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<th>Question No.</th>
<th>Description</th>
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<td>1. (a)</td>
<td>OP &amp; Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company and started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2018 got completed on May 1, 2018. The auditor’s report was dated May 12, 2018. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2018. Engagement partner had completed his reviews in entirety by May 10, 2018. Comment.</td>
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<td>1. (b)</td>
<td>XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-18 for audit. The audit assistant observes and brings to your notice that the company’s records show following dues: Income Tax relating to Assessment Year 2014-15 Rs. 125 lacs - Appeal is pending before Hon’ble ITAT since 30-9-16. Customs duty Rs. 85 lakhs - Demand notice received on 15-9-17 but no action has been taken to pay or appeal. Comment.</td>
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<td>1. (c)</td>
<td>In the course of audit of K Ltd., its auditor Mr. ‘N’ observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. ‘N’ insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. ‘N’.</td>
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<td>1. (d)</td>
<td>CA. Mack, a recently qualified practicing Chartered Accountant got his first audit assignment of Captura (P) Ltd. for the financial year 2017-18. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Mack left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs. 145 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year. CA. Mack, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by predecessor auditor. Comment.</td>
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<td>2. (a)</td>
<td>Mr. Anil, a Chartered Accountant was the auditor of ‘A Limited’. During the financial year 2015-16, the investment appeared in the Balance Sheet of the company of Rs. 10 lakhs and was the same amount as in the last year. Later on, it was found that the company's investments were only Rs. 25,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan.</td>
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<td>2. (b)</td>
<td>AB Ltd. is a company in which public are not substantially interested. During the previous year 2017-18, the company issued shares to residents of India and provides you the following data related to such issue: No. of shares issued 1,00,000 Face Value Rs. 10 per share</td>
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The management of the company contends that, it is a normal issue of shares, thus, needs not to be reported. As the tax auditor of AB Ltd., how would you deal with the matter in your tax audit report?

(c) MSY & Co. is an Audit Firm having partners CA Mukti, CA Shakti and CA Yukti. CA Mukti, CA Shakti and CA Yukti are holding appointment as an Auditor in 4, 6 and 10 companies respectively.

(i) Provide the maximum number of audits remaining in the name of MSY & Co.

(ii) Provide the maximum number of audits remaining in the name of individual partner i.e. CA Mukti, CA Shakti, CA Yukti.

(iii) Can MSY & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than Rs. 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the of the Companies Act with the Registrar, 2 small companies and 1 dormant company?

(iv) Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of Rs. 110 crore each?

(d) X Ltd had a net worth of INR 1300 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor’s expert to audit valuation of derivatives. Auditor and auditor’s expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor’s expert. Please advise.

(5 × 4 = 20 Marks)

3. (a) Mr. Mohan is a practising Chartered Accountant. He issued a certificate of consumption which did not reflect the correct factual position of the consumption of raw material by the concerned entity. It is found that the certificate is given on the basis of data appearing in the minutes of meeting of the Board of Directors. Comment on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(b) A German Company engaged in the business of manufacturing and distribution of industrial gases, is interested in acquiring a listed Indian Company having a market share of more than 65% of the industrial gas business in India, request you to conduct a “Due Diligence” of this Indian Company and submit your Report. As due Diligence Auditor, discuss the key areas you will cover in your review.

(c) Zed Ltd. has flexi deposit linked current account with various banks. Cheques are issued from the current account and as per the requirements of funds, the flexi deposits are encashed and transferred to current accounts. As of 31st March, 2018 certain cheques issued to vendors are not presented for payment resulting in the credit balance in the books of the company. The management wants to present the book overdraft under current liabilities and flexi deposits under cash & bank balances. Comment.

(d) Moon Ltd. acquired 51% shares of Star Ltd. during the year ending 31-3-2017. During the financial year 2017-18 the 20% shares of Star Ltd. were sold by Moon Ltd. Moon Ltd. while preparing the financial statements for the year ending 31-3-2017 and 31-3-2018 did not consider the financial statements of Star Ltd. for consolidation. As a statutory auditor how would you deal with it?

(5 × 4 = 20 Marks)
4. (a) CA. X, a practicing Chartered Accountant, failed to return the books of account and other documents of ABC Ltd. despite many reminders from the company. The company had settled his entire fees dues also. Comment with reference to the Chartered Accountants Act, 1949.

(b) In the course of audit of QRT Ltd, its statutory auditor wants to be sure of the adequacy of related party disclosures? Kindly guide the auditor in identifying the possible source of related party information.

(c) High Life Insurance is into life insurance business and has established presence in this field since last 25 years. Your firm, SR & Co. are appointed auditors of the High Life Insurance company. While conducting its audit, you come across several important actuarial processes being followed in accordance with general regulatory guidelines. You also understand & realise that the actuarial department is calculating and modelling hub of the company. In the above context explain the role of auditors.

(d) A real-time environment is a type of automated environment in which business operations and transactions are initiated, processed and recorded immediately as they happen without delay. It has several critical IT components that enable anytime, anywhere transactions to take place. You are required to name the components and its example of real-time environment.

(e) The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognised as a ‘friend, philosopher and guide’ of the Committees. In view of above, you are required to list down any four role.

5. (a) A Chartered Accountant in practice certified in requisite Form that an articled assistant was undergoing training with him, whereas, he was also employed in a company between 10 a.m. and 6 p.m. on a monthly salary of Rs. 17,000 and attended the office of the Chartered Accountant thereafter until 7 p.m. The Chartered Accountant pleaded that the articled assistant was on audit of the company. Comment with reference to the Chartered Accountants Act, 1949.

(b) XYZ Yarns Ltd. is a manufacturing company engaged in manufacturing of different types of yarns. Its annual turnover is Rs. 100 Crores and net profit Rs. 10 crores. It has two manufacturing units. Company is facing difficulties in maintaining adequate system of internal control. Company wants to appoint Internal Auditor who would help in the above task and also various other functions including compliance. In view of above, you are required to explain the main responsibility of Internal Auditors.

OR

CA. Amboj, a practicing chartered accountant has been appointed as an internal auditor of Textile Ltd. He conducted the physical verification of the inventory at the year-end and handed over the report of such verification to CA. Kishor, the statutory auditor of the Company, for his view and reporting. Can CA. Kishor rely on such report?

(c) Every member of the stock-exchange has to issue contract notes to his clients for the trades executed on their behalf. State the items contained in the SEBI’s check list for auditors in respect of contract notes issued by a Stock Broker.

(d) Some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors’ Certificate, in respect of compliance of requirements of corporate governance. Give four examples of such situations.

(e) During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system.
6. (a) Ganpati Ltd. is a mobile phone operating company. Barring the marketing function it had outsourced the entire operations like maintenance of mobile infrastructure, customer billing, payroll, accounting functions, etc. Assist the auditor of Ganpati Ltd. as to how he can obtain an understanding of how Ganpati Ltd. uses the services of the outsourced agency in its operations.

(b) Indicate the precise nature of auditor's liability in the following situations and support your views with authority, if a misstatement had occurred in the prospectus issued by the company.

(c) MIM & Co. wants to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by MIM & Co. to examine the projected financial statements and give report thereon. What audit evidence will be obtained for reporting on projected financial statements?

(d) Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. The bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year. Comment.

(e) Arpit, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas Arpit should review in the assessment of independence of the practicing unit? (4 x 5 = 20 Marks)