1. Comment on the following:

(a) The Statutory Auditor of P Ltd. is also appointed to undertake its Tax Audit. After the completion of Statutory Audit, he finalizes Tax Audit without referring to Standards on Auditing and Guidance Notes of Institute as he is of the opinion that Tax Audit relates only to tax matters with which the Income tax department is concerned. Moreover, the assessee furnishes to the auditor only the requisite information and records for the purpose of Tax Audit.

(b) Mr. X was appointed as the auditor of M/s Topico 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.

(c) Mishti Limited had definite plan of its business being closed within a short period from the close of the accounting year ended on 31st March, 2018. The Financial Statements for the year ended 31/03/2018 had been prepared on the same basis as it had been in earlier periods with an additional note that the business of the Company shall cease in near future and the assets shall be disposed off in accordance with a plan of disposal as decided by the Management. The Statutory Auditors of the Company indicated this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, thereto to be made at the time of cessation only. Comment on the reporting by the Statutory Auditor as above.

(d) The Property, Plant and Equipment of Amir Ltd. included Rs.25.75 crores of earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected ten years back. As an Auditor, what may be your reporting concern in view of CARO, 2016 on matters specified above? (5 x 4 = 20 Marks)

2. (a) M/s MUNISUVRAT, 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, and Schedules thereto. (4 Marks)

(b) Mr. Prem, 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. What are the liabilities of Mr. Prem under Income Tax Act, 1961? (4 Marks)

(c) Life Long Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which basic system of control has been violated? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management. (4 Marks)
(d) The objective of auditing, do not undergo a sea change in a CIS environment. Auditor must provide a competent, independent opinion as to whether the financial statements records and report a true and fair view of the state of affairs of an entity. However, computer systems have affected how auditors need to collect and evaluate evidence. Discuss. (4 Marks)

3. (a) The superannuation-cum-pension fund for the employees of a company was under a separate 'trust'. Both the company and the trust were under the same management. The auditor, who was auditing the accounts of the company as well as the trust noted some irregularities in the operation of the trust and commented upon these irregularities in the confidential report given to the trustees, but did not mention about these irregularities in his report on the Annual accounts of the Trust. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (4 Marks)

(b) 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. (4 Marks)

(c) 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? (4 Marks)

(d) CA. Baker had been appointed as an Auditor of M/s Bakes & Cakes Ltd. In the course of audit, it had been observed that inventory including work-in-process had been valued by Management by using experts hired by them. Analyse relevant factors to decide as to whether or not to accept the findings from the work of Management expert in valuation of inventories. (4 Marks)

4. (a) Explain briefly the duties and responsibilities of an auditor in case of material misstatement resulting from management fraud. (6 Marks)

(b) Shyam is engaged to review the system and the information generated from the financial statements. Advise Shyam with respect to the elements of the practitioner’s report for the historical financial statements review engagement. (5 Marks)

(c) What are the main phases in the conduct of Risk Based Audit. (5 Marks)

5. (a) Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of articleship. Mr. Witty, the principal, offered him stipend at the rate of Rs. 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form
of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (4 Marks)

(b) The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent. In view of above briefly discuss the responsibility of Parent. (4 Marks)

(c) “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 Marks)

(d) The general approach for investigation under Sections 210 and 213 of the Companies Act, 2013 is conditioned by the legal requirements in this regards. It does not call for any special approach or steps. Elucidate your approach in investigation under Section 210 and 213 into the affairs of the company registered under Companies Act, 2013. (4 Marks)

6. (a) CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2016, he was awarded ‘Best Faculty of the year’ as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (4 Marks)

(b) “The Central Government may at any time by order direct that a special audit of the Multi-State Co-Operative Society’s accounts for such period or periods as may be specified in the order, shall be conducted and appoint either a chartered accountant or the Multi-State Co-Operative society’s auditor himself to conduct the special audit.” Briefly explain the circumstances where the Central Government appoint the special auditor of a Multi-State Cooperative Society? (4 Marks)

(c) True and Fair Limited is a large-sized listed Indian Company with focus on design and delivery of custom made hardware and software applications for various business entities in India and abroad. The Management wants to know whether they are required to constitute Risk Management Committee as per LODR, 2015 and if so, required, what should be its composition? Advise. (4 Marks)

(d) The Board of Directors of ACP Ltd. has recommended the dividend of 15% on paid up share capital of Rs. 450 crore for the year ended 31st March, 2018, at their meeting held on 1st of May, 2018 when the accounts for the financial year 2017-18 were approved. The Board of Directors when they met on 7th July, 2018 for the review of first quarter accounts, they realized that results were negative for the first quarter. Therefore, the Board has decided to rescind their decision to recommend dividend.

The notice for AGM to be held on 14.8.2018 was sent on 15th July, 2018 without any recommendation for dividend.

At the AGM, the members asked the management how they can rescind the declaration of dividend once recommended. Comment. (4 Marks)

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

(a) What is the purpose served by Introduction of Cost audit?

(b) Contract notes.

(c) Management Audit Questionnaire

(d) Scope of Peer Review.

(e) “Trade Credit Insurance Policy” and basic requirements of a trade credit insurance product. (4 × 4 = 16 Marks)

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