1. Examine with reasons (in short) whether the following statements are correct or incorrect:
   
   (i) Ratio analysis is a commonly used technique in the comparison of current data with the prior period balance or with a trend in two or more prior period balances.
   
   (ii) When we are designing audit procedures to address an inherent risk or “what can go wrong”, we do not consider the nature of the risk of material misstatement in order to determine if a substantive analytical procedure can be used to obtain audit evidence.
   
   (iii) Stratified Sampling involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them.
   
   (iv) The fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven.
   
   (v) Application controls include manual controls only that operate at a business process level.
   
   (vi) Misstatements in the financial statements can arise from errors only.
   
   (vii) The assessment of risks is a matter of professional judgement.
   
   (viii) The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Central Government.
   
   (ix) The auditor shall express a qualified opinion when:
       
       (a) The auditor concludes that misstatements are material but not pervasive to the financial statements; or
       
       (b) The auditor is unable to obtain sufficient appropriate audit evidence but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive
       
   (x) Other matter paragraph is paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.

2. Discuss the following:
   
   (a) The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. When circumstances are similar, the effect on sample size of factors will be similar regardless of whether a statistical or non-statistical approach is chosen.

   Explain Stating the examples of factors that the auditor may consider when determining the sample size for tests of controls.
   
   (b) Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until
the completion of the current audit engagement. Discuss stating clearly the broad points you would be covering in framing plan to conduct audit in an efficient and effective manner.

(c) The engagement partner of SKC & Co., firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor.

(d) Generally, applying inquiry in combination with inspection gives the most effective and efficient audit evidence. However, which audit test to use, when and in what combination is a matter of professional judgement. Discuss stating the different ways testing is performed in an automated environment.  

\[5 \times 4 = 20 \text{ Marks}\]

3. (a) PACE is proprietorship firm of Mr Abhinav engaged in the manufacturing of textile and handloom products. It sells its finished products both in the domestic as well as in the international market. The company is making total turnover of Rs. 50 crores. It has also availed cash credit limit of Rs. 5 crores from Axis Bank. In the year 2017-18, proprietor of the firm is worried about the financial position of the company and is under the impression that since he is out of India, therefore firm might run into losses. He approaches CA Mahesh about advantages of getting his accounts audited throughout the year so that he may not suffer due to accounting weaknesses. Advise regarding advantages of getting accounts audited.

\[(5 \text{ Marks})\]

(b) Audit documentation provides evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor. Explain clearly stating the nature and purpose of Audit Documentation.

\[(5 \text{ Marks})\]

(c) On going through the financial statements of ABC Ltd, its auditors Deepa Raj and Associates observed that company has taken Loans from banks and financial institutions. Further, the audit team discusses the following about Liabilities:

“Liabilities are the financial obligations of an enterprise other than owners’ funds. Liabilities include loans/ borrowings, trade payables and other current liabilities, deferred payment credits and provisions.

Verification of liabilities is as important as that of assets, for, if any liability is omitted (or understated) or over stated, the Balance Sheet would not show a true and fair view of the state of affairs of the company.”

Advise stating clearly the audit procedures generally required to be undertaken for verification of existence of Borrowings

\[(5 \text{ Marks})\]

(d) “Trade receivable are an essential part of any organisation’s balance sheet. Often referred to as debtors, these are monies which are owed to an organisation by a customer. The most common form of an account receivable is a sale made on credit, via an invoice, to a customer.”

It is important to carry out compliance procedures in the sales audit as part of the debtors’ audit procedure.

Verify to ensure that the system for receivables has the necessary features.

\[(5 \text{ Marks})\]

4. (a) The auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded as being incompatible with integrity and objectivity. Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist requiring the application of different safeguards.

Explain stating clearly the five types of threats as contained in Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC).  

\[(7 \text{ Marks})\]
(b) Discuss the reporting requirements regarding Fixed Assets under CARO, 2016. (3 Marks)

(c) The auditor shall identify and assess the risks of material misstatement at both levels to provide a basis for designing and performing further audit procedures. For the purpose of identifying and assessing the risks of material misstatement, the auditor shall identify risks, assess the identified risks, relate the identified risks and consider the likelihood of misstatement.

Explain the above in detail. (5 Marks)

(d) ABC Ltd is engaged in manufacturing of different types of yarns. On going through its financial statements for the past years, it is observed that inventory is material to the financial statements. You as an auditor of the company wanted to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory as appearing in the financial statements. Discuss how you would proceed as an auditor. (5 Marks)

5. (a) The auditor evaluated, in respect of T Ltd., whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Auditor’s evaluation included consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.

Advising the qualitative aspects of the entity’s accounting practices. (5 Marks)

(b) The auditor CA Z appointed under section 139 was removed from his office before the expiry of his term by an ordinary resolution of the company. Comment explaining clearly the procedure of removal of auditor before expiry of term. (5 Marks)

(c) The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, explain the factors that are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures. (5 Marks)

(d) Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Explain with examples. (5 Marks)

6. (a) RGS & Co. a firm of Chartered Accountants has three partners, namely, R, G & S. The firm is allotted the audit of BY Ltd. R, partner in the firm subsequently holds 100 shares in BY Ltd. Comment. (5 Marks)

(b) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations. (5 Marks)

(c) In the case of a nationalised bank, the auditor is required to make a report to the Central Government. The report of auditors of State Bank of India is also to be made to the Central Government and is almost identical to the auditor’s report in the case of a nationalised bank.

Explain what would the auditor state in his report. (5 Marks)

(d) Advise any five special points in an audit of hospital. (5 Marks)