

**MOCK TEST PAPER - 1**  
**FINAL (NEW) COURSE: GROUP – I**  
**PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS**

*Question No. 1 is compulsory.*

*Attempt any **five** questions from the Rest.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) A firm of a father and a son is receiving Rs. 2 lakhs towards job work done for XYZ Ltd. during the year ended on 31.03.16. The total job work charges paid by XYZ Ltd. during the year are over Rs. 50 lakhs. The father is Managing Director of XYZ Ltd. having substantial holding. The Managing Director told the auditor that since he is not involved in the activities of the firm and since the amount paid to it is insignificant; there is no need to disclose the transaction. He further contended that such a payment made in the last year was not disclosed. Advise whether Managing Director is right in his approach.
- (b) As an auditor of a company registered under section 8 of the Companies Act, 2013 you find that as per the notification of the Ministry of Corporate Affairs regarding applicability of Indian Accounting Standards (Ind-AS), the company has to prepare its financial statements for the year ended 31<sup>st</sup> March, 2018 under Ind-AS. The management of the company is however of the strong view that being a section 8 company having charitable objects, Ind-AS cannot apply to the company. The financial statements are therefore prepared by the management under the earlier GAAP and a note for the same is given in the financial statements. How would you report on these financial statements?
- (c) As an auditor of ABC Limited, in view of given circumstances, you are required to draft qualified opinion and basis for qualified opinion due to the departure from the applicable Financial Reporting Framework:
- Audit of a complete set of financial statements of an company other than a listed company (registered under the Companies Act, 2013) using a fair presentation framework.
  - The financial statements are prepared by management of the entity in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 (a general purpose framework).
  - The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
  - A departure from the applicable financial reporting framework resulted in a qualified opinion.
  - The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013.
  - Based on the audit evidence obtained, the auditor 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 (Revised).
  - Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.

- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.
  - Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
  - In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.
- (d) During the course of audit of CT Ltd. for the financial year 2017-18, it is noticed that Rs. 3.00 lakhs of employee contribution and Rs. 7.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that Rs. 5.00 lakhs only has been deposited with ESIC department during the year ended 31<sup>st</sup> March, 2018. The Finance Manager informed the 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. **(5 x 4 = 20 Marks)**
2. (a) Lily, a chartered accountant prepares and certifies projected financial statements of his client Amazon Ltd. Amazon Ltd. forwarded the same to their banks to secure some loans and bank, on that basis sanctioned a loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.
- (b) Beam Ltd., having principal place of business in Gujarat, is engaged in the generation, transmission, distribution and supply of electricity throughout the India. The management of the company came to know that the provisions related to maintenance of cost records and cost audit are applicable to the company. The company, therefore, appointed a cost auditor for the financial year 2017-18.
- The cost auditor reported certain disqualifications in Form CRA-3 of the cost audit report to which the management of the company disagreed.
- The management of Beam Ltd. ingeniously instructed its tax auditor not to reveal any of the disqualifications related to the cost audit while filling particulars to be furnished in Form No. 3CD contending that the disqualifications are not relevant and there is no correlation between tax audit and cost audit as well.
- As a tax auditor, how would you deal with the matter?
- (c) 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.
- (d) Mr. X was appointed as the auditor of M/s Easygo Ltd. and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose. **(5 x 4 = 20 Marks)**

3. (a) A practising Chartered Accountant uses a visiting card in which he designates himself, besides as Chartered Accountant, as
- (i) Tax Consultant
  - (ii) Cost Accountant.

Advise on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

- (b) PQR Ltd. is a listed company having turnover of Rs. 50 crores & plans expansion by installation of new machines at new building-having total additional project cost of Rs. 20 crore.

Rupees (In crore)	Purpose
10.0	- for Building
8.5	- for Machinery
<u>1.5</u>	- for Working Capital
<u>20 Crore</u>	

Project gets implemented in 2017-18 and one of the accountants points out to Managing Director that something wrong has happened in the purchase of building material.

On hearing this, the management is planning to appoint Forensic Auditor. Advise the Forensic Auditor about the steps to be undertaken in case of forensic audit process.

- (c) Z Ltd changed its employee remuneration policy from 1st of April 2017 to S provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy the employees can either utilize or encash it. As at 31st March 18 the company obtained an actuarial valuation for leave encashment liability. However, it did not provide for 12% PF contribution on it. The auditor of the company wants it to be provided but the management replied that as and when the employees availed leave encashment, the provident fund contribution was made. The company further contends that this is the correct treatment as it is not sure whether the employees will avail leave encashment or utilize it. Comment.
- (d) You are appointed as an auditor of Najib Limited, a listed company which is a main supplier to the USA building and construction market. With a turnover of Rs. 1.9 billion, the company operates through 11 business units and has nearly 1,70 branches across the countries.

As an auditor, how will you draft the report in case (I) When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent?(II) When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent?

**(5 x 4 = 20 Marks)**

4. (a) M/s LMN, a firm of Chartered Accountants responded to a tender from a State Government for computerization of land revenue records. For this purpose, the firm also paid Rs. 50,000 as earnest deposit as part of the terms of the tender. Comment with reference to the Chartered Accountants Act, 1949.
- (b) You have been appointed as the auditor of Good Health Ltd. for 2017-18 which was audited by CA Trustworthy in 2016-17. As the Auditor of the company state the steps you would take to ensure that the Closing Balances of 2016-17 have been brought to account in 2017-18 as Opening Balances and the Opening Balances do not contain misstatements.
- (c) While auditing Secure Insurance Ltd., you observed that the major proportion of expense of the company is the remuneration/commission paid to its insurance agents. As the auditor of the company, what audit procedure would you adopt for verification of such expense?

- (d) In a controls-based audit, the audit approach can be classified into three broad phases comprising of planning, execution, and completion. You are required to briefly explain the relevant considerations of every phase in above audit approach in case of automated environment.
- (e) "The C&AG may direct the appointed auditor 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 auditor of Government Companies?

**(4 x 5 = 20 Marks)**

5. (a) Mr. M, a Chartered Accountant in practice, has printed visiting cards which besides other details also carries a Quick Response (QR) code. The visiting card as well the QR code contains his name, office and residential address, contact details, e-mail id and name of the firm's website. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.
- (b) XYZ Hospital Private Ltd. is engaged in running a hospital of 200 Beds since last 20 years. Revenue Track of the hospital for last 3 years is as under:

2015-16	-	20 Crores
2016-17		25 Crores
2017-18		35 Crores

Hospital has its own Pharmacy, Laboratory, Blood Bank, Radiology & General Stores. Its management suspects that leakages/theft is happening in Pharmacy, Radiology, Laboratory and General Stores departments. It seeks advice of RST & Co., Internal Auditors of the Company, as to how it can Institute/Improve its Internal Control. In this context, Management wants to understand the concept of components of Internal Control Structure in detail. Advise.

- (c) ABC Ltd. is engaged in manufacturing of Yarns and Towels. It sells its product in both domestic as well as in International Market. It has achieved turnover of 200 crores in the F.Y. 2016-17. Directors of the company realized that they are not managing the company professionally and thereby request your firm of Internal Auditors for appraisal of its organizational structure to ascertain whether it is in harmony with the objectives of ABC (P) Ltd. Comment.
  - (d) An environment audit may be conducted for many purposes for example, to comply with environmental laws or as a social responsibility measure or to meet some certification requirements. Though environmental auditing is conducted using pre-decided policies, procedures and a proper documented system, there is always an element of subjectivity in audit. In view of above, you are required to explain stages of environmental audit process.
  - (e) Every listed company shall constitute a qualified & Independent audit committee in accordance with the terms of reference subject to a few conditions. Explain. **(4 x 5 = 20 Marks)**
6. (a) KG Ltd. wants to provide prospective Financial Information to its investors with information about future expectations of the company. You are engaged by KG Ltd. to examine the Projected Financial Information and give report thereon. What will you consider in assessing the presentation and disclosure of the prospective Financial Information and the underlying assumptions?
  - (b) Mr. Ram, a Chartered Accountant has appeared before the Income Tax Authorities as the authorized representative of his client and delivers to the Income Tax Authorities a false declaration. Discuss briefly the liabilities of Mr. Ram under Income Tax Act, 1961.
  - (c) The financial statements of AKY & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor advise the considerations to be taken care while planning and performing audit?

- (d) M/s. S Ltd. is a MSME unit. The company does multiple banking. The company is availing cash credit limit from U Bank of Rs. 25 crores. The limit availed remained less than Rs. 5.00 crores during all the days of F.Y. 2017-18. The company has not done any credit in cash credit account during the year as it is operating current account in newly opened another bank branch adjoining to company premises. The company is having sufficient security of stocks and debtors and DP of Rs.25.00 crores remains all over the year. The company is availing term loans from other bank branches. Now the Bank Manager is insisting to route the sale proceeds through U Bank, otherwise cash credit limit and term loan accounts with other banks will be treated as Non-Performing Accounts. Now company seeks your opinion.
- (e) 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 x 5 = 20 Marks)**