

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

*All MCQs are compulsory*

*Question No. 1 is compulsory.*

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

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

**DIVISION A – MCQs (30 Marks)**

**Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.**

1. CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA. Ram. He approached CA. Ram to take guidance on some topics of financial management subject related to his course. CA. Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 4 days in a week and for 3 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should \_\_\_\_\_ in order to be able to undertake attest functions.
  - (a) not exceed 25 hours a week
  - (b) not exceed 21 hours a week
  - (c) not exceed 25 hours a month
  - (d) not exceed 21 hours a month
2. Rana & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. During the financial year ended 31 March 2019, the firm Rana & Co LLP got an intimation for the peer review on 1 July. The entire peer review process including on-site review got completed. The peer reviewer did not share any of his observations with Rana & Co LLP as draft and final report was submitted to the firm.
  - (a) Peer reviewer need not share any draft report with the firm if there are no observations.
  - (b) Even the final report is not required to be submitted to the firm.
  - (c) Peer reviewer needs to share draft report with the firm before finalisation.
  - (d) There are no reports in case of peer review. On completion, a certificate to that effect is issued.
3. 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. Which of the following is correct:

- (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.
4. Rajeev Ltd is a listed company having business of production of motion pictures. For the year ended 31 March 2018, the company wanted to appoint GST auditor. For the purpose, somebody who is familiar with the business of the company/industry was to be preferred for appointment i.e. who would have worked with the company in the past to avoid efforts/ duplication in terms of providing the information to get the GST audit completed. The company had following options for the same. Please advise.
- (a) Internal auditors can be appointed for this work.
  - (b) Both statutory and internal auditors can be jointly appointed for this work.
  - (c) Internal auditors along with the tax consultants of the company can be appointed for this work.
  - (d) Statutory auditors can be appointed for this work.
5. CER Ltd is a non-banking financial company and has been operating for the last 10 years. The company is duly registered as per the requirements of the Reserve Bank of India. The company's assets base has been very strong over the years due to its efficient management function. The company is also planning to get listed for which required work is going on.
- For the financial year ended 31 March 2019, the company has closed its books of accounts and prepared the financial statements for the purpose of statutory audit in a timely manner. The auditors of the company have started their fieldwork. It has been observed by the auditors that the company's various term loans which have been given to various parties have become overdue in terms of instalment including interest for a period of 5 months. As per the auditors these terms loans should be considered by the company for making provision at the rate of 20% of total outstanding amount, however, the management has considered a provision at the rate of 0.30%. Please advise the auditors and the management regarding this matter considering that "Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016" are applicable to this NBFC.
- (a) Provision should be made at 10%.
  - (b) Provision should be made 0.30%
  - (c) Provision should be made at 20%.
  - (d) Provision should be made at 0.40%

6. PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2018-19. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?
- (a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly.
  - (b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions till the Bank segregates the transactions from its own investments.
  - (c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.
  - (d) Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills re-discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.
7. The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of –
- (a) not less than 7 directors.
  - (b) not less than 4 directors.
  - (c) not less than 6 directors.
  - (d) not less than 2 directors
8. 50:50 test determination is popularly used in
- (a) Banking Company
  - (b) Insurance Company
  - (c) NBFC Company
  - (d) Stock Trading Company
9. 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.
10. An auditor's expert may be either an auditor's internal or an external expert. Which of the following can not be an auditor's internal expert?
- (a) Partner of the Auditor's Firm
  - (b) Temporary Staff of the Auditor's Firm
  - (c) Permanent Staff of Auditor's Network Firm
  - (d) A Prospective CA, soon to join the Auditor's Firm as a Partner.
- (10 x 1 = 10 Marks)**

**Questions (11-20) carry 2 Marks each**

11. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31<sup>st</sup> March, 2019. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019-20.

1. Allahabad branch which started foreign exchange business from February 2019.
2. Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Whether the decision of audit committee to include both the branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines?

- (a) The decision of audit committee is valid as according to RBI Guidelines, both the branches fulfil the criteria for compulsory concurrent audit.
  - (b) Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines, however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits of the Bank is not required to be compulsorily covered for concurrent audit.
  - (c) Allahabad and Rae Bareilly branch are compulsorily not required to be covered under concurrent audit as per RBI Guidelines.
  - (d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered under compulsory concurrent audit criteria as per RBI Guidelines but the Rae Bareilly branch is covered under compulsory concurrent audit criteria.
12. KIC Ltd is a company engaged in the business of general insurance and has been in existence for over 15 years. The company has a subsidiary company, PIC Ltd, which is also engaged in the business of insurance other than general insurance.

The previous statutory auditors of PIC Ltd have completed their tenure as an auditor and accordingly have resigned and the management of PIC Ltd is looking for new statutory auditors.

KB & Associates, a firm of Chartered Accountants, have vast experience of audit of insurance companies and would like to get appointed as auditor of PIC Ltd. KB & Associates is a large firm and have also employed experts – engineers, valuers, lawyers for various client services. The firm is evaluating as to what should be the criteria for get appointed as auditors of PIC Ltd because in the past they have audited only the holding companies and considering a subsidiary company for the first time.

In this context, please help the firm by answering which of the following options would be correct?

- (a) KB & Associates, a firm of Chartered Accountants, should be appointed by the Board of Directors of PIC Ltd and should ensure that they don't take up audit of more than 2 insurance companies.
  - (b) KB & Associates can take up the audit if the firm is appointed by the Comptroller and Auditor General of India and should ensure that they don't take up audit of more than 3 insurance companies.
  - (c) KB & Associates cannot take audit of PIC Ltd because they have employed experts which is not permitted by the IRDAI Guidelines.
  - (d) KB & Associates can take up audit of PIC Ltd by ensuring that they are eligible to be appointed as per the criteria laid down in the Companies Act 2013 for audit of subsidiary companies and they would need to submit a certificate in this respect to the ICAI.
13. KJ Private Ltd has a business of pharmaceuticals and has an annual turnover of INR 1,500 crores. During the last few years, considering the environment in which the company operates, its profit has reduced and is still falling. Hence the management has been looking at various ways to cut the costs.

AD & Associates are the statutory auditors of the company and RM & Associates are the internal auditors of the company.

Initially the company did not want to appoint any internal auditors to save costs, however, at insistence of the statutory auditors, the company appointed the internal auditors.

During the course of the statutory audit for the financial year ended 31 March, 2019, the statutory auditors requested for the detailed working papers of the internal auditors which the internal auditors refused. However, the statutory auditors told the management if the same are not provided then they would qualify their report.

In this situation, please advise which of the following would be correct.

- (a) The statutory auditors should review the detailed working papers but they cannot qualify their report on this ground.
  - (b) The statutory auditors may review the detailed working papers and even after that they may qualify their report.
  - (c) The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors.
  - (d) The statutory auditors may review the detailed working papers of internal auditors but for that purpose they would require prior approval of the ICAI.
14. Employees of LIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simon Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simon travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by LIG Ltd. within 15 days of the bill date. The bills raised by Simon travels were of huge amount, so the management of LIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?
- (a) Internal audit, as it relates to examine the operational efficiency of the organisation.
  - (b) Management audit, as it is an audit desired by the management.
  - (c) Performance audit so as to assess the performance of the Simon travels appointed by the organisation.
  - (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simon travels for the organisation.
15. ZARI & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period.

Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.

A team of new partners is in discussion with the senior old partners regarding their joining the firm.

The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.

For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.

At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope. In the given situation, which of the following is correct:

- (a) The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.
  - (b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.
  - (c) The procedures of the investigating accountant looks completely reasonable considering his scope of work. Further, no changes are required in his work approach.
  - (d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above mentioned facts.
16. While conducting the current year audit of Finco Ltd, the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements. This misstatement was related to recognition of research and development expenditure. The provisions of Ind AS 38 Intangible Assets relating to capitalisation of development expenditure was not applied properly. On this, unmodified opinion had been previously issued. The current auditor verified that the misstatement had not been dealt with as required under Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the current auditor will:
- (a) Express a qualified or an adverse opinion in the auditor's report on the current period financial statements modified with respect to the corresponding figures included therein.
  - (b) Express an unmodified opinion in the auditor's report on the current period financial statements since it was related to the prior year.
  - (c) Express a qualified opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
  - (d) Express an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
17. Honeywell Ltd, a listed company pays its key managerial persons the remuneration in excess of the limits which have been prescribed under 197 of the Companies Act, 2013 without obtaining the necessary approvals from the regulatory authority. In this circumstance, the auditor while reporting under CARO 2016, is required to state:
- (a) Name of the managerial persons to whom the remuneration has been paid in excess of limits and the amount involved.

- (b) Name of the managerial persons to whom the remuneration in excess of limits are paid and the steps taken by the company for securing refund of the same.
  - (c) The maximum remuneration payable and amount paid in excess of the maximum remuneration to the managerial persons.
  - (d) The amount involved and steps taken by the company for securing the refund of the same.
18. You are the audit senior in charge of the audit of Swandive Co, and have been informed by your audit manager that during the current year a fraud occurred at the client. A payroll clerk sets up fictitious employees and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional frauds have taken place in the wages department. Which of the following audit procedures would be undertaken during the audit of wages as a result of the manager's assessment of the increased risk of fraud?
- (1) Discuss with the payroll manager the nature of the payroll fraud, how it occurred and the financial impact of amounts incorrectly paid into the payroll clerk's bank account.
  - (2) Review the supporting documentation to confirm the total of the fraudulent payments made and assess the materiality of this misstatement.
  - (3) Review and test the internal controls surrounding setting up of and payments to new joiners to assess whether further frauds may have occurred.
  - (4) Review the legal action taken by the management against the payroll clerk who was involved in the fraud and see whether he is punished for his actions.
- (a) Audit procedures 1,2,3
  - (b) Audit procedures 2,3,4
  - (c) Audit procedures 1,3,4
  - (d) Audit procedures 1,2,4
19. One of your audit client Vernon Co with a year ending 31 March 2019 is planning to prepare the financial statements from the next year as per Indian Accounting Standards (Ind AS). The finance director of Vernon Co has contacted the audit engagement partner, asking if your firm can provide training on Ind AS to the accounts department of the entity. This will help them to understand all the provisions of Ind AS and the transition process will be easier.
- Which of the following options needs to be considered by the audit engagement partner?
- (a) The issue is whether there is a self-interest threat, as the auditor will receive separate training fees for the service provided. The audit partner should decline the training assignment.
  - (b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such training to the staff of the entity. The audit partner should decline not all the qualified people are good trainers.
  - (c) The audit partner could go ahead with the training service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.
  - (d) The audit partner needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the training assignment.
20. AJ Private Ltd. was incorporated on 21 March, 2018 and has limited operations. However, the capital induction in the company was huge because it would be capital intensive. The company is in the process to set up a plant in Karnataka which should be completed by 31 May, 2019. The company's management prepared its financial statements for the year ended 31 March, 2019. The auditors were also called to start the work in April 2019. The auditors would be able to complete their work by 31 May, 2019 and

accordingly would issue their audit report by 1<sup>st</sup> week of June, 2019 as per the plan agreed with the management. The auditors have some observations related to preparations of financial statements which are not in compliance with Schedule III and most importantly the point related to capitalization of the plant as Property, Plant and Equipment in the financial statements for the year ended 31 March, 2019. Please suggest which of the following statements would be correct.

- (a) The compliance of Schedule III shall start from 1 April 2019 for this company as per Companies Accounts (Amendment) Rules 2016.
- (b) The compliance of Schedule III shall start from first financial period, however, some exemptions would be applicable as per Companies Accounts Rules 2014.
- (c) There should be full compliance of Schedule III and plant should be kept as CWIP as per Schedule III.
- (d) There should be full compliance of Schedule III and plant should be shown as PPE as per Schedule III. **(10 x 2 = 20 Marks)**

### **Division B- Descriptive Questions-70 Marks**

Question No. 1 is compulsory.

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

1. Comment on the following:

- (a) MIO Ltd. is a mobile phone operating company. Barring the marketing function it had outsourced the entire operations like maintenance of mobile infrastructure, customer billing, payroll, accounting functions, etc. Assist the auditor of MIO Ltd. as to how he can obtain an understanding of how MIO Ltd. uses the services of the outsourced agency in its operations. **(4 Marks)**
- (b) In an initial audit engagement, the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements, which may materially affect the current financial statements. Advise, the auditor about the audit procedures to be followed, when financial statements are audited for the first time.

If, after performing the procedure, as an auditor you are not satisfied about the correctness of 'Opening Balances', what approach you will adopt in drafting your audit report? **(6 Marks)**

- (c) AKY Ltd. is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is Rs. 40,000 crores with profits of Rs. 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. The company's contracts with its various customers are quite complicated and different. During the course of the audit, the audit team spends significant time on audit of revenue – be it planning, execution or conclusion. This matter was also discussed with management at various stages of audit. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner. After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein they also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management did not agree with revenue recognition to be shown as key audit matter in the audit report. Comment. **(4 Marks)**

- 2. (a) In the course of audit of Z Ltd, its auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of retesting the same during the current audit. As an auditor discuss the factors that may warrant a re-test of controls. **(4 Marks)**
- (b) Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO 2016:-
  - (i) Physical verification of only 40% of items of inventory has been conducted by the company. The balance 60% will be conducted in next year due to lack of time and resources. **(2 Marks)**



- (ii) An amount of Rs. 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by Rs. 0.25 Lakhs per month. Whilst the transaction was accounted in the financial statements based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a 'related party' transaction. **(3 Marks)**
- (c) Mr. Rival, a Chartered Accountant in practice, delivered a speech in the national conference organized by the Ministry of Textiles. While addressing the audience, he informed that he is a management expert and his firm provides services of taxation and audit at reasonable rates. He also requested the audience to approach his firm of chartered accountants for these services and at the request of audience he also distributed his business cards and telephone number of his firm to those in the audience. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(5 Marks)**
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. **(4 Marks)**
- (b) You are doing Tax Audit of Private Limited Company for the financial year ending 31<sup>st</sup> March, 2019. During audit, you notice that the company is not regular in deposit of VAT/GST and there remains pendency every year. The details of VAT/GST payable are:
- (i) GST payable as on 31/03/2018 of FY 2017-18 was Rs. 200 Lakh and out of which Rs. 100 Lakh was paid on 15/09/2018 and Rs. 50 Lakh on 30/03/2019 and balance of ` 50 Lakh paid on 16/09/2019.
- (ii) GST payable of current financial year 2018-19 was ` 100 lakh and out of this, 40 Lakh was paid on 25/05/2018 and balance of Rs. 60 Lakh remained unpaid till the due date of return.
- The date of Tax Audit report and due date of return was 30<sup>th</sup> September.
- Now as a Tax Auditor, how/where the said transaction will be reflected in Tax Audit Report under Section 43B(a)? **(6 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)**
4. (a) Aviral & Co LLP are the auditors of NBFC (Investment and Credit Company). In this context, please explain what verification procedures should be performed in relation to audit of NBFC - Investment and Credit Company (NBFC-ICC). **(6 Marks)**
- (b) OPQ Ltd is in the software consultancy business. The company had large balance of accounts receivables in the past years which have been assessed as area of high risk. For the year ended 31 March 2019, in respect of the valuation of accounts receivable, the statutory auditor was assigned with the checking of accuracy of the aging of the accounts receivables and provision based on ageing, to the internal auditor providing direct assistance to him. Comment. **(4 Marks)**
- (c) Mr. Avin, a practicing Chartered Accountant gave 50% of the audit fees received by him to a non-Chartered Accountant, Mr. Lucky, under the nomenclature of office allowance and such an arrangement continued for a number of years. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

5. (a) INDO Bank appointed your firm of Chartered Accountants as a branch auditor for the financial year 2018-19. Being head-in-charge of the assignment, while planning, you distributed the work among your team members and assigned Mr. Pary for verification of bills payable. However, Mr. Pary, being fresh to the bank audits, needs your guidance. Kindly guide. **(5 Marks)**
- (b) Vivan Ltd is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of INR 25,000 crores. The operations of the company are increasing constantly, however, the focus of the management is more on cost cutting in the coming years to improve its profitability. In respect of the financial statements of the company which are used by various stakeholders, some fraud was observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders applied to Tribunal for change of auditor on the basis that auditor is colluded in the fraud.
- Elucidate the power of Tribunal to change the auditor of a company if found acting in a fraudulent manner as provided under sub-section (5) of section 140 of the Companies Act, 2013. **(4 Marks)**
- (c) BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2018-19. In order to review internal controls of the Sales Department of the company, you visited the Department and noticed the work division as follows:
- (1) An officer was handling the sales ledger and cash receipts.
  - (2) Another official was handling dispatch of goods and issuance of Delivery challans.
  - (3) One more officer was there to handle customer/ debtor accounts and issue of receipts.
- As an internal auditor, you are required to briefly discuss the general condition pertaining to the internal check system prevalent in internal control system. Do you think that there was proper division of work in BSF Limited? If not, why? **(5 Marks)**
6. (a) Mr. Shah is reviewing the anti-fraud controls for a construction company. The company has witnessed a few frauds in the past mainly in the nature of material stolen from the sites and fake expense vouchers.
- Mr. Shah is evaluating options for verifying the process in detecting fraud and the corrective action to be taken in such cases. As an expert, you are required to advise Mr. Shah as how inventory fraud occurs and the verification procedure to be followed for detecting the same. **(5 Marks)**
- (b) As an auditor, how would you deal with the following situations:
- (i) Nick Ltd. is a subsidiary of Ajanta Ltd., whose 20% shares have been held by Central Government, 25% by Uttar Pradesh Government and 10% by Madhya Pradesh Government. Nick Ltd. appointed Mr. Prem as its statutory auditor.
  - (ii) Contravene Ltd. appointed CA Innocent as an auditor for the company for the current financial year. Further the company offered him the services of actuarial, investment advisory and investment banking which was also approved by the Board of Directors. **(5 Marks)**
- (c) During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220. **(4 Marks)**

**OR**

Aarav, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas A should review in the assessment of independence of the practicing unit? **(4 Marks)**