

## CA FINAL ( ADVANCED AUDITING & PROFESSIONAL ETHICS)

### MOCK TEST – I

### MARKS - 100

#### Integrated Case Scenario 1.

ABC Ltd., is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of LMN Ltd. The total shareholding of LMN Ltd includes the following:

- The Government of Puducherry and Government of Delhi each hold 19% of the paid -up share capital,
- The Government Gujarat's share is 13.5%.

On 27<sup>th</sup> August 2019, Mr. KS, the auditor of ABC Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of FDI & Co. Chartered Accountants as statutory auditors of ABC Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, FDI & Co. agreed to do the following:

- Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company (however Mr. KS had agreed to charge only Rs. 45,000/-),
- Select and recruit personnel, conduct training programmes for and on behalf of ABC Ltd.

The company was having an annual turnover of Rs. 200 crores, and hence it was also liable to tax audit under section 44 AB of Income Tax Act, 1961.

During the current financial year 2019-20, ABC Ltd. had changed its method of accounting compared to the previous financial year (2018-19) and had reported a closing stock of raw material amounting to Rs. 2 lakhs only as on 31<sup>st</sup> March 2020. Also, the company had borrowed

a sum of Rs. 10 crores equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to Rs. 75 lakhs to the deposit holders.

As far as FDI & Co. Chartered accountants are concerned, Mr. F, who is one of the partners of the firm (*NOTE-* Mr. F does not sign the financials of ABC Ltd.) had borrowed a sum of Rs. 3.89 lakhs from LMS Ltd. He had also purchased goods worth Rs. 1.09 lakhs from the company. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. F. Another partner of the firm, Mr. I, who is also responsible for signing the financials statements of ABC Ltd. was also engaged in the teaching profession during his free time.

Upon hearing about the efficient services provided by FDI & Co. Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of Rs. 101/-.

### Questions ::

1. **To whom should have Mr. KS informed about his resignation? What could be the possible consequence for his non-compliance? (1 Mark)**
  - (a) He should have informed the registrar and ABC Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ` 5 lakhs.
  - (b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than ` 50,000/-.
  - (c) He should have informed the registrar and FDI & Co. As a consequence of his failure, he is liable to a fine of ` 500 per day for each day of failure.
  - (d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of ` 45,000/-.
2. **With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of ABC Ltd.? (1 Mark)**
  - (a) It is valid since the indebtedness is within prescribed limits.
  - (b) It is not valid since the indebtedness exceeds prescribed limit of ` 1 lakhs.
  - (c) It is valid since Mr. F is not signing the financials of ABC Ltd.
  - (d) It is valid since the indebtedness is not with ABC Ltd.
3. **Which among the below are permitted as per Chartered Accounts Act, 1949? (1 Mark)**
  - (i) Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company.
  - (ii) Select and recruit personnel, conduct training programmes for and on behalf of ABC Ltd.
  - (iii) Mr. I, one of the partners who is responsible to sign the financials of ABC Ltd. was into teaching profession.
  - (a) (i) & (ii)
  - (b) (iii) only
  - (c) (ii) & (iii)
  - (d) (i), (ii) & (iii)
4. **With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.? (1 Mark)**
  - (i) To charge fees as percentage of Net Profits, or
  - (ii) To charge fees of Rs. 101/-.
  - (a) (i) Only.
  - (b) (ii) Only.

- (c) Either (i) or (ii).  
(d) Neither (i) nor (ii).
5. Among the below transactions which were undertaken by ABC Ltd., which needs to be reported by the auditors under fiscal laws?
- (i) Rs. 10 crores loan taken, which is exceeding the limit specified u/s 269 SS of Income Tax Act.  
(ii) Changed its method of accounting from the previous financial year.  
(iii) Repayment of deposits of Rs. 75 lakhs, which is exceeding limit specified u/s 269 T of Income Tax Act.  
(iv) Reporting of Closing stock of raw material worth Rs. 2 lakhs only.
- (1 Mark)
- (a) (i), (iii) & (iv).  
(b) (ii) & (iv).  
(c) (i) & (iii).  
(d) (i), (ii), (iii) & (iv).

### Integrated Case Scenario 2.

CA & Co. Chartered Accountants have been appointed as the auditors of SRP company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around ` 50 lakhs. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2019-20, the following observations with respect to the company were made by the auditors:

- The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to ` 1.50 crores approximately.
- Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31<sup>st</sup> July 2018.

As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order 2016. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.

CA & Co. Chartered Accountants, were also acting as auditors for another company, SK Ltd. and Axis Bank Ltd. During the course of audit of SK Ltd, there was a difference of opinion between the management and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (i) The effect on audit of significant transactions that took place in the financial year.

- (ii) Areas of high risk as assessed and reported by management's expert.
- (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement

During the audit of Axis Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

- 59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to Rs. 29 lakhs were overdue for more than two years.
- 73 (guaranteed by Government of India) agricultural loan accounts amounting to Rs. 25 lakhs were overdue for more than two years.
- 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to Rs. 25 lakhs for each company were overdue for more than three and a half months.

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered the following new assignments:

- A GST assessing officer approached for conduct of special audit under section 66 of CGST Act for a company named MD Ltd. which was having an annual turnover of Rs. 1 crore. He had requested for the special audit as per the opinion that the company had not availed input tax credit within normal limits.
- Offer to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of Rs. 113 crores, of which preliminary expenses of Rs. 17 crores were included.

The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them.

### Questions:

6. **Is the decision of CA & Co. of not reporting the issues of SRP in CARO 2016 justified? If so, under what reason?** (1 Mark)
  - (a) No. CARO 2016 is applicable to SRP and hence the same has to be reported under clause (i) of CARO.
  - (b) Yes. CARO 2016 is not applicable to SRP and hence the same need not to be reported.
  - (c) No. As per SA 240, the auditor has to maintain professional skepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.
  - (d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.
7. **What is the total amount of loans that should be classified as NPA by Axis Bank?** (1 Mark)

- (a) Rs. 79 lakhs.  
(b) Rs. 100 lakhs.  
(c) Rs. 204 lakhs.  
(d) Rs. 104 lakhs.
8. Which among the following has to be reported by the auditor as contingent liability of Axis Bank Ltd.? (1 Mark)
- (a) Guarantee given by Axis Bank on behalf of constituent located in Myanmar.  
(b) A percentage of the total bills purchased by Axis Bank.  
(c) Claims against the bank acknowledged as debt.  
(d) Unpaid salary of Rs. 5 lakhs to five staffs of Axis Bank Ltd., who are currently undergoing a court trial.
9. What could be the possible reason for not accepting the special audit under section 66 of CGST Act? (1 Mark)
- (a) Such audit is applicable only if the turnover of the company exceeds ` 2 crores.  
(b) Such audits need to be conducted by cost accountants.  
(c) Such audit has to be called upon by assistant commissioner.  
(d) Such audit has to be called upon by the central government.
10. Whether CA & Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason? (1 Mark)
- (a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India.  
(b) Yes. The insurance company should have a minimum paid up share capital of Rs. 100 crores which shall exclude the preliminary expenses.  
(c) No. The insurance company should have a minimum paid up share capital of Rs. 100 crores which also includes the preliminary expenses.  
(d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority.

### Multiple Choice Questions

1. 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 — (1 Mark)
- 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
2. In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted & 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 :** (1 Mark)

- Conclude that the cashier is not telling truth
- Consider extending investigation producers like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc.
- Conclude that the Finance Head is not a responsible person
- Conclude that daily cash summary is not relevant for the investigation

**3. The auditor should ensure that the board of directors of the top 100 listed entities shall comprise of –** (1 Mark)

- not less than 7 directors.
- not less than 4 directors.
- not less than 6 directors.
- not less than 2 directors

**4. 50:50 test determination is popularly used in** (1 Mark)

- Banking Company
- Insurance Company
- NBFC Company
- Stock Trading Company

**5. CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore a deviation from the already set audit strategy is felt necessary. In this case, he should**

(1 Mark)

- Continue with the Audit Plan without considering the Audit Strategy
- Drop the audit and withdraw from the engagement
- First Modify the audit strategy and thereafter prepare the audit plan according to the modified strategy.
- Devise a new audit plan and then, change the strategy as per the Revised Plan.

**6. An auditor's expert may be either an auditor's internal or an external expert. Which of the following can not be an auditor's internal expert?**

( 1 Mark)

- Partner of the Auditor's Firm
- Temporary Staff of the Auditor's Firm
- Permanent Staff of Auditor's Network Firm
- A Prospective CA, soon to join the Auditor's Firm as a Partner.

**7. Rajeev Ltd is a listed company having business of production of motion pictures. For the year ended 31 March 2018, the company wanted to appoint GST auditor. For the purpose, somebody who is familiar with the business of the company/industry was to be preferred for appointment i.e. who would have worked with the company in the past to**



avoid efforts/ duplication in terms of providing the information to get the GST audit completed. The company had following options for the same. Please advise.

( 1 Mark)

- a. Internal auditors can be appointed for this work.
- b. Both statutory and internal auditors can be jointly appointed for this work.
- c. Internal auditors along with the tax consultants of the company can be appointed for this work.
- d. Statutory auditors can be appointed for this work.

**8. Rana & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. During the financial year ended 31 March 2019, the firm Rana & Co LLP got an intimation for the peer review on 1 July. The entire peer review process including on-site review got completed. The peer reviewer did not share any of his observations with Rana & Co LLP as draft and final report was submitted to the firm.**

( 1 Marks)

- a. Peer reviewer need not share any draft report with the firm if there are no observations.
- b. Even the final report is not required to be submitted to the firm.
- c. Peer reviewer needs to share draft report with the firm before finalisation.
- d. There are no reports in case of peer review. On completion, a certificate to that effect is issued.

**9. KLM Ltd is in the business of retail & has been suffering losses. The turnover of the company has been same over the last 3-4 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 & make checker mechanism was also not enable in Oracle. There is no mechanism to track redundant supplier code & 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 past 1 year. For 35 out of 9,076 active supplier, 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 & post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN & State mismatch, management has already commenced assessment to identify the reasons for such errors & all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.**

(2 Marks)

- a. Management responses look responsible & this matter should be dropped.
- b. The matter is more of related to hygiene & may not have any impact on the financial reporting & hence should be ignored.

- c. Internal Auditor need to report this matter
- d. Internal Auditor should look at the significance of the matter. Material & on the basis of the same should decide about reporting this matter

**10. ASOP Ltd. is in the business of trading & manufacturing of FMCG. The turnover of the company has been increasing, however, the company has not been able to maintain its margin 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 & Marketing Officer (CSMO). Review of sample 89 support schemes for the months of May 2018 & 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?** (2 Marks)

- 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 & 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 & the same should be reported by the internal auditor.
- d. Internal auditor should look at the materiality & basis that can ignore this as this will not have much impact.

**11. 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 propose 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 & 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/ classification 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 ?**

(2 Marks)

- a. Since all the classifications re in line with the requirements of the Group as per the Reporting package, the auditor need not change anything & 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 & 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 & 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.

**12. AKB Ltd is a large sized company having diversified business activities. The company's operations are spread across various locations within India & outside India. The company has many units & plants. The no of transactions of the company is large & 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 & covers various provisions of TDS, the management believes that such a process can not be established. Also in the past this exercise was never done & no case of any short/non-deduction of TDS has been reported in Form 3 CD in the past. How should the tax auditor deal with this matter in his report ? (2 Marks)**

- a. Management is right & hence it should be ignored by the tax auditor.
- b. Tax auditor should test check & 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 & should close this accordingly.

**13. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31<sup>st</sup> March, 2019. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019 -20.**

1. Allahabad branch which started foreign exchange business from February 2019.
2. Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

**Whether the decision of audit committee to include both the branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines?**

**(2 Marks)**

- (a) The decision of audit committee is valid as according to RBI Guidelines, both the branches fulfil the criteria for compulsory concurrent audit.
- (b) Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines, however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits

of the Bank is not required to be compulsorily covered for concurrent audit.

- (c) Allahabad and Rae Bareilly branch are compulsorily not required to be covered under concurrent audit as per RBI Guidelines.
- (d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered under compulsory concurrent audit criteria as per RBI Guidelines but the Rae Bareilly branch is covered under compulsory concurrent audit criteria.

**14. ZARI & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period.**

Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.

A team of new partners is in discussion with the senior old partners regarding their joining the firm.

The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.

For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.

At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope. In the given situation, which of the following is correct: (2 Marks)

- a. The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.
- b. After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported

the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.

- c. The procedures of the investigating accountant looks completely reasonable considering his scope of work. Further, no changes are required in his work approach.
- d. At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above

**FOR MAY 2020 EXAMS**

**AUDIT**

**CA. KHUSHBOO SANGHAVI**



**+**

**E- Book**

**Google Drive**

**Fast track**

**At Just  
Rs. 2500**

## Question 2.

(a). While commencing the statutory audit of B Company Limited, the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level. Explain. **(4 Marks)**

(b). Mr. X was appointed as the auditor of M/s Easy go Ltd. and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose. **(4Marks)**

(c). Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto: A letter is sent by a Chartered Accountant in practice to the Ministry of Finance inquiring whether a panel of auditors is being maintained by the Ministry and if so to include his name in the panel (CV enclosed). **(6 Marks)**

**Attempt any FOUR of the following :**

## Question 3.

(a). Comment with respect to Chartered Accountant Act, 1949: Mr. SP, a Chartered Accountant obtains registration as category IV merchant banker under the SEBI's Rules and Regulations and act as Advisor to a capital issue of MB Co. Ltd. He designated himself under the caption "Merchant banker" in client offer documents and 'Advisor to issue' in his own letterheads, visiting cards and professional documents. **(6 Marks)**

(b) Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto: M, a practicing Chartered Accountant sent a letter to another firm of Chartered Accountants, claiming himself to be a pioneer in liaising with Central Government Ministries and its allied Departments for getting various Government clearances for which he had claimed to have expertise and had given a list of his existing clients and details of his staff etc. **(4 Marks)**

(C) Briefly explain the key phases in the audit execution. **(4 Marks)**

## Question 4.

(a) Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto: K, a practicing Chartered Accountant gave 50% of the audit fees received by him to L, who was not a Chartered Accountant, under the nomenclature of office allowance and such an arrangement continued for a number of years. **(4 Marks)**

(b) Mr. X who passed his CA examination of ICAI on 18th July, 2017 and started his practice from August 15, 2017. On 16th August 2017, one female candidate approached him for articleship. In addition to monthly stipend, Mr. X also offered her 1% profits of his CA firm. She agreed to take both 1% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. X objecting the payment of 1% profits. Mr. X replies to the

ICAI stating that he is paying 1% profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. X liable to professional misconduct.

**(4 Marks)**

(c) [i] Write short note on: Focus of Peer Review.

**(3 Marks)**

[ii] While carrying out the statutory audit of a large entity, what are the substantive procedures to be performed to assess the risk of material misstatement?

**(3 Marks)**

### Question 5.

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

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

(ii) He issued production certificate to a client under GST Laws.

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

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

**(4 Marks)**

(b) Write short note on: Management Audit Questionnaire.

**(4 Marks)**

(C) (i). The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, what are the relevant criteria which determine whether the data is reliable for the purposes of designing substantive analytical procedures?

**(3 Marks)**

(ii) What are the areas excluded from the scope of Peer Review.

**(3 Marks)**

### Question 6.

(a) Describe the relevance of SA 600 while auditing consolidation of Financial Statements.

**(4 Marks)**

(b) Mr. X, a CA in practice and statutory auditor of True Ltd., advised the Managing Director of the company to include in sales, "Orders under negotiation" to reflect a better financial position for obtaining bank loan. Mr. X, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts.

**(4 Marks)**

(c) R & Co., a firm of Chartered Accountants have not revised the terms of engagements and obtained confirmation from the clients, for last 5 years despite changes in business and professional development. Please elucidate the circumstances that may warrant the revision in terms of engagement.

**(6 Marks)**



### Question 7.

- (a) Is it appropriate for the auditor to make inquiries of management regarding management's own assessment of the risk of fraud and the controls in place to prevent and detect it? Discuss. **(4 Marks)**
- (b) What are the roles and responsibilities of the statutory auditor in relation to compliance with the laws and regulations by the entity. **(4 Marks)**
- (c) (i) Discuss the Auditor's responsibilities to provide access to his audit working papers to Regulators and the third parties. **(3 Marks)**
- (ii) Mention any four information which assists the auditor in accepting and continuing of relationship with the client as per SA 220. **(3 Marks)**

# HEAVY DISCOUNT FOR MAY 2020 EXAMS

CA FINAL NEW/OLD	IDT (FASTTRACK)	CA MAHESH GOUR	2999/-
CA INTER NEW/ OLD	IDT (FASTTRACK)	CA MAHESH GOUR	1999/-
CA FINAL NEW/OLD	AUDIT (FASTTRACK)	CA KHUSHBOO SANGHAVI	2500/-
CA INTER NEW/ OLD	AUDIT (FASTTRACK)	CA KHUSHBOO SANGHAVI	1999/-
CA FINAL NEW/OLD	LAW (FASTTRACK)	PROF. HARSH KACHALIA	2500/-
CA FINAL NEW/OLD	FR (FASTTRACK)	PROF. ISHRAR SHAIKH	2999/-
CA FINAL NEW/OLD	SM + EIS (FASTTRACK)	CA. MEETA MANGAL PROF. JIGNESH CHHEDA	COMBO 3999/-

## E- BOOK OF AUDIT SAAR AVAILABLE HERE :

<https://www.invinciblelearning.com/s/store/courses/description/Advanced-Auditing-And-Professional-Ethics#tableofcontents>

## FOR VIEWING FREE REVISION LECTURES :

[https://www.youtube.com/playlist?list=PLt8\\_9dJPtfhE-In4FnzuVroiO7KdF-n0c](https://www.youtube.com/playlist?list=PLt8_9dJPtfhE-In4FnzuVroiO7KdF-n0c)

Learn at Your  
Pace and Place

GoCorona  
CoronaGo

Offer Till  
31st March 2020

CA Final New/Old	IDT (Fast Track)	CA Mahesh Gour	2999/-
CA Final New/Old	IDT (Regular)	CA Mahesh Gour	4999/-
CA INTER New/Old	IDT (Fast Track)	CA Mahesh Gour	1999/-
CA Final New/Old	Audit (Fast Track)	CA Khushboo Sanghavi	2500/-
CA INTER New/Old	Audit (Fast Track)	CA Khushboo Sanghavi	1999/-
CA Final New/Old	LAW (Fast Track)	Prof. Harsh Kachalia	2500/-
CA Final New/Old	FR (Fast Track)	Prof. Ishrar Shaikh	2999/-
CA Final New/Old	SM + EIS (Fast Track)	CA Meeta Mangal Prof. Jignesh Chheda	COMBO 3999/-

Gour's  e-Learning  **Video Lectures**  
Google Drive + e-Book  
Call Now:- +91 8459 256 756  
[www.cacselectures.com](http://www.cacselectures.com)

  
FOSTERING HIGH FLY

**Test Series**

Test Series @ Rs 99/- at Your Home

## CA Final

**May 2020**

**Offer till  
31st March**

**Google Drive+  
E-Books**

**LAW  
(Fast - Track)**

**Call Now  
8459 256 756**

**Hurry  
Up**

**#Go  
Corona  
#Corona  
Go**

**Rs. ~~6,500/-~~  
Rs. 2,500/-**

**Prof. Harsh  
Kachalia**

**#Stay Home  
#Stay Safe**

Gour's  e-Learning   
Learn at your Peace and Place



**CA FINAL (Old/New)**

**cacselectures.com**  
**+91 8459 256 756**



**Prof. Harsh Kachalia**

**LAW**

e-Book+Google  
Drive

**Hurry  
Up  
Offer  
till  
31st  
March**

**Combo  
Offer**

~~Rs. 25,000/-~~

**Rs. 11,999/-**



**CA KHUSHBOO SANGHAVI**

**AUDIT**

e-Book+Google  
Drive



**CFA Kunal Doshi**

**SFM**

e-Book + Google  
Drive

**Fast  
Track**

**GoCorona  
CoronaGo**



**Prof. Israr Shaikh**

**FR**

e-Book + Google  
Drive

**Gour's e-Learning**

Learn at your Peace and Place

**Curfew : care-for-you**

[www.cacselectures.com](http://www.cacselectures.com) **Gour's e-Learning**

[www.thestudyadda.com](http://www.thestudyadda.com) **THE STUDY ADDA**  
FOSTERING HIGH FLY

<http://youtube.com/gourselearning>

<https://www.facebook.com/gourselearning12345/>

<https://www.instagram.com/gourselearning/>

<https://t.me/cainterge>

<https://t.me/cafinalge>