1. (a) Rishikumar & Co. has been appointed as an auditor of PK Ltd. for the financial year 2016-17. CA. Kumar, one of the partners of M/s Rishikumar & Co., completed entire routine audit work by 29th May, 2017. Unfortunately, on the very next morning, while roving towards office of PK Ltd. to sign final audit report, he met with a road accident and died. CA. Rishi, another partner of M/s Rishikumar & Co., therefore, signed the accounts of PK Ltd., without reviewing the work performed by CA. Kumar. Advise, whether CA. Rishi is right in expressing an opinion on financial statements the audit of which is performed by another auditor.

(b) The auditor of CROX Ltd. accepted the gratuity liability valuation based on the certificate issued by a qualified actuary. However, the auditor noticed that the retirement age adopted is 65 years as against the existing retirement age of 60 years. The company is considering a proposal to increase the retirement age to 65 years. Comment.

(c) As an auditor of XYZ Limited, in view of given circumstances, you are required to draft Adverse Opinion and basis for adverse opinion due to a Material Misstatement of the Consolidated Financial Statements.

- Audit of a complete set of consolidated financial statements of a listed company (incorporated under the Companies Act, 2013) using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SA 600 applies).
- The consolidated 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 consolidated financial statements in SA 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- 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).
- SA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
• In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013.

(d) 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. Lay down the audit procedure, you will follow, when financial statements are audited for the first time. If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances', what approach you will adopt in drafting your audit report? (5 x 4 = 20 Marks)

2. (a) Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant his employee for taking care of routine matters of his office. During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co.

(i) He issued the audit queries to client which were raised during the course of audit.

(ii) He attended the Income Tax proceedings for a client as authorized representative before Income Tax Authorities.

Comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and liability of Mr. 'A' under the Chartered Accountants Act, 1949.

(b) ABC Pvt. Ltd. and XYZ Pvt. Ltd. are the companies in which public are not substantially interested. During the previous year 2017-18, ABC Pvt. Ltd. received some property, being shares of XYZ Pvt. Ltd., the details of which are provided below:

| No. of Shares: | 1,000 |
| Aggregate fair market value of shares: | Rs. 75,000 |
| Consideration value: | Nil |

The management of the company contends that the shares need not to be furnished in Form No. 3CD. As the tax auditor of ABC Pvt. Ltd., how would you deal with the matter?

(c) During the course of audit of GST Ltd. for the financial year 2017-18, it has noticed that Rs. 3.00 lakhs of employee contribution and Rs. 8.50 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. 4.50 lakhs only has been deposited with ESIC department during the year ended 31st 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.

(d) XY Ltd. is a manufacturing company, provided following details of wastages of raw materials in percentage, for various months. You have been asked to enquire into causes of abnormal wastage of raw materials. Draw out an audit plan.

Wastage percentage are

<table>
<thead>
<tr>
<th>Month</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2017</td>
<td>2.5%</td>
</tr>
<tr>
<td>Aug 2017</td>
<td>2.7%</td>
</tr>
<tr>
<td>Sep 2017</td>
<td>2.4%</td>
</tr>
<tr>
<td>Oct 2017</td>
<td>8.1%</td>
</tr>
</tbody>
</table>
As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.

(5 x 4 = 20 Marks)

3. (a) CA Raman 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. Raman. He approached CA. Raman to take guidance on some topics of financial management subject related to his course. CA. Raman, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 3 hours in a week. However, he forgot to take specific permission for such private tutorship from the Council. Comment on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(b) Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2018 as 1/4th partner. What are the important steps involved while conducting investigation on behalf of Mr. Mistri, the incoming partner?

(c) 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?

(d) As a statutory auditor of a company, comment on the accounting policy on Revenue Recognition for a company engaged in manufacture and sale of chemical products was stated as “Revenue is recognized only when it can be reliably measured and it is reasonable to expect ultimate collection”.

(5 x 4 = 20 Marks)

4. (a) Mr. P and Mr. Q are running a firm of Chartered Accountants in the name of M/s PQ & Co. On 23.05.2017, they included the name of Mr. R, a practicing Chartered Accountant, without his knowledge, as a partner while submitting an application for empanelment as auditor for Public Sector Bank branches to the Institute. However, they added Mr. R as a partner to their firm offering a share of 21% of the profits, on 25.05.2017. Comment with reference to the Chartered Accountants Act, 1949.

(b) The management of CSITA Ltd. has prepared its summary financial statements for the year 2017-18 to be provided to its investors. Consequently the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements?

(c) Girnar is appointed as an auditor of National Insurance Company limited. State the verification procedure to be followed by Mr. Girnar in case of Re-insurance outward.

(d) Identify the controls which are automated, manual or IT dependent manual for the below mentioned cases?

(i) Price master configured in the sales master can only be edited by authorised personnel in the system.

(ii) Invoice cannot be booked in SAP in case Purchase orders are not approved.
(iii) Inventory ageing report is pulled out from the system based on which provisioning is calculated after analyzing the future demand by the inventory personnel and approved by the controller.

(iv) All invoices are signed by warehouse personnel before the goods are dispatched to the customer.

(v) Credit limit is assigned to the customer and goods cannot be sold in excess of credit limit configured in the system.

(vi) All changes to the credit limit is approved manually by sales manager.

(vii) Ageing report is pulled out from SAP based on which provisioning is calculated by accounting personnel and approved by financial controller.

(viii) PO, GRN (Good received note) and invoice are matched by the system before it is posted in the financial records.

(e) ‘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 x 5 = 20 Marks)

5. (a) MNC Pvt. Ltd. appointed CA. Moksh for some professional assignments like company’s ROC work, preparation of minutes, statutory register etc. For this, CA. Moksh charged his fees depending on the complexity and the time spent by him on each assignment.

Later on, MNC Pvt. Ltd. filed a complaint against CA. Moksh to the Institute of Chartered Accountants of India (ICAI) that he has charged excessive fees for the assignments comparative to the scale of fees recommended by the Board as well as duly considered by the Council of ICAI. Comment with reference to the Chartered Accountants Act, 1949.

(b) Munch Ltd. is a public company having Rs. 40 lacs paid up capital in previous financial year which raised to Rs. 60 lacs in current financial year under audit. The company had turnover of previous three consecutive financial years being Rs. 49 crores, Rs. 145 crores and Rs. 150 crores. During the previous year, Munch Ltd. borrowed a loan from a public financial institution of Rs. 110 crores but squared up Rs. 20 crores by the year end. The company does not have any internal audit system. In view of the management, internal audit system is not mandatory.

You are required to state the provisions related to applicability of internal audit as per the Companies Act, 2013 and comment upon the contention of the management of the company.

(c) The objective of the Environmental Audit is to evaluate the efficacy of the utilisation of resources of man, machines and materials, and to identify the areas of environmental risks and liabilities and weakness(es) of management system and problems in compliance of the directives of the regulatory agencies and control the generation of pollutants and/or waste. List down the important features of environmental audit.

(d) “Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference.” State the main features of the Qualified and Independent Audit Committee set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

(e) Yex Ltd. has five entertainment centers to provide facilities for public especially for children and youngsters at 5 different locations in the peripheral of 200 kms. Collections are made in cash. Specify the adequate control system towards collection of money. (4 x 5 = 20 Marks)

6. (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 define key audit matters and briefly discuss the factors determining the key audit matters.
(b) Elucidate the power of Tribunal to change the auditor of a company if found acted in a fraudulent manner as provided under sub-section (5) of section 140 of the Companies Act, 2013.

(c) T & Co. wants to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by T & Co. to examine the projected financial statements and give report thereon. What are the requirements you will consider before accepting the audit engagement?

(d) In course of audit of Fair Samaritan Bank as at 31st March, 18 you observed that in a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Advise. Would your answer be different if the advance is guaranteed by a State Government?

(e) Reviewers, based on the conclusions drawn from the quality review, shall issue a preliminary report and subsequently the final report. As a quality reviewer briefly discuss the basic elements of Quality Review Report. 

(4 x 5 = 20 Marks)