1. The basic assumption underlying the use of analytical procedures is:
   (a) It helps the auditor to study relationship among elements of financial information
   (b) Relationship among data exist and continue in the absence of known condition to the contrary
   (c) Analytical procedures will not be able to detect unusual relationships
   (d) None of the above

2. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion
   (a) Right and obligations
   (b) Valuation
   (c) Completeness
   (d) Existence

3. The auditor shall express _______ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements
   (a) Adverse
   (b) Qualified
   (c) Disclaimer of opinion
   (d) Clean

4. The agreed terms of the audit engagement shall be recorded in an audit engagement letter which shall include the following except-
   (a) Responsibilities of the auditor
   (b) Description of methods to be followed for obtaining audit evidence
   (c) Responsibilities of management
   (d) Objective and scope of the audit of the financial statements

5. The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is:
   (a) Sufficiency of audit evidence
   (b) Appropriateness of audit evidence
   (c) Accounting estimates
6 The auditor’s _________ safeguards the auditor’s ability to form an audit opinion without being affected by any influences.

(a) Objectivity  
(b) Independence  
(c) Confidentiality  
(d) Integrity  

7 Which of the following company is not exempted from reporting under CARO, 2016?

(a) Banking company.  
(b) Insurance company.  
(c) Company licensed to operate under section 8 of the Companies Act, 2013.  
(d) Private limited company having paid up capital of Rs. 5 crore.  

8 Section 144 of the Companies Act, 2013 does not excludes the statutory auditor of the company to render the services of -

(a) Investment advisory  
(b) Investment banking  
(c) Branch auditor  
(d) Actuarial  

9 As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?

(a) Friend of a family member of a person who has the authority and responsibility for planning.  
(b) Holding debentures in the entity.  
(c) The entity’s holding of debentures in other entities.  
(d) The entity’s holding of equity in other entities.  

10. When does an auditor shall modify the opinion in the auditor’s report?

(a) When, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.  
(b) When, unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
11 For a given level of audit risk, the acceptable level of detection risk bears ______ relationship to the assessed risks of material misstatement at the assertion level.

(a) direct.
(b) Inverse
(c) Either (a) or (b)
(d) none of the above

12 Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:

(a) Authorization.
(b) Performance reviews.
(c) Information processing.
(d) All of the above

13 If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-

(a) Withdraw from the engagement immediately.
(b) Report to Audit team regarding withdrawal.
(c) Determine the professional and legal responsibilities applicable in the circumstances.
(d) Ask the management for his withdrawal.

14 In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained ______ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

(a) reasonable assurance
(b) absolute assurance
(c) Limited assurance
(d) None of the above
15 When is evidential matter, generally, considered sufficient in case of stock exchange member audit?

(a) When it constitutes entire population
(b) When it is objective and relevant
(c) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
(d) When auditor collects and evaluates it independently

16 The scope of the audit of Depositories including reference to the pronouncements of the ICAI, which the auditor adheres to, generally is communicated to the client in the

i) auditor’s report
ii) engagement letter
iii) representation letter

(a) only (i)
(b) Both (i) and (ii)
(c) Both (i) and (iii)
(d) All of the above

17. Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?

i) Information about integrity of management
ii) Disagreement with management concerning auditing procedures
iii) Review of internal control system.
iv) Organisation structure

(a) (i) and (ii)
(b) (ii) and (iii)
(c) (i), (ii) and (iii)
(d) (i) and (iii)

18. In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted and is reviewed by the Finance Head. Your specimen review indicates that the daily cash summary was not signed off by of the Finance Head. In this situation you should:

(a) conclude that the cashier is not telling truth
(b) consider extending investigation procedures like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc.
(c) conclude that the Finance Head is not a responsible person
(d) conclude that daily cash summary is not relevant for the investigation
19. Current period adjustments are those adjustments that are made:
(a) only on the first occasion of the preparation and presentation of consolidated financial statements
(b) only on the first occasion of the audit of consolidated financial statements
(c) in the accounting period for which the consolidation of financial statements is done
(d) None of the above

20. Which of the following best suits the description – “The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls.”
(a) Inherent Risk
(b) Detection Risk
(c) Control Risk
(d) None of the above

21. CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct.
(a) Clause (6) of Part I of the First Schedule
(b) Clause 2 of Part I of the Second Schedule
(c) Clause 12 of Part I of the First Schedule
(d) Clause 2 of Part IV of the First Schedule

22. As an auditor appointed under section 44AB of the Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits and gains under section 32AC, 33AB or 33ABA or 33AC
(a) clause 24
(b) clause 40
(c) clauses 31
(d) clause 23

23. As per CARO, 2016, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.
(a) Under Clause (xi) of paragraph 3 of the CARO, 2016,
24. As per Clause (j)(c) of Paragraph 3 of the CARO, 2016, the auditor is required to report on:

(a) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.

(b) whether the company has entered into any non-cash transactions with directors or persons connected with him.

(c) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;

(d) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

25. LM Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Under which clause of CARO 2016 the auditor is required to report:

(a) Under Clause (viii) of paragraph 3 of the CARO, 2016,

(b) Under Clause (xi) of paragraph 3 of the CARO, 2016,

(c) Under Clause (x) of paragraph 3 of the CARO, 2016,

(d) Under Clause (ix) of paragraph 3 of the CARO, 2016,

26. NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle.

There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier’s address. Payments valuing INR 27 crores have been made to such suppliers.

Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.
(a) Management responses look reasonable and this matter should be dropped.
(b) The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored.
(c) Internal auditor need to report this matter.
(d) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

27. DPP Ltd is in the business of software and is in growing phase. The company’s turnover has been increasing year on year and profit margins are good. The company is also planning IPO in next 2-3 years depending on the market assessment at that point of time.

It was observed by the internal auditors of the company that it does not have a documented Segregation of Duty (SOD) Matrix. Access controls were tested on basis of leading practices and following observations were identified:

- Users apart from Finance & Accounts team were having access to critical financial transactions.
- Users apart from Quality department were having access to Quality Clearance transaction for raw material and finished goods.
- Multiple users having access to Purchase Order Approval though it should be confined to HODs/Purchase Heads.

Management of the company explained to the auditor that the company is new and this may be required for a well established company. Please advise.

(a) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. Hence there should be a proper SOD matrix.
(b) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. There should be a process of SOD though it is not necessary to document that.
(c ) Management is right and accordingly it is not relevant for the internal auditor.
(d) Since currently the operations of the company are running smoothly, there is no need for complicating the internal business environment by setting up SOD matrix.

28. KSHTZ Ltd, listed company, is in the business of stainless steel and is more than 50 years old. The company’s turnover is INR 11000 crores and has good profit margins which have been improving over the last 2 years. The company is also planning to raise funds in another 5-6 months. The company has SAP as its ERP package.

Recently there has been a change in the internal audit team. The new internal auditors observed that there have not been any approved policies and procedure in place in their audit period from 1 April 2018 to 30 September 2018. For e.g.

- Information Security Policy and Procedure
- Change Management Policy
• User Access Management Policy.

Also the policies and procedures do not have any version control, owner and review details, etc. Management of the company explained to the auditor that the company does not require this and hence this point should be ignored. Please advise.

(a) Absence of well defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees and hence there should be approved policies and procedures in place.

(b) Absence of well defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees. There should be a process to follow policies and procedures though it is not necessary to document that.

(c) Management is right and accordingly it is not relevant for the internal auditor.

(d) Absence of well defined and approved policies and procedures has not impacted the company till date and if the management has reasons not to keep this then the same should not be considered by the internal auditor.

29. ACE Pvt Ltd is a large company and has diverse operations. The company is planning to get listed to raise funds. Over the last years, the company did not use much of technology and with the changing times, the management has also identified the need to bring mechanisms in place to improve upon the use of technology. The internal auditors of the company while review of Business Continuity Planning/Disaster Recovery Plans observed that the Identified Disaster Recovery Site of the company was in the same seismic zone as the Primary Site. Therefore the effectiveness of the Disaster Recovery (DR) Plan was not verified.

The management discussed this matter with the internal audit team and explained that the present DR plan is to protect against hardware failure and building level exposure. They will plan for city level DR along with Annual Business Plan in another year.

Please suggest which one of the following options is correct.

(a) DR plan is not of much relevance and should not be focused upon by the internal auditor in his report.

(b) DR plan is an outdated plan and in today's scenario it is not required. Hence internal auditor should drop this.

(c) Absence of Disaster Recovery Site in different seismic zone might lead to failed or delayed recovery of business operations in an event of natural disaster. It is important for the management to plan this and hence internal auditor should also report this.

(d) Since the management has a plan for DR in near future this matter is not relevant to be reported.

30. ASOP Ltd is in the business of trading and manufacturing of FMCG. The turnover of the company has been increasing, however, the company has not been able to maintain its margins constant which are declining. The internal auditors of the company raised observations on the sales schemes of the company. As per the SOP, all schemes are required to be approved by the CEO of the company. However, per process it was observed that all schemes were approved by Chief Sales and Marketing Officer (CSMO). Review of sample 89 support schemes for the months
of May 2018 and June 2018 highlighted that 19% (i.e. 17 schemes) were not approved by the CSMO.

Management replied that there is a need for revision of SOP to reflect current paradigm. They shall amend the SOP to reflect the same. Please advise how should these matters be dealt by the internal auditors?

(a). Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.

(b) SOPs are not aligned to on-ground practices followed by concerned officials. SOPs should be updated and till then there should be a mechanism to follow the existing SOP.

(c) SOPs are not aligned to on-ground practices followed by concerned officials and the same should be reported by the internal auditor.

(d) Internal auditor should look at the materiality and basis that can ignore this as this will not have much impact.

31. BCP Ltd is in the business of manufacturing of cranes. It’s a wholly owned subsidiary of a Chinese company and follows policies and procedures of the parent company. The company’s annual turnover is INR 1000 crores. The company operates through dealers in India for making sales and pays incentives to them on the basis of delivery based schemes and other schemes which are introduced from time to time.

It was observed by the internal auditors of the company that incentives amounting to INR 10 crores were paid to dealers on account of delivery based schemes for the month of October 2018. Review of cranes installations for the same period highlighted that incentive amounting to INR 30 lakhs had been paid against invalid claims. This was primarily because of absence of verification of the delivery claims with the installation data.

Management replied that disbursement basis 100% verified installations has been defined as per the process. Revision in process has been done to prevent inordinate delays in reimbursements to the dealers. Please advise how should these matters be dealt by the internal auditors?

(a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.

(b) The impact of the matter is not significant and hence the same should be dropped.

(c) Incentive paid against non-genuine claims bear financial implications for the Company. Verified installation data should be taken for considering incentive payout. This matter should be highlighted by the internal auditor in his report.

(d). Internal auditor should ask the management to take corrective action and basis that drop this point as this is matter which is of financial implication which needs to be considered by the statutory auditors of the company.

32. PRP Ltd is a service company and is in the business of manpower consultancy. The company also has some manufacturing operations based out of Orissa. The annual turnover of the company is INR 1500 crores. The employee base of the company is very big. Please advise what internal audit procedures should be considered by the internal audit team for the audit of labour cost vis-à-vis wages.

i. Comparing the time booked in the booking sheets with clock cards on a sample basis.
ii. For a Piece rated wage job: a. In case of an in-process job, checking that the output booked in the booking sheet is in line with the standard output possible in the stated time. In case of a major variance, enquiring into its justification and authenticity. b. In case of a finished job, checking the output booked in the booking sheet with the actual output generated for the period as per the production sheet. c. In case of variances, enquiring into the same.

iii. In case of a person doing more than one piece-rated job during the period, checking that: Total Time Booked – Overtime Hours = Normal Hours Available in the Period.

iv. Test checking the following with the master lists: a. Grade booked b. Operator code c. Job code.

v. Average Earning Job a. Verifying on a sample basis that the job categorised as “average earning” job does not have any piece rate as per the master file. b. Comparing the standard time required for output booked as per the master file with the actual time booked. In case of a major variance, enquiring into its justification and authenticity. c. Test checking the calculation of wages as per the laid down formula for arithmetical accuracy.

(a) i, ii, iii, iv and v.

(b) i, ii, iii and iv.

(c) i, iii, iv and v.

(d) i, ii, iii and v.

33. OQR Ltd is in the business of manufacturing of tractors and cranes. The company has a policy to provide after sales services to the customers in respect of its products. Please advise what internal audit procedures should be considered by the internal audit team for the audit of after sales service.

i. Assess replacement trends, nature of failures and replacement policies.

ii. Examine the percentage of replacements of manufacturing defects vis-à-vis off-take.

iii. Examine which type of products/models has a higher failure record and why.

iv. Check whether any particular dealer’s failure percentage vis-à-vis his turnover higher than the norm. If so, why.

v. Check whether there are adequate technical audit on awards of replacement.

vi. Evaluate the effectiveness of after-sales service with regard to its scope and consumer satisfaction. Is this service prompt and timely?

(a) i, ii, iii, iv and vi.

(b) i, iii, iv, v and iv.

(c) i, ii, iii, iv and v.

(d) i, ii, iii, iv, v and vi.

34. SX Ltd is in the business of steel manufacturing having a turnover of INR 10,100 crores. The company has many plants. Each plant has a canteen and some income also gets generated in the canteen every year.

Being the internal auditor what internal audit procedures may be applied to audit the canteen income?

i. Check the records maintained for the canteen operations to support all financial transactions.
ii. Review the agreements and contracts in case the canteen is run by an outside party.

iii. Compliance with laws and regulations applicable for operation of canteen - The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act, FEMA, GST, Companies Act, etc.

iv. Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles.

Which of the above mentioned procedures would be relevant?

(a) i, ii, iii and iv.
(b) i, ii and iii.
(c) i, ii and iv.
(d) i, iii and iv.

35. TPL Pvt Ltd is in the business of software and consultancy services. The annual turnover of the company is INR 899 crores and profits are INR 199 crores. The company is planning to get listed in the overseas market within a year. If that doesn’t happen then the company may look for funding through private placement.

For some projects the company receives grants from government. These projects run upto 5-10 years. XYZ & Co LLP is the internal auditor of the company. Please advise what internal audit procedures should be considered by the internal audit team for the audit of grants received.

i. Check the donations received with the copies of receipts.

ii. Check sanction letters for any conditions attached with the donations.

iii. Examine the statements submitted for utilisation of grant.

iv. Verify the grants received from the Government or other authorities with reference to all the correspondences.

v. Verify all the bank statements of the company to trace the grants received and its utilization.

(a) i, ii, iii, iv and v.

(b) i, ii, iii and iv.

(c) i, iii, iv and v.

(d) i, ii, iii and v.

36. ONZ Ltd is in the business of trading of consumer equipments. The company’s turnover is INR 347 crores. The company has not been doing well over the last few years due to which its profitability has gone down significantly.

The company charges cartage/freight from its customers. Because there is a huge cost incurred in this respect, the company ensures that this amount is recovered on time.

During the performance of the internal audit procedures, the internal auditors of the company found that in some cases freight was charged in the bills manually, rather than through the automated system of generating an invoice. Internal auditor raised this point to the management. The management replied that it happens only in exceptional cases that the freight is charged manually on automated generated invoice.

How would you deal with this as an auditor?

(a) Internal auditor should report this matter.
(b) Internal auditor should discuss with management about way forward and drop this point.

(c) Internal audit observation is not right.

(d) Internal auditor should ignore on the grounds of materiality.

37. MNO Ltd borrowed an amount of INR 5 crores from a financial institution during the year. The company had existing borrowings of INR 1800 crores from various banks. However, the company took loan from a financial institution for the first time.

The rate of interest charged on the new loan was based on market rate of interest and there was no security for this loan. During the course of the internal audit, internal auditor could not find the borrowing agreement for the new loan and raised this point with the management. The management explained that new loan was required for a special purpose for which all other documents are available for auditor to verify – disbursement proof in the bank statements, repayments. However, the agreement was not prepared because the person who arranged the loan from financial institution was known to the company and basis verbal understanding this has been done. Please advise internal auditor.

(a) Internal auditor should report this matter as this can be a serious deficiency.

(b) Because all other proofs are available, internal auditor should ignore this point.

(c) Internal auditor should report this matter to Reserve Bank of India.

(d) Considering the insignificant amount of this new loan as compared to total borrowings of the company, this may be ignored by the internal auditor.

38. AAS Ltd is in the business of fast food chains. During the internal audit of accruals/expenses of the company, the internal audit team observed that for some of the entries passed the narration was wrongly written as if the expense is related to the travelling expense. The vouchers were passed by the finance personnel of the company but no review mechanism was seen for this. Management explained that there is a review mechanism but this is only about narration of expenses which should not be relevant for the internal auditor. How should the internal auditor deal with this matter?

(a) The Company should perform the review of entries to check such cases and same thing should be reported by the internal auditor.

(b) The Company’s management seems reasonable here.

(c) This matter should be considered on the basis of materiality.

(d) Internal auditor should further investigate as this is indicative of fraud.

39. Medivision Industries designs and manufactures spectacles. Medivision's year end was 31 March 2018 and its draft financial statements show a profit before tax of Rs.60 lakh. The fieldwork stage for this audit has largely been completed but there are few outstanding issues.

On 1 January 2018, Medivision began the commercial production of a new range of lightweight frames which have been proven to keep their shape regardless as to how roughly they are treated. Up to 31 December 2017, the company had correctly capitalised development costs of Rs.45 lakh relating to this project. The directors believe that the new frames will have a product life of three years. The financial statements show development costs at a carrying amount of Rs.45 lakh. Medivision's accounting policy states that it amortises intangible assets on a straight-line basis.
The auditor's report for Medivision is due to be signed in the next week or so, and you have been unable to resolve a disagreement with the directors concerning the amortisation of the development costs. The directors have refused to include any amortisation on the basis that sales of the product have not yet commenced.

Which of the following options correctly summarises the impact on the auditor's report if the issue remains unresolved?

(a) The auditor to provide an ‘Unmodified opinion’, since the directors are correct not to include any amortisation on the basis that sales of the product have not yet commenced.

(b) The auditor to provide an ‘Unmodified opinion’ with emphasis of matter paragraph about the amortisation charge on the capitalised development costs.

(c) The auditor to provide a Modified opinion - Adverse opinion since having obtained sufficient appropriate evidence, concludes that the misstatement is both material and pervasive.

(d) The auditor to provide a Modified opinion – Qualified opinion due to material misstatement of not recording the amortization charge on the capitalised development costs, which is material but not pervasive.

40 You are an audit supervisor of Swanminathan & Associates and are currently planning the audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 and the forecast profit before tax is Rs 25.26 Lakhs.

At the beginning of the year, Zonal purchased a patent for Rs. 5.3 lakhs which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, the entity borrowed Rs. 4.5 lakhs from the bank which is repayable over five years.

Which of the following is a response to the audit risk identified by you in planning the audit for the reporting year?

(a) The audit team need to agree the purchase price to supporting documentation and to confirm the useful life is five years. Recalculate the amortisation charge to ensure the accuracy of the charge and that the intangible is correctly valued at the year end.

(b) The company has borrowed Rs.4.5 lakhs from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure.

(c) In accordance with Ind AS 38 Intangible Assets, the patent should be included as an intangible asset and amortised over its five-year life.

(d) Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.

41. Teamsg International Co is a manufacturer of electrical equipment. It has factories across the country and its customer base includes retailers as well as individuals, to whom direct sales are made through their website. The company's year-end is 31 March 2018. You are an audit supervisor of Suraj & Co and are currently reviewing documentation of Teamsg’s internal control in preparation for the interim audit.

In the past six months Teamsg has changed part of its manufacturing process and as a result some new equipment has been purchased, however, there are considerable levels of plant and equipment which are now surplus to requirement. Purchase requisitions for all new equipment have been authorised by production supervisors and little has been done to reduce the surplus of old equipment.

Which of the following control can be recommended to address the internal control deficiency in the respect of the acquisition of new equipment and treatment of the old equipment.
(a). Regular review of the data on the unused equipment on the master file by a responsible official and the review to be evidenced.

(b). Supplier statement reconciliations should be performed monthly for all suppliers and these should be reviewed by a responsible official.

(c). Capital expenditure authorisation levels to be established. Production supervisors should only be able to authorise low value items, any high value items should be authorised by the board.

(d). Observe the review process by senior factory personnel, identifying the treatment of any old equipment.

42. You are a manager in the audit department of Narang & Co, and you are dealing with several ethical and professional matters raised at recent management meetings, all of which relate to audit clients of your firm:

One of your client Bernwood Co has a year ending 31 March 2018. During this year, the company established a pension plan for its employees, and this year end the company will be recognising for the first time a pension deficit on the balance sheet, in accordance with Ind AS 19 Employee Benefits. The finance director of Bernwood Co has contacted the audit engagement partner, asking if your firm can provide an actuarial valuation service in respect of the amount recognised.

Which of the following options needs to be considered by the audit engagement partner?

(a) The issue is whether there is a self-review threat, as the valuation of the amount recognised would be recorded in the financial statements. The audit partner should decline the work of valuation service.

(b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such a valuation service. The audit partner should decline since not professionally qualified to provide the valuation service.

(c) Narang & Co. needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the valuation service.

(d) The audit partner could go ahead with the valuation 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.

43. PR Co. designs and manufactures specialised furniture for offices in and around the city of Mumbai. The revenue has been gradually increasing over the last few years. The main concern for PR Co is finding credit-worthy customers who will make the payment on due dates. You are assigned as the audit team member to test the controls in sales and purchase system of the entity. The year end of the entity is 31 March 2018. One of the control objectives of the sales system of PR Co is to ensure that goods and services are sold to credit-worthy customers.

Which of the following control activities would assist the entity in achieving this objective?

(a) All sales orders above Rs.10 lakh is based on authorised price lists.

(b) Credit limits for all the customers are checked before sales orders are accepted.

(c) Overdue debts are chased each month by the credit controller.
44. You are an audit manager of DC & Co and you are currently responsible for the audit of Beautypal Co, a company which develops and manufactures health and beauty products and distributes these to wholesale customers. Its draft profit before tax is Rs.43 lakhs and total assets are Rs.38 lakhs for the financial year ended 31 March 2018. The final audit is due to commence shortly, and the following matter has been brought to your attention:

Beautypal Co has a large portfolio of property, plant and equipment (PPE). In January 2018, the company carried out a full review of all its PPE and updated the useful lives, residual values, depreciation rates and methods for many categories of asset. The finance director felt the changes were necessary to better reflect the use of the assets. This resulted in the depreciation charge of some assets changing significantly for this year.

Which of the following substantive procedure should the auditor perform to obtain sufficient and appropriate audit evidence in relation to matter of depreciation on property, plant and equipment?

(a) Review the capital expenditure budgets for the next few years to assess whether the revised asset lives correspond with the planned period until replacement of the relevant asset categories.

(b) Inspect non-current asset accounts for a sample of purchases to ensure they have been properly allocated.

(c) Consider whether the proceeds on disposals of PPE are reasonable and recalculate the profit or loss disposal.

(d) For a sample of fully depreciated assets, inspect the register to ensure no further depreciation is charged.

45. As an internal auditor of LMN Bank Ltd., you have to verify the vouchers for the quarter ending 30th June 2018 of a branch at Ahmedabad. While verifying the vouchers, your team noticed that many of the bearer cheques processed by the teller have not been stamped as “paid”, when discussed with the branch manager he stated the reason as ignorance on the part of official who has been assigned the duty of verifying the vouchers. As an internal auditor, what should be your next course of action:

(a) Considering the matter as immaterial, ignore it for the internal audit report.

(b) The Branch manager should be advised to rectify the discrepancy and the observation is closed in the internal audit report noting the corrective action taken.

(c) The matter should be immediately reported to those charged with governance of LMN Bank Ltd.

(d) Report the matter in Executive summary paragraph of Internal Audit Report as it is a significant internal control lapse.

46. ALM Ltd. is a trading company engaged in the business of selling readymade garments with a turnover of around Rs. 85 crore in the year 2017-18. Your firm has been appointed as statutory auditors for the year 2018-19. In the process of audit for the half year ending 30th September, 2018 your senior has instructed you to verify the debtors of the company. While verifying the same it came to your notice that the company is not taking balance confirmations from the debtors and the balance shown in the books of company is considered final for the preparation of accounts. As a statutory auditor what should be your decision on the debtors balances:
(a) Statutory auditor should review the internal audit report and ensure as per section 143 of the Companies Act, 2013 that the company has adequate internal financial controls in place.

(b) There is no need to take debtors confirmation as it is immaterial for the purpose of Audit Report.

(c) The auditor is required to take external confirmation independently and wherever the auditor gets negative or no response or the response is doubtful an alternative audit procedure should be followed.

(d) A management representation letter should be obtained by the auditor.

47. As a Central Statutory auditor of KG Ltd. for the year 2018-19 you need to verify the bank balances for the half year ending 30th September 2018. The company is holding Bank accounts in five different banks, but you found that the bank reconciliation is not complete for some of the bank accounts. When discussed with the management they explained that the number of transactions in these accounts is very huge on daily basis and there are some old entries (existing in the reconciliation statement from the year 2008 and they are not material in nature) so it is difficult to reconcile these bank accounts. As a Central Statutory Auditor what will be your decision:

(a) The unusually old outstanding entries, as are not material in nature, should be removed from reconciliation statement and the balance in books of accounts should be considered as the balance for the balance sheet purpose.

(b) The auditor should confirm the appropriateness of the old outstanding entries by taking bank confirmations for the same to reduce audit risk and obtain a management representation letter on pending reconciliation.

(c) The auditor should disclose the matter in Notes to accounts of the audit report with respect to incomplete bank reconciliation.

(d) The auditor should communicate it to those charged with governance as deficiency in internal control.

48. You are an article assistant in PQR & Associates. You are assigned an internal audit of X Ltd., a leading company in business of dairy products. While evaluating internal controls associated with related party relationships and transactions, you come across some discrepancies. What is the basic information to be collected by you related to related party relationships and transactions?

i. The identity of the entity’s related parties including changes from the prior period

ii. The nature of the relationships between the entity and these related parties

iii. Understanding of business activities of related parties

iv. Whether the entity has entered into any transaction with these related parties during the period and, if so, the nature and extent, and the purpose of the transaction

v. Materiality of related party transactions

(a) i, ii & v

(b) i, ii & iv

(c) ii, iii & iv
AMS & Co is a computer hardware specialist and has been trading for over 6 years. The company is funded through overdrafts and loans and by several large shareholders. The financial year end is 31 March 2017.

AMS had significant growth in business in previous years; however, in the current year a new competitor BOM & Co, has entered the market and through competitive pricing has gained considerable market share from AMS. One of AMS’s customers has stopped trading with them and has moved its business to BOM. In addition, a few specialist developers have left the company and joined the new company BOM. AMS has found it difficult to replace these employees due to the level of their skills and knowledge. AMS has just received notification that its main supplier who provides the company with specialist electrical equipment has ceased to trade.

Which of the following audit procedures should NOT be performed in assessing whether or not AMS is a going concern?

(a) Evaluating management’s plans for the future of the business, by finding out from the financial director whether the company has gained any new customers to replace the customers lost
(b) Review board meeting minutes for evidence of progress on recruiting specialist developers to replace the ones who have left to join BOM.
(c) Analyse and discuss the entity’s last 2 years of financial statements to determine whether it is consistent with the cash flow forecast.
(d) Review the correspondence with the shareholders to assess the probability that any of the shareholders choose to increase or sell their investment

ASM Motor Cars co. manufactures a range of motor cars and its year end is 31 March 2018. You are the audit supervisor of Khanna & Associates and currently preparing the audit programmes for the year-end audit of ASM. The entity undertakes continuous production of cars, 24 hours a day, seven days a week. An inventory count is to be undertaken at the year end and Khanna & Associates will attend. You are responsible for the audit of work in progress (WIP) and will be part of the team attending the count as well as the final audit. WIP constitutes the partly assembled cars at the year end and this balance is likely to be material. ASM values WIP according to percentage of completion, and standard costs are then applied to these percentages.

Which of the following is NOT a substantive procedure the audit could perform to obtain sufficient and appropriate audit evidence in relation to the valuation of work in progress?

(a) Discuss with management how the percentage completions are attributed to WIP
(b) Observe the procedures carried out in the count in assessing the level of WIP; consider reasonableness of the assumptions used
(c) During the count, verify all the percentage completions if they are in accordance with ASM’s policies
(d) Review the level of variances between standard and actual costs
## Solution

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1. **XYZ Printers** is a medium size printing press with turnover of Rs.100 crore for the financial Year 2015-16. The company buys paper rims for its press from different suppliers. You are the statutory auditor of the company for the year 2015-16 and the management has informed you that the company has bought paper rims from one of the supplier who is related to one of the director of XYZ Printers. What audit evidence do you need to collect for identifying and assessing the risk of material misstatement associated with related party transaction?

   a) Prior approval of the audit committee/shareholders for the transactions with the supplier, materiality/ significance of the transactions on company’s financial statements, agreement entered into with the supplier and internal control for the transactions with the supplier.
   
b) Only the prior approval of the audit committee/shareholders for the transactions with the supplier is sufficient.
   
c) Check whether the company has formulated any policy on dealing with related party transactions and materiality of transactions.
   
d) As a statutory auditor you should check the internal controls and internal audit reports only.

2. You are the internal auditor of FCD Bank Limited for the year 2017-18 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:

   a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
   
b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
   
c) Discuss the process followed for lien marking with the branch manager.
   
d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.

3. Mr. Vijay Kapoor, Chartered Accountant, has been appointed the statutory auditor by M/s. XYZ Private Limited for the audit of their financial statements for the year 2015-16. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Vijay during the course of audit. Advise, whether Mr. Vijay should accept the proposed audit engagement and on what grounds he can accept/refuse the proposal?

   i) As per SA 210 the auditor can refuse to accept the audit engagement as the management is not giving access to internal audit reports which are necessary in determining the internal controls in the company.
   
   ii) There is no limitation on the scope of the auditor’s work, so the auditor should accept the appointment.
   
   iii) The auditor can accept the audit engagement if the management gives representation on its responsibility.

Which of the following option is correct:

a) (ii) only
b) Both (i) and (iii)
c) Both (ii) and (iii)
d) (iii) only

4. Best Manufacturers Limited is a manufacturing company and has entered into an agreement in February 2017 with CISCA Brothers for buying land in order to set up their new manufacturing unit. As per the agreement, Best Manufacturers were required to pay Rs.20 Lakhs as signing amount and the balance amount was required to be paid in three instalments of Rs.25 lakhs each in the month of May, July and September 2017. The title deed for the land was to be transferred after the payment of second instalment in July 2017, so in the accounts for the year 2016-17 of the Best Manufacturers the payment of signing amount was booked as an expense. Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for the year 2016-17. There is conflict between Financial Reporting Framework and Legal requirement, so what will be the duty of your firm in such case?

a) Incorporate the changes in financial statements as per the legal requirement.
b) As the title deed has not been transferred in favour of the company in the year 2016-17, there is no need to review the payment in terms of Accounting Standard or any other legal requirement.
c) Take management representation on the same.
d) Discuss the matter with management and ensure disclosure of the same in notes to accounts. In the absence of same, the auditor may consider issuing modified opinion.

5. BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2017-18. 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 do you think that there was proper division of work? If not, why?

a) There is proper division of work as the despatch and sales ledger maintenance work is allotted to different officials.
b) Company has not done proper division of work as the receipts of cash should not be handled by the official handling sales ledger.
c) Delivery challans should be verified by an authorised official other than the officer handling despatch of goods.
d) Both b and c are correct.

6. Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2017-18. While verification of company’s inventories as on 31st March 2018 you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties, what is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held and the stock as disclosed in company’s records actually belongs to them?

a) Ensure that the total stock including the stock with third party tally with the stock register maintained by the company.
b) Obtain confirmation from the third party/s with whom the inventories of the company are held and reconcile the same with stock register.

c) Conduct a physical verification of stock maintained with third party/s.

d) Obtain a written confirmation from the departmental head of the company for the inventories maintained at other places as audit evidence.

7. Bhishm Limited decided to appoint Mr. Rajvir, chartered accountants as the branch auditor for the audit of its Lucknow branch accounts for the year 2017-18. The decision to appoint branch auditor was taken by way of Board Resolution in the meeting of Board of Directors of the company, held in April 2017, subject to shareholders’ approval in AGM of the company scheduled to be held in June 2017. Meanwhile, the Principal Auditor of the company raised an objection that the branch auditor cannot be appointed without his consent. Whether the objection raised by company auditor is valid?

a) The objection raised by company auditor is not valid as per section 143(8) of the companies Act, 2013 and the Board has authority to appoint branch auditor but should be approved by shareholders in General Meeting.

b) The objection raised by company auditor is valid as it is necessary to consult/obtain the consent of Principal Auditor before appointing Branch Auditor.

c) The Board of Directors has no authority to appoint Branch Auditor so the objection raised by Principal Auditor is valid.

d) The objection raised by company auditor is not valid as it is compulsory to appoint branch auditor as per Sec.139 of the Companies Act, 2013.

8. Prakash & Co. Chartered Accountants are the internal auditor of Textbook Private Limited, for the year 2016-17. You have been instructed by your senior to check the internal controls for the investments done by the company during the year. While verifying the same you noticed that the property documents, share certificates and other investment documents have been kept in a safe custody locker, whose keys are kept with an authorised official of Accounts Department of the company and none other than that official has access to locker. As an internal auditor do you consider as material weakness in internal controls? If yes, how will you report the matter?

a) It cannot be considered as material weakness in internal control as the company might not have any other reliable employee within in its staff members.

b) The safe custody locker should always be under the control of two authorised officials. Therefore, the auditor should communicate such material weakness to the management or audit committee.

c) It is not material weakness to be reported as giving the keys to two or more persons can lead a situation of confusion only.

d) The auditor should discuss the observation with the management and there is no need of any written communication.

9. DSP Chartered Accountants have been appointed statutory auditors of Flakes Private Limited for the year 2016-17. The company’s net profit has declined by 5% as compared to previous year in spite of increase in sales. On verification of company’s profit & loss account it is noticed that in the current year a huge amount is debited as loss on sale of fixed assets due to which the profits has reduced. The auditor discussed the matter with management and was told that since the lot of fixed assets were lying idle due to their non-working condition, they have been sold at less than their written down value. As an auditor do you think that the fact regarding disposal of assets should be disclosed in auditor’s report/ notes to accounts?
a) If the assets has been sold as per company’s policy and under applicable Financial Reporting framework, then separate disclosure is not required in auditor’s report/notes to accounts.

b) As the sale of assets has an impact on profit for the current year, it should be disclosed in the notes to account of the Financial Statements.

c) Even if the assets has been sold as per company’s policy and under applicable Financial Reporting framework, the auditor should disclose the facts in Emphasis of Matter Paragraph of Audit Report as the loss booked in Profit & Loss account has a material impact on the net profit of the company.

d) As the loss on sale of fixed assets is debited in Profit & Loss Account as per Accounting Standard, there is no requirement of disclosure of the same in any report.

10. The auditor is required to evaluate management’s assessment of the entity’s ability to continue as a going concern.

Certain events/conditions were identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company.

In the given case, which one of the following options is correct?

a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date.

b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements.

c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date.

d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements.

11. Auditor’s report on prior period i.e. year ended 31 March 2017 included a modified opinion on an unresolved matter. If such matter is not relevant/ immaterial to the current period figures in the financial statements for the year ended 31 March 2018, how should the auditors deal with this matter in his auditors report for the year ended 31 March 2018?

a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.

b) Modify opinion on current period’s financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditors report for the year ended 31 March 2018.

c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
d) Include an emphasis of matter because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditors report for the year ended 31 March 2018.

12. DEF Ltd has outsourced its payroll to a third entity (service organization). What should be the basis followed by the auditor of DEF Ltd in respect of audit of payroll?

a) The auditor should obtain Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organisation. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.

b) The auditor may refer to the work of service auditor in his report containing an unmodified opinion and diminish his responsibility for the audit opinion.

c) The auditor should obtain Type 1 or Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organisation. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.

d) Since the payroll process is outsourced to a service organization, there is nothing much an auditor can do. Auditor should audit the other information for the financial statements and accordingly should issue his opinion.

13. The profits of XYZ Ltd was Rs. 1000 crores for the financial year ended 31 March 2018. While planning the audit of the financial statements of XYZ Ltd, the auditor determined the materiality of Rs. 50 crores. The materiality was taken as 5% of profits of XYZ Ltd. During the course of audit, on becoming aware of information during the audit, audit adjustments were passed which resulted in significant decline in the profits of XYZ Ltd. Post audit adjustments, the profits reduced to Rs. 500 crores. Because of the changes in profits of the company, the materiality may get reduced to Rs. 25 crores.

XYZ Ltd is a large size company having a turnover of Rs. 20,000 crores for the financial year ended 31 March 2018. Considering the size of the company, the auditor believes that materiality amount should not go below Rs. 50 crores as that would result in significant increase in their work and the work of the auditor may not get completed within the required timelines. Accordingly, the auditor wants to change the basis of materiality by increasing the percentage of profits or taking revenue as the basis for computation of materiality.

In the given situation, which one of the following options is correct?

a) Considering the size of the company, the auditor may be appropriate in changing the basis of materiality to save his work.

b) The basis of materiality cannot be changed to save the increased work of auditor if there has been additional information which resulted in decline of profits during the course of audit.

c) The auditor need not change the materiality basis. He can complete his audit using the materiality of Rs. 50 crores which was determined initially by him while planning the audit.

d) Since the profits of XYZ Ltd have got reduced due to audit adjustments, the same cannot be considered to be the basis for computation of materiality. Materiality has to be based on management computed numbers.
14. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. For the purpose of accepting position as the statutory auditors of WEF Ltd, M/s ABC & Co LLP has sent a written communication to M/s LMN & Co LLP to obtain no objection letter.

In the given case, which one of the following options is correct?

a) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.

b) M/s ABC & Co LLP needs to make a communication with LMN & Co LLP and obtain his no objection letter for accepting the position of statutory auditors of WEF Ltd. Once this is done, M/s ABC & Co LLP can be appointed by WEF Ltd. However, in that case it will not be mandatory to follow the provisions of the Companies Act 2013.

c) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. ABC & Co LLP also needs to make a communication with M/s LMN & Co LLP to obtain his no objection letter.

d) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.

15. The auditor is required to audit a complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS by the management solely for preparation of consolidated financial statements of the holding company. Is the auditor required to include 'Other Legal and Regulatory Requirements' to comment on matters such as maintenance of proper books of accounts, compliance with accounting standards etc. in the audit report?

a) Since the auditor is required to audit complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS, it will be mandatory for the auditor to include 'Other Legal and Regulatory Requirements' in his audit report.

b) The audit report is not issued pursuant to requirement of section 143 and hence 'Other Legal and Regulatory Requirements' is not required to be included in the audit report.

c) The audit report is not issued pursuant to requirement of section 143 and hence some of the requirements related to 'Other Legal and Regulatory Requirements' may be included in the audit report as per the discretion of the management of the Company.

d) The auditor may include 'Other Legal and Regulatory Requirements' in the audit report but he would need approval of the Board of Directors for doing so.

16. A Ltd. is a company in the business of buying and selling modern and contemporary Indian arts.

Following are the assets (in millions) of the Company on 31 March 2017:

- Fixed assets: INR 10
- Investments: INR 20
- Loans and advances: INR 40
- Inventories: INR 400
- Trade receivables: INR 10
- Cash and cash equivalents: INR 20

The management has not obtained valuation of inventories as at 31 March 2017 from a valuation expert in art forms. The auditors could not perform alternate procedures for
valuation of inventories. Therefore, auditors were not able to comment on the carrying value of inventories. However, the auditors were able to obtain sufficient appropriate audit evidence in respect of all other captions of financial statements. The auditors qualified their opinion in the auditor's report. What are your views on auditors qualifying their report?

a) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. The auditors may qualify their opinion in the auditor's report considering only one caption of the financial statements could be misstated.

b) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should issue adverse opinion.

c) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should disclaim their opinion.

d) Inventory is considered to be an important component of the financial statements. This is one of the items wherein significant risk may exist from the audit's perspective. Auditor should take cognizance of this fact and accordingly decide his opinion – qualified/ adverse/ disclaimer.

17. X Ltd is in the business of trading of industrial equipments. The Company’s operations are based out of India and Germany. For the purpose of hedge, the company has taken forward contracts. The Company is Phase 1 company as per the requirements of Ind AS and hence forward contracts have been fair valued for the purpose of preparation of financial statements. The Company also got its property, plant and equipment fair valued. The Company has shown its fair valuation reports in respect of above items to the auditors. What should be the responsibility of the auditors in this case?

a) The auditor may refer to the work of the valuer in his report containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.

b) The auditor may refer to the work of the valuer in his report for forward contracts but not for property, plant and equipment, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.

c) The auditor may refer to the work of the valuer in his report for property, plant and equipment but not for forward contracts, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.

d) The auditor may involve his own expert for the purpose of audit of fair valuation of forward contracts and property, plant and equipment. But in any case he cannot reduce his responsibility for the audit opinion by referring to the work of the valuer in his report.

18. PQR Ltd has three subsidiaries, two associates and five joint ventures. The standalone and consolidated financial statements of PQR Limited are audited by M/s Jain & Co LLP (Group auditors) for statutory reporting in India. The standalone financial statements of other group companies of PQR Ltd are audited by some other audit firms (component auditors). For the purpose of consolidation, the instructions sent by M/s Jain & Co LLP to component auditors state that the principal auditors would be working on the principle of division of responsibility.
The instructions further state that the Group auditor may review selected working papers of the component auditors covering identified areas of emphasis, if required.

Considering the local regulatory requirements, the component auditors do not agree to get their working papers reviewed from the Group auditors. Please choose the course of action for the Group auditors in the given case.

a) As per the Standards of Auditing in India, “When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report would be stating the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited/reviewed by the component auditors have been included in the financial information of the entity.” The Group auditor is not required to audit the financial statements of the components.

b) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components and hence the Group auditor is required to audit the financial statements of the components.

c) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor may either audit the financial statements of the components or review the work of the component auditors.

d) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor would be required to review the work of the component auditors. If the component auditors do not provide access to their working papers to the Group auditors, the Group auditors may qualify his auditors report.

19. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For the purpose of consolidation, WEF Ltd is required to send financial information of the company for the year in the Reporting package comprising of balance sheet, statement of profit and loss, statement of cash flow and notes to accounts. Since WEF Holding Ltd has many group companies across the globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all the group companies. The group companies do not have any provision to change the groupings/classifications which need to be reported as per the Group accounting manual which is prepared as per the Group’s accounting policies. Group follows IFRS.

ABC & Co LLP is also required to audit the reporting package of WEF Ltd as per IFRS. During the course of audit, the auditor observed that some classifications are not in line with IFRS, however, due to the limitation of the reporting package no such corrections can be made. How should the auditor deal with this?

a) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report.

b) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. However the auditor may also include a note separately in respect of the corrections required.

c) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor cannot change anything. However, the auditor is
required to issue to report as per IFRS wherein the classifications are wrong and hence
the auditor should issue qualified report if the amount is material.

d) Since all the classifications are in line with the requirements of the Group as per the
Reporting package, the auditor need not change anything. However the auditor should
issue his report as per the Group accounting manual instead of IFRS.

20. AKB Ltd is a large sized company having diversified business activities. The company’s
operations are spread across various locations within India and outside India. The company
has many units and plants. The no of transactions of the company is large and it uses SAP
as its ERP package. The company appointed LLM & Associates as their new tax auditors for
the current year. Tax auditors were reviewing the statutory compliances and observed that
currently there is no process of the company to check whether TDS has been correctly
deducted on all transactions or not. Since the transactions of the company may be running
in thousands and covers various provisions of TDS, the management believes that such a
process cannot be established. Also in the past this exercise was never done and no case
of any short/non-deduction of TDS has been reported in Form 3CD in the past. How should
the tax auditor deal with this matter in his report?

a) Management is right and hence it should be ignored by the tax auditor.

b) Tax auditor should test check and basis that he should close this point.

c) Management should provide a reconciliation to the auditor reconciling the accruals/expenses with TDS deducted during the year to ensure TDS is deducted appropriately.
If the same is not available, tax auditor should qualify his report.

d) Management should set up a process as per the requirement of the tax auditor. For the
current year, tax auditor should obtain management representation on this matter and
should close this accordingly.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(a)</td>
<td>(b)</td>
<td>(b)</td>
<td>(d)</td>
<td>5</td>
<td>(d)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>(b)</td>
<td>7</td>
<td>(a)</td>
<td>8</td>
<td>(b)</td>
<td>9</td>
<td>(c)</td>
<td>10</td>
<td>(a)</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>(b)</td>
<td>12</td>
<td>(c)</td>
<td>13</td>
<td>(b)</td>
<td>14</td>
<td>(c)</td>
<td>15</td>
<td>(b)</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>(c)</td>
<td>17</td>
<td>(d)</td>
<td>18</td>
<td>(a)</td>
<td>19</td>
<td>(c)</td>
<td>20</td>
<td>(c)</td>
<td></td>
</tr>
</tbody>
</table>
1. This year you were included in the audit team with portfolio of few not-for-profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?

   a. Time card clocking in to ensure that the employees including resident doctors are only paid for those hours worked
   b. Strict controls over the authorisation of overtime to ensure it is only worked where really needed
   c. There are any restrictions imposed by the objectives and powers given by hospital’s governing documents
   d. A recognised plan of the organisation’s structure clearly showing the areas of responsibility and lines of authority and reporting.

2. The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company’s vital information. Which of the following is the best program for the protection of a company’s vital information resources from computer viruses?

   a. You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions.
   b. You observe that there is an existence of a software program for virus prevention.
   c. You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards.
   d. You identify that there are physical protection devices in use for hardware, software, and library facilities.

3. As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co manufactures tools required for heavy machinery and the year under audit is 31 March 2018. Which further audit procedures would you perform in response to this?

   (1) For a sample of purchase invoices around the period end, inspect the dates and compare with the dates of goods received notes and the dates recorded in the purchases and payables to confirm the application of correct cut-off.
   (2) Trace a sample of shipping documentation to purchases invoices and into the purchases and payables ledger.
   (3) For a sample of purchase transactions recorded in the ledger, vouch the purchase invoice back to supplier orders and shipping documentation.
   (4) For a sample of purchase invoices, examine for proper classification into purchase accounts.

   a. Procedure (1) and (2)
   b. Procedure (1) and (3)
   c. Procedure (2) and (4)
   d. Procedure (3) and (4)
4. You are the middle of the audit of one of your client Amy & Co for the year ended 31 March 2018. Following is the bank reconciliation statement for the month end 31 March 2018.

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank statement 31 March 2018</td>
<td>1,35,111.00</td>
<td></td>
</tr>
<tr>
<td>Add: deposits outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 March (ref 112)</td>
<td>1,10,222.00</td>
<td>1,35,222.00</td>
</tr>
<tr>
<td>31 March (ref 113)</td>
<td>25,000.00</td>
<td>2,70,333.00</td>
</tr>
<tr>
<td>Less: outstanding cheques</td>
<td></td>
<td></td>
</tr>
<tr>
<td>240</td>
<td>20,250.00</td>
<td></td>
</tr>
<tr>
<td>272</td>
<td>12,300.40</td>
<td></td>
</tr>
<tr>
<td>274</td>
<td>25,000.00</td>
<td></td>
</tr>
<tr>
<td>276</td>
<td>21,345.25</td>
<td></td>
</tr>
<tr>
<td>280</td>
<td>19,000.00</td>
<td></td>
</tr>
<tr>
<td>281</td>
<td>22,200.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,20,095.65</td>
</tr>
<tr>
<td>Balance per bank in the general ledger 31 March 2018</td>
<td>1,50,237.35</td>
<td></td>
</tr>
</tbody>
</table>

Which of the following procedures would not be followed to verify the bank reconciliation statement?

a. Verify by checking paying-in slips that the uncleared bankings (deposits outstanding – ref (112 and 113) were paid in prior to the year end, and review whether they cleared quickly after the year end. Any that have not cleared soon after the year end should be investigated.

b. Verify that the year-end balance per the general ledger according to the reconciliation (Rs.1,50,237.35) agrees with the general ledger account balance at 31 March 2018 and that this has been properly reflected in the financial statements.

c. Scrutinise the cash book and bank statements before and after the period end for exceptional entries or transfers which have a material effect on the balance shown to be in hand.

d. Agree the balance per bank statement at 31 March 2018 as shown on the reconciliation (Rs.1,35,111.00) to the bank statement and to the amount for that account shown on the bank letter.

5. You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files:

- As at 31 March 2017, the company had 350 employees
- On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line
- On 1 June 2017, all remaining staff received a 5% pay rise
• Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018.

The following audit evidence has been gathered relating to the accuracy of wages and salaries for Bingham Co.
(1) Proof in total calculation performed by an audit team member
(2) Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries
(3) Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries
(4) Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co.

What is the order of reliability of the audit evidence starting with the MOST RELIABLE first?
a. Audit evidence - 1, 2, 3, 4  
b. Audit evidence - 1, 4, 2, 3  
c. Audit evidence - 4, 1, 2, 3  
d. Audit evidence - 4, 1, 3, 2

6. Your firm has been appointed as the auditors of Stuart Limited, a well-established consumer goods manufacturing company. During the audit you were provided with various oral representation during meetings and discussions. While finalizing the audit you requested the management to provide such representations in writing. The management has however informed you that they are not accustomed to providing any representations to the external auditor in writing. The management is of the view that it has provided full access to whatever records, documents and evidences were available with it without any exception and that now it is the auditor's responsibility to correlate the same with the oral representations.

What would be your response to the above?

a. Agree with management since you have been provided full access to whatever records, documents and evidences were available with management without any exception
b. Document that management gave oral representation in audit working paper and issue unmodified opinion.
c. After corroborating the audit evidences, consider this as a scope limitation and then consider to express a qualified opinion or disclaimer of opinion or re-assess the continuation of engagement with the audit client if integrity of the management is in question.
d. Give unmodified opinion and include the observation in “other matter” paragraph, stating that the written representations of the concerned matters could not be obtained.

7. The year-end audit of your client Alpha Co began shortly after the reporting period 31 March 2018. Alpha Co deals in manufacture and retailer of stationery items. Last year, you had worked on the non-current assets. This year you requested your manager to give you the work on revenue. You have been given a list of procedures to carry out on revenue and you have decided to prioritise those which deal with the key assertion of occurrence. The revenue for the current year has increased y 10% from the previous year. Which of the following substantive procedures provide evidence over the OCCURRENCE assertion for revenue?
(1) Compare the reported revenue figure to the budget and to the previous year, investigating any significant differences.

(2) Select a sample of goods despatched notes (GDNs) and agree to invoices in the sales day book.

(3) Select a sample of invoices from the sales day book and agree to GDNs of Alpha Co.

(4) Select a sample of invoices and recalculate the invoiced amount agreeing to price list shared by the finance director of Alpha Co.

a. Procedure 1 and 3
b. Procedure 1 and 2
c. Procedure 2 and 4
d. Procedure 3 and 4

8. You are an audit senior of Pendse Accountants and are currently conducting the audit of Stalwart Co for the year ended 31 March 2018. Below is an extract from the list of supplier statements as at 31 March 2018 held by the company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

<table>
<thead>
<tr>
<th>Supplier Statement balance</th>
<th>Payables ledger balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>AB Co</td>
<td>90,000</td>
</tr>
<tr>
<td>CD Co</td>
<td>1,85,000</td>
</tr>
</tbody>
</table>

AB Co: The difference in the balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018.

CD Co: The difference in the balance is due to the supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in the financial statements until after the year end. The payables clerk has advised the audit team that the invoice was not received until 3 April 2018.

The audit manager has asked you to review the full list of trade payables and select balances on which supplier statement reconciliations will be performed. Which of the following statement is correct in respect of including or excluding from your sample?

a. Exclude with material balances at the year-end.
b. Exclude suppliers which have a high volume of business with Stalwart Co
c. Include major suppliers with nil balances at the year-end.
d. Include suppliers where the statement agrees to the ledger.

9. The audit work of Amrut & Co is underway for the year ended 31 March 2018. Your audit manager asked you to look at the completeness of trade payables. The supplier statement balance for one of entity’s supplier PR Co showed a difference of Rs.62,000 higher than recorded in the payables ledger balance. Which of the following audit procedures should be performed in relation to the balance with PR Co to determine if the payables balance is understated?

a. Inspect the goods received note to determine when the goods were received
b. Inspect the purchase order to confirm it is dated before the year end
c. Review the post year-end cashbook for evidence of payment of the invoice
d. Send a confirmation request to PR Co to confirm the outstanding balance
10. One of your team members has taken leave for her final exams due in 15 days. She was working on the accruals balance of Karce & Co which could not be completed before she went on study leave. The audit manager has asked to complete the task on accruals. For the current year ended 31 March 2018, there has been an increase in the accruals by 15% as compared to the previous years. Which of the following procedures should be performed to determine if the accruals are accurate, valued and allocated correctly?

a. Test transaction around the year end to determine whether amounts have been recognised in the correct financial period.

b. For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct.

c. Confirm payment of net pay per payroll records to cheque or bank transfer summary for the accruals on salaries.

d. For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.

11. The draft financial statements of Tex Co for the year ended 31 March 2018 show the following information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>52,00,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>37,00,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>15,00,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>18,00,000</td>
</tr>
<tr>
<td>Trade payables</td>
<td>10,00,000</td>
</tr>
</tbody>
</table>

The auditor has confirmed the trade payables payment period with the Tex Co staff as 98 days during the current year. This was compared with the payment period with the last year records and found out there has been a decrease of 20 days in average. Which of the following audit procedures will provide the auditor with the assertion of valuation of trade payables at the year end?

a. Review the trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits

b. For a sample of vouchers, inspect supporting documentation, such as authorised purchase orders.

c. Test transactions around the year end to determine whether amounts have been recognised in the correct financial period.

d. Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year.

12. The main operations of PT Co are conducting training programs for the newly qualified commerce graduates to make them ready for the jobs available. The company owns a 2-storey building in the centre of the city, where they could attract lot of students for the courses offered. Currently, the trainings are provided in-house. PT has plans to expand and offer online courses as well. You are the audit senior for PT Co for the year ended 31 March 2018 and in charge of audit work on non-current assets. New furniture and white boards have been purchased during the current year. The total non-current assets shown in the financial statements stands at Rs.289.5 lakhs. Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets?

(1) Ensure disposals are properly accounted for and recalculate gain/loss on disposal
(2) Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with Ind AS 16 Property, Plant and Equipment
(3) Review the repairs and maintenance expense account for evidence of items of a capital nature
(4) Review board minutes of PT for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register
(5) Agree a sample of additions included in the non-current assets register to purchase invoice and cash book. Mainly the new furniture purchased during the year by PT Co.
(6) Review physical condition of non-current assets for any sign of damage.

a. Audit Procedures 1, 2, 5 and 6
b. Audit Procedures 1, 3, 4 and 6
c. Audit Procedures 2, 3, 4 and 5
d. Audit Procedures 3, 4, 5 and 6

13. The audit team has obtained the following results from the trade receivables circularisation of Oak Co for the year ended 31 March 2018.

<table>
<thead>
<tr>
<th>Customer</th>
<th>Balance as per sales ledger (Rs)</th>
<th>Balance as per customer confirmation (Rs)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>M Co</td>
<td>2,25,000</td>
<td>2,25,000</td>
<td></td>
</tr>
<tr>
<td>N Co</td>
<td>3,50,000 (Invoice raised on 28 March 2018)</td>
<td>2,75,000</td>
<td></td>
</tr>
<tr>
<td>O Co</td>
<td>6,20,000</td>
<td>4,80,000 (Payment made 30 March 2018)</td>
<td></td>
</tr>
<tr>
<td>P Co</td>
<td>5,35,000 (A balance of Rs.45,000 is currently being disputed by P Co.)</td>
<td>5,35,000</td>
<td></td>
</tr>
<tr>
<td>R Co</td>
<td>1,78,000</td>
<td>No reply</td>
<td></td>
</tr>
</tbody>
</table>

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

a. No further audit procedures need to be carried out in relation to the outstanding balances with M Co and P Co
b. The difference in relation to N Co represents a timing difference and should be agreed to a pre-year-end invoice
c. The difference in relation to O Co represents a timing difference and should be agreed to pre-year-end bank statements
d. Due to the non-reply, the balance with R Co cannot be verified and a different customer balance should be selected and circularised

14. For the current year audit of Beta Co for the year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan the audit work on trade receivables. The financial statements of Beta Co showed trade receivables of Rs.243 crores in the current year. Which of the following procedures could not be performed by using computer-assisted audit techniques?

a. Selection of a sample of receivables for confirmation
b. Calculation of receivables days
c. Production of receivables' confirmation letters
d. Evaluation of the adequacy of the allowance for irrecoverable receivables

15. Top Pizzas Co operates a large chain of fast food restaurants. You are an audit supervisor of Shivam & Associates and are currently preparing the audit programmes for the audit of Top Pizza’s financial statements for the year ended 31 March 2018. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed. One of the issue was on Property, plant and equipment of the entity.

In the past Top Pizza has received negative press reports over the condition of its fast food restaurants, with comments suggesting they are old fashioned and tired looking. Therefore during the year the company undertook a full review of all its assets and carried out extensive refurbishments to the majority of its restaurants. This review resulted in a significant amount of ageing fixtures and fittings being disposed of and a significant amount of capital expenditure was invested in all remaining restaurants.

Which of the following is not a substantive procedure to be used by the auditor to obtain sufficient and appropriate audit evidence on property, plant and equipment?

a. Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings.
b. Select a sample of additions and agree cost to supplier invoice to confirm valuation.
c. Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Top Pizza.
d. Review the evidence for recalculation of depreciation charge on the additions and disposals made in the year of acquisition according to the company policy.

16. RK Co is a retailer in stationery items and runs 10 shops in and around South Mumbai. In the audit plan prepared for the current year ended 31 March 2018, you have included statistical sampling method for testing the accounts payable balance. You asked your audit senior to review the results of some statistical sampling testing, which resulted in 20% of the payables balance being tested.

The testing results indicate that there is a Rs. 58,000 error in the sample: Rs. 30,000 which is due to invoices not being recorded in the correct period as a result of weak controls and additionally there is a one-off error of Rs. 28,000 which was made by a temporary clerk.

What would be an appropriate course of action on the basis of these results?

a. The error is immaterial and therefore no further work is required
b. The effect of the control error should be projected across the whole population
c. RK Co should be asked to adjust the payables figure by Rs. 58,000
d. A different sample should be selected as these results are not reflective of the population

17. Sula Hotels Co operates a number of hotels providing accommodation, leisure facilities and restaurants. You are an audit supervisor of Pai & Co, conducting the audit of Sula Hotels Co for the year ended 31 March 2018. The following information has been brought to your attention:

Non-current assets: Sula Hotels Co incurred significant capital expenditure during the year updating the leisure facilities at several of the company’s hotels. Depreciation is charged on all assets monthly on a straight line basis (SL) and it is company policy to
charge a full month’s depreciation in the month of acquisition and none in the month of disposal. The rates are as per Schedule II of the Companies Act, 2013.

The audit team has obtained the following extract of the non-current assets register detailing some of the new leisure equipment acquired during the year.

Extract from Sula Hotels Co’s non-current assets register:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Cost</th>
<th>Depreciation policy</th>
<th>Charge for the year</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/08/2017</td>
<td>8 treadmills</td>
<td>3,60,000</td>
<td>36 months SL</td>
<td>80,000</td>
<td>2,80,000</td>
</tr>
<tr>
<td>15/08/2017</td>
<td>10 exercise bikes</td>
<td>1,50,000</td>
<td>3 years SL</td>
<td>50,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>17/11/2017</td>
<td>10 rowing machines</td>
<td>2,00,000</td>
<td>36 months SL</td>
<td>44,444</td>
<td>1,55,556</td>
</tr>
<tr>
<td>19/11/2017</td>
<td>8 cross trainers</td>
<td>1,20,000</td>
<td>36 months SL</td>
<td>16,667</td>
<td>1,03,333</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8,30,000</td>
<td></td>
<td>1,91,111</td>
<td>6,38,889</td>
</tr>
</tbody>
</table>

In order to verify the depreciation charge for the year, the audit team has been asked to recalculate a sample of the depreciation charges. The audit team has also been asked to carry out detailed testing on the valuation of non-current assets.

Which of the following correctly calculates the depreciation charge for the new assets for the year ended 31 March 2018 and the resultant impact on non-current assets?

a. Depreciation should be Rs.1,57,777, assets are understated
b. Depreciation should be Rs. 2,76,667 assets are understated
c. Depreciation should be Rs.1,34,722 assets are overstated
d. Depreciation should be Rs.1,74,444, assets are overstated

18. You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll:

- As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees.
- One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect.
- 10% of the employees were promoted and they received a 8% rise in their salaries.
- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018.

Which of the following are substantive ANALYTICAL PROCEDURES to be performed to complete the audit work for wages and salaries of Kapoor Industries?
(1) Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries.

(2) Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies.

(3) Compare the current year total payroll expense to the prior year and investigate any significant differences.

(4) Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements.

a. Analytical procedure 1 and 2
b. Analytical procedure 1 and 3
c. Analytical procedure 2 and 4
d. Analytical procedure 3 and 4

19. You are the audit manager responsible for the audit of AB & Co. AB specializes in the manufacture of electrical goods for domestic use, such as irons, kettles, toasters, vacuum cleaners, coffee makers. The external audit of AB for the year ended 31 March 2018 is at the review and finalisation stage. The draft financial statements show a profit after tax of Rs.52.5 crores and a total assets of Rs. 190 crores. The following issue has been noted by the audit senior. The company has set up a provision for warranty costs of Rs.3.45 crores in the financial year. These costs are not deductible for tax purposes until AB pays the claims. The company has not made any adjustments for the provision in the financial statements. The tax rate is 20%.

Which of the audit evidence would not be appropriate to be added in the audit working papers relating to the above provision?

a. Copy of the assumptions and calculations from the management of AB to arrive at the figure of Rs.3.45 crores.
b. The provision amount seems to be material since, 6.6% of the profit after tax. Auditor need to consider qualifying the audit report.
c. Calculation of the deferred tax asset as per Ind AS 12 Income Tax, since there is a deductible temporary difference arising on the provision.
d. Written representation point from the management of AB confirming the amount of provision in respect of warranties.

20. Your audit firm has been appointed as auditors of Red White Limited a manufacturing entity. The year under audit is 31 March 2018. While verifying account heads with high risk areas like revenue and inventory, you identify certain issues for which you are not provided satisfactory replies and documents by the client. At the same time Red White Limited approaches you to change the scope of the engagement. They give you the reason that they have misunderstood the scope of assignment earlier. What course of action would you adopt in this situation?

a. Accept the revised terms of engagement, as the change is resultant of change in circumstance which affect entity’s requirements or misunderstanding concerning nature of service originally requested and consider aforesaid as reasonable basis for requesting change in the engagement.
b. Accept the revised terms of engagement and record justification of the change in the engagement letter.
c. Disagree to the revised terms and withdraw from the engagement where possible under applicable law and regulations and determine whether there is any obligation, either contractual or otherwise, to report the circumstance to other parties such as those charged with governance, owners or regulators.

d. Disagree to the revised terms of the engagement and have your terms of increased fees since the scope of the engagement has changed.

Answers Key

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