

Test Series: April, 2018

MOCK TEST PAPER
FINAL (OLD) 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. Comment on the following:
 - (a) You are the auditor of Swift Communications Ltd. for the year 2017–18. The inventory as at the end of the year i.e. 31.3.18 was rupees 2.55 crores. Due to unavoidable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order?
 - (b) You have been appointed as the auditor of Top 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) Star Limited replaced its statutory auditor for the financial year 2017-18. During the course of audit, the new auditor found a credit item of rupees 4 lakhs. On enquiry, the company explained him that it is, a very old credit balance. The creditor had neither approached for the payment nor he is traceable. Under the circumstances no confirmation of the credit balance is available.
 - (d) The auditor of Moon Pvt. Ltd. having turnover of rupees 12 crore, was not able to get the confirmation about the existence and value of certain stock. However, a certificate from the Management has been obtained regarding the existence and value of the stock at the year end. The auditor relied on the same and without any further procedure, signed the Audit Report. Is he right in his approach?

(5 × 4 = 20 Marks)
2.
 - (a) Highlight the provisions relating to corporate responsibility under Sarbanes Oxley Act of 2002.

(4 Marks)
 - (b) M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of Enn Ltd. for the Financial Year 2017-18. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in

Enn Ltd. having market value of rupees 1,50,000. Whether M/s RM & Co. is disqualified to be appointed as auditors of Enn Ltd.? **(4 Marks)**

- (c) RX Ltd. is a sugar manufacturing company. The company appointed Mr. Suresh, a practicing cost accountant, to conduct cost audit of its cost records under section 148 of the Companies Act, 2013. While conducting audit, Mr. Suresh found some misstatement resulting into fraud committed by the officers of the company amounting rupees 1.5 crore. However, he did not report the matter to the Central Government believing that liability for such reporting lies only with statutory auditor of the company. Advise. **(4 Marks)**
- (d) "The computer audit program developed for general purposes shall have to be customised according to needs of the organisation." State any four important characteristics of an effective computer audit programme system of which examination is necessary to ensure that it is effective. **(4 Marks)**
3. (a) "The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the key factors".
- You are required to briefly discuss the factors determining the key audit matters. **(3 Marks)**
- (b) You are engaged to review the system and the information generated from the financial statements. Discuss the elements of the practitioner's report for the Historical Financial Statements review engagement in view of SRE 2400. **(6 Marks)**
- (c) Under CARO, 2016, as a statutory auditor, how would you report on the following:
- (i) A Term Loan was obtained from a bank for ` 80 lakh for acquiring R&D equipment, out of which ` 15 lakh was used to buy a car for use of the concerned director who was overlooking the R&D activities. **(3 Marks)**
- (ii) RPS Ltd. has entered into non-cash transactions with Mr. Rahul, son of director, which is an arrangement by which RPS Ltd. is in process to acquire assets for consideration other than cash. **(4 Marks)**
4. (a) Ploy Ltd., engaged in the leasing of goods carriage, appointed you as the tax auditor for the financial year 2017-18. How would you deal with the following payments relating to the leasing transactions in your tax audit report:
- (i) Payments of 6 invoices of ₹ 5,000 each made in cash to Mr. X on 4th July, 2017.
- (ii) Payments of 2 invoices of ₹ 18,000 each made in cash to Mr. Y on 5th July, 2017 and 6th July, 2017 respectively.
- (iii) Payment of ₹ 40,000 made in cash to Mr. Z on 7th July, 2017 against an

invoice for expenses booked in 2016-17.

(6 Marks)

- (b) Your firm has been appointed as an auditor of a nationalised bank. You allocated the task of verifying Telegraphic Transfers and Demand Draft to your Audit Assistant. While verifying, the Audit Assistant informed you that there are a lot of irregularities in Telegraphic Transfers and Demand Drafts. What guidance would you give him? **(4 Marks)**
- (c) *MSY & Co. is an Audit Firm having partners CA Mukti, CA Shakti and CA Yukti. CA Mukti, CA Shakti and CA Yukti are holding appointment as an Auditor in 4, 6 and 10 companies respectively.*
- (i) Provide the maximum number of audits remaining in the name of MSY & Co.
- (ii) Provide the maximum number of audits remaining in the name of individual partner i.e. CA Mukti, CA Shakti, CA Yukti.
- (iii) Can MSY & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than ` 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the of the Companies Act with the Registrar, 2 small companies and 1 dormant company?
- (iv) Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of ₹ 110 crore each? **(6 Marks)**
5. (a) M/s CD & Co., a firm of Chartered Accountants, accepted an assignment for audit under GST Law and communicated the same over phone to the previous auditor, M/s AB & Co., Chartered Accountants. Comment. **(4 Marks)**
- (b) The areas covered in comprehensive audit vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. You are required to list down some of the broad areas to be examined in comprehensive audit. **(4 Marks)**
- (c) Conducting Cost Audit is useful to the management, society, shareholders and the government in many ways. Briefly mention some of the advantages of cost audit to the government. **(4 Marks)**
- (d) H Ltd. is interested in acquiring S Ltd. The valuation of S Ltd. is dependent on future maintainable sales. As the person entrusted to value S Ltd., what factors would you consider in assessing the future maintainable sales? **(4 Marks)**
6. (a) Mr. A is a practicing Chartered Accountant. Mr. B is a practicing Advocate representing matters in the court of law. Mr. A and Mr. B decided to help each other in the matters involving their professional expertise. Accordingly, Mr. A recommends Mr. B in all tax litigation matters in the court of law and Mr. B consults Mr. A in all matters related to finance and other related matters, which comes to him in arguing various cases in the court of law. Consequently, they started sharing some part in the profits of their professional work. **(4 Marks)**

- (b) CA. Ritu is a leading Income Tax Practitioner in Delhi. She is very much fond of cooking. Due to this passion of her, she also wrote a cookery book "Delight your tummy" during the year. But, she didn't take any permission from the Council of the Institute for engaging herself into authorship of such book. Comment. **(4 Marks)**
- (c) You are the auditor of ABC Ltd., a NBFC registered with RBI. How would you proceed to ensure the compliance of Prudential Norms directions by it. **(4 Marks)**
- (d) A special notice has been issued for a resolution at 3rd annual general meeting of Tiddle Ltd. providing expressly that CA. Munish shall not be re-appointed as an auditor of the company. Consequently, CA. Munish submitted a representation in writing to the company as provided under section 140(4)(iii) of the Companies Act, 2013. In the representation, CA. Munish incorporated his independent working as a professional throughout the term of office and also indicated his willingness to continue as an auditor if re-appointed by the shareholders of the Company. Comment – Is CA. Munish allowed to submit the representation and write such content? **(4 Marks)**

7. Write short notes on **any four** of the following:

- (a) Restriction on shareholding in a Co-operative Society.
- (b) Audit programme for verification of transportation charges.
- (c) Usual evidence to justify hoarding advertisement expenses.
- (d) Preliminary Report under Peer Review.
- (e) "Mandatory Review" areas of the audit committee. **(4 × 4 = 16 Marks)**