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## CA Final | CA Inter | CA IPCC | CA Foundation Online Test Series

| Question             | Paper         |
|----------------------|---------------|
| Advanced Audit - NEW | Duration: 180 |
| Details: Full Test 1 | Marks: 100    |

#### **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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#### Notes:

- 1. Question Paper comprises two part, Part I and Part II
- 2. Part I is having multiple choice Questions which is compulsory
- 3. Part II Comprise descriptive Questions and in which Question No. 1 is Compulsory and answer any 4 out of remaining 5 questions
- 4. Answer new Question on new page

#### PART I - Multiple Choice Questions

1. KB Ltd is engaged in the business of construction. It has multiple subsidiaries and associates in India. The company acquired PPP Gmbh in Germany on 1 February 2019. The company also obtained control in PPP Gmbh on the same date. Its investment in PPP Gmbh was of a huge amount. The company has been preparing its CFS over the last few years and this has also become a matter of concern for the company for the year ended 31 March 2019. The management is of the view that consolidation of PPP Gmbh would not be required in CFS for the year ended 31 March 2019 because this is the first year of acquisition. However, the auditors have not been agreeing for the same. The timeline of submission of audited financial statements is due in few months time.

In the meantime, the management moved on the consolidation of PPP Gmbh taking audited financial statements of PPP Gmbh which are available in the GAAP of its local country and GAAP conversion adjustments from its local GAAP to Indian GAAP have been made by the parent company. GAAP conversion adjustments are significant at CFS level. In the meantime, the management has also been consulting whether the consolidation would be required or not also considering the fact that comparative figures in case of PPP Gmbh would not be available.

Further the auditors have also raised observations regarding the GAAP conversion adjustments over which management has a disagreement. As per the management the auditors are not required to comment on GAAP adjustments because audited financial statements of PPP Gmbh have been given to the auditors. Please help to resolve these matters.

- (a) Consolidation of PPP Gmbh should be done but GAAP conversion adjustments are not required to be audited.
- (b) Consolidation of PPP Gmbh should not be done and accordingly, GAAP conversion adjustments would not arise.
- (c) Consolidation of PPP Gmbh should be done and GAAP conversion adjustments are also required to be audited.
- (d) Consolidation of PPP Gmbh is a choice of management as the accounting standard does not mandate this. However, in case it is done then the GAAP conversion adjustments would be required to be audited.
- 2. ABC Private Limited, a manpower supplier company, is using SharePoint for keeping all documents, ERP software having additional access through mobile devices, app for leave management, CRM portals for managing customer relations etc. Company is not required to maintain database in-house, as company is using cloud services. Due to increase in customer base, company wants to focus on defining the controls around above application / systems. As you are one of the members from risk management team, what category of IT controls you will suggest the Management:
- (a) General IT and Environmental control.
- (b) Environmental and Application controls.
- (c) Application and Physical security control.

- (d) General IT and Application controls.
- **3.** CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore, a deviation from the already set audit strategy is felt necessary. In this case, he should
- (a) Continue with the Audit Plan without considering the Audit Strategy.
- (b) Drop the audit and withdraw from the engagement.
- (c) First Modify the audit strategy and thereafter, prepare the audit plan according to the modified strategy.
- (d) Devise a new audit plan and then, change the strategy as per the Revised Plan.
- **4.** XYZ Ltd. is a Public Limited Company engaged in the manufacturing of TMT Bars. M/s. UV & Associates are the statutory auditors of XYZ Ltd. for the FY 2019-20. The company is listed on National Stock Exchange. CA Udhav, the engagement partner is considering the requirements with respect to Regulation 27 and Schedule II (LODR) for corporate governance compliance of XYZ Ltd. Which of the following is correct in this regard?
- (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 close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
- (b) XYZ Ltd. shall submit a monthly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 15 days from the end of the month. The report shall be signed either by the General Manager of the accounts department of XYZ Ltd.

- (c) 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 30 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.
- (d) XYZ Ltd. shall submit the annual compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the year end. The report shall be signed either by the General Manager of the Accounts Department of the Company.

5. Which of the following areas of Propriety Audit are covered under the Companies Act, 2013?

- (i) Enquiry into certain matters like loans & advances
- (ii) Supplementary Audit & Test Audit by Comptroller and Auditor General in case of Government Companies
- (iii) Cost Records and Audit
- (iv) Information regarding energy conservation, Director's Responsibility Statement etc.

a) i), iii), iv)

b) ii), iv)

c) i), ii), iii)

d) i), ii), iii), iv)



**6.** The Board of Directors of Young Ltd., a listed company, appointed Mr. Old, a Cost Accountant (not in practice), to conduct an internal audit of the functions and activities of the company. The job of Mr. Old would be of an independent management function, involving a continuous and critical appraisal of the functioning of the company with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the company, including the entity's strategic risk management and internal control system. However, some of

the officers of the company are against the appointment of a Cost Accountant who is not in practice as an internal auditor. State whether those officers are correct or not in their viewpoint by referring to the provisions of the Companies Act, 2013?

- (a) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a chartered accountant in practice only.
- (b) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall a cost accountant in practice only.
- (c) The view point of the officers is correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be an employee of the company only.
- (d) The view point of the officers is incorrect because as per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.
- 7. D.M. Ltd. appointed M/s K.K. & Co., Chartered Accountants as Statutory Auditors. The Statutory Auditors found the internal audit function reliable and effective. The Statutory Auditor assigned the task of assessing the inventory levels of a few branches where the Statutory Auditor believed that there might be some risk of material misstatement to one of the internal auditor Mr. Ryan. Since the Internal Auditor had recently done such assessment as a part of their internal audit program, therefore, the Statutory Auditor believed that they could rely on the former's report. Besides this, because of the paucity of time the Statutory Auditors also requested Mr. Ryan to help them in some paperwork including audit documentation.

Before the audit was concluded, Mr. Ryan got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditory found out that the documentation delegated to Mr. Ryan was not complete. Accordingly, Statutory Auditor further checked the inventory work delegated to the Internal Auditor, however, it was found to be satisfactory.

In view of the above case scenario, state which of the following statement(s) hold true:

- (a) The working of Internal Audit function was reliable and satisfactory; therefore, the allocation of inventory level work was within the authority of the Statutory Auditor. This was further confirmed by the satisfactory work of Internal Auditory, as found out later.
- (b) The documentation would be considered complete as far as the Statutory Auditor's responsibility is concerned as the missing documentation was because of the oversight of the Internal Auditor.
- (c) Since the Internal Audit had conducted the similar inventory level checking activity recently, therefore, because of familiarity with the audit the Statutory Auditor was right in delegating the same to the Internal Auditor.
- (d) The Statutory Auditors should not have delegated the inventory level checking to the Internal Auditor, as the risk assessed was material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain confidentiality during all the stages of the audit. Therefore, it was wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.
- **8.** C Limited has defaulted in repayments of dues to a financial institution during the financial year 2020- 21 and the same remained outstanding as at March 31, 2021. However, the Company settled the total outstanding dues including interest in April, 2021 subsequent to the year end and before completion of the audit. Auditor is required to report the matter:
- (a) Under Clause (vii) of paragraph 3 of the CARO, 2020.
- (b) Under Clause (viii) of paragraph 3 of the CARO, 2020.
- (c) Under Clause (ix) of paragraph 3 of the CARO, 2020.
- (d) Both (b) and (c).

- 9. What types of engagements are not included in the scope of the Quality Review Board?
- (a) Financial statement audit Private limited Companies.
- (b) Financial statement audit audit of unlisted companies below the threshold criteria specified in Rule 3(1) of NFRA Rules.
- (c) Financial statement audit Other entities not specified in Rule 3(1) of NFRA Rules.
- (d) Review of internal audit, tax audit, GST audit and other such special purpose audits conducted by the members of the Institute.
- **10.** CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2020, he was awarded 'Best Faculty of the year' as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct?
- (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- (b) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- (c) Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- (d) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

 $(1 \times 10 = 10 \text{ Marks})$ 

QUESTION (11 to 20) 2 marks each

**CASE STUDY-1** 

Andy & Co; a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year and your 1st year trainee asks you the following questions listed down. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as the reports given by him are designed in a marvelous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.

The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

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

**11.** The engagement partner has requested you to comment upon the usage of work of internal auditor by the engagement team in accordance with relevant Standard on Auditing:

- (a) As the work done by the internal auditor is marvelously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co.
- (b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co need to reduce the unnecessary work as the same has been performed by the other auditor.
- (c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.
- (d) The work performed by the internal auditor can be used by the External Auditor in this case if the architect is not an employee of the company but is in private practice.
- **12.** The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:
- (a) The company needs to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.
- (b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.
- (c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.
- (d) Both (a) & (b).

- **13.** The trainee asked about role of auditor in case the investment in Daiva Swaroopam Privat e Limited is increased to 60% in the next year:
- (a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.
- (b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.
- (c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.
- (d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.
- **14.** The company has requested its previous auditor to give back its audit documentation ("working papers") and warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:
- (a) The previous auditor is bound to return the work papers as the company has raised the confidentiality clause over the audit firm. Thus, the SA 230 is not applicable in such scenario as the original owner itself is requesting to return the working papers.
- (b) The auditor has a right over its working paper, and he is the owner of the work papers but he cannot give the work papers to any person even at the request of the company.
- (c) The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company.

- (d) The auditor has a right over its working papers but the owner of them is the company. He should make available the workpapers to the company at its request and SQC-1 mandates the auditor to make copies made available to its clients.
- **15.** The trainee asked you whether the IND AS is applicable to the group or not?
- (a) Yes, but only Manava Swaroopam Limited needs to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.
- (b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.
- (c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company's net worth is below 250 crore and is not listed in any recognized stock exchange in India.
- (d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US

Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.

Achieving Excellence Together (2×5 = 10 Marks)

#### **CASE STUDY-2**

Papa Limited is a listed nationalized bank whose face value per share is Rs. 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of

audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited. While finalizing the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of Rs.2 crores, determination of amount of minority interest of Rs. 50 Lakh and some intra-group transaction adjustment of Rs. 15 lac were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of 30lac.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgment used the below mentioned days:

| Month     | Day of month                 | Day      |
|-----------|------------------------------|----------|
| April     | 2nd                          | Thursday |
| May       | Achieving Exc9thence Togethe | Saturday |
| June      | 5th                          | Friday   |
| July      | 31st                         | Friday   |
| August    | 31st                         | Monday   |
| September | 1st                          | Tuesday  |
| October   | 30th                         | Friday   |

| November | 1st  | Sunday  |
|----------|------|---------|
| December | 1st  | Tuesday |
| January  | 10th | Sunday  |
| February | 8th  | Monday  |
| March    | 7th  | Sunday  |

Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31 st March total liability stood at Rs. 200 Crores. It includes Margin held for funded facilities of Rs. 3 Crore, credit balance for one branch of Rs. 4 crores, adverse balance of nostro Mirror account of Rs. 2 Crores and unadjusted deposit for agency business of Rs. 6 Crore. Papa Limited has total 12 directors including 3 women directors. Out of them, Mr. Right was non executive chairman as well as promoter of bank. Papa Limited has a total of 5 independent directors in their board.

Wife of CA Das, was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of Papa Limited of Rs. 100 each for Rs. 15,00,000. All the required communication was made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors.

### **16.** Which of the following statement is true?

(a) For giving the effect of merger, permanent consolidation adjustment of 250 lac and current period consolidation adjustment of 45 lac was made.

- (b) For giving the effect of merger, permanent consolidation adjustment of 280 lac and current period consolidation adjustment of 15 lac was made.
- (c) For giving the effect of merger permanent consolidation adjustment of 295 lac.
- (d) For giving the effect of merger, permanent consolidation adjustment of 265 lac and current period consolidation adjustment of 30 lac was made.
- **17.** While verifying the compliance of corporate governance, in accordance with Regulation 17 and 17A, was there any non-compliance in composition of board?
- (a) No, as in this scenario there should be at least 1/3 i.e.4 independent directors.
- (b) Yes, as in this scenario there should be at least 1/2 i.e. 6 independent directors.
- (c) No, as its upto the shareholder to decide the composition of board after complying with section 149(4) of companies act 2013.
- (d) Yes, as in this scenario there should be at least 2/3 i.e. 8 independent directors.
- **18.** List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?
- (a) January, February and March.
- (b) July, August and October
- (c) June, July and October.
- (d) May and November

| 19. While calculating SLR compliance of Papa Limited, what will be value of demand and time         |
|---|
| liability as on 31st March?   |
|   |
| (a) 191 crores  |
| # N 0 0 0   |
| (b) 200 crores.   |
| (c) 197 crores.   |
| (c) 137 choics.   |
| (d) 185 crores.   |
|   |
|   |
| 20 Will CA Das be disqualified after his wife nurshased 100 shares for Ds. 15 00 0003               |
| <b>20.</b> Will CA Das be disqualified after his wife purchased 100 shares for Rs. 15,00,000?       |
| (a) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares of      |
| more than Rs. 100,000 market value.   |
|   |
| (b) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of  |
| less than Rs. 20,00,000 market value.   |
|   |
| (c) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of  |
| less than Rs. 100,000 face value.   |
| Acres   |
| (d) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares in Papa |
| limited irrespective of amount of investment.   |
| (5:20 40.04 d.)   |
| (5×2 = 10 Marks)  |
|   |
|   |
|   |

# **PART II - DESCRIPTIVE QUESTION**

Question No. 1 is Compulsory and answer any 4 out of remaining 5 questions

Q-1 (A) M/s. HK & Co. was appointed as an auditor of GSB Limited, a company operating its business in telecom sector. As per spectrum allocation agreement with Government, GSB Limited is required to pay certain percentage of its annual revenue as license fee. GSB Limited paid the license fee on its core business for last two years. At the end of third year, the communication was received from Government that it needs to pay agreed percentage on its total revenues and not only on core business revenues. Matter was disputed and went to court of law. On prudence basis, GSB Limited made a provision on estimated business in its books of accounts of agreed percentage on non-core business receipts also. The amount of provision was of such huge amount that the GSB Limited's profit and loss account for that quarter reflected loss due to that provision. How you as an auditor can evaluate this accounting estimate which involves significant risk and what if Management has not addressed the effects of estimation uncertainty on provision made?

(5 Marks)

- (B) Coccyx Ltd. supplies navy uniforms across the country. The Company has 3 warehouses at different locations throughout the India and 5 warehouses at the borders. The major stocks are generally supplied from the borders. Coccyx Ltd. appointed M/s OPAQE & Co. to conduct its audit for the financial year 2020-21. Mr. P, partner of M/s OPAQE & Co., attended all the physical inventory counting conducted throughout the India but could not attend the same at borders due to some unavoidable reason. You are required to advise M/s OPAQE & Co.,
- (I) How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained?
- (II) How is an auditor supposed to deal when attendance at physical inventory counting is impracticable?

(5 Marks)

(C) ABC Ltd. is a company engaged in the manufacture of iron and steel bars. PP & Associates are the statutory auditors of ABC Ltd. for the FY 2020-21. During the course of audit, CA Prakash, the engagement partner, found that the Company's financing arrangements have expired and the amount outstanding was payable on March 31, 2021. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Prakash express in case of ABC Ltd.?

(4 Marks)

Q-2 (A) O Ltd. is in the business of manufacturing of steel. The manufacturing process requires raw material as iron ore for which large stock was maintained by the company at year end – 31 March 2019. The nature of raw material is such that its physical verification requires involvement of an expert. Management hired their expert for stock take and auditors also involved auditor's expert for the stock take.

The auditor observed that the work of the auditor's expert was not adequate for auditor's purposes and the auditor could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor. Basis above, the auditor concluded that it would be necessary to express a modified opinion in the auditor's report because the auditor has not obtained sufficient appropriate audit evidence. However, the auditor issued a clean report and included the name of the expert in his report to reduce his responsibility for the audit opinion. Comment.

(5 Marks)

(B) A newly qualified professional has received his first appointment as auditor of a large company and is very much concerned about the effectiveness of internal control and wants to assess and evaluate the control environment as part of his audit program. Towards achieving his objective, he seeks your help in knowing the Standard Operating Procedures (SOPs) of assessment and evaluation of control.

(5 Marks)

(C) M/s SS limited is a partly owned subsidiary of M/s HH limited. For the upcoming financial year, M/s DD & Co., Chartered Accountants, were appointed as the statutory auditors of SS limited. The CEO of the holding company was impressed with the knowledge and experience of Mr. D, one of the partners of the firm and hence, he offered Mr. D to take up the position of Director (not MD/ whole- time director) of HH limited. At the same time, Mr. D's friend approaches him with an assignment to act as a Recovery Consultant for a bank. Mr. D is now confused whether to accept or reject the offers. He approaches you and seeks your advice on the same. Advise what Mr. D about what he can do with the offers with reference to the Chartered Accountants Act, 1949 and Schedules thereto.



**Q-3 (A)** The Comptroller and Auditor General assists the legislature in reviewing the performance of public undertakings. He conducts an efficiency-cum-performance audit other than the field which has already been covered either by the internal audit of the individual concerns or by the professional auditors. He locates the area of weakness for managements' information. Explain stating clearly the issues examined in comprehensive audit

(5 Marks)

**(B)** You have been appointed as an auditor of LCO Bank, a nationalized bank. LCO Bank also deals in providing credit card facilities to its account holder. The bank is aware of the fact that there should be strict control over storage and issue of credit cards. How will you evaluate the Internal Control System in the area of Credit Card operations of a Bank?

(5 Marks)

**(C)** A Chartered Accountant in practice certified in requisite Form that an articled assistant was undergoing training with him, whereas, he was also employed in a company between 9:30 a.m. and 5:30 p.m. on a monthly salary of Rs. 18,000 and attended the office of the Chartered Accountant thereafter until 7 p.m. The Chartered Accountant pleaded that the articled assistant was on audit of the company. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(4 Marks)

Q-4 (A) The audit report of Kolsi (P) Ltd. for F.Y. 2020-21 was issued by Bishnoi & Co. on 25th July, 2021. However, a case was filed against Kolsi (P) Ltd. on 4th August, 2021, with the Civil Court, with respect to an incident caused in its factory on 17th January, 2021, the outcome of which may result in paying heavy penalty by Kolsi (P) Ltd.

Mr. Raj Bishnoi, the partner of Bishnoi & Co., discussed the said matter with the management and it was determined to amend the financial statements for F.Y. 2020-21. Further, Mr. Raj inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.

The management told Mr. Raj that such disclosure was enough as he would further going a description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his

amended audit report. In the context of aforesaid case scenario, please answer the following questions:

- (a) Whether Mr. Raj on behalf of Bishnoi & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Kolsi (P) Ltd.?
- (b) Whether the contention of management of Kolsi (P) Ltd. is valid with respect to the disclosure of the court case in the financial statements?

(5 Marks)

(B) During the course of Audit of M/s CT Ltd. for the financial year 2020-21, it has noticed that Rs. 2.00 lakhs of employee contribution and Rs. 9.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of account in respective heads. Whereas, it was found that Rs. 4.00 lakhs only have been deposited with ESIC department during the year ended 31st March, 2021. The Finance Manager informed that auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. Comment as a statutory auditor.

Achieving Excellence Together (5 Marks)

**(C)** Reviewers, based on the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A clean report indicates that the reviewer is of the opinion that the affairs are being conducted in a manner that ensures the quality of services rendered. However, a reviewer may qualify the report due to one or more reasons. In view of above Give example of some of the situations when Reviewer of Quality Review Board may qualify the report.

Q-5 (A) M/s RB Ltd. is engaged in the trading of engineering goods. Turnover of the Company for the year ended 31.03.2021 was Rs. 150.00 crores. During the F.Y 2018-2019, the Company claimed deduction of bad debts amounting to Rs. 100.00 lakhs while filing income tax return (Out of total debts of Rs. 150.00 lakhs due from Mr. X). However, during the F.Y 2020-2021, the Company was able to recover Rs. 75.00 lakhs from Mr. X through legal means and correctly credited to its profit and loss account. As a tax auditor, is it required to report such transactions in Tax Audit report under Income Tax Act, 1961?

(5 Marks)

- (B) Comment on the following with reference to Schedule III to the Companies Act, 2013:
- (i) A company has disclosed performance guarantee and counter guarantees as Contingent Liabilities.
- (ii) A company has clubbed all other expenses under the head 'Other Expenses' on the basis of 1 percent of total revenue or Rs.5,000 whichever is higher.
- (iii) A company has shown Deferred Tax Liability under Non-Current Liabilities and Deferred tax assets under Non-Current Asset in balance sheet.

(5 Marks)

**(C)** CA Vipin has been appointed as Statutory Auditor by IG Insurance Co. Ltd. for 3 of its branches for the F.Y. 2019-2020. Insurance Company is using a software called "Applied Epic" wherein all transactions (policy issuance, premium receipts, expense of insurance company, incomes, assets and liabilities) are recorded and financial statements generated at the end of

the financial year. CA Vipin not technically equipped and well versed with technology, decided to follow traditional manual auditing approach and started the audit. He is of the view that understanding and using the auditee's automated environment is optional and not required. Do you agree with the approach and views of CA Vipin?

(4 Marks)

Q-6 (A) You are appointed as an auditor of Nawab Limited, a listed company which is a main supplier to the UK building and construction market. With a turnover of Rs. 2.9 billion, the company operates through 11 business units and has nearly 1,80 branches across the countries. As an auditor, how will you draft the report in case (a) When the Parent's Auditor is also the Auditor of all its Components? and (b) When the Parent's Auditor is not the Auditor of all its Components?

(5 Marks)

(B) Sun Moon Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Jharkhand and Odhisa. During the FY 2020-21, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Sun Moon Ltd. This happened in the month of December 2020 and as such entire power generation process of Sun Moon Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the company. There were delays in the of payment of wages and salaries and the banks from whom the company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the company.

Further, when discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances. Further, all such circumstances

were not reflected the financial statements of Sun Moon Ltd. What course of action should the statutory auditor of the company consider in such situation?

(5 Marks)

(C) While auditing Innocent Insurance Ltd, you observed that a policy has been issued on 31st March, 2020 evening to LMN Company. LMN Company had signed all the papers and taken insurance policy (value insured = Rs. 11 lac) for its new godown and premium for the same was paid through cheque subject to realization. However, on the night of 31st March, a huge fire accident took place in LMN Company and goods worth Rs.15 lac were destroyed. Further, cheque was also dishonoured due to insufficient fund. The Company informed the incident to Innocent Insurance Ltd and a claim was lodged for the same. The insurance company also made a provision for claim. Advise the Innocent Insurance Ltd in this regard.

OR

Mr. Dhruv, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

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(4 Marks)