CFT2

Roll No. ....

Total No. of Printed Pages – **8**

Total No. of Questions – **6**

Maximum Marks – **70**

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet given on the Cover Page of descriptive answer book only. Answers to questions in Part II are to be written on the same descriptive type answer book. Answers to MCQs, if written inside the descriptive answer book, will not be evaluated.
6. OMR answer sheet given on the Cover Page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, and (b) the answer book in respect of descriptive type answer book with OMR Cover Page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. Question paper comprises **6** questions. Answer Question No. **1** which is compulsory and any **4** out of the remaining **5** questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

PART – II

1. State with reasons whether the following statements are correct or incorrect. (Answer any **seven**) 2×7 =14

(a) Internal control cannot eliminate risk of material misstatements in the financial statements. True

(b) When Profit before tax from continuing operations is non-volatile, other benchmarks will be appropriate. false

(c) When inventory under the custody and control of a third party is material to the financial statements, the auditor can obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by taking written representation from management. false

(d) While auditing the books of accounts of ABC Ltd., the auditor of the company looked at the inventory counting process to obtain audit evidence. In the present case, audit procedure used by the auditor is known as "Inspection". -> observation false.

(e) Statistical sampling being more scientific and without personal bias will always be appropriate to use under all circumstances. false.

(f) As per section 139(5) of the Companies Act, 2013, in the case of a government company, board of directors shall appoint the subsequent auditor within a period of 60 days from the commencement of the financial year. false 1

(g) Auditor has to disclose the impact, if any, of the pending litigations on the financial position of the auditee in his audit report.

(h) Reporting of fraud of INR 150 Lakhs by auditor will be done within three days of the fraud coming to the knowledge of the auditor to the Board or the Audit Committee along with remedial action taken. false.

2. (a) CA S is requested to accept the appointment as an auditor of Luck Ltd. With reference to SA 210, what should the auditor determine in order to establish whether the preconditions for an audit are present ? **4**

(b) M/s. TP & Co., a firm of Chartered Accountants, is auditor of KSR Ltd. for many years. KSR Ltd. has diversified their business into newer areas during the last year. The senior member of the audit team handed over the standard audit programme of earlier years to the audit assistants and instructed them to follow the same. The assistants are conducting the audit accordingly. Whether the attitude of the audit assistants is justified or they are required to keep an open mind ? Guide them. **4**

keep an open mind.

(c) With reference to SA 530 "Audit Sampling", explain briefly the following factors that the auditor may consider when determining the sample size for the Test of Details – **3**

(i) The desired level of assurance → reasonable.

(ii) Stratification of the population.

(d) When a business operates in a more automated environment, we are likely to see several business functions and activities happening within the systems. List down the business functions and activities happening within the systems. **3**

•) More transactions.

•). IT system being used.

•) Access

3\. (a) CA K is re-appointed as the auditor of B Ltd. He wants to re-confirm certain matters and has asked the management to give written representations for the same. Under what circumstances can an auditor ask the management to reconfirm its acknowledgement and understanding of responsibilities in written representation ? 4

(b) CA R is the statutory auditor of QRS Ltd. While performing testing of additions during the year, he wanted to verify that : 4

(i) All PPE (property, plant and equipment) are in the name of the entity he is auditing.

(ii) For all additions to land and building in particular, the auditor desires to have concrete evidence about the ownership.

(iii) The auditor wants to know whether the entity has valid legal ownership rights over the PPE, where it is kept as security for any borrowings.

Advise the auditor on the audit procedure to be undertaken by him to establish the Rights and Obligations of the entity over the PPE. Audit Evidence SA 500

(c) Profit and Loss account of an organization shows various types of expenses like rent, power and fuel, repairs and maintenance, insurance, travelling, miscellaneous expenses etc., that are essential and incidental to running of business operations. What are the attributes that an auditor generally prefers for vouching these types of expenses ? 3

(d) How is "Cash and cash equivalents" disclosed in the Financial Statements as required under Schedule III (part 1) to Companies Act, 2013 ? 3

4. (a) Statutory Auditors of TRB Ltd. observed various instances when either the TDS required to be deducted has not been deducted or deducted at lower than prescribed rates resulting in non-compliance of Income Tax provisions. Besides this, non-compliance under other acts like Labour Laws was also noticed by the auditor. What type of policies and procedures will you implement to assist in prevention and detection of non-compliance with laws and regulations ? 4

(b) State the auditor's reporting responsibilities under CARO 2016 when – 4

(i) The company has raised money by public issue.

(ii) The company has made private placement of shares.

(c) Auditor of Sunshine Ltd. is of the view that due to greater management intervention to specify accounting treatment, the risk of material misstatement is greater for non-routine transactions. Is the view of the auditor correct ? Specify the other matters due to which the risk of material misstatement is greater for significant non-routine transactions. 3

(d) Whether it is possible to independently verify the correctness of some of the items of expenses included in the statement of profit and loss ? Explain with the help of some examples. 3

5. (a) M/s S & Associates are the Statutory Auditors of Real Ltd., a company engaged in the business of manufacturing of garments. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the F.Y. 2020-2021. CA K, the engagement partner, wants to conclude that whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. What factors he should consider to reach that conclusion ? 4

(b) CA G was appointed as the auditor of RJ Ltd. at the remuneration of INR 35000. He resigned after 7 months on health grounds but failed to file the required statement with the Registrar of Companies. What are the responsibilities of CA G as per section 140(2) of the Companies Act, 2013 ? As per section 140(3) of the Companies Act, 2013, how much fine will be levied on CA G for non-compliance of Sec 140(2) of the Companies Act 2013 ? within 30 days to registrar. 4

(c) CA K audited the books of accounts of E Ltd. for the financial year 2020-2021. The auditor used an audit procedure according to which all the documents and records maintained by the company were checked in detail to obtain audit evidence. Explain the audit procedure used by the auditor and its reliability. 3

(d) As per Sec 143(3)(j) of the Companies Act, 2013, the auditor's report shall also include such other matters as may be prescribed by Rule 11 of the Companies (Audit and Auditors) Rule, 2014. Discuss those matters on which views and comments of the auditor is required. 3

6\. (a) (i) CA R is the statutory auditor and Mr. P is the cost auditor of DEF Ltd., a company engaged in the production of tyres. Mr. P noticed a fraud of INR 1.25 crores done by the senior manager of the company and immediately informed the audit committee even before CA R was aware of the fraud. State the duty of CA R under section 143(12) of the Companies Act on reporting on frauds already detected and reported. 4

OR

(ii) Local Fund Audit Wing of a State Government has appointed you to audit accounts of one of the Local body governed by it. As an auditor, what will be your reporting areas?

(b) In a bank, all accounts should be kept within the drawing power and the sanctioned limit. The accounts which exceed the sanctioned limit or drawing power should be brought to the notice of the management regularly. Analyse the following points to be considered in the computation of drawing power in case of bank audit. **4**

(i) Bank's Duties

(ii) Auditor's concern

(iii) Computation of DP

(iv) Stock audit

(c) In case of Government entities, audit of accounts of stores and inventories has been developed as a part of expenditure audit. Discuss about the duties and responsibilities entrusted to C&AG. → to appoint A 3

(d) CA A is appointed as the auditor of a charitable institution. Discuss the audit procedure undertaken by him while auditing the Subscription and Donation received by the charitable institution. 3