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Question Paper	
ADV. Audit & Professional Ethics	Duration: 75
Details: Test – 4	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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TEST-4 CH-13, 14, 17

(SA- 500, 501, 505, 510, 520, 530, 540, 550, 560, 570, 580)

Q-1 Solar Limited is a public sector undertaking engaged in production of electricity from solar power. It has started a new project near Puducherry with a new technology for a cost of Rs. 9,750 crore. Though there is delay in commencement of project and accordingly, there has been overrun in the cost. State the matters C&AG while conducting Comprehensive Audit may cover in reporting on the performance and efficiency of this project.

(5 marks)

Q-2 “The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements.” You are required to explain the meaning assigned to Technical, Ethical and Professional Standards as per Peer Review Statement.

(6 marks)

Q-3 Indicate the precise nature of auditor's duties in the following situation: Based upon the legal opinion of a leading advocate, X Ltd. made a provision of Rs. 5 crores towards Income Tax liability. The assessing authority has worked out the liability at Rs. 15 crores. It is observed that the opinion of the advocate was inconsistent with legal position with regard to certain revenue items.

(5 marks)

Q-4 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.

(4 marks)

Q-5 In assessment procedure of M/s Cloud Ltd., Income Tax Officer observed some irregularities. Therefore, he started investigation of Books of Accounts audited and signed by Mr. Old, a practicing Chartered Accountant. While going through books he found that M/s Cloud Ltd. used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the Institute of Chartered Accountants of India saying Mr. Old had negligently performed his duties. Comment.

(5 marks)

Q-6 "The C & AG may direct the appointed auditor about the manner in which the accounts of the Government Company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India". What are the relevant sections of the Companies Act, 2013 and steps involved in the audit of Government Companies?

(5 marks)

Q-7 MCQs:-

1. KKR Ltd is a medium-sized company engaged in business of e-commerce. Company's operations have remained stable over years and its profitability has been going down. Company also ventured into different markets over last few years but that has not helped much in terms of growth of business or increasing profitability. Company's immediate plan is to expand its operations with focus on increasing profitability.

The company was looking for funds to achieve this objective and issued a prospectus to public to subscribe to its shares. The financial statements of company for year ended 31 March 2018 included in prospectus showed a very different picture of company particularly in respect of its profits. It was later on found that some of information contained in prospectus was misstated i.e. it was untrue and misleading to attract public to subscribe shares of company. Legal action was taken by stakeholders against company including its auditors and company's management/directors were confident that they would not be required to face any action considering fact that financial statements were duly audited by a reputed firm of Chartered Accountants. If at all any problem arises, it would be responsibility of auditors. Please advise whether anyone can be held liable in this matter or not. If yes, what action can be taken against him/them? If no, what should be corrective action?

- A) Understanding of directors is correct and auditors should be held liable u/s 447 of Companies Act.
- B) The understanding of directors is wrong. They would be held liable under section 447 of Companies Act and not auditors because responsibility for prospectus lies with management.
- C) This may lead to criminal liability wherein every person who authorizes issue of such prospectus shall be liable under section 447 of Companies Act.
- D) This may lead to civil liability wherein every person who authorizes issue of such prospectus shall be liable under section 447 of Companies Act.

2. Shivam & Co LLP is a large firm of Chartered Accountants based out of Delhi -NCR. During the financial year ended 31 March 2019, the firm Shivam & 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. Shivam & Co LLP objected to the time taken by the Peer Reviewer on-site, however, as per Peer Reviewer, the entire review process got completed within 90 days from the 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.

3. Setir Ltd is a company in which 59% of the paid up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects.

The Punjab Government is also planning to induct funds in the company in future, if required. Nocri Ltd is a company controlled by Setir Ltd. The business of Nocri Ltd is construction and has an annual turnover of INR 2500 crore approx. The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2020 got completed but Nocri Ltd observed that during the course of audit, there was lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas.

Further, it also received comments from C&AG on the audit report of the auditors. Nocri Ltd is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will

have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid. In this context, please advise which of the following should be correct?

- (a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&AG.
- (b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditor.
- (c) C&AG involvement could have been accepted if this was the audit of Setir Ltd but not in case of Nocri Ltd and hence Nocri Ltd should also reach out to its parent company to get this resolved.
- (d) Stand of Nocri Ltd is wrong as the C&AG may get involved in the audit of Nocri Ltd.

(2×3 = 6 Marks)

4. You have been given an assignment of audit of IT department of a PSU. A checklist was handed over to you which contained many questions such as,

1. Are separate user names and passwords assigned to individual users?
2. Are periodical changes of passwords ensured?
3. Are external (offsite) data backups maintained at a place outside the premises?

The type of audit being conducted is likely to be:

- (a) Comprehensive audit.
- (b) Propriety audit.
- (c) Compliance audit.

(d) Financial audit

5. No business shall be transacted at any meeting of the Board unless there are present at least one third members of the Board but not less than....., including the Chairman or, in his absence, the Vice-Chairman. In the absence of quorum within half an hour of the time fixed for the meeting, the meeting shall stand adjourned to a date, time and place fixed by the Chairman or, in this absence, the Vice-Chairman.

(a) Five members

(b) Four members

(c) Three members

(d) Six members

6. OPE Ltd issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31 March 2019. The issue was fully subscribed.

During this year, there was an abnormal rise in the profits of the company for which it was found later on that it was because of manipulated sales in which there was participation of Whole-time director and other top officials of the company. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts.

The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. The auditors were able to prove that they found internal controls to be satisfactory and did not find any circumstance to arouse suspicion.

The company was not able to prove that auditors were negligent in performance of their duties. Please suggest your views on this.

(a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.

(b) The approach of the auditors look reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.

(c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc, the manipulation could have been detected. Hence the auditors should be held liable.

(d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.

7. 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)

(1×4 = 4 Marks)

