

Test Series: August, 2017

MOCK TEST PAPER -1

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

*Answer any **five** from the rest*

Time Allowed- 3 Hours

Maximum Marks -100

1. (a) S N Projects Limited, a manufacturing company in the Steel industry was allegedly involved in some irregularity relating to allotment of coal blocks for which a complaint was lodged against the company by the government. The financial institutions stopped additional working capital finance which caused a financial crisis resulting in stoppage of production. The company incurred a massive loss during the year 2015-16. There were delays in salary and other payments. Certain key managerial personnel including GM Finance and certain other employees left the company. The company has no sound action plan to mitigate these situations. Guide the statutory auditor on how he should deal with this situation.
 - (b) Y Ltd. has its entire operations including accounting computerized. As the audit partner you are concerned about inherent and control risk for material financial statement assertions. What could be the areas you look forward for deficiencies and risk identification?
 - (c) Mr. H who is appointed as auditor of EXL Co. Ltd. wants to use confirmation request as audit evidence during the course of audit. What are the factors to be considered by Mr. H when designing a confirmation request? Also state the effects of using positive external confirmation request by Mr. H.
 - (d) The management of Honey Ltd. has prepared its summary financial statements for the year 2015-16 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? (5 × 4 = 20 Marks)
2. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
 - (a) CA Ciya, a practicing Chartered Accountant gave 60% of the audit fees received by her to Mr. Suhas, who was not a Chartered Accountant, under the nomenclature of office allowances.
 - (b) CA Raj, a Chartered Accountant in practice approached Manager of a Nationalised Bank for a loan of Rs. 36 lakhs. He has also informed the Manager that if the loan is

sanctioned, the Income Tax return of the Manager and Manager's wife will be filed for free of cost, as quid Pro quo for the loan sanctioned.

- (c) CA Naman, a Chartered Accountant in practice is a partner in 4 firms. On the personal Letter Heads, he mentioned the names and addresses of all the 4 firms in small fonts.
- (d) CA Dev, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements.

(4 × 4 = 16 Marks)

3. (a) State the key requirements of auditing standards of Public Company Accounting over sight board. *(4 Marks)*

- (b) Modest 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 basis 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. *(6 Marks)*

- (c) As an auditor of garment manufacturing company for the last five years you have observed that new venture of online shopping has been added by the company during current year. As an auditor what factors would be considered by you in formulating the audit strategy of the company? *(6 Marks)*

4. (a) Under CARO, 2016, as a statutory auditor, how would you report:

- (i) JKL Ltd. has entered into non-cash transactions with Mr. Rahul, son of director, which is an arrangement by which the JKL Ltd. is in process to acquire assets for consideration other than cash.
- (ii) STP Limited has its factory building, appearing as fixed assets in its financial statements in the name of one of its director who was overlooking the manufacturing activities. *(4 × 2 = 8 Marks)*

- (b) PING Limited is a listed Company in which no code of conduct is laid down for its board members and senior members.

As an auditor of PING Limited:

- (i) Briefly explain the compliance requirements with respect to Code of Conduct as per Listing Order Disclosure Requirement (LODR) Regulations.
- (ii) What will be your role in compliance of above-mentioned Code of Conduct as per LODR Regulations? *(4 × 2 = 8 Marks)*

5. (a) You have been appointed as a statutory central auditor of APNA Bank, a Nationalized bank. What special points would be borne in mind while conducting the audit of compliance with "Statutory Liquidity Ratio" (SLR) requirements?

(4 Marks)

- (b) The RBI restrict companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration, therefore, obtaining registration under section 45-IA of the Reserve Bank of India Act, 1934 is necessary. Additionally, new clause has been inserted under CARO, 2016 for commenting whether the registration has been obtained, if required.

Being an expert in latest provisions under CARO, 2016, you are required to state in brief the audit procedure and reporting to be followed under above mentioned circumstances.

(6 Marks)

- (c) A leading manufacturing concern valued its inventory following a method not in line with the provisions of Income Computation and Disclosure Standard (ICDS)- 2 'Valuation of Inventories'.

In such a situation, discuss the relevant clause of Form No. 3CD under which the tax auditor is required to report?

(6 Marks)

6. (a) CARO, 2016 requires the auditor of the company to report whether maintenance of cost records has been specified by the Central Government under section 148 of the Companies Act, 2013 and whether such accounts and records have been so prepared and maintained.

You are required to briefly explain the audit procedure to be followed by the auditor and suggest the reporting pattern.

(6 Marks)

- (b) Vita Ltd. is anticipating taking over a manufacturing concern and appoints you for due diligence review. While reviewing, it requests you to look specifically for any hidden liabilities. State in brief the major areas you would examine for hidden liabilities.

(4 Marks)

- (c) Mr. K is appointed as statutory auditor of NMO Ltd. NMO Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. L as its internal auditor. The external auditor Mr. K asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.

(i) Discuss whether Mr. K, statutory auditor, can ask direct assistance from Mr. L, internal auditor as stated above in view of auditing standards.

(ii) Will your answer be different, if Mr. K asks direct assistance from Mr. L, internal auditor with respect to external confirmation requests and evaluation of the results of external confirmation procedures?

(6 Marks)

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

- (a) Mark to Market margins
- (b) Advantages of Cost Audit to Government
- (c) Special features involved in the audit of a Co-operative Society.
- (d) Technical, professional and ethical standards as per statement on peer review
- (e) Environmental Audit.

(4 × 4 = 16 Marks)