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Answer Paper	
ADV. Audit & Professional Ethics	Duration: 75
Details: Test – 2	Marks: 40

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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ANS-1

In the given scenario, Mr. Ibrahim was appointed as statutory auditor of two listed entities i.e., New Limited and Old Limited. For the financial year 2020-21, Mr. Ibrahim had signed limited review reports for first three quarter i.e., till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased workload, he resigned from New Limited and asked the Company to appoint another auditor to issue audit report for the remaining quarter and audit report for the FY 2020-21.

Further, Mr. Ibrahim immediately informed the management of Old Limited that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter as Mrs. W (wife of Mr. Ibrahim) had borrowed a sum of Rs. 6lakh from the Company for her personal use.

As per SEBI LODR Regulations, if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year. This provision will not apply if the auditor is disqualified due to Section 141 of the Companies Act, 2013.

Thus, in the given situation, in view of above conditions to be complied with upon resignation of the statutory auditor of a listed entity/material subsidiary with respect to limited review audit report as per SEBI LODR Regulations, Mr. Ibrahim is required to issue the audit report for the last quarter and audit report for the year 2020 -21 for New Limited as he has issued audit report for the first three quarters whereas Mr. Ibrahim is not required to issue the audit report for remaining quarter and audit report for the year 2020 - 21 as a whole for Old Limited as he is disqualified under section 141 of Companies Act.

Accordingly, contention of Management of New Limited is correct and tenable for issuing the audit report for remaining quarter and audit report for financial year 2020-21 however, contention of management of Old Limited is not correct regarding the legal responsibility of Mr. Ibrahim to issue audit report for remaining quarter and for the whole year.

(6 marks)

ANS-2

- (i) Automated control as there is inbuilt control for editing of the price master by the authorized personnel.
- (ii) Automated control as system doesn't allow approval of invoice in case Purchase Order is not booked.
- (iii) IT dependent manual control as Inventory ageing report is pulled out from the system after which provision for inventory is manually approved.
- (iv) Manual control as sign off is required to be done for the invoice before the dispatch of the goods.
- (v) Automated control as system doesn't allow goods to be sold if credit limit assigned to the customer has been crossed.
- (vi) Manual control assign off is required for every change to the credit limit.
- (vii) IT dependent manual control as ageing report is relied upon for calculation of provisioning for debtors.
- (viii) Automated control as PO, GRN and invoice is matched by the system before recording of the invoice to the vendor account.

(6 Marks)

ANS-3

Review of the Organization Structure - The internal auditor should conduct an appraisal of the organization structure to ascertain whether it is in harmony with the objectives of the enterprise and whether the assignment of responsibilities is in consonance therewith. For this purpose:

1. He should review the manner in which the activities of the enterprise are grouped for managerial control. It is also important to review whether responsibility and authority are in harmony with the grouping pattern.
 2. The internal auditor should examine the organization chart to find out whether the structure is simple and economical and that no function enjoys an undue dominance over the others.
 3. He should particularly see that the responsibilities of managerial staff at headquarters do not overlap with those of chief executives at operating units. He should examine whether there is a satisfactory balance between authority and responsibility of important executives.
 4. The internal auditor should examine the reasonableness of the span of control of each executive (the number of sub-ordinates that an executive controls). He should examine whether there is a unity of command i.e., whether each person reports only to one superior.
 5. Where dual responsibilities cannot be avoided, the primary one should be specified and the specific responsibility to each senior fixed. This must be made known to all concerned.
- Finally, he should evaluate the process of managerial development in the enterprise. This is a vital aspect in a fast growing enterprise

(5 marks)

ANS-4

Main responsibility of internal auditor must be: to maintain adequate system of internal control by a continuous examination of accounting procedures, receipts and disbursements and

to provide adequate safeguards against misappropriation of assets. to operate independently of the accounting staff and must not in any way divest himself of any of the responsibilities placed upon him. Not to involve himself in the performance of executive functions in order that his objective outlook does not get obscured by the creation of vested interest. to observe facts and situations and bring them to notice of authorities who would otherwise never know them; also, they critically appraise various policies of the management and draw its attention to any deficiencies, wherever these require to be corrected. to associate closely with management and his knowledge must be kept up to date by his being kept informed about all important occurrences and events affecting the business, as well as the changes that are made in business policies. He must enjoy an independent status.

In addition, the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

It may also be noted that the Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

(4 marks)

ANS-5

There are several steps that should be followed to achieve success with CAATs and any of the supporting tools. A suggested approach to benefit from the use of CAATs is given below:

1. Understand **Business Environment** including IT;
2. Define the **Objectives** and Criteria;
3. Identify **Source and Format** of Data;
4. **Extract** Data;

5. Verify the **Completeness and Accuracy** of Extracted Data;
6. Apply **Criteria** on Data Obtained;
7. Validate and **Confirm Results**

(4 Marks)

ANS-6

SA 299 on, “Joint Audit of Financial Statements” deals with the professional responsibilities, which the auditors undertake in accepting such appointments as joint auditors. In respect of the work divided amongst the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has made a separate report on the work performed by him. On the other hand the joint auditors are jointly and severally responsible in respect of the audit conducted by them as under:

- (i) In respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- (ii) In respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors;
- (iii) In respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- (iv) For examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute;
- (v) For ensuring that the audit report complies with the requirements of the relevant statute;

(vi) It is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of internal control relating to the work allocated to him, the extent of enquiries to be made in the course of his audit;

(vii) The responsibility of obtaining and evaluating information and explanation from the management is generally a joint responsibility of all the auditors;

(viii) Each joint auditor is entitled to assure that the other joint auditors have carried out their part of work in accordance with the generally accepted audit procedures and therefore it would not be necessary for joint auditor to review the work performed by other joint auditors.

Normally, the joint auditors are able to arrive at an agreed report. However where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express their own opinion through a separate report. A joint auditor is not bound by the views of majority of joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

In the instant case, there are three auditors, namely, Mr. X, Mr. Y and Mr. Z, jointly appointed as an auditor of KRP Ltd. For the valuation of gratuity scheme of the Company they referred their own known Actuaries. Mr. Z (one of the joint auditor) is not satisfied with the report submitted by Mr. Y's referred actuary. He is not agreed with the matters to be covered by the report whereas Mr. X agreed with the same.

Hence, as per SA 299, Mr. Z is suggested to express his own opinion through a separate report whereas Mr. X and Mr. Y may provide their joint report for the same.

(5 marks)

ANS-7

Case Study Based MCQ

1. (b) Auditor should highlight and report this matter in his report.
2. (a) Auditor should report this matter in his report.
3. (c) The internal auditor needs to highlight this in his report.

(2 × 3 = 6 Marks)

4. GENERAL MCQs:-

- i. (c.) Check physical inventory of “A” class items as much as possible along with certain “B” class items and certain “C” class items on sample basis in value wise descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours.
- ii. (b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls cannot be said to be operating effectively.
- iii. (a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the end of each quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
- iv. (d) Any of the Non-Executive Director

(1 × 4 = 4 Marks)