1. (a) The financial statements of AKY & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit?  
(5 Marks)

(b) CA. Jack, a recently qualified practicing Chartered Accountant got his first audit assignment of Futura (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. Jack left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs. 150 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. Jack, 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.  
(5 Marks)

(c) KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for the financial year 2017-18. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr. Y’s actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y’s actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma.

(1) You are required to briefly explain the responsibilities of auditors when they are jointly and severally responsible in respect of audit conducted by them and also guide Mr. Z in such situation.

(2) Explain the responsibility of auditors, in case, report made by Mr. Y’s actuary, later on, found faulty.  
(5 × 2 = 10 Marks)

2. (a) Funtoosh Ltd. has five entertainment centers to provide recreational facilities for public especially for children and youngsters at five different locations in the peripheral of 250 kilometers. Collections are made in cash. Specify the adequate internal control system towards collection of money.  
(4 Marks)

(b) M/s Raga & Co., Chartered Accountants, appointed as the statutory auditor of R Ltd. for the financial year 2017-18. The company is also in need of an advisor for its investments. Thus, the Board of Directors of the company offered M/s Swara & Co., an associate of M/s Raga & Co., to provide an investment advisory service which has been duly accepted by the firm. Comment.  
(4 Marks)
(c) “Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society.” Do you agree? 

(4 Marks)

(d) EXE & Co. has been appointed as an auditor of a Multinational Company ZEE Ltd. The company is working in a CIS environment. You are a member of the audit team of EXE & Co. The partner in-charge of EXE & Co. wants you to train your audit team member about use of Computer Assisted Auditing Techniques (CAATs). You are required to indicate the control procedures which the auditor should adopt in applying CAATs in an audit under CIS environment. 

(4 Marks)

3. (a) Under CARO, 2016, as a statutory auditor, how would you report on the following:

(i) A Term Loan was obtained from a bank for Rs. 80 lakh for acquiring R&D equipment, out of which Rs. 15 lakh was used to buy a car for use of the concerned director who was overlooking the R&D activities.

(ii) During the course of audit of CT Ltd. for the financial year 2017-18, it has noticed that Rs. 2.00 lakhs of employee contribution and Rs. 9.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that Rs. 4.00 lakhs only has been deposited with ESIC department during the year ended 31st March, 2018. The Finance Manager informed the auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. Comment as a statutory auditor.

(4 x 2 = 8 Marks)

(b) 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.

(4 Marks)

(c) Briefly explain the responsibility of holding company for preparation of Consolidated Financial Statements.

(4 Marks)

4. (a) As a branch auditor of a nationalised bank, how would you verify the following?

(1) Advances to DOT COM Companies.

(2) Balances in account of a bank situated in a foreign country.

(8 Marks)

(b) CA. Laxya in practice, is offered the office of managing director of Rahi Pvt. Ltd. which he accepted spontaneously and joined the office from the very next moment.

(4 Marks)

(c) The objective of the Environmental Audit are to evaluate the efficacy of the utilisation of resources of man, machines and materials, and to identify the areas of environmental risks and liabilities and weakness(es) of management system and problems in compliance of the directives of the regulatory agencies and control the generation of pollutants and/or waste. You are required to enumerate the main areas (any four) to be covered by the auditor in the case of environment audit of an industrial unit.

(4 Marks)

5. (a) In cases like holding back cash sales, collections by travelling salesmen, V.P.P receipts, or casual receipts, e.g., sales of scrap, recoveries out of debts written off earlier, etc., the amount or amounts of receipts embezzled may be subsequently covered up by the perpetrator adopting certain methods. In a company, it is suspected that there has been embezzlement in cash receipts. The company appoints you as an investigator. What are the areas you would verify?

(6 Marks)
(b) While auditing an insurance company, the auditor in-charge instructed you to examine “Claims Paid” by the company. What are the specific areas to which you will give your attention while examining such “Claims Paid”?

(6 Marks)

(c) 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.

(4 Marks)

6. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

(a) In order to have uniformity in reporting, frauds have been classified based mainly on the provisions of the Indian Penal Code. Explain classification of frauds by NBFC and its reporting.

(b) Mr. R, the Tax Auditor finds that some payments inadmissible under Section 40A(3) were made, and advised the client to report the same in form 3CD. The client contends that cash payments were made since the other parties insisted upon the same and did not have Bank Accounts. Comment.

(c) You have been appointed as an internal auditor of a company. The Managing Director of the company requests you to analyse the causes for high employee attrition rate in his company. What factors would you consider in such analysis?

(d) XYZ & Co. appointed CA. M, a practicing chartered accountant, as liquidator of the company. CA. M charged his professional fees based on percentage of the realisation of assets.

(4 x 4 = 16 Marks)

7. Write short notes on any four of the following:

(a) Focus of a Peer Review.

(b) Principal Methods of Selection of Samples.

(c) Advantages of Cost Audit to Management.

(d) Propriety Audit.

(e) Key Audit Matters and Circumstances in Which a Matter Determined to Be a Key Audit Matter is Not Communicated in the Auditor’s Report.

(4 x 4 = 16 Marks)