 31 March 2018. Below is an extract from list of supplier statements as at 31 March 2018 held by company & corresponding payables ledger balances at same date along with some commentary on noted differences: -

Supplier	Statement balance	Payables ledger balance
AB Co	90,000	70,000
CD Co	1,85,000	1,15,000

AB Co: difference in balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018.
CD Co: difference in balance is due to supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in financial statements until after year end. payables clerk has advised audit team that invoice was not received until 3 April 2018.
The audit manager has asked you to review full list of trade payables & select balances on which supplier statement reconciliations will be performed. Which of following statement is correct in respect of including or excluding from your sample?

A) Exclude with material balances at year-end.
B) Exclude suppliers which have a high volume of business with Stalwart Co
C) Include major suppliers with nil balances at year-end.
D) Include suppliers where statement agrees to ledger.

Q89. Audit work of AA & Co is underway for year ended 31 March 2018. Your audit manager asked you to look at completeness of trade payables. supplier statement balance for one of entity's supplier PR Co showed a difference of 62,000 higher than recorded in payables ledger balance. Which of following audit procedures should be performed in relation to balance with PR Co to determine if payables balance is understated?

A) Inspect goods received note to determine when goods were received
B) Inspect purchase order to confirm it is dated before year end
C) Review post year-end cashbook for evidence of payment of invoice
D) Send a confirmation request to PR Co to confirm outstanding balance

Q90. 1 of your team members took leave for her final exams due in 15 days. She was working on accruals balance of Karce & Co which could not be completed before she went on study leave. audit manager has asked to complete task on accruals. For current year ended 31 March 2018, there has been an increase in accruals by 15% as compared to previous years.

Which of following procedures should be performed to determine if accruals are accurate, valued & allocated correctly?

A) Test transaction around year end to determine whether amounts recognized in correct financial period.
B) For a sample of accruals, recalculate amount of accrual to ensure amount accrued is correct.
C) Confirm payment of net pay per payroll records to CHEQUE or bank transfer for accruals on salaries.
D) For a sample of vouchers, compare dates with dates they were recorded in ledger for application of correct cut-off.

Q91. The draft financial statements of T Co for year ended 31 March 2018 show following: -
*** Revenue 52,00,000 * Cost of sales 37,00,000 * Gross profit 15,00,000**
*** Trade receivables 18,00,000 * Trade payables 10,00,000**
The auditor has confirmed trade payables payment period with T Co staff as 98 days during current year. This was compared with payment period with last year records & found out there has been a decrease of 20 days in average. Which of following audit procedures will provide auditor with assertion of valuation of trade payables at year end?

A) Review trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits
B) For a sample of vouchers, inspect supporting documentation, such as authorized purchase orders.
C) Test transactions around year end to determine whether amounts recognized in correct financial period.
D) Compare amounts owed to a sample of individual suppliers in trade accounts payables listing with amounts owed to these suppliers in previous year.

Q92. Main operations of PT Co are conducting training programs for newly qualified commerce graduates to make them ready for jobs available. company owns a 2-Storey building in Centre of city, where they could attract lot of students for courses offered. Currently, trainings are provided in-house. PT has plans to expand & offer online courses as well. You are audit senior for PT Co for year ended 31 March 2018 & in charge of audit work on non-current assets. New furniture & white boards have been purchased during current year. total non-current assets shown in financial statements stands at 289.5 lakhs. Which of following audit procedures are appropriate to test VALUATION assertion for non-current assets?

(1) Ensure disposals are properly accounted for & recalculate gain/loss on disposal
(2) Recalculate depreciation charge for a sample of assets ensuring that it is being applied consistently & in accordance with IND AS 16 Property, Plant & Equipment
(3) Review repairs & maintenance expense account for evidence of items of a capital nature
(4) Review board minutes of PT for evidence of disposals during year & verify that these are appropriately reflected in non-current assets register
(5) Agree a sample of additions included in non-current assets register to purchase invoice & cash book. Mainly new furniture purchased during year by PT Co.
(6) Review physical condition of non-current assets for any sign of damage.

A) Audit Procedures 1, 2, 5 & 6
B) Audit Procedures 1, 3, 4 & 6
C) Audit Procedures 2, 3, 4 & 5
D) Audit Procedures 3, 4, 5 & 6

Q93. The audit team has obtained following results from trade receivables circularization of Oak Co for year ended 31 March 2018.

Customer	Balance Sales ledger	Balance Customer confirmation	Comment
M Co	2,25,000	2,25,000	-
N Co	3,50,000	2,75,000	Invoice raised 28 Mar 18
O Co	6,20,000	4,80,000	Payment on 30 Mar 18
P Co	5,35,000	5,35,000	Balance of Rs.45,000 is being disputed by P Co.
R Co	1,78,000	No reply	-

Which of following statements in relation to results of trade receivables circularization is TRUE?

A) No further audit procedures to be carried out in relation to outstanding balances with M Co & P Co
B) Difference in relation to N Co represents a timing difference & should be agreed to pre-yr.-end invoice
C) The difference in relation to O Co represents a timing difference & should be agreed to pre-year-end bank statements
D) Due to non-reply, balance with R Co cannot be verified & a different customer balance should be selected & circularized

Q94. For current year audit of Beta Co for year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan audit work on trade receivables. financial statements of Beta Co showed trade receivables of Rs.243 crores in current year. Which of following procedures not be performed by using computer-assisted audit techniques?

A) Selection of a sample of receivables for confirmation
B) Calculation of receivables days
C) Production of receivables' confirmation letters
D) Evaluation of adequacy of allowance for irrecoverable receivables

Q95. Top Pizzas Co. operate a large chain of fast food restaurants. You are an audit supervisor of S & Associates & are currently preparing audit program for audit of Top Pizza's financial statements for year ended 31 March 2018. You are reviewing notes of last week's meeting between audit manager & finance director where two material issues were discussed. One of issue was on Property, plant & equipment of entity.

In past Top Pizza has received negative press reports over condition of its fast food restaurants, with comments suggesting they are old fashioned & tired looking. Therefore, during year company undertook a full review of all its assets & carried out extensive refurbishments to majority of its restaurants.

This review resulted in a significant amount of ageing fixtures & fittings being disposed of & a significant amount of capital expenditure was invested in all remaining restaurants.

Which of following is not a substantive procedure to be used by auditor to obtain sufficient & appropriate audit evidence on property, plant & equipment?

A) Obtain a breakdown of additions, cast list & agree included in non-current assets register to confirm completeness of fixtures & fittings.

B) Select a sample of additions & agree cost to supplier invoice to confirm valuation.

C) Verify rights & obligations by agreeing addition of fixtures & fittings to a supplier invoice in name of Top Pizza.

D) Review evidence for recalculation of Depreciation Charge on additions & disposals made in year of acquisition according to company policy.

Q96. RK Co is a retailer in stationery items & runs 10 shops in & around South Mumbai. In audit plan prepared for current year ended 31 March 2018, you have included statistical sampling method for testing accounts payable balance. You asked your audit senior to review results of some statistical sampling testing, which resulted in 20% of payables balance being tested.

The testing results indicate that there is a 58,000 error in sample: - 30,000 which is due to invoices not being recorded in correct period as a result of weak controls & additionally there is a one-off error of 28,000 which was made by a temporary clerk.

What would be an appropriate course of action on basis of these results?

A) The error is immaterial & therefore no further work is required

B) The effect of control error should be projected across whole population

C) RK Co should be asked to adjust payables figure by 58,000

D) A different sample should be selected as these results are not reflective of population

Q97. Sula Hotels Co. operate a number of hotels providing accommodation, leisure facilities & restaurants. You are an audit supervisor of P & Co, conducting audit of Sula Hotels Co for year ended 31 March 2018. Following information has been brought to your attention: -

Non-current assets: - Sula Hotels Co incurred significant capital expenditure during year updating leisure facilities at several of company's hotels. Depreciation is charged on all assets monthly on a straight line basis (SLM) & it is company policy to charge a full month's depreciation in month of acquisition & none in month of disposal. rates are as per Schedule II of Companies Act, 2013

The audit team has obtained following extract of non-current assets register detailing some of new leisure equipment acquired during year. Extract from Sula Hotels Co. non-current assets register:

Date	Description	Cost	Dep policy	Charge for yr.	Carrying Amt
01/08/2017	8 Treadmills	3,60,000	36 months SLM	80,000	2,80,000
15/08/2017	10 Exercise bikes	1,50,000	3 years SLM	50,000	1,00,000
17/11/2017	10 Row machines	2,00,000	36 months SLM	44,444	1,55,556
19/11/2017	8 Cross trainers	1,20,000	36 months SLM	16,667	1,03,333
		8,30,000		1,91,111	6,38,889

In order to verify depreciation charge for year, audit team has been asked to recalculate a sample of depreciation charges. audit team has also been asked to carry out detailed testing on valuation of non-current assets. Which of following correctly calculates depreciation charge for new assets for year ended 31 March 2018 & resultant impact on non-current assets?

A) Depreciation should be 1,57,777, assets are understated
B) Depreciation should be 2,76,667 assets are understated
C) Depreciation should be 1,34,722 assets are overstated
D) Depreciation should be 1,74,444, assets are overstated

Q98. You are an audit manager with Shah & Associates & are currently performing final audit of Kapoor Industries for year ended 31 March 2018. company is a manufacturer & retailer of shoes & boots. audit senior has provided you with following info from review of current year & prior year audit files, to complete audit of payroll: -
*** As at 31 March 2018, Kapoor Industries had 450 full time employees & 50 part time employees.**
*** One of product lines was discontinued during year, & on 1 May 2017, 10% of full-time staff & all part time employees were made redundant. This was from immediate effect.**
*** 10% of employees were promoted & they received a 8% rise in their salaries.**
*** Over course of year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018.**
Which of following are substantive ANALYTICAL PROCEDURES to be performed to complete audit work for wages & salaries of Kapoor Industries?
(1) Trace & agree total wages & salaries expense per payroll system to draft financial statements of Kapoor Industries.
(2) Recalculate gross & net pay for a sample of full time & part time employees, agree to payroll records & investigate any discrepancies.
(3) Compare current year total payroll expense to prior year & investigate significant differences
(4) Perform a proof in total calculation & compare expected expense to actual expense within draft financial statements

A) Analytical procedure 1 & 2
B) Analytical procedure 1 & 3
C) Analytical procedure 2 & 4
D) Analytical procedure 3 & 4

Q99. You are audit manager responsible for audit of AB & Co. AB specializes in manufacture of Electricals goods for domestic use, such as irons, kettles, toasters, vacuum cleaners, coffee makers. external audit of AB for year ended 31 March 2018 is at review & finalization stage. Draft financial statements show a profit after tax of 52.5 Crores & a total assets of 190 Crores. Following issue has been noted by audit senior. Company has set up a provision for warranty costs of Rs.3.45 crores in financial year. These costs are not deductible for tax purposes until AB pays claims. company has not made any adjustments for provision in financial statements. Tax rate 20%.
Which audit evidence not appropriate to add in audit working papers relating to above provision?

A) Copy of assumptions & calculations from management of AB to arrive at figure of Rs.3.45 crores.
B) Provision amt. material since, 6.6% of profit after tax. Auditor need to consider qualifying audit report.
C) Calculate deferred tax asset as per IND AS 12, since deductible temporary difference on provision.
D) Written representation point from Mgt. of AB confirming amount of provision in respect of warranties.

Q100. Your audit firm appointed as auditors of R Ltd a manufacturing entity. Year under audit is 31 March 2018. While verifying account heads with high risk areas like revenue & inventory, you identify certain issues for which you are not provided satisfactory replies & documents by client.

At same time R Ltd approached you to change scope of engagement. They give you reason that they misunderstood scope of assignment earlier.

What course of action would you adopt in this situation?

A) Accept revised terms of engagement, as change is resultant of change in circumstance which affect entity's requirements or misunderstanding concerning nature of service originally requested & consider aforesaid as reasonable basis for requesting change in engagement.
B) Accept revised terms of engagement & record justification of change in engagement letter.
C) Disagree to revised terms & withdraw from engagement where possible under applicable law & regulations & determine whether there is any obligation, either contractual or otherwise, to report circumstance to other parties such as those charged with governance, owners or regulators.
D) Disagree to revised terms of engagement & have your terms of increased fees since scope of engagement has changed.

Q101. One of your team members has recently qualified as a chartered accountant & joined your team to audit a portfolio of audit clients who are private companies. One of clients Surrey Pvt. Ltd. is a hotel in small town near Jaipur.
Revenue generated for current year ended is Rs.10.5 Crores & entity is not a holding or subsidiary of any public company. Owner of business Mr. Hazelwood runs this family business from last 10 years. Your team member is keen to know whether Surrey Pvt. Ltd is required to comment on matter prescribed under CARO 2016.
Which of your explanations to him are correct?

A) Entity's revenue > Rs.10 crores. Hence, no need to comment on matter prescribed under CARO 2016.
B) Entity not a holding or subsidiary of any public company, hence no need to comment on matter prescribed under CARO 2016.
C) Entity's revenue for year is Rs.10.5 Cr which exceed limit of Rs.10 cr. Hence, entity has to provide comment on matter prescribed under CARO 2016.
D) Entity is not a holding or subsidiary of any public company, hence there is a need to comment on matter prescribed under CARO 2016.

Q102. Prakash Limited has around 25 branch offices & all branch offices were on company's own land & building. Company has Policy that all original title deeds for land & building owned by company will be kept in custody of authorized official at company's head office & a certified copy of same is kept with respective branch for verification. You have been appointed as internal auditor for branches of company & during course of audit you observed that original title deeds of some of branch office are kept in branch under custody of branch officials itself. What action will you take in such case?

A) It is not a material discrepancy, so auditor is not required to take any action in such case.
B) The auditor should inform internal auditor of Head Office for compliance of same.
C) The auditor should ask branch office/official to send original title deed to authorized official at Head Office of company immediately & submit Internal Audit Report once confirmation received from Head office of company.
D) As an internal auditor, report matter in Internal Audit Report & check for compliance of same in next audit period.

Q103. High Limited is a public limited company engaged in manufacturing of watches. company has appointed CA. E as statutory auditor of company for year 18-19. On verification of composition of BODs of company, auditor observed that during reporting period in one of board meeting chairman was non-executive director & less than one-third of Board comprised of Independent Directors. auditor wants to examine effect of changes in composition of Board and/or its chairman & its impact on compliance throughout reporting period. But management restricts auditor from examining same. Whether Auditor has right to examine effect of changes in composition of board?

A) The auditor has no right to verify composition of Board & examine effect of changes in composition since it is not related with preparation of financial statements.
B) The auditor should verify composition of Board & examine its impact on compliance throughout reporting period as a part of certifying compliance with requirements of corporate governance.
C) The management's act is void, as auditor is appointed by Board of Directors only so auditor should necessarily verify composition of Board & its impact on compliance.
D) High Limited is public limited co, so its Board composition be compulsorily verified by auditor.

Q104. Following are registered persons under GST Act, 2017. Which one of registered person is required to get his accounts audited & Also furnish a copy of audited annual accounts & reconciliation statement, duly certified in FORM GSTR –9C?

A) Mr. A is an advocate whose turnover for financial year ended 31 March 2018 was Rs.1.25 crores.
B) Mr. B is a labor contractor managing construction services & his turnover for 31 March 2018 was Rs.3.95 crores.
C) Dr. C is a pediatric surgeon who has newly set up his practice in Pune. He paid an amount of Rs.10.5 lakhs as taxes in current year.
D) Mr. D who is an architect has paid taxes of Rs.22.5 lakhs in current year.

Q105. As an auditor appointed under section 44AB of Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits & gains under section 32AC, 33AB or 33 ABA or 33AC: -

A) Clause 24
B) Clause 40
C) Clauses 31
D) Clause 23

Q106. Bajaj Allianz General Insurance Ltd. agreed to insure a large commercial client. Due to size of this client's operations, there is potential that it could suffer a substantial loss. It would be financially difficult for Bajaj Allianz to pay entire claim itself.
To spread this risk, Bajaj Allianz contacted Bharti AXA General Insurance to request that it cover a portion of risk. Bharti AXA General Insurance agreed, but only on condition that it receive a portion of premium client has paid to Bajaj Allianz General Insurance Ltd. term that best describes this scenario is: -

A) Retention.
B) Reinsurance.
C) Loadings.
D) Casualty insurance.

Q107. Audit firm is subject of Peer review. Indicate maximum number of ___ yr. in review cycle: -

A) 1 year
B) 2 years
C) 3 years
D) 5 years

Q108. In Case of PSU, Direct Reporting Engagement does not include: -

A) Performance audits
B) Compliance audits
C) Financial audits
D) Comprehensive Audit

Q109. Deposit insurance facility of Deposit Insurance & Credit Guarantee Corporation is _______

A) Not available to depositors of NBFCs
B) Available to depositors of NBFCs
C) Available to depositors of Banks
D) Not available to depositors of both NBFCs & banks

Q110. Mr. Sunil was member of Bombay Stock Exchange from 2004 & was conducting business in securities from his proprietorship firm. During financial 2017-2018 his firm conducted business of securities for 30days with income of Rs.2 lakhs only.
SEBI sent letter to firm for getting accounts audited for year 2017-18 but as per Mr. Sunil it was not necessary to get firm's accounts audited as firm was not in active business of securities during year. Do you think that Mr. Sunil was right as per Govt. notification on Securities Contract Rules?

A) Mr. Sunil took a right decision as it is not necessary for proprietary firm to get accounts audited as per Securities Contract Rules.
B) As per Government notification issued in 1984 a member of stock exchange is considered active for purpose of audit if he has conducted business in securities even for a single day in year & shall get its accounts audited if it is required by SEBI.
C) Mr. Sunil cannot be considered an active member as he has not conducted business in securities for 180 days or more during year. So, he is not required to get his accounts audited.
D) As during year firm's income from conducting business in securities is less than 5 Lac, firm is not required to get accounts audited.

Q111. XY & Co. is a chartered firm with two partners Mr. X & Mr. Y. firm was appointed auditor for 35 companies in year 2017 & Mr. X was having total 19 audits in his name. Mr. Y was also partner in E & Co. Where he was appointed auditor in 4 companies. On 4th August 2017, Mr. X met with an accident & died. firm was reconstituted with Mr. Y as proprietor of new firm & audits of new firm reduced to 16.
New firm, in which Mr. Y is proprietor, accepted audit of a Private Ltd Company having paid up capital of 52 crores on 30th August 2017. E & Co., another chartered firm, contended that Mr. Y cannot accept appointment of Private Ltd Company as he has already crossed ceiling of 20 company audits in that year. Do you think E & Co.'s claim is valid?

A) E & Co.'s claim is valid as MR. Y has already been appointed auditor for 20 companies i.e. 16 in reconstituted firm & 4 in E & Co.
B) Mr. Y cannot accept audit of Private Limited Company in year in which there is change in constitution of firm, therefore claim of E & Co. is valid.
C) Mr. Y can accept audit as ceiling of 20 company audits is applicable for each firm in which chartered accountant is a partner or proprietor.
D) E & Co.'s claim is void as ceiling of 20 company audits doesn't include audit of private company having paid up capital less than 100 crores.

Q112. Brown Ltd is a holding company with two subsidiaries Black Ltd & White Ltd. You have been given task of covering valuation of non-current tangible assets in consolidated financial statements. You note that Black Ltd & Brown Ltd. adopt straight line method of depreciation for its assets whereas White Ltd, follows written down method for calculating depreciation. Which of following adjustment would be considered as correct in respect of consolidated financial statements preparation?

A) White Ltd is required to depreciate assets adopting straight line method of depreciation which is method adopted by holding company.

B) Brown Ltd is required to make suitable adjustments as to depreciation charged by White Ltd, at time of consolidation.

C) Brown Ltd & Black Ltd are required to depreciate assets adopting written down value as to facilitate harmonization of accounting policies.

D) No adjustment is required as there can be different methods of calculation of depreciation for its assets for group companies.

Q113. Management of HFC Ltd. noticed a sudden increase in expense under head "wages & salaries" for year 2015-16 & 2016-17. Management felt a need to get management audit done in order to identify reason for sudden increase. Mr. A Gupta, Chartered Accountant was appointed as management auditor by company on 15th April 2017.
What areas do you think auditor need to verify for purpose?

A) Check payroll sheet prepared as per approved pay & allowances; verify overtime sanctioned & authorized & verify payment process followed for payment of wages & salaries to employees.

B) Overtime authorized & payment done to employees are main areas need to be verified by auditor

C) Auditor should first understand HR Policy of company. Then verify all authorized vouchers for overtime payments done during year; verify payroll preparation & reconcile gross pay in terms of increments/ promotions & resignations; verify appointments made during year as per HR Policy & payments made to agencies providing contractual staff.

D) Auditor need to verify new appointments i.e. of company's payroll or outsourced staff & the overtime allowance paid to employees.

Q114. An educational institute was collecting fees from their students by Cash/ CHEQUE / Draft & through net banking. Institute follows policy to account for fees received in year of receipt only & for CHEQUES or drafts received but not deposited in bank or credited in bank account, should be shown in reconciliation statement.
Internal auditor of branches noticed that at some branches only fees received up to 25th March are accounted for in same year & receipts after that date are carried forward to be accounted for in next financial year. Fees collected in these branches between 25th to 31st March amounted to 15 lakhs for year 2017-18 & collection for financial year ended 31st March 2018 amounted to 115 crores.
Auditor was of view that it will not give a true & fair view on institute's revenue for year. What do you think should be next step of auditor?

A) Branches have accounted for those receipts in next financial year so auditor can ignore observation.

B) Auditor should report matter in Executive Summary paragraph & highlight it as significant internal control lapse.

C) Internal auditor can discuss matter with management to take a strict action against the branches not following institute's policy.

D) Auditor should get accounts modified & report matter in action taken report.

Q115. AFM coaching institute was accepting fees from its students in cash or CHEQUE or online transfer for an amount up to Rs.10000/- & if amount of fees is above 10000/- by CHEQUE or online transfer only. In year 2017 institute's total fees collection was of Rs.82 crores. Your firm has been appointed internal auditor by Institute & during verification of vouchers for fee receipts you noticed that cash receipts of approximately Rs.5 lakhs were directly credited in bank account instead of routing through cash account. Management explained that since deposit slips used for fees received in cash or CHEQUE are same, accountant has erroneously shown them in bank account but he has always tallied cash at day end & those cash receipts were deposited in bank account same day. Whether auditor will consider discrepancy as material for audit report?

A) The auditor should disclose fact with his comment in audit report as it is material for giving a true & fair view on financial statements.

B) It is not a material discrepancy as total receipts amount will remain same & fees collected in cash are deposited in bank account only.

C) The auditor to verify that whether such cash receipts reflects in bank statement on same day & cash ledger reconciles with cash book on respective dates or not. If it is followed, then auditor can include matter in observation paragraph with his comments else disclose matter as major internal control lapse.

D) Auditor can ask management to give a representation letter in writing.

Q116. BVM & Associates is an audit firm that employs large number of audit assistants. CA Mahesh, a partner pays extreme attention to briefing audit assistants every day while audit is continuing. All audit assistants are required to document their notes in daily briefing & accordingly conduct audit. CA Mahesh made it very clear that any assistant who does not document notes taken & steps taken accordingly will be reprimanded as it will mean that assistants are not creating their audit program on job. practice deployed by CA Mahesh can be termed as?

A) Unacceptable as CA Mahesh being auditor should be providing audit program, & he cannot expect team to take daily notes instead of performing audit.

B) Appropriate & in line with SA 230 as audit program must be prepared on basis of documentation of auditor's briefing notes.

C) Acceptable but incomplete as CA Mahesh not given any audit program to audit assistants to follow.

D) Inappropriate as CA Mahesh should not only provide audit program but also make sure that audit program is formally approved by all partners of firm.

Q117. KJA Ltd is in business of consultancy services. Business of company has been growing significantly & considering nature of business, it becomes subject to various laws & regulations. Compliances have also increased because of this & management has found this very difficult to keep in pace with changing regulatory requirements. Statutory auditors of company, S & Associates, considered compliance with laws & regulations as a significant risk for purpose of their audit.
Auditors had audit planning meeting with management & management has understood that it will be their responsibility including those charged with governance to ensure that company's operations are fully compliant with provisions of various laws & regulations. This may also have an impact on reported amounts & disclosures in financial statements of company.
Mgt. is planning to ensure full compliance & may implement policies & procedures, wherever required, to assist in prevention & detection of non-compliance with laws & regulations. Please suggest among following which one will not be a policy/ procedure to be implemented to assist in prevention & detection of non-compliance with laws & regulations in accordance with SA 250?

A) Maintaining a register of significant transactions of company with comparison to particular industry & a record of complaints.
B) Monitoring legal requirements & ensuring operating procedures designed to meet these requirements.
C) Developing, publicizing & following a code of conduct.
D) Instituting & operating appropriate systems of internal control.

Q 118. While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s P & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. Material misstatement is deemed to be pervasive to the consolidated financial statements. Effects of misstatement on consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s P & Co. decided to provide adverse opinion for same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s P & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?

A) M/s P & Co. have the option to follow SA 701, thus, need not to report any key audit matters.
B) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.
C) SA 701 is mandatory in case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in Basis for Adverse Opinion section, M/s P & Co. shall state, under 'KAM' para, that 'except for the matter described in Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'
D) M/s P & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non- consolidation of a subsidiary.

Q119. MNC Ltd., India is subsidiary of MNC Inc., US. LLP & Associates has been appointed by MNC Ltd. For audit of statutory financial statements. MNP & Associates has been appointed as the auditors of the Reporting package of MNC Ltd. prepared for the year ended 31 March which is required for consolidation purposes. MNP & Associates are also the tax auditors of MNC Ltd. What should be format for reporting of MNP & Associates on Form 3CD of MNC Ltd.?

A) MNC Ltd. should report as per the internal formats of the firm.
B) MNC Ltd. should report as per the formats issued as per ICDS
C) MNC Ltd. should report as per Form 3CB.
D) MNC Ltd. should report as per Form 3 CA.

Q120. A Public Limited Company is having its Head Office at Mumbai and the employees from various branch offices used to visit Mumbai for official meetings. So, the company decided to construct guest house for their employees staying in Mumbai, as the stay in hotel was very expensive. The management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations. The building was ready for use by the year 2015 on which a total expenditure of 5 Crores was done, but it was not used by the employees and they continued to stay in hotel. From the financial 2015-16 onwards the expenses were booked in company's profit and loss account for the upkeep and maintenance of the building and the hotel charges paid for the stay of employees. Company was having a separate internal audit department but one of the director demanded propriety audit to ensure compliance with section 186 of the Companies Act, 2013 and ensure that the transactions represented by books are prejudicial to the interests of the company. Do you think that there is any need for propriety audit?

A) Propriety audit is not required when the company is already having a separate internal audit department and these areas can be covered in the scope of internal auditors.
B) The director has no right to demand propriety audit, as in the case of Public Limited Company only, Government is authorized to decide on whether a propriety audit is required or not.
C) Propriety audit is concerned with the scrutiny of executive decisions and actions affecting the company's financial and profit & loss situation. So, in the above case it is required as huge expense has been done on construction of building and even then it was not used, which had a major impact on company's profit and loss statement.
D) There is no need of propriety audit as the management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations.

Q121. FAC Chartered Accountants was appointed as statutory auditors by KMG Ltd. For audit of their financial statements. During the course of audit, auditors noticed fraud of 120 lakhs done by an officer of the company. The officer sanctioned and made the payment to fake vendors for purchase of fixed assets, however assets were not entered in the Fixed Assets Register. The auditor reported the fraud in his audit report to the shareholders of the company presented in the Annual General Meeting, but did not mentioned the name of the parties involved. Board of company asked ICAI to take necessary action against the auditor as he has not complied with his duty to report fraud as per 143(12) of Co. Act, 2013. What is the duty of the auditor as per Co. Act 2013 in reporting the fraud done by officers or employees of the company?

A) As per Companies Act, 2013, as amount of fraud is more than 100 lacs; auditor should have reported the matter within 2 days of his knowledge to Board of Directors/ Audit committee of the company seeking their reply or observations within 45 days. After completion of 45 Days auditor should forward his report to CG along with reply if any received from Board/ Audit Committee.

B) As per Companies Act, in the course of audit if the auditor has reason to believe that fraud has been conducted by the officers or employees of the company, the auditor report matter to CG immediately.

C) The auditor's duty is restricted to reporting the fraud to shareholders and he is not required to report the matter to Board of Directors/ Audit Committee/ Central Government.

D) The auditor can submit his report on fraud to shareholders but is required to mention the name of the parties involved in fraud, as per Section 143(12) of the Companies Act, 2013.

Q122. P & Associates were the statutory auditors of I & Co for last 2 years. In the current year, one of the partners Mr. P, a qualified chartered accountant from ICAI also got qualified as chartered management accountant from a foreign accountancy body CIMA. The management of I & Co were glad to hear this and offered Mr. A to handle the management services of the company from this year. Is he allowed take up this assignment for I & Co as per the Chartered Accountants Act 1949 and Schedules thereunder?

A) Yes, being a qualified management accountant within their group, P & Associates should take this assignment.

B) Yes, Mr. A can cover the management services & another auditor from firm can cover statutory audit of I & Co.

C) No, the management services cannot be provided by the firm, who currently is statutory auditor of I & Co.

D) No, Mr. A is newly qualified management accountant who does not have enough experience, hence should not take up the management services assignment.

Q123. One afternoon in the first week of June 2018, there was a heated discussion between the audit engagement partner of Shah & associates and the finance director of Pecker & Co. The discussion was mainly on non-co-operation of the company staff to provide the relevant information to the auditors. The staff thought that the auditors were a hindrance in their routine work. The finance director called urgent meeting to discuss the removal of the auditor Shah & Associates. Within the next week the partner of Shah & Associates was called and informed that they are no more the auditors of Pecker & Co. Comment if the removal of the auditor was proper in accordance with the Companies Act, 2013.

A) Yes, the finance director was correct in the procedure of the removal of auditors by a simple board meeting discussion.

B) No, the removal of auditors before the expiry of the term should be done with the prior permission from the Central Government.

C) Once appointed, the board of directors cannot remove the present auditors of the company.

D) Yes, Pecker & Co is not a government company, hence the board of directors can remove the auditors by themselves.

Q124. Garg Ltd. has declared dividend of 9% on 15 April 2018, for the year ended 31 March 2018. The company has not paid or the warrant in respect thereof has not been posted till date 30 June 2018 to any shareholder whose is entitled to the payment of the dividend. Which of following is correct in respect of the effect of non-payment of dividend?

A) Garg Ltd. liable to pay simple interest of 15% p.a. during the period for which the default continues.
B) Garg Ltd. liable to pay simple interest of 18% p.a. during the period for which the default continues.
C) Garg Ltd. can still make the payment of dividend by 31 July 2018, with no interest applicable.
D) Garg Ltd. can still make the payment of dividend by 15 July 2018, with no interest applicable.

Q125. TSV & Co, Chartered Accountants is an audit firm having two partners CA T and CA V. The firm TSV & Co. is already holding an appointment as auditors of 36 public companies and none of the partners hold any company audits in their personal capacity or as partners with another firm. TSV & Co. has been offered the appointment as auditors of 7 more private limited companies.
Of the seven, one is a company with a paid up share capital of 150 crores, five are "Small Companies" as per Companies Act and one is a "Dormant Company". Determine the number of companies out of 7 for which TSV & Co. can accept appointment as an auditor.

A) 5
B) 6
C) 7
D) 1

Q126. Your firm has been appointed statutory auditor by a Nationalized Bank for the year 2017-18. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2018. While verification you observed that one of the accounts was regularized on 28th March 2018, for which the interest and instalment amount was overdue from the quarter ending 30th September 2017.
The account was regularized after the repayment of overdue interest and instalment amounts was done on 26th March 2018. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank. As a statutory auditor will you agree with the Bank's policy?

A) As the interest charged in the account was overdue for more than 90 days from end of quarter, it be classified as NPA and be considered as sub-standard asset for balance sheet as on 31st March 2018.
B) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA.
C) The auditor should not agree with the Bank's policy to regularize the account before balance sheet date as overdue interest indicates more than normal risk attached to the business.
D) Bank can regularize account before balance sheet date but should ensure that amount paid through genuine resources and not by sanction of additional facilities & account remains in order subsequently.

Q127. BC Ltd. is the business of manpower consulting. The company has a huge cash and bank balance including fixed deposits with banks. During the course of audit of the financial statements of the company for the year ended 31 March 2017, auditors circulated independent bank balance confirmations. The auditors received all the balance (covering fixed deposits) confirmations independently. Auditors observed that the fixed deposits balances as per the independent balance confirmation did not match with the books balances in some cases. Management produced the fixed deposit certificates to the auditors wherein the balances of fixed assets matched with the balances as per the books. How should the auditor deal with this matter?

A) Auditor should qualify the audit report in respect of differences in book balances of fixed deposits vis a vis independent balance confirmations.

B) Auditor should consider fixed deposit certificates produced by management and basis that any differences in book balances of fixed deposits vis a vis independent balance confirmations be ignored.

C) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should obtain balance confirmations again.

D) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.

Q128. SBC Private Limited appointed Mr. Vijay, Chartered Accountant as auditor of the company for the year 2017-18. While verifying the accounts Mr. Vijay noticed that the company has neither made any provision for accrued gratuity liability nor obtained the actuarial valuation thereon. Mr. Vijay obtained the actuarial valuation and includes the matter in his Audit Report to Company's BODs mentioning the amount of accrued liability not provided for. The Board agreed with the auditor's observation and the amount of liability quantified by him. But the auditor didn't disclose the same in his audit report to Member's. One of the members raised an objection on the audit report stating that it does not represent a true and fair view as even though the company has not maintained proper books of accounts as per accounting standards, the auditor has not qualified his report. Whether the auditor is required to give a qualified opinion in his report to members on non-provision of gratuity in company's accounts when the same has already been included in the report to Company's Board of Directors?

A) As the auditor has already disclosed matter of non-provisioning in his report to Company's Board of Directors, there is no need to disclose the same in report to Member's u/s 143 of the Co Act, 2013.

B) Non-provisioning for accruing gratuity is in contravention to applicable AS-15, therefore auditor should qualify his report to members through a para on failure of Mgt. to quantify amount of liability.

C) The auditor should revise the accounts as per actuarial valuation obtained by him & revised accounts only be presented before BODs and Members. The auditor is not required to qualify his report.

D) U/s 143 of the Companies Act, 2013, the auditor should qualify his report to members only when the matter reported by the auditor is answered in the negative or with a qualification by Board. In the above case the board agreed with the auditor's observation so he need not qualify his report.

Q129. A Ltd. is an unlisted company in business of real estate following AS recognizes revenue on the basis of percentage completion as per AS 7. Company has various residential and commercial projects at different locations for which separate profitability statements are prepared by the Mgt. Profitability statements are based on estimated costs of projects. While reviewing profitability statements, statutory auditors observed that the profitability of projects have been fluctuating significantly year on year and prime reason for that is change in estimated costs. As per auditors, frequent changes are made by Mgt. in estimated costs to increase the percentage completion and through which revenue and profit numbers are manipulated. The auditors are not satisfied with profitability statements of 2 major projects which account for 50% of the total turnover of company. Mgt. tried to explain auditors saying that the changes would happen because of dynamics of industry which have been changing significantly and are unfavorable to industry as a whole. All of this is leading to changes in estimated costs. How auditors deal with this matter?

A) Management's view seems reasonable. Estimated costs are only estimates which are subject to changes and hence the auditors should drop this matter.

B) The auditors view seems reasonable and if Mgt. does not agree, the auditors to issue qualified report.

C) The auditors should consider the impact of the adjustment on the financial statements and if the impact is pervasive, the auditor should issue adverse opinion.

D) The auditors should consider impact of adjustment on financial statements and may take adjustment to unadjusted entry in the management representation letter and basis that issue a clean report.

Q130. OPP & Co LLP is the statutory auditor of ABBA Private Limited. The company has annual turnover of INR 1000 crores and profits of INR 250 crores. The company is planning to get listed next year. The company appointed OPP & CO LLP as new auditors to have a fresh look on their financial systems so that the financial reporting can be improved wherever required. During the course of audit, the auditors have been facing lot of challenges to obtain sufficient appropriate audit evidence and have discussed the same with the management. Now auditors are determining implications. Please suggest which of following should not be implication in respect of this matter.

A) If auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion.

B) If auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of opinion would be inadequate to communicate the gravity of situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation.

C) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of opinion would be inadequate to communicate the gravity of situation, auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

D) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of situation, auditor shall withdraw from audit, where practicable and possible under applicable law or regulation. If withdrawal from audit before issuing auditor's report is not practicable or possible, report the matter to Registrar of Companies.

Q131. Yellow Steels Ltd. was engaged in the business of manufacturing and selling steel products. The company was having sales offices at different locations in and outside India. The company decided to have a sales office at Kanpur on their own land. A Managing Committee of some officers from the company was formed in order to get a building constructed at land in Kanpur. Budget of Rs.35 crores was approved by company for the same and it was proposed to complete the construction within two years. 32 Crores were already released by the company in year of start of the project and the managing committee raised a demand for 5 Crores for further payments to vendors. The management of Yellow Steels wants to get the verification done of all the expenses incurred on site and identify the reasons for increase in construction cost. Which of the following will suffice the purpose of management?

A) The management should go for operational audit, as it will evaluate effectiveness, efficiency and economy of operations done at the construction site.

B) The management should get a Forensic Audit done in order to rule out any possibility of fraud or any other financial crime.

C) Financial Due Diligence is required to be done as no fraud has been reported and the management just want to analyze books of accounts and other financial matters pertaining to financial matters at site.

D) A management audit should be done to ensure that increase in cost of construction is not due to any discrepancies in the formulation of objectives, plans and policies of the top management.

Q132. APP Ltd. is listed on National Stock Exchange in India. Post audit rotation, KYP & Co LLP have been appointed as the statutory auditors of APP Ltd. The company has a pending Litigation in respect of service tax matter which has been going on for long time now and exposure of company towards that litigation is very significant. The new auditors got the exposure of this case evaluated by involving their in-house tax experts who have shared a view that the exposure of the company would be medium. As per the requirements of accounting standards, medium exposure would be considered as a possible impact for which probability is 50%. The company has been disclosing this as a contingent liability in the previous years. However, the new auditors are of the view that this is a significant matter that requires user's attention by disclosing this in the financial statements and it is of such importance that it is fundamental to user's understanding of financial statements. Further there is a material uncertainty in respect of this matter (i.e. demand raised by service tax department). Basis this, auditors want to include Emphasis of matter (EOM) in their report. Management is of the view that since this was not reported by previous auditors as EOM, hence it should not be included by new auditors also and also being a listed company, it is not appropriate to include EOM in first year of audit by a new firm. Please suggest which of the following is correct.

A) EOM should be included by new auditors.

B) EOM should not be included by new auditors if the previous auditors have not given that.

C) EOM should not be given, however, there should be a disclosure of this matter in financial statements and also fact that auditors are in the first year of audit and this matter would require detailed evaluation.

D) Auditors should quality the report instead of EOM.

Q133. NT 22 Group is a large group comprising of 22 subsidiary companies, 14 associate companies and 19 joint ventures. NT Ltd. is the holding company which is also listed on Bombay Stock Exchange and New York Stock Exchange. Group prepares its consolidated financial statements every quarter for various reporting requirements – SEBI (Stock and Exchange Board of India), Stock Exchanges, Registrar of Companies in India and others.
Turnover of Group is INR 15,000 crores and many of its components have significant operations at standalone level. The Group is audited by one audit firm, S & Co LLP. For purpose of group audit of current year, the auditors have considered to perform testing of journal entries across the group to address the significant risk, however, the auditors are facing challenges to perform this audit procedure across the group because of the volume and limitation of resources. Please suggest correct options.

A) Group auditors have a choice to test journal entries of components backed up by auditing standards.
B) Group auditors must test journal entries of all components
C) Group auditors need not test journal entries of components requiring analytical response at group level
D) Group auditors need not test journal entries of components scoped with comprehensive approach.

Q134. Raj is appointed as internal auditor for a finance company with 15 branches across the states. He needs to conduct a branch visit in the coming week. Based on management inputs and past year audit reports, he has shortlisted four branches. Raj is not able to decide which branch visit he should prioritize as an internal auditor. Based on the branch information given below, which branch out of S, C, R, L should Raj visit first?

A) S – 15 people;2 instances of fraud in last year; regional manager is present in branch for supervision
B) C– 12 people; no fraud, no visit by internal auditor in last two years due to set processes
C) R – 18 people; no fraud, 6 of 20 employees are new joiners in last 6 months; newly opened branch
D) L –10 people; 1 fraud in last year, all 10 are long term employees; no audit visited in last year

Q135. Don't Pay for Fun (DPF)' is a start-up who is trying to get funding from investors. One of investors has expressed interest in looking at the investment proposal but has insisted that proposal also contain DPF's financial statements which are audited by independent auditor. DPF engages CA Abhishek to conduct an independent audit and Abhishek issues an engagement letter for the independent audit to the owner of DPF which is duly acknowledged.
DPF while finalizing financial statements is facing some difficulties so its owner requests Abhishek to provide advice as it needs to furnish the proposal to the investor fast. Since Abhishek is already engaged in audit of transactions, he assists DPF's accounting officer and the financial statements are finalized. Abhishek also completes the audit and presents the audit report which is provided to investor. Has condition set by the investor been fulfilled?

A) No, the investor had asked for independent audit.
B) Yes, as audit report issued after proper audit engagement letter & also examine of books of account
C) No, as CA Abhishek did not change terms of engagement to include advice part with independent audit. For his audit report to be independent, he should have charged separate fees for the advice.

D) Yes, DPF has hired a qualified CA to conduct the audit. Not only there is no evidence to suggest that the auditor allowed any misrepresentation, but auditor himself advised DPF in finalizing the financial statements which speaks highly of the quality of financial statements.

Q136. The auditor has determined that there is a significant going concern uncertainty at PQR Ltd. due to requirement to refinance company's debt. Discussions with Mgt. and auditor's evaluation of management's plans for future actions in relation to its going concern assessment have revealed that plans to raise new equity finance are realistic and likely to deal with problem. Is it appropriate for PQR Ltd. to prepare its financial statements on a going concern basis?

A) No, PQR Ltd. cannot prepare its financial statements on going concern as significant uncertainty exists.

B) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, auditor is required to express a qualified opinion.

C) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. No additional disclosure is necessary in the financial statements or the auditor's report.

D) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, disclosure of both the nature of the uncertainty and management's plan is required.

"SOLUTIONS"

(1 – 50, 51 – 70, 81 – 100 = SAMPLE MCQs; 71 – 80 = RTP; 101 – 136 = MTPs)

SN.	Answer	SN.	Answer	SN.	Answer	SN.	Answer
1.	B	35.	B	69.	C	103.	B
2.	D	36.	A	70.	C	104.	B
3.	A	37.	A	71.	C	105.	A
4.	B	38.	A	72.	D	106.	B
5.	B	39.	D	73.	B	107.	C
6.	B	40.	A	74.	C	108.	C
7.	D	41.	C	75.	A	109.	A
8.	C	42.	A**	76.	B	110.	B
9.	D	43.	C	77.	C	111.	D
10.	D	44.	A	78.	C	112.	D
11.	B	45.	B	79.	B	113.	C
12.	D	46.	C	80.	C	114.	D
13.	C	47.	B	81.	C	115.	C
14.	A	48.	B	82.	C	116.	C
15.	C	49.	C	83.	B	117.	A
16.	D	50.	C	84.	C	118.	C
17.	A	51.	A	85.	B	119.	D
18.	B	52.	B	86.	C	120.	C
19.	C	53.	B	87.	A	121.	A
20.	A	54.	D	88.	C	122.	C
21.	D	55.	D**	89.	A	123.	B
22.	A	56.	B	90.	B	124.	B
23.	B	57.	A	91.	D	125.	C
24.	A	58.	B	92.	A	126.	D
25.	D	59.	C	93.	B	127.	D
26.	C	60.	A	94.	D	128.	D
27.	A	61.	B	95.	D	129.	C
28.	A	62.	C	96.	B	130.	D
29.	C	63.	B	97.	A	131.	C
30.	B	64.	C	98.	D	132.	A
31.	C	65.	B	99.	B	133.	C
32.	A	66.	C	100.	C	134.	D
33.	D	67.	D	101.	C	135.	A
34.	C	68.	A	102.	D	136.	D

** = CORRECTED (Also some Repeated Questions were noticed that are now removed)

SN.	Answer	ICAI provided Reasons for some of above MCQs as below
71	C	All the partners can collectively sign 600 Tax Audit reports
73	B	Mgt. should reinstate the financials to adjust the error. Otherwise auditor may modify his opinion on current yr. financial statements considering materiality
74	C	Mgt. should reinstate financials to adjust error related to consolidation of Joint ventures in standalone financial statements. Otherwise auditor may modify his opinion on current year's financial statements considering materiality.
75	A	Position taken by Mgt. is correct
76	B	Considering this as a statutory non- compliance, auditor should look at significance of the matter & accordingly should consider reporting this in main report along with CARO
77	C	Check physical inventory of "A" class items with certain "B" class items & certain "C" class items on sample basis in value wise descending order, compare physical stock with ERP & tabulate result. Exercise be continued till end of allotted 8 hrs.
78	C	Turnover of ABC Pvt. Ltd is below required threshold but loan amt. was above required threshold. Irrespective of the fact that loan was outstanding as t 31st March or not IFC apply
i79	B	Qualification & experience, courage to report facts, clear understanding of org. structure & working enviro., understanding purpose for which audit is conducted, healthy relation with staff of dpt. That's functioning has to be audited & with top mgt. & analytical skills.
80	C	As per bank norms, drawing power need to be determined by Stock statement & it was > 3months old as on 31.3.7 so outstanding in account will be deemed as irregular.
101	C	Entity's revenue for year is Rs.10.5 Cr which exceed limit of Rs.10 Cr. Hence, entity has to provide comment on matter prescribed under CARO 2016.
102	D	As internal auditor, report matter in Internal Audit Report and check for the compliance of the same in the next audit period.
103	B	Auditor to verify composition of Board & examine its impact on compliance throughout reporting period as part of certifying compliance with requirements of corporate governance.
104	B	Mr. B is a labor contractor managing construction services and his turnover for 31 March 2018 was Rs.3.95 crores.
109	A	Not available to depositors of NBFCs
110	B	As per Government notification issued in 1984 member of stock exchange is considered active for audit if he has conducted business in securities even for a single day in year & shall get its accounts audited if it is required by SEBI.
111	D	EFY & Co.'s claim is void as the ceiling of 20 company audits doesn't include audit of private company having paid up capital less than 100 crores.
112	D	No adjustment is required as there can be different methods of calculation of depreciation for its assets for the group companies.
113	C	Auditor should first understand the HR Policy of company. Then verify all authorized vouchers for overtime payments done during the year; verify the payroll preparation and reconcile the gross pay in terms of increments/ promotions & resignations; verify the appointments made during the year as per HR Policy and payments made to agencies providing contractual staff.
114	D	Auditor should get the accounts modified and report the matter in action taken report.
115	C	The auditor should verify that whether such cash receipts reflects in bank statement on same day and cash ledger reconciles with the cash book on the respective dates or not. If it is followed then auditor can include the matter in observation paragraph with his comments else disclose the matter as major internal control lapse.
116	C	Acceptable but incomplete. CA Mahesh not gave audit program to audit assistant to follow.
117	A	Maintaining a register of significant transactions of the company with comparison to particular industry and a record of complaints.
118	C	Include major suppliers with nil balances at the year-end.

"MCQ Questions – RTP NOV 19"

Q137. RBJ Ltd. is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is 40,000 crores with profits of 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. Outside India, the company is focusing more on US and European markets and the company has been able to establish its good reputation in these markets as well.

During the course of the audit, the audit team spends significant time on audit of revenue– be it planning, execution or conclusion. The audit team for this engagement is generally very big i.e. a team of approx. 70-80 members. The company's contracts with its various customers are quite complicated and different. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner.

After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein he also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management was quite surprised to understand this from the auditor and did not agree with revenue recognition to be shown as key audit matter in the audit report. As per the management, the auditors didn't have any modification and such a matter getting reported as key audit matter would not go down well with various stakeholders and would significantly impact the financial positions of the company in the market. The auditors were not able to convince the management in respect of this point and there was a difference of opinion.

You are requested to give your view in respect of this matter.?

A) The concern of the management is valid. For such a large sized company, such type of matter getting reported as key audit matter is not appropriate.

B) The assessment of the auditor is valid. Such a matter qualifies to be a key audit matter and hence should be reported accordingly by the auditor in his audit report.

C) Reporting revenue as key audit matter when auditor does not have observation in that area leading to any modification in his report, would not be appropriate.

D) This being the first year of reporting of key audit matters, the auditor should take a soft stand and should avoid reporting such controversial matters in his report BDJ.

Q138. Ltd. is engaged in the business of providing management consultancy services and have been in operation for the last 15 years. The company's financial reporting process is very good and its statutory auditors always issued clean report on the audit of the financial statements of the company. The auditors were required to be rotated due to mandatory audit rotation requirement of the Companies Act 2013. RNJ & Associates, a firm of Chartered Accountants, was appointed as new auditor of company for a term of 5 years and have to start their first audit for financial year ended 31 March 2019.

The auditors had a detailed and clear discussion with the management that they will perform their audit procedures in respect of opening balances along with the audit procedures for the financial year ended 31 March 2019.

Management agreed with that and the audit was completed as per the plan. The auditors did not have any significant observations and hence they communicated to the management that their report will be clean. Management was quite happy with this and also requested the auditors to share draft report before issuing the final report.
In the draft audit report, all the particulars were fine except 'other matters paragraph' wherein the auditors gave a reference that the financial statements for the comparative year ended 31 March 2018 was audited by another auditor. Management asked the audit team to remove this paragraph as the auditors had performed all the audit procedures on opening balances also. But the auditors did not agree with the management.
Please advise the auditor or the management whoever is incorrect with the right guidance.?

A) The contention of the management is valid. After performing all audit procedures, an auditor should not pass on the responsibility to another auditor by including such references in his audit report.

B) Any auditor has two options, either to perform audit procedures on opening balances or given such reference of another auditor in his report. Auditor can't mix up things like this auditor has done. It is completely unprofessional.

C) In the given situation even if the auditor wants to give such reference, the management and the auditor should have taken approval from previous auditor at the time of appointment of new auditor. In this case, it cannot be done.

D) The report of the auditor is absolutely correct and is in line with the auditing standards. An auditor is required to include such reference in his report as per requirements of the auditing standard.

Q139. KJ Private Ltd. is engaged in the business of e-commerce wherein most of the operation are automated. The company has SAP at its ERP package and is planning to upgrade the SAP version. Currently, the version of SAP being used is fine but the higher version would lead to increased efficiencies and hence the company is considering this plan which will also involve a huge outlay. KPP & Associates, were appointed as the statutory auditors of this company for the year ended 31 March 2019 and the statutory audit firm has been working in this industry for long but most of the work which the firm did was more of risk advisory or internal audit.
For the first time, this audit will be conducted and that's why the audit team started obtaining understanding of the operations of the company which included understanding of the SAP system of the company. However, the management of the company was not comfortable with this approach of the audit team particularly because audit team was spending good time on understanding of the IT systems of the company. The management suggested that the auditors should limit their understanding and should perform audit procedures rather than getting into business/ operations. But the auditors have a different view on this matter and because of which work has got stuck.
In the given situation, please suggest what should be the course of action.?

A) The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate.

B) The management's concern regarding the approach of the auditors seems reasonable. The auditors are spending time on understanding of systems/ business and not performing their audit procedures.

C) This being a private company and that too into the business of e-commerce, the auditors should have knowledge about the operations of the company through their understanding of the industry and hence should not get into this process of obtaining detailed understanding at the client place.

D) Audit team could have planned their work differently. They should involve IT expert who would have knowledge of system of company & hence lot of time can be saved. Further in case of such type of industry, involvement of IT Experts is anyways required mandatorily as per legal requirements.

Q140. Y Ltd. is a non-banking financial company other than NIDHI company and is covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". The NBFC has been in existence for the last 11 years and its operations are considerable in size having a net worth of 299 crores. NBFC has new statutory auditors for the financial year ended 31 March 2019. The audit report (including CARO) of the NBFC was clean for the financial year ended 31 March 2018. The company had a planning discussion with the auditors of the company for the financial year ended 31 March 2019 who raised a point regarding the applicability of new set of accounting standards, Indian Accounting Standards (IND AS), on the NBFC for the financial year ended 31 March 2019 and have asked the management to ensure that its financial statements should be according to that. This comes as a big surprise to mgt. who had assessed that IND AS would not be applicable to this NBFC because of the fact that CARO is applicable on this NBFC. There is a big disconnect on this matter between the auditor and the management. Please help by resolving this matter.?

A) Both the management and statutory auditors are not correct because IND AS is not applicable to any NBFC covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016".

B) Management is correct because IND AS is only applicable to NBFC which are also a NIDHI company. In this case, CARO being applicable IND AS cannot apply to this NBFC.

C) If the management does not agree with the view of statutory auditor, then they should give adverse opinion in their report and also report this to RBI.

D) IND AS would not be applicable for financial year ended 31 March 2019 and hence view of statutory auditors is not correct.

Q141. K & a group of persons subscribed to shares of JNN Ltd. JNN Ltd. had issued a prospectus for issuance of shares against which these persons had subscribed shares. It was later on found that some information as included in the prospectus was misleading. These persons filed a case against the company covering all the parties who were responsible for the prospectus on the ground that the information contained in Prospectus was misleading and they suffered losses by relying on that information. The company consulted this matter with its legal consultants in respect of the course of action to be taken and also consulted that if the outcome of the case goes against the company then which all parties may be held liable and what could be the other consequences. The prospectus included auditor's report who had also given his clearance. Some of the experts were also involved in respect of the information on which the litigation was filed. Subsequently, it was proved that contention of K and those persons was correct. It was held that the directors, promoters of company and experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage.

The auditors of the company were also asked to make good the losses but they refused with an argument that it is limited to directors, promoters and experts.
In this context, please suggest which of the following statement is correct.?

A) The argument of the auditors is valid. As per the final outcome of the litigation the auditors were not held liable. However, on moral grounds the auditors should contribute towards the losses suffered by any person.
B) The argument of the auditors is valid. Since the final outcome of the litigation didn't hold them liable, they cannot be asked to contribute towards the losses suffered by any person.
C) The argument of the auditors is not valid. The final outcome of litigation covers the experts and hence the auditors also get covered to contribute towards the losses suffered by the persons.
D) The outcome of the litigation seems to be completely wrong. The directors and experts were held liable but along with that statutory auditors, internal auditors, tax auditors, Company Secretary, tax consultants and the legal advisors should also have been held liable. Further the promoters cannot be held liable in such matters.

Q142. The audit of Selby & Co is at the last stage, where your team member is looking at the presentation of items in the financial statements. You have instructed the team member to follow the general instructions given under Schedule III of the Companies Act, 2013 for the preparation and presentation of financial statements. The team member has shown you the following list where the company has not adhered to the general instructions given in Schedule III. Which of the following from the list is not as per Schedule III?

A) The company had 32,500 in deferred tax liability & 12,500 in deferred tax asset. Financial statements include both the above figures at non-current liabilities and non-current assets respectively.
B) The company had a loss in the current year, this debit balance of statement of profit and loss was shown as a negative figure under the head "Surplus" in the notes to the financial statements.
C) In the current year the company had issued a performance guarantee and counter guarantees, but these were not disclosed as contingent liability in the notes in the financial statements.
D) The company has clubbed all other expenses under the head 'Other expenses on the basis of one percent of the revenue from operations or 1,00,000 whichever is higher to be disclosed separately

Q143. VKPL & Associates, a firm of Chartered Accountants, have been operating for the last 5 years having its office in Gurgaon. The firm has staff of around 25 persons with 3 Partners.
Firm has been offering statutory audit, risk advisory and tax services to its various clients. Major work of the firm is for taxation services. Audit partners also discussed that the firm needs to work significantly to improve quality of services they offer and that would also help the firm to grown its business. Considering this objective, the firm started training program for the staff which were made mandatory to be attended. During one of the training program on quality, a topic was discussed regarding the information that should be obtained by firm before accepting engagement with new client, when deciding whether to continue existing engagement, and when considering acceptance of a new engagement with existing client. It was explained that following points may assist engagement partner in determining whether conclusions reached regarding acceptance and continuance of client relationships & audit engagements are appropriate (as per SA 220): -

(i) Integrity of principal owners, key management and those charged with governance of the entity
(ii) Qualification of all the employees of the entity
(iii) Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources
(iv) Remuneration offered by the entity to its various consultants
(v) Whether the firm and the engagement team can comply with relevant ethical requirements
(vi) Significant matters that have arisen during the current or previous audit engagement and their implications for continuing the relationship.
We would like to understand from you which of the above mentioned points are relevant for the topic under discussion or not??

A) i, ii, iv and v.
B) ii, iv, v and vi.
C) iii, iv, v and vi.
D) i, iii, v and vi.

Q144. AOP Pvt. Ltd. is currently engaged in closing its books of accounts for the financial year ended 31 March 2019. Company has always been a compliance-savvy and has also engaged consultants for the same. Business of company has been stable over the years and profitability has been good over the last 3 years. Company got registered for GST on time. Since registration company has been filing statement of returns in GSTR 3B. Annual Return in GSTR 9 not been filed. Proper Officer issued a notice for failure to file Annual Return within 15 days. Even then, no Annual Return was filed by the company within the time permitted. Please advise.?

A) In such a case, the company becomes a 'non-filer'.
B) In such a case, the company would remain fully compliant.
C) The Proper Officer would be required to discuss this matter with the GST auditors of company.
D) GST auditor may resign in this situation.

Q145. NIC Pvt. Ltd. is a large private company engaged in the business of insurance for the last 9 years. Company has expanded its business considerably over years and have set up various divisions across India. The accounting and the operational systems of the company are centralized wherein the accounts of all the divisions, trial balances and their balance sheets are prepared by the Head Office. AJ & Co, a firm of CAs, are statutory auditors of this company and audit all the divisions and the head office. The auditors have completed the audit of the financial statements of the company for year ended 31 March 2019 and company's financial statements are approved. Before the annual general meeting of the company, company received a notice from IRDAI which has asked the company to respond within 7 days as to why this company breached the requirement of IRDAI guidelines by having a single auditor for all the divisions and head office. Management of the company has been doing this over the years and were never aware of this requirement. To respond to this, the management has consulted many legal experts and also the auditors. They would also like to understand your views as to how to respond to IRDAI in this critical situation. Please advise carefully.?

A) There has been no breach of IRDAI guidelines and accordingly the management should respond.
B) The management should request IRDAI to consider relaxation in respect of this provision for the company for the current year as audit is completed and it would be practically very difficult to complete entire process within required timelines.
C) The management should respond to IRDAI that this provision is applicable to a company only after 15 years of its existence and hence there is no breach of IRDAI guidelines.
D) The management should respond to IRDAI that this provision should have been ensured by the auditors and hence they should be held liable for this breach of provision of the IRDAI guidelines.

Q146. S & Co LLP is large firm of Chartered Accountants based out of Delhi-NCR. During the financial year ended 31 March 2019, firm S & Co LLP got intimation for the peer review on 1 July 2018. The process of peer review got started and completed on 15 September 2018 which included the on-site review from 1 August 2018 to 16 August 2018. S & Co LLP objected to the time taken by Peer Reviewer on-site, however, as per Peer Reviewer, the entire review process got completed within 90 days from date of notifying the firm about its selection for review.?

A) The time for complete review should be completed within 120 days.
B) The time for on-site review should not have extended beyond 10 working days.
C) The time for complete review should be completed within 60 days.
D) The time for on-site review should not have extended beyond 7 working days

"SOLUTIONS"

137	**B**	The assessment of the auditor is valid. Such a matter qualifies to be a key audit matter and hence should be reported accordingly by the auditor in his audit report.
138	**D**	Report of auditor is absolutely correct & in line with auditing standards. Auditor is required to include such reference in his report as per requirements of SAs
139	**A**	The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate.
140	**D**	IND AS would not be applicable for financial year ended 31 March 2019 and hence the view of statutory auditors is not correct.
141	**C**	Argument of auditors is not valid. Final outcome of litigation covers experts and hence auditors also get covered to contribute towards losses suffered by the persons.
142	**A**	Company had 32,500 in deferred tax liability & 12,500 in deferred tax asset. Financial statements include both above figures at non-current liabilities and non-current assets respectively.
143	**D**	I, III, V & VI.
144	**A**	In such a case, the company becomes a 'non-filer'.
145	**A**	No breach of IRDAI guidelines and accordingly the management should respond.
146	**D**	The time for on-site review should not have extended beyond 7 working days.

"ARTICLESHIP - SAMPLE MCQS"

"For Additional Reference & Practice"

Q 1. Your firm is the internal auditor of XYZ Ltd. In the Financial year 2018−19, you are a part of the audit team for carrying out the internal audit of the purchase department for the quarter ending 30.06.2018. You have started the internal audit of the said department and while scrutinizing purchase orders you came across some cases where material was ordered and received as per the requirement of the user department according to the delivery by date mentioned in P.O, however the same was consumed by the indenting department after a long time gap ranging even more than 500 days. More than 150 cases were observed by you where time gap between 'Required by Date' and 'consumption date' was more than 100 days. The department has explained to you that most of the indents are raised with notional 'Required by Date'. Whether the said observation is required to be reported in the internal audit report? If yes, how will you report the same?

A) Yes, the cases of time gap between 'Required by Date' and 'consumption date' should be reported in the internal audit report as this shows that material was not actually required by User department for such a long time, still delivery was asked earlier. Such approach of user department may result in unnecessary blockage of company's funds.

B) No, the cases of time gap between 'Required by Date' and 'consumption date' should not be reported in the internal audit report as consumption of material depends upon many factors such as breakdown maintenance, planned shutdowns etc.

C) No, the cases of time gap between 'Required by Date' and 'consumption date' should not be reported in the internal audit report as most of the indents are raised with notional 'Required by Date' due to which the time gap between 'Required by Date' and 'consumption date' becomes obvious.

D) Both (b) and (c).

Q 2. You are conducting an internal audit of the Finance and Accounts Department of PQR Ltd. While carrying out the audit procedure, you have been instructed by your senior to obtain evidence regarding proper segregation of duties for receiving and depositing cash in the bank account by the available personnel. Evidence concerning the proper segregation of duties for receiving and depositing cash in the bank account ordinarily is obtained by: -

A) Completing an internal control questionnaire that describes the control activities.

B) Observing the employees who are performing the control activities.

C) Performing substantive tests to verify the details of the bank balance.

D) Preparing a flow chart of the duties performed and the entity's available personnel.

Q 3. For the quarter ending 30.06.2018, you are a part of the audit team which has been assigned the internal audit of Fixed Assets. You have been informed by one of the employees that in the month of May, 2018, there was a theft of an asset. Now, while examining the Journal entries and Ledger accounts in relation to fixed assets, you came across various kinds of fraudulent entries. Which of following fraudulent entries is most likely to be made to conceal the theft of an asset??

A) Debit the asset, and credit another asset account.
B) Debit revenue, and credit the asset.
C) Debit another asset account, and credit the asset.
D) Debit expenses, and credit the asset.

Q 4. Which is true regarding audit work paper documentation for a fraud investigation?
1.All incriminating evidence should be included in the work papers.
2.All important testimonial evidence should be reviewed to ensure that it provides sufficient basis for the conclusions reached.
3.If interviews are held with a suspected perpetrator, written transcripts or statements should be included in the work papers.

A) 1 and 2 only
B) 1 and 3 only.
C) 2 and 3 only.
D) 1, 2, and 3.

Q 5. ABC Ltd. is engaged in the business of manufacture of traditional Indian clothing/ apparel. The management of ABC Ltd. is planning to enter in the market of manufacturing western apparel due to high demand from the consumers. X is the internal auditor of ABC Ltd. When X was conducting the internal audit of various departments, the management discussed its plan of introducing western apparel under the brand name of the company from the coming financial year. The management is concerned about the costs that are required to be considered and has enquired X to suggest them regarding which of the following costs should be considered while introducing the said new product in the market: -
1. Costs of retraining employees. 2. Costs of acquiring new ancillary equipment.
3. Write−offs due to undepreciated investment in old technology.
4. Capital requirements for changeover.

A) 1 and 3 only.
B) 1, 2, and 4 only
C) 1, 2, 3, and 4.
D) 2, 3, and 4 Only.

Q 6. While carrying out internal audit of Finance and Accounts Department, you have been told by your senior to examine and assure that each voucher is submitted to the Accounts department and is paid only once. While examining the same, you would most likely examine a sample of paid vouchers and determine whether each voucher is?

A) Returned to the vouchers payable department.
B) Stamped "paid" by the check signer.
C) Supported by a vendor's invoice and purchase order.
D) Pre−numbered and accounted for

Q 7. Internal auditor has noted down its observations and findings pertaining to the audit and shared with the management of the Auditee. The management has responded to all requests for corrective action in a timely manner. Which of the following is the next step for the auditor?

A) Close all those findings in which the response is accompanied by adequate objective evidence.
B) Evaluate the adequacy of the responses.
C) Schedule a follow–up audit to verify corrective action.
D) Schedule a follow–up audit for critical items and schedule verification for other routine items at the next scheduled audit.

Q 8. During an internal audit, the client learns that the auditor has recently completed an internal audit of a major competitor. The client then questions the auditor about the competitor's audit results. The best action for the auditor to take is to: -

A) Discuss the results of the audit with the client, only if the competitor agrees
B) Go offline with the client, explain that the question is unethical, and that if the client persists, additional action by the auditor will be taken
C) Explain to the client that it would be inappropriate and unethical to discuss the results of that audit
D) Obtain permission from the competitor to use the results of the audit as examples for future clients, provided that the examples are not specific to business affairs or technical processes

Q 9. During an internal audit of a client, you have observed that there are a high number of production delays caused by equipment breakdown and repair. In Internal audit report, you have to suggest the client best strategy for limiting the said production delays. Which of the following is the best strategy for limiting production delays caused by equipment breakdown and repair?

A) Establish a preventive maintenance program for all production equipment.
B) Schedule production based on capacity planning.
C) Plan maintenance activity based on an analysis of equipment repair work orders.
D) Preauthorize equipment maintenance and overtime pay.

Q 10. You appointed as an internal Auditor of A ltd. While going through financial statements of A Ltd. during carrying out Internal audit, you noticed that company has various pending litigation. Which of the following procedures would you most likely perform regarding litigation?
(i) Confirm directly with the clerk of the court that the client's litigation is properly disclosed.
(ii) Inspect the legal documents in the client's lawyer's possession regarding pending litigation.
(iii) Discuss with mgt. its policies and procedures for identifying and evaluating litigation.
(iv) Confirm the details of pending litigation with the client's legal department.?

A) (i) & (ii)
B) (ii), (iii) & (iv)
C) (iii) & (iv)
D) (i) & (iv).

Q 11. EPP Ltd is listed on New Delhi Stock Exchange. It also has a holding company in US, EPP Inc., listed on New York Stock Exchange. EPP Inc. has a very stringent policy in respect of fraud prevention for which they have detailed FCPA (Foreign Currency Practices Act) policy to be followed across Group. To check No Insider Trading, for EPP Ltd, what could be relevant documents for internal auditor?

A) FCPA manual.
B) Retainer ship contracts.
C) Contracts between EPP Inc. and EPP Ltd.
D) Employee code of conduct.

Q 12. ONZ Ltd is a small sized company and is in the business of retail. Company has a plan for expansion and is looking towards acquisitions for the same. Once the same is achieved, the company may also plan to get listed within/ outside India which has not been finalized as of now. Management will have a strategic discussion in respect of this matters after 4–5 years. Currently the process of internal audit is in–house and there is a separate internal audit department which takes care of this process. During the performance of audit procedure, internal audit team noticed that working–sheets (detail sheets) supporting the payment of ex–gratia were not signed and verified by any of authorized persons. Mgt. explained that ex–gratia payments have got reduced to a very nominal amount and soon it will be discontinued. Please advise the internal auditors.

E) Internal auditor should ignore this considering this is immaterial.
F) Internal auditor should ignore this considering the fact that such transactions are going to be discontinued in future.
G) Internal auditor should report this matter in his final report.
H) Internal auditor has a choice either to report or to ignore considering the matter in the given situation.

Q 13. CPA Ltd is an MNC with great focus on the internal controls. The parent company has its base in Germany. The Group also has an in–house internal audit team which audits the specific areas of the Group companies. Along with this, another firm of internal auditors has also been appointed by CPA Ltd to focus on all the areas. Internal auditors observed few points related to payroll which were also discussed with management which included non–issuance of appointment letters to few employees and no mechanism to capture in–time and out–time of these employees. Management explained that company also has employees some management trainees for 2–3 months to whom appointment letters are not issued, instead a communication is given over the call. Also because these interns are not paid only small amount as stipend there in time and out–time is not recorded. Please suggest as to how internal auditor should deal with this matter?

A) Considering the matter being insignificant as this related to appointment of few interns to whom a small amount is paid as stipend, it should be ignored by the internal auditor.
B) Internal auditor should report the matter related to non–issuance of appointment letter, however, time capturing may be ignored.
C) Internal auditor should ignore the matter related to non–issuance of appointment letter, however, time capturing should be reported
D) Internal auditor should report this matter.

Q 14. BFD Ltd has been newly acquired by a large group based out in UK. The Company was earlier operating in the premises on old Group management on a sharing basis. Post-acquisition the company was required to move to a new location and there was a transition time of 3 months to move all the records of the company to the new location. A new internal audit firm was also appointed for BFD Ltd which was required to start its work after the transition period of 3 months and was required to issue report on a quarterly basis to the new management. This being a new acquisition, the parent company was also quite focused on the internal controls of BFD Ltd.
After the first assigned reporting cycle, the internal auditor could not complete majority of his work. As per the internal auditor reason for same was non−availability of required information. Management of BFD Ltd explained that the transition process has been taking long due to which most of the information was not available. How should this matter be dealt by internal auditors???

A) Internal auditors should discuss revised time plan with management & basis that approach him work.
B) Internal auditors should complete the work on the basis of information available. Any left-over item should be planned for next cycle.
C) Internal auditors should issue the report on the basis of information reviewed.
D) Internal auditors should try to speak to the management so that the access to the information can be done at the old premises and accordingly work can be completed by him.

Q 15. SK Ltd is in the business of software. The company is medium sized and has got 15 banks accounts. The internal auditors of the company observed that the company does not have any robust system of obtaining bank confirmations for the purpose of bank reconciliations although the company is preparing the monthly bank reconciliation statements on the basis of the bank statements. During the audit, internal auditor found appropriate to obtain independent bank balance confirmations. It was observed by the internal auditor that in some cases the internal auditors obtained independent bank balance confirmations thrice from the same bank of the same period stating the wrong balances in every confirmation. Management explained that the monthly bank statements are already being sent by the bank which is sufficient enough for the company for performing the reconciliation on monthly basis. Monthly process of bank reconciliation is working very effectively. Independent confirmations sent by the bank to the auditors had some clerical errors which the management will discuss with the bank. Please advise.

A) Management's process of preparation of monthly bank reconciliations on the basis of bank statements is reasonable. However, the management should ensure that bank confirmations, if any, sent by the bank are accurate. Internal auditor should ignore this.
B) Even though monthly reconciliations are prepared on the basis of bank statements, management should obtain bank confirmations on a regular basis. Such instances where bank is confirming wrong balance can be a serious matter of concern and should be reported by the internal auditor in his report.
C) Management's process of preparation of monthly bank reconciliations on the basis of bank statements is reasonable. Internal auditor should ignore this.
D) Management's process of preparation of monthly bank reconciliations on the basis of bank statements is reasonable. Internal auditor shouldn't have gone to the extent of obtaining independent balance confirmations.

Q 16. GUZU Ltd is a medium−sized company and has been in existence for over 20 years. The company has been subject to various litigations related to various legal matters – income tax, GST, sales tax, service tax, excise, others. The company also has a plan to get listed outside India in the next 2−3 years. On review of the procure to pay and sales to collection cycles of the company, it was observed that the Managing Director of the Company is authorized to approve all the payments and invoices, but there is no document authorizing him to approve all the payments and invoices. It was also observed that there are certain expenses like travelling which have been incurred for Managing Director of the Company but the invoices for the same have also been approved by him only. Management explained that going to the Board of Directors for approval of regular business related expenses of Managing Director will not be feasible and the company will work on some alternative. Please advise.

A) In this case, company should have the written document for all authorization and approval should be made as per the authorization and that should cover approval of expenses of MD by himself. Accordingly, internal auditor should address the matter in his report.

B) MD's approval on all the payments and invoices looks reasonable however, his approval for own expenses should be reported by the internal auditor.

C) These matters appear related to documentation only & hence internal auditor may ignore these points.

D) Internal auditors should report both the matters in his report.

Q 17. S Ltd is in the business of generation of power through wind energy. The company's annual turnover is INR 300 crores and is currently into losses. The internal auditors of the company had some observations on review of travelling expenses: -

i. Internal auditors were not able to trace employee request for travel and approval for the same.

ii. Invoices received for hotel accommodation were not approved by the appropriate person as per the authority matrix.

iii. Boarding passes were not attached as a proof of travel with the vouchers.

Management explained that these are matters related to documentation and hence are not significant. Please advise.

A) Management is correct.

B) Management is correct but it should look towards setting up a process for documentation of the same and basis discussion with the management, internal auditor should ignore this.

C) Internal auditor should consider reporting matters (ii) and (iii).

D) Internal auditor should report all these matters in his report.

Q 18. AVV Ltd is a cable operator & listed on Bombay stock exchange. The turnover of the company has been decreasing over the last 2 years, however, the company has been able to maintain its margins constant and plans to change its business model. The internal auditors of the company raised two observations: -

(i) it was noticed that the purchase orders (PO) against the expense bills are not raised by the Company

(ii) there was no standard company policy for writing off debtors as bad debts.

Management replied that for all kinds of purchases above 1 lakh, it would be made mandatory to purchase through purchase order but in respect of writing off debtor's management requested for some more time to think about this matter. Advise how these matters be dealt by internal auditors?

A) Since the management has agreed for both the matters, internal auditor should drop these points.
B) Management should set up a process of PO for all purchases and should have a documented policy for writing off debtors and same should be reported by the internal auditor in his final report.
C) Since the management has an action plan for matter related to PO, it may be dropped but the matter related to writing off of debtors should be reported by the internal auditor.
D) As suggested by the management, there should be process of PO for all purchases above INR 1 lakh and along with that there should be a documented policy for writing off debtors and same should be reported by the internal auditor in his final report.

Q 19. PKJ Ltd is the business of manufacturing and trading of bottles and is listed on New Delhi Stock Exchange. The annual turnover of the company is INR 1100 crores and net worth is INR 3291 crores. The market capitalization of the company decreased significantly recently due to some transactions reported by the media. Any freight expense incurred by the company is charged back to the customer for which the company prepares a control register and records the freight amount charged in the invoice to the customer. Against this, actual freight amount is recorded as an expense when the transporter bills are received and at the period end the provision for cartage is made as per this register which is also captured in an excel file for control purposes. During the checking of the control register by the internal auditors, it was noted that some of the entries related to the freight were missing. The Company was not updating the register periodically. Management replied that all the transactions are accurately captured in the register and there could be only few instances where it might have got missed inadvertently. How should the above matter be dealt by the internal auditor?

A) Internal auditor should suggest that the Company should review the manual control register on periodical basis and report the same.
B) Internal audit team should discuss the matter with the senior management and should agree on the way forward so that such instance does not arise again.
C) Considering the fact that there were only few instances where recording got missed it should be ignored by the internal auditor.
D) Internal auditor should suggest that the Company should review the manual control register on periodical basis and not report the same.

Q 20. ICM Pvt. Ltd. is in business of trading of chemicals. The annual turnover of the company is INR 5000 crores. It is wholly owned subsidiary of ICM Ltd, based out in Tokyo. The company enters into lot of high sea sales contracts. Internal auditor of the company observed that in respect of high sea sales contracts, some of the contracts require the company to take delivery of the goods, however, in most of the contracts, sales takes place in transit. Currently the company does not have any mechanism to track such contracts for financial reporting. As & when collection is received from the customer, the same is recorded in the financial books. Mgt. has explained that all the collections are tracked and basis which financial reporting is also done. Please advise.

A) Internal auditor should discuss with the management and consider the impact of the same. If the impact is not significant, the same may be ignored.

B) Internal auditor should report this matter in his report because the mechanism to control inventory and collection is impacted because of this.

C) Since the management is able to track all the collections the current practice of the company looks reasonable and hence there is no need to report.

D) The matter is more related to financial reporting and hence internal auditor should ignore this.

Q 21. X Ltd is a dealer of cars. The business is quite old which is into dealing of premium cars. As per the industry practices, it is required to offer two free car services to the customers on purchase of a new car. Any service after first 2 services is chargeable. The cars sold by the company have a warranty period of 3 years. The company also has authorized service centers where car service is provided to the customer. Currently there is no mechanism to track whether the free services offered to the customers are limited to two or not. Internal auditor of the company has raised this point in his report. Please suggest your views on the observation of internal auditor.

A) The management currently does not have any control on the services offered. The management already has a plan to put a process in place to track and control this and hence the internal auditor may consider not reporting the same.

B) Management believes that such type of instances would be very few and overall impact of the same would not be significant. Considering this the observation of the internal auditor is of no significance.

C) The management currently does not have any mechanism for tracking free and chargeable services. The company may be spending significant amount of money on this which should be tracked and accordingly this matter should be reported by the internal auditor.

D) The management agrees with the observation of the internal auditor but has also explained that such instances arise in exceptional cases for which approvals were obtained. Hence the management believes that this observation should be ignored by the internal auditor.

Q 22. DDD Ltd is in the business of bauxite mining. The company has got various lease operations. The annual turnover of the company is INR 5789 crores and profits are increasing significantly.

Please advise in respect of bauxite mining and lease operations, the internal auditor would need to verify which of the following: -

i. The period of validity of the various mining leases obtained by the company.

ii. Steps taken to renew the existing leases. Where the expiry dates are near and in case deposits/ reserves of existing mines are near exhaustion, whether application has been made for new leases.

iii. Where backfilling of waste rocks in the area excavated during mining operations is not feasible, whether a separate site has been created for dumping the waste and whether such waste dumps have been suitably created, terraced and stabilized through vegetation or otherwise.

iv. The records in respect of each earth moving equipment, showing the hours worked, idle hours, consumption of fuel and lubricant and output of the machine during such working hours.

v. The written contracts and compliance with the terms and conditions thereof where the mining activities of leasehold mines have been outsourced.

A) I, II, III, IV & V.
B) I, II, III & IV.
C) I, III, IV & V.
D) I, II, III & V.

Q 23. ESC Ltd is a listed company and has annual turnover of INR 4000 crores. The company needs to strengthen GST (Goods and Services Tax) application as per Goods and Services Tax Act, applicable from 1 July 2017, Integrated Goods and Services Tax (IGST) is levied in case of inter-state supply of goods and services. In case of intra-state supply of goods and services, CGST and SGST is levied. During review of the tax liabilities on goods received in the period 1 July 2017 to 31 Oct 2017 by the internal auditors, following gaps were observed: -
A) On review of the tax liabilities on 1,231 transactions (total value INR 5 Crores) processed in the period 1 July 2017 to 31 Oct 2017, it was noted that incorrect GST rates were applied on goods, resulting in an excess deposit of tax amounting to INR 46 Lacs.
B) In 8 instances it was noted that tax was computed at multiple rates for the same material code.
The internal auditors highlighted that above observations had potential risk/ impact of financial loss and possible statutory non-compliance with tax laws.
Please suggest which one of the following is correct.

A) Internal auditor should report this matter.
B) Internal auditor should discuss with management about way forward and drop this point.
C) Internal audit observation is not right.
D) Internal auditor should ignore on the grounds of materiality.

Q 24. ACI Ltd is in the business of textiles and its imports are significant. The company is in the growing phase and plans to expand its operations significantly. For doing this the company is also evaluating to procure the items locally which are currently imported. This would lead to decreased procurement costs and may help in increasing profitability. In respect of the current operations of the company, the management would like to have your views in respect of imports where the internal auditor should focus. Please suggest?
i. Check if import orders are properly authorized and in-house authority limits are being followed.
ii. Check whether requisitions are received in time within the validity period of the import license.
iii. Check ordering date in relation to the import license validity and examine license utilization.
iv. Analyze refund claims of penalty and duty and check whether any claim has been rejected.
v. Check whether there is a proper system for checking of demurrage, wharf age, clearing expenses on imports.
vi. Check whether purchases made through agents are properly approved with reasons/ benefit for such purchases.

A) I, II & III.
B) I, III & IV.
C) I, II, IV, V & VI.
D) I, II, III, IV, V & VI

Q 25. As per the process of the company, Non-Disclosure Agreements (NDA) need to be obtained before a request for quotation is sent to the vendor. The standard NDA is valid for 3 years and any information vendor receives after the expiry of the NDA is not covered under agreement. During the internal audit of controls around vendor selection and vendor code creation, it was observed by the internal auditors that currently there is no mechanism to track and monitor the expiry dates of such NDAs. On a review of 20 sample vendors for direct materials, it was noted that: -

- **In 2 instances, the NDAs were not obtained from the vendor.**
- **In 2 instances the NDAs were expired at the time of review.**
- **In 2 instances the NDAs were dated post the vendor creation date.**

Further it was also observed that the background check for director/ key management personnel was not performed for vendors before empanelment. Suggest internal auditors on this matter?

A) Internal auditor should recommend that the monitoring mechanism needs to be introduced for ensuring timely renewal of NDAs and background checks should be conducted for all new vendors added in the empanelment list.

B) Internal auditor should recommend that the monitoring mechanism needs to be introduced for ensuring timely renewal of NDAs. Performing background checks is not so important and internal auditor should ignore this.

C) Internal auditor should recommend background checks to be conducted for all new vendors added in the empanelment list and should drop the matter related to NDA as that is not important.

D) Internal auditor to look at significance of both matters & looking at that can ignore both these points.

Q 26. AARK Ltd is a manufacturing company having turnover of 230 crores. The company has 3 plants and all of them are operating at full capacity. The inventory levels of the company have increased quite a lot in last 3 years. In respect of issues of materials to manufacturing process/ production shop, please suggest the procedures of the internal auditor

i. Checking that the requisitions from the production shops are duly authorized.

ii. Ensuring that deliveries from material handling stores are exact quantities as per requisitions.

iii. Checking whether shop is over-indenting leading to store build-up at shop-floor level.

iv. Checking whether spares requisitioned by engineering department are duly supported by authorized signatures and capital items are not being requisitioned for maintenance.

A) I, II & III.

B) I, III & IV.

C) II, III & IV,

D) I, II, III, IV.

Q 27. AKR Ltd is in the business of trading and manufacturing of readymade garments. The company's annual turnover is 1100 crores. The company's management wants to strengthen its processes in next 2 years. Before a blanket PO is raised to a vendor for direct material, a signed agreement is obtained that binds the vendor with crucial terms such as timely delivery, quality standards, penalties etc. The standard vendor agreement is valid for 3 years. On a review of 20 sample vendors for direct material, it was observed by the internal auditor that in some instances – a signed vendor agreement had not been obtained, the vendor agreement had expired and the

vendor agreement was dated post vendor creation. The root cause was there was no monitoring mechanism to track the validity of vendor agreements. Management explained that it will ensure that vendor agreements are obtained from vendors before RFQs (Request for Quotation) are sent to them. Management will put in place a monitoring mechanism to ensure timely renewal of vendor agreements for existing vendors. In this case, please suggest the internal auditor.

A) Internal auditor has discussed the way forward with management and should drop this point.
B) Internal auditor should report this matter.
C) Internal audit observation is not right.
D) Internal auditor should ignore on the grounds of materiality.

Q 28. NMP Ltd is in the business of retail and has been suffering losses. Turnover of the company has been same over the last 3-5 years. Company has Oracle as its ERP package. Internal auditor of company observed that there is no process to review supplier master on a periodic basis to identify the cases of incorrect updating / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle. There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers. Mgt. explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

A) Management responses look reasonable and this matter should be dropped.
B) Matter is more of related to hygiene & many not have any impact on financial reporting & be ignored
C) Internal auditor need to report this matter.
D) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

Q 29. During the expense review of a company, the auditor noted that interest on loan is wrongly calculated by the finance company for the previous years. It was already verified as correct by the statutory auditors and forms part of their balance confirmation process. Furthermore, the accountant has already identified the error and has planned to correct it in the next month by taking it up with the finance company. What should be the best course of action for the auditor?

A) Ignore the error as it is already verified by the statutory auditors with confirming balances.
B) Report the error as it affects financial reporting.
C) Ignore the error as it is already being taken up with the finance company by the accounts team.
D) Ignore the error as accuracy of interest calculation is not part of the scope of internal audit.

Q 30. Aalhad & Co sells cars, car parts & petrol from 25 different locations in one country. Each branch has up to 20 staff working there, although most of accounting systems are designed and implemented from company's head office. Aalhad has internal audit department of six staff, all of whom have been employed at Aalhad for a minimum of 5 years and some for as long as 15 years. Which of the following will limit the independence of the chief internal auditor of the company?

A) The chief internal auditor reports to the Finance director of the company.
B) The scope of work of the internal audit department decided by the chief internal auditor, with the assistance of an audit committee.
C) All the accounting systems are designed and established by the management, the internal audit department audits the controls in the system.
D) The existing staff should be rotated into different areas of internal audit work and the chief internal auditor independently review the work carried out.

Q 31. 'X' Company has prepared a Bank reconciliation statement (BRS) for a bank as at year end for which audit is under progress which contains the following facts :−
Balance as per books− 1000
Add: CHEQUE deposited but not cleared− 200 (a)
Add : Amount credited to bank due to customer collections but not debited in the books – 150 (b)
Less : Interest charges on loan taken by Company recorded by bank & not by Company− 300 (c)
Closing balance as per bank− 1,050
Please identify the correct option based on the following facts: −

A) No observation noted in the BRS
B) (a) should be reversed in the books of the Company and (b) should be recorded in the books
C) (b) and (c) should be recorded in the books
D) (a) should be reversed in the books and (c) should be recorded in the books.

Q 32. A, a first year article trainee has been asked by Audit senior to go and perform the physical verification of stock lying in the warehouse of a Company. He has been instructed to perform stock count of 100 items considering A, B, C analysis and also review the working papers of management stock count and see if any observations are noted by them.
A is performing the stock count of the warehouse and requested the client to show the number of quantities for three products which are of highest value. The client was unable to respond to the request and informed that these items are packed due to which these items cannot be counted. The client requested A to pick any other sample and perform the stock count. A, agreed to the client request and picked other sample and completed the stock count and concluded that there are no observations. Following are the various options available for 'A' to respond to this situation.
a. No additional work as he has performed the stock count as per the instructions.
b. Ask client to open box and count items and record the actual quantities in his working papers.
c. Ask the client to open the box and count the items and record the actual quantities in his working papers and reconcile the quantities with the management count. In case of any difference, obtain the reasons for the same and satisfy the underlying rationale for the same.

d. In case the client refused to show the items, A, should inform his senior, discuss with the client to understand the reason for the same and identify the resolution of the issue including impact on the audit opinion. Considering following options, identify the appropriate response what should have been done by 'A'?

A) (I)
B) (III) & (IV)
C) (II)
D) (II) & (IV)

Q 33. 'C' has been asked to perform the cash count of a Company as at year end. The Company has significant amount of cash since their day to day operations involve lot of cash dealing as most of the transactions are settled in cash. C goes to the client and requests to get the cash counted. The client prepared a cash statement amounting to 1 Crore. C decided to count the cash on sample basis and after counting cash amounting to 52 lakhs, he decided to conclude that there are no issues in cash balances.
'C' has following options to respond to the situation.
(i) Perform no further audit procedures to obtain comfort on cash balance.
(ii) C performs cash count of 1 crore & identify if there are any differences or observations noted.
(iii) C performs the cash count of 1 crore, ensure the completeness of cash and reconcile the cash count with the books of the accounts.
(iv) C confirms from the management that whether they have counted the cash, obtain their confirmation over email, ensure the completeness of cash and reconcile the cash count with the books of the accounts.
Considering following options, identify appropriate response what should have been done by 'C'?

A) (I)
B) (II)
C) (III)
D) (IV)

Q 34. 'A' a first year intern has been entrusted to perform the vouching of indirect expenses. He decided to perform the testing of mobile phone expenses as these were material. The client provided a schedule of mobile phone expenses for each number and the amount billed in each month. A decided to pick few sample testing of bill and requested the client to provide the bills against these sample. He tested the same along with appropriate treatment of GST/service tax receivable for financial year 2017−18.
Has 'A' performed sufficient audit procedures or he should have performed few more audit procedures to verify the communication expense? Below are the options

A) No further audit procedure required
B) A should have performed variation analysis of the expenses, obtained the agreement with mobile operation to ensure the necessary compliance and also compare the number of mobile numbers with number of employees.

C) A could have only performed scanning procedures and variation analysis to obtain comfort on mobile phone expenses

D) Based on underlying risk assessment and internal control testing performed at the time of planning procedures A needs to tailor the audit plan with a mix of audit sampling, analytical or other adequate procedures as per standard of auditing to obtain comfort on the expenses.

Q 35. X a CA firm has been appointed to perform the audit of a Company. The engagement partner allocated 'A', a field in charge for the audit along with 'B' a first year article clerk. During the discussion of the audit plan within the team, it was decided that B will perform testing of Cash and Bank, statutory dues, revenue and expense vouching and rest will be done by A. The client provided all schedules to the auditor and B started with the vouching and analysis of legal and professional analysis. B remember that during the team discussion and client meeting as well, it was noted that the client has no legal disputes and hence there are no contingent liabilities.
B was provided the breakup of legal and professional expenses as stated below: −

Nature	**Amount**
ABC consultancy	**1000**
Jain lawyer	**100000**
MOHIT Tax consultant	**20000**
ERP implementation by Wipro	**40000**
Payroll outsource cost services provided by Z	**30000**
TOTAL	**191000**

In the review of the schedule mentioned, B performed the vouching and concluded that there are no observations. Is the conclusion reached by 'B' appropriate?

A) B should have inquired about the legal cases handled by Jain lawyer and conclude if there any indications about any outstanding litigations which need further evaluation?

B) B should evaluate the work done by ABC consultancy, MOHIT tax consultant and Jain lawyer and conclude if there any indications about any outstanding litigations which need further evaluation?

C) Nothing needs to be done.

D) Should obtain comfort on all type of services and identify the services which could lead to potential litigations /any other issues and perform further evaluation to conclude impact on audit procedures and the financial statements.

Q 36. A is required to perform testing of repairs and maintenance expense account. The Company provided him the GL dump of the expense item and A decided to perform the following audit procedures: −

- **Vouching of expense account by matching of invoice with the amount captured in the GL dump**
- **Variation of expense between current year and previous year**
- **Ensure the appropriate classification of expense in the right General Ledger**
- **Reconcile the GL dump with the trial balance**

An external reviewer was entrusted to review the audit procedures done by the audit firm where in he decided to perform the review of the work done by the audit team and picked work done for the audit of repair and maintenance account. The reviewer identified the following gaps in the testing:

(I) The work paper has not captured how the engagement team ensured the capital expenditure has been debited to Profit and Loss Account
(II) Appropriate deduction of withholding taxes while booking the amount in the books.
(III) Any issue in the useful life of fixed assets if there is too much expenditure incurred on the fixed assets.
(IV) Whether expenditure was authorized and approved as well
Below are the options to pick out of the above mentioned options which the engagement team should have performed while testing repairs and maintenance expenses testing

A) I and III
B) All of the above
C) (II) and (IV)
D) (I), (III) and (IV).

Q 37. A is working in an audit firm who are the auditors of 'Y' Company. A is part of the audit team who is doing the audit of this Company and he has been allocated to handle cash and bank. As part of the audit procedure, he also needs to circularize bank confirmation letters for all the bank. A decided to perform the following audit procedures: −
(a) Obtain the list of banks from the Company with the account number.
(b) Prepare a confirmation request and requested the Company to sign the confirmation letters.
(c) The Company signs the letter and share one copy of the letter with A.
(d) The Company sends this confirmation letter to the bank seeking their confirmation on the bank balances.
Out of audit procedures stated above, which one are the right audit procedures performed by A.

A) All of the above
B) (a), (b) and (c)
C) (a), (c) and (d)
D) (b), (c) and (d).

Q 38. The Company has appointed an external internal auditor for conducting the internal audit of various financial statement line items. The internal audit firm conducted the internal audit of fixed assets and shared the final report containing various observations. 'Z' audit firm are the external auditors who are completing the internal audit of the Company. The engagement team of external auditors became aware of the internal audit report and requested the Company to share the internal audit report with them. The audit team receives the internal audit report and requested one of their team member 'Ashish' to prepare the internal audit synopsis of the issues having material financial implication or reporting implication on the audit carried out by the audit firm. Below is list of observations noted in the internal audit report.
a. Physical verification of the fixed assets was carried out by the management and differences amounting to 10 Crores are not explained by the management.
b. Company has incorrectly capitalized the borrowing cost amounting to 2 Crores and wrongly applied AS 16.

c. Approval of purchase of computer amounting to 50,000 not obtained from authorized personnel.
d. Company should review their policy of obtaining 5 quotes for each purchases done by Company.
e. FA vs GL reconciliation was performed by Company & difference amounting to 10,000 noted.
What are the observations which needs to be highlighted by Ashish for further evaluation ?

A) (a) and (b)
B) All of the above
C) (a), (b), (c) and (d)
D) (a), (b), (d) and (e).

Q 39. A is allocated to perform the audit of statutory dues wherein he needs to verify the challan payments made by the Company for its material statutory dues and identify issues if any. The Company has prepared the statutory dues schedule capturing the date of deposit and the due date of deposit along with the amount. A verified the payment for all the material statutory dues and reconciled the same with the schedule prepared by the Company and noted no issues.
Based on the work done A concluded that all the payments were made on regular basis. What are the potential audit procedures missed by A while doing verification of the statutory dues.
A didn't perform following audit procedures or consider the following matters in his audit plan.
a) The due date of deposit is correctly captured in each schedule as per the statutory law.
b) Any interest payment/penalty paid by the Company while making payment also indicates regularity of the payment of the statutory dues.
c) Inquired with the client personnel about the regularity of the payment of statutory dues.
d) Considering the results of last year audit which had exception in regularity of the payment of statutory dues of Income tax and service tax.
What are the matters which should have been considered by A ?

A) All of the above
B) (a), (b) and (c)
C) (a), (b) and (d)
D) (b), (c) and (d)

Q 40. 'A' was allocated to audit rent expense of Company. The c Client prepared a schedule capturing rent expense incurred against each lease. There were few leases which were discontinued after a certain period. There was a gap of 1 Crore between rent expense as per schedule and general ledger for which no explanation was given by Company. A decided to perform sample testing of rent expense by doing testing of high value leases and concluded that no further audit procedure is required to be performed.
What are the potential audit issues which should have been followed up by A while performing testing of rent expense?
(a) Difference of 1 crore between GL and rent schedule, documentation regarding reason for discontinuation of lease expense and corresponding impact on other receivables like security deposit etc.
(b) None

(c) Difference of 1 crore between GL and rent schedule
(d) Documentation regarding reason for discontinuation of lease expense What are the matters which should have been considered by A

A) All of the above
B) (c) and (d)
C) (a)
D) (b)

Q 41. Marvin Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Felix was appointed as an auditor of the company for the Financial Year 2017-18. While examining the books of account of the company, CA. Felix came to know about one of the major expenses of the company i.e. rent expense of 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would CA. Felix perform substantive analytical procedure in the given scenario?

A) CA. Felix would inspect every single rent invoice per month of 1,20,000 and verify other elements appropriately.
B) CA. Felix would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy.
C) CA. Felix would select the first month rent invoice of 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be 14,40,000 (i.e. 1,20,000 * 12). Thereafter, he would compare the actuals with his prediction and follow-up for any fluctuation.
D) (a) and (b), both

Q 42. Minnie Ltd., a listed company, appointed CA. Kranny for auditing complete set of consolidated financial statements of the company. CA. Kranny is unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements. Based on the audit evidence obtained, CA. Kranny concludes that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570. State what type of opinion CA. Kranny must have provided in the given scenario?

A) Unmodified opinion.
B) Qualified opinion.
C) Adverse opinion.
D) Disclaimer of opinion.

Q 43. While auditing the books of accounts of QHMP Ltd., CA. Ranker, the statutory auditor of the company, came to know that the management of the company has recognized internally generated goodwill as a fixed asset. CA. Ranker discussed with the management that according to accounting standards, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

However, the management is quite rigid to the accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Ranker explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples the auditor must have given to the management?

A) If an item meeting the definition of an intangible asset is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation

B) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings.

C) Goodwillisrecognisedonlywhenthereisacontractualorotherlegalrightsforaphysicalassetwhich shall not be amortized over the period.

D) All of the above.

Q 44. Eeyore Pvt. Ltd. is incorporated on 1st July, 2017. During the Financial Year ending on 31st March, 2018, the company did not opt for any borrowing at any point of time and have a total revenue of 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus: -

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

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

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

A) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of 1.07 crore i.e. more than 1 crore as on the Balance Sheet date.

B) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of 1.02 crore i.e. more than 1 crore as on the Balance Sheet date.

C) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of 0.92 crore i.e. not more than 1 crore as on the Balance Sheet date.

D) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of 0.82 crore i.e. not more than 1 crore as on the Balance Sheet date.

Q 45. CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?

A) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.

B) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.

C) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.

D) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.

Q 46. Mincy Ltd. appointed CA. John for auditing complete set of consolidated financial statements of the company. CA. John need to perform group audit along with its subsidiaries. CA. John is unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements, i.e., unable to obtain audit evidence about the financial information of a joint venture investment that represents over 92% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements. State what type of opinion CA. John must have provided in the given scenario?

A) Unmodified opinion.
B) Qualified opinion.
C) Adverse opinion.
D) Disclaimer of opinion

Q 47. XOXO Ltd. is a newly incorporated mediocre company running a store dealing in readymade garments. The company has huge amount of accounts payable. While examining the accounts payable, CA. Tasmanian, the auditor of the company, verified each and every invoices shown under the head accounts payable and made a decision that the balance shown has no material misstatement. However, test for segregation of duties between person handling payments and person updating accounts is not possible due to newly incorporated mediocre company. Thus, CA. Tasmanian misinterpreted the verification results which enhanced the risk instead of reducing the audit risk to an acceptably low level that he would fail to detect a misstatement in the purchasing process which could be material, either individually or when aggregated with other misstatements. What type of risk is this?

A) Audit risk.
B) Inherent risk.
C) Control risk.
D) Detection risk.

Q 48. Infringe Ltd. appointed CA. Bugs as an auditor of the company for the current Financial Year. After 3 months of the appointment, the company arranged a small get together between all the staff, officers and members of the company along with their family to celebrate company's last 5 year achievements, where CA. Bugs introduced Mr. Felix, his Father-in-Law, to the Board of Directors of the Company. Discovering that Mr. Felix has created a niche in the field of book keeping, the Board of Directors offered him the service of book keeping of the company, which was also accepted later on. Which of the following statement is best fitted in the given scenario?

A) CA. Bugs shall not continue holding office of auditor of Infringe Ltd. as his relative, Mr. Felix, shall be providing book keeping service to company which is restrained as per section 144 of Company
B) CA. Bugs shall not continue holding office of the auditor of Infringe Ltd. as the Board of Directors shall first ask for his permission before offering the book keeping service to his relative, Mr. Felix.
C) CA. Bugs may continue holding office of the auditor of Infringe Ltd. as the restrained service accepted by his relative, Mr. Felix, is after his appointment as auditor of the company.
D) CA. Bugs may continue holding office of the auditor of Infringe Ltd. as Mr. Felix is not his relative as per the provisions of the Companies Act, 2013.

Q 49. While auditing complete set of consolidated financial statements (CFS) of Tulips Ltd., listed company, using fair presentation framework, M/s Pintu & Co., a CA firm, discovered that CFS are materially misstated due to the non- consolidation of a subsidiary. Material misstatement is deemed to be pervasive to CFS. Effects of misstatement on consolidated financial statements have not been determined because it was not practicable to do so. M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other

than the matter to be described in the Basis for Adverse Opinion section. State whether M/s Pintu & Co. needs to report under SA 701 'Communicating KAM in Independent Auditor's Report'?

A) M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters.
B) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.
C) SA 701 is mandatory in case of audit of listed entities, however, as there are no key audit matters other than matter to be described in Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'
D) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non- consolidation of a subsidiary.

Q 50. MITSHUBISH Ltd. is a worldwide automotive manufacturer. The company appointed CA. Knight after retirement of pervious auditor on completion of 5 consecutive years due to rotational provisions. While preparing for audit plan, CA. Knight discovered that the company has huge amount of other income in the name of interest from fixed deposits in bank. Thus, for verification of fixed deposits shown in the Balance Sheet, he obtained the list of fixed deposits matured and running during the year and prepared a reconciliation chart like opening balance + additions made during the year - matured = closing balance. While for vouching the interest income from fixed deposits, state what audit procedure shall he follow?

A) Obtain a copy of Form 26AS (TDS withholding by the bank) and reconcile the interest reflected therein to the income recognized.
B) No need for confirmation from third party. Calculate the accrued interest income yourself and cross verify the same from the accounts.
C) Verify that only interest from outstanding FDs in Balance Sheet has been recognized as income.
D) Obtain calculation sheet from management and verify that the same has been recorded as an income.

Q 51. You are part of the internal audit team appointed for QRS Bank Ltd. for the financial year 2017-18 and your senior has instructed you to verify the cash vouchers for the quarter ending 30th September 2017 of a branch located in Mumbai. While verification you noticed that most of the vouchers have been signed by the teller only i.e. the official responsible for cash receipts and payments over the counter, however in the system they have been authorized by one more official. As an internal auditor you should: -

A) Report the matter in Executive summary paragraph of your Internal Audit Report.
B) Considering the matter as immaterial it should be ignored.
C) Branch manager should be advised to rectify the discrepancy and the observation is closed.
D) If same discrepancy has not been reported in any other audit report, then it should be rectified by the management for vouchers of audit period and auditor should verify the compliance of the same.

Q 52. AD Chartered Accountants have been appointed central statutory auditors for the branches of Efficient Bank Ltd. for the year 2017-18. You are part of audit team for Varanasi branch of the bank and have been instructed by your senior to verify exception report for the audit period. While verifying same you noticed that exception report is printed on daily basis but the report of some dates have not been signed by some officials, though reports have been seen and verified by the branch manager. Same observation was there in previous internal audit reports also. As a statutory auditor what will be your decision for disclosure of discrepancy in audit report?

A) Discuss matter with the management and request for a written representation as audit evidence
B) Get all the exceptions reports rectified within the audit period and give a clear report.
C) Ignore the discrepancy as it is not material in nature.
D) Give a qualified opinion in the audit report.

Q 53. Coyote Ltd. is dealing in trading of electronic goods. Huge inventory (60% approximately) of the company is lying on consignment (i.e. under custody of third party). CA. Star, the auditor of company, wants to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory lying on consignment. Thus, he requested & obtained confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity, however, it raised doubts about the integrity and objectivity of the third party. Which of the following other audit procedures may be performed by CA. Star to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory under the custody of third party?

A) Attend third party's physical counting of inventory.
B) Calculate inventory turnover ratio.
C) Analyze how fast Coyote Ltd. is selling its inventory and compare it to Industry.
D) Evaluate the discounts provided by Coyote Ltd. to its customer.

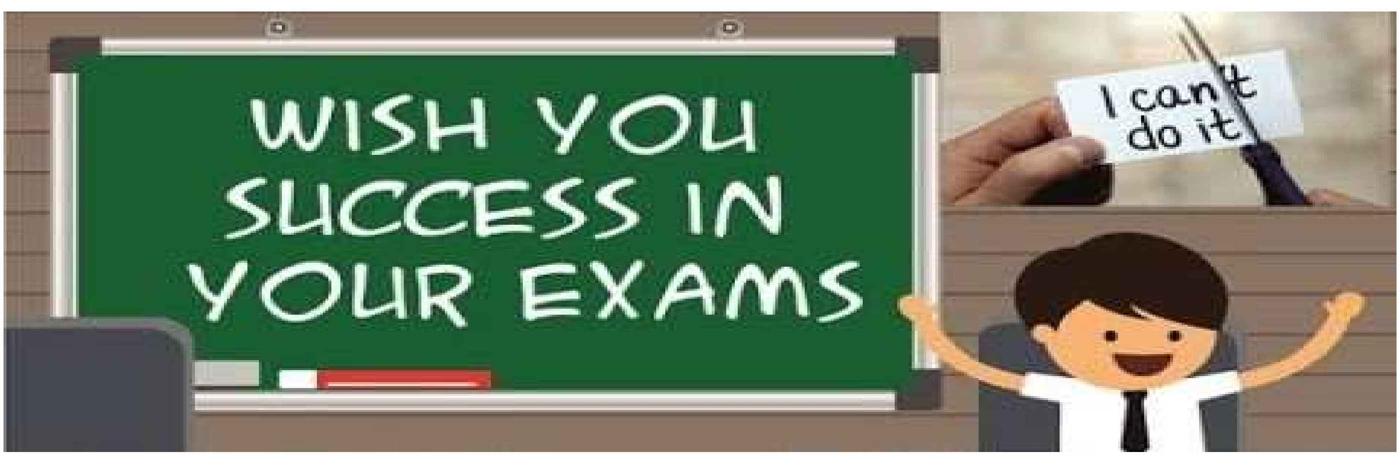
"+ 53 = SOLUTIONS"

1	A	Due to the mentioning of notional "required by date" by the user department, there is a huge time gap between the "required by date" and "consumption date". As the time gap is material and it results in blockage of company's funds for a long period of time that has ranged up to 500 days, the observation is required to be reported in the internal audit report so that it comes to the notice of the management and results in efficient fund management.
2	B	Evidence concerning proper segregation of duties is generally obtained through inspection and observation.
3	D	Most fraud perpetrators would attempt to conceal their theft by charging it against an expense account.
4	D	All work papers should contain pertinent information to support observations and recommendations

5	**C**	Costs that management should consider would include costs of retraining employees; costs of acquiring new ancillary equipment; write−offs of undepreciated investments in the old technology; capital requirements and research and development costs of the changeover; and costs of modifying interrelated stages of production or related aspects of the business.							
6	**B**	To provide assurance that each voucher is submitted and paid only once, an auditor should verify that each voucher was stamped "paid" by the check signer.							
7	**B**	Immediately after receiving the response from management to all requests for corrective actions, the first and foremost step to be followed by the auditor is to evaluate the acceptability of proposed corrective actions and schedule for completion. Further, if certain plans are unacceptable to the management, then the auditor should identify and apply strategies for negotiating changes to unacceptable plans.							
8	**C**	Disclosing the results of audit of the competitor is not as per Code of Ethics and may give rise to Conflicts of Interest, the auditor should explain the client that it would not be appropriate and ethical to discuss the results of the competitor's audit.							
9	**A**	A preventive maintenance program will reduce equipment breakdowns and repairs.							
10	**C**	As it is out of the scope of activities to be carried out by an internal auditor during an internal audit to contact the clerk of the court and inspect the legal documents in the client's lawyer's possession, option							
11	**D**	**12**	**C**	**13**	**D**	**14**	**A**	**15**	**B**
16	**D**	**17**	**D**	**18**	**B**	**19**	**A**	**20**	**B**
21	**C**	**22**	**A**	**23**	**A**	**24**	**D**	**25**	**A**
26	**D**	**27**	**B**	**28**	**C**	**29**	**B**	**30**	**A**
31	**C**	As these entries should be recorded in the books of the Company considering the fact that these relates to the financial year.							
32	**B**	In case the client agrees to open the box, he should have observed the count, reconciled with the management count and in case of any difference, appropriate reason and reconciliation should be obtained and audited by him in order to satisfy that the stock is physically available. In case, the client disagreed for opening the box, he should inform the senior and raise this matter as an issue for appropriate resolution including the impact on the audit opinion.							
33	**C**	Auditor planned to perform the cash count of 100% of the cash and only doing cash count on sample basis/through client confirmation is not the appropriate design of audit procedures to be performed. He should also ensure that whether all the cash has been counted at that location and obtain reconciliation with the books of the accounts.							
34	**D**	**35**	**D**						
36	**B**	All of the above as all the procedures are relevant to be performed while testing the repairs and maintenance expenses. With respect to withholding taxes, the engagement team could have performed the procedures differently as well while reviewing the entire expense dump along with the TDS entries but in this example, it has been assumed that the withholding taxes testing was performed in conjunction with the testing of the expense.							
37	**B**	A should have sent confirmation letter request under his supervision and control. As per SA 505− External confirmations, it is stated that "When performing confirmation procedures, the auditor should maintain control over the process of selecting those to whom a request will be sent, the preparation and sending of confirmation requests, and the response to those requests". Since the auditor didn't perform this procedure under his control, therefore this is not in line with the guidance stated in SA 505							
38	**A**	It is the correct option and the balance observations are not having material financial impact or having insignificant impact on the audit.							

39	A	
40	C	A's responsibility is to obtain comfort on rent expense and not only perform sample testing of schedule provided by the client.
41	C	As provided under SA 520 'Analytical Procedures', substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Analytical procedures involving, for example, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified.
42	B	According to SA 705 'Modifications to the Opinion in the Independent Auditor's Report', the auditor shall express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
43	A	Goodwill is of intangible nature which either arises on acquisition or is internally generated. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, if the item is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation.
44	C	Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of ` 0.92 crore [(40-5) +25+7+0+15+10] i.e. not more than ` 1 crore as on the balance sheet date, and the other conditions relating to borrowings & total revenue are also within the limits of exemption.
45	A	According to SA 705 'Modifications to the Opinion in the Independent Auditor's Report', when the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) […] in accordance with [the applicable financial reporting framework].
46	D	According to SA 705 'Modifications to the Opinion in the Independent Auditor's Report', the auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive
47	D	Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
48	D	Section 44 of Companies Act, 2013 restrains, in case of individual, the auditor or his relative, from providing certain services to the company which includes the book keeping service. However, the term 'relative' as defined under the Companies Act, 2013 does not include Father-in- Law. Thus, Mr. Felix, Father-in-Law of CA. Bugs, is allowed to provide any services as restrained under section 144 of the said Act.
49	C	SA 701 is mandatory in the case of audit of listed entities and according to the same, if the auditor has determined that there are no key audit matters to communicate, the auditor shall state under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Qualified (Adverse) Opinion section, we have determined that there are no [other] key audit matters to communicate in our report.'
50	A	While vouching for interest income from fixed deposits, the auditor may obtain a copy of Form 26AS (TDS withholding by the bank/ financial institution) and reconcile the interest reflected therein to the income recognize.

51	D	52	A	53	A



From

"CA SANIDHYA SARAF" & APNAMENTOR