1. A significant deficiency exists in the process of flow of approval of travel re-imbursements of the officials. This was communicated in the previous year to those charged with Governance and no remedial action was taken on the same so far. The auditors are of the opinion that it need not be communicated again. Is the opinion of the auditors on not to communicate the deficiency in internal control reported in the previous year correct?

(a) Yes, the auditor is not required to communicate the same again as it is the duty of the management and those charged with governance to maintain the internal control system.

(b) No, the current year's communication may repeat the description from previous communication or simply reference the previous communication.

(c) Yes, the auditor is not required to communicate the same again as written representation is being obtained from management and those charged with governance that they are responsible for maintaining internal control.

(d) No, it needs to be communicated again but an oral reminder to those charged with governance on the matter may suffice.

2. The MEA Bank Ltd. has sanctioned overdraft limit of Rs.34 crore to Bharat Ltd. on the working capital of the company as on 31st March 2017. As per bank norms the drawing power in the overdraft account need to be reviewed on quarterly basis as per the audited stock statement of the company. As a central statutory auditor for the year 2018-19, while verifying the advances for the year ending 31st March 2019, you noticed that the bank has not obtained the stock statement of Bharat Ltd. for the two quarters ending 31st December 2018 and 31st March 2019 and no provision of NPA has been made for this account in the financial statements for the year 2018-19. What will be your decision as a central statutory auditor?

(a) Classify the borrower's account as NPA as the borrower's financial position cannot be determined due to non-submission of stock statement.

(b) Instruct the bank to obtain the audited stock statement for both the quarters and review the credit limit accordingly.

(c) As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2019, so the outstanding in the account will be deemed as irregular.

(d) You should give a qualificatory note in the audit report as per SA 700.
3. Nakul Sehdev & Co LLP is a firm of Chartered Accountants. The firm has 12 Partners. The firm has a good portfolio of clients for statutory audits but the same clients had some other firms as their tax auditors. In the current year (Financial Year 2019-20), many existing clients for whom Nakul Sehdev & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accepts tax audits upto a maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed.

You are requested to advise the firm in this matter.

(a) There is no limit on no of tax audits in case of LLP.
(b) All the partners of the firm can collectively sign 540 tax audit reports.
(c) All the partners of the firm can collectively sign 720 tax audit reports.
(d) All the partners of the firm can collectively sign 540 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.

4. SKJ Private Ltd is engaged in the business of construction. The company has also got some real estate projects few years back on which it started the work in the last 2 years. The annual turnover of the company is INR 600 crores and profits of INR 40 crores.

The statutory auditors of the company got rotated by another audit firm due to mandatory audit rotation requirements as per the Companies Act 2013.

The new statutory auditors of the company started audit of the financial statements for the year ended 31 March 2019 in May 2019. The audit team also requested the client to provide certain information on the opening balances to perform their audit procedures. Initially the management did not provide any information to the auditors on the opening balances thinking that this is not within the scope of their work, however, after going through the auditing standards, the management agreed and provided the required information.

Later on, the audit team also started requesting information for the period from 1 April 2019 to 31 May 2019. With this requirement, CFO of the company got very upset and angry and set up a meeting with the senior members of the audit team. CFO raised a concern that the audit team has not been doing the work properly and has been asking for unnecessary information like information on opening balances and then the information for the period after 31 March 2019. The audit partner explained to the CFO that everything requested by the audit team has been as per the auditing standards, however, CFO said that in the earlier years, the previous auditors never asked for such information.

You are requested to give your view in respect of this matter.

(a) The requirement of the auditors for opening balances was valid but for the period after 31 March 2019 is completely wrong as that is out of their scope for the current year’s audit. They can ask for those details during the audit of next year.
(b) The concern of the CFO was valid. He has seen the previous auditors not performing such audit procedures and hence the new audit team should also follow the same approach which was followed by previous auditors as that would lead to efficient in audit.
(c) The requirement of the auditors for opening balances as well as for the period after 31 March 2019 is valid. After the requirements of SA 510 and SA 560, audit team is required to perform these procedures.
The audit team should set up a meeting with previous auditors wherein it should be assessed why different approach was followed by the previous auditors. On the basis of that discussion with the previous auditors, next course of action should be decided.

5. XYZ Ltd. is a Public Limited Company engaged in the manufacturing of TMT Bars. M/s. UV & Associates are the statutory auditors of XYZ Ltd. for the Financial Year 2019-20. The company is listed on National Stock Exchange. CA Udhav, the engagement partner is considering the requirements with respect to Regulation 27 and Schedule II (LODR) for corporate governance compliance of XYZ Ltd. Which of the following is correct in this regard?

(a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 15 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.

(b) XYZ Ltd. shall submit a monthly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 15 days from the end of the month. The report shall be signed either by the General Manager of the accounts department of XYZ Ltd.

(c) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd.

(d) XYZ Ltd. shall submit the annual compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the year end. The report shall be signed either by the General Manager of the Accounts Department of the Company.

6. Which among the following is not a factor for determining the necessity to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence?

(a) The use of a management’s expert by the management in preparing the financial statements.

(b) The presence of an internal audit function and verification of the subject matter by them.

(c) The nature and significance of matter including its complexity.

(d) The risk of material misstatement in the matter.

7. RK & Associates are the tax auditors of OPQ Pvt Ltd. While performing procedures in respect of clause 21(d) of form 3 CD, the tax auditors came across various payment vouchers where the cash paid exceeds INR 50,000 during a day. The tax auditors want the management to report all of these payments in Form 3CD, however, the management has a different view. The management said that the payment voucher is one for various payments made during a day to various/ same parties but any payments made to various parties or all payments taken together during a day to a single party do not exceed the criteria for reporting under clause 21(d) of Form 3CD. Please suggest how would you deal with this matter as tax auditor.

(a) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD otherwise the tax auditor should report this in his tax audit report.

(b) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD. Tax auditor should qualify his report and send a written communication about this matter to Income Tax Department.

(c) None of the payment to a single party during a day exceeds the prescribed limit, thus, it should not be reported in Form 3CD.
(d) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD. However, tax auditor may ignore this if the amount is immaterial, however, he should insist the management to give a disclosure of the same in Form 3CD and should emphasize the same point in his tax audit report.

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

(a) Conclude that cashier is not telling truth.
(b) Consider extending investigation procedures like corroborative enquiry with Finance Head, review of appropriate daily cash summaries etc.
(c) Conclude that Finance Head is not a responsible person.
(d) Conclude that daily cash summary is not relevant for investigation.

9. 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

10. What is the difference between management audit and operational audit?

(a) Management audit is concerned with ‘Quality of Operations’ and it is ‘Audit for Management’, whereas Operational audit is concerned with ‘Quality of managing’ and it is ‘Audit of Management’.
(b) Management audit is concerned with ‘Quality of Managing’ and it is ‘Audit for Management’, whereas Operational audit is concerned with ‘Quality of Operations’ and it is ‘Audit of Management’.
(c) Management audit is concerned with ‘Quality of Managing’ and it is ‘Audit of Management’, whereas Operational audit is concerned with ‘Quality of Operations’ and it is ‘Audit for Management’.
(d) Management audit is concerned with ‘Quality of Operations’ and it is ‘Audit of Management’, whereas Operational audit is concerned with ‘Quality of managing’ and it is ‘Audit for Management’.

Questions (11-20) carry 2 Marks each


Integrated Case Scenario 1

M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the Financial Year 2019-20 (Assessment Year 2020-21):

➢ To conduct the management audit of M/s BR Ltd.
➢ To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd.
Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of Rs. 15,000 lakhs, which includes preliminary expenses of Rs. 3400 lakhs. During the course of audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled.

The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. Certain shareholders of the firm opposed the appointment and later the problem was solved.

Statutory auditor of M/s FGH (P) Limited company, having paid up capital of Rs. 112 lakhs and a negative balance of Rs. 15 lakhs in reserves. After a long discussion between the auditors and the management of the company with respect to the applicability of CARO 2016, both of them arrived at a conclusion.

During the year, the company had also received few other assignments with respect to valuation for purpose of direct taxes, actuarial valuation services, cost audit of a private limited company, etc. However, since the firm was not having enough expertise from its side with respect to those kinds of assignments, they could not accept the same. As a result of this, the partners of M/s QS & associates decided to induct three new partners into the firm. The new partners included:

I. Mrs. E, an engineering graduate from IIT Madras
II. Mr. C, a member of The Institute of Cost and Works Accountants of India
III. Mr. A, an architect and member of Indian Institute of Architects.

11. What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd?
   (a) Rs. 50 crores
   (b) Rs. 7500 lakhs
   (c) Rs. 5.8 crores
   (d) Rs. 750 lakhs

12. What could be the possible reason for the objections raised by the shareholders of the listed company?
   (a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment.
   (b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment.
   (c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment.
   (d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment.

13. Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?
   (a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty
They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor

They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor

They are not guilty of any professional misconduct.

14. Whether CARO is applicable to M/s FGH (P) Limited? If so, why?

(a) No. Since as per para 1 of CARO 2016, it is not applicable to any private limited company.

(b) Yes. Since the paid-up share capital of the company exceeds Rs. 1 crore, CARO is applicable.

(c) Yes. Since the total of paid-up share capital and reserves of the company exceeds Rs. 1 crore in absolute terms.

(d) No. Since the total of paid-up share capital and reserves of the company does not exceed Rs. 1 crore.

15. As per Chartered accountants Act, what can you infer from the addition of three new partners in M/s QS & associates?

(a) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants (i.e. Guilty for partnership with all three of them).

(b) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants or a member of professional body (i.e. Guilty for partnership with Mrs. E & Mr. A alone, who are Engineer & Architect respectively).

(c) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants or a member of professional body (i.e. Guilty for partnership with Mr. A, an Architect).

(d) The firm is not guilty of any professional misconduct.


Integrated Case Scenario 2

QRP Lifecare Private Limited, (the ‘Company’ or ‘QRP’), is engaged in the pharmaceuticals. The Company is based in Hyderabad and has an annual turnover of INR 400 crores.

One of the directors of the Company did not give declaration to the Company under section 164(2) of the Companies Act 2013 as at 31 March 2018. The auditors of the Company have completed their audit of the financial statements for the year ended 31 March 2018 and are awaiting this declaration. But the management is of the view that they will not be able to receive this declaration. All other directors have given the required declarations and the auditors have also verified that.

QRP had given an advance amounting to INR 50 crores to its subsidiary, RPS Ltd (RPS), on 12 January 2014 for carrying out certain projects. The net worth of the subsidiary has eroded substantially as on 31 March 2018 and looking at the future projections there is no certainty in terms of the profitability of the subsidiary.

QRP has a subsidiary, SPS Ltd (SPS), in UK. The company has outstanding trade receivables amounting to INR 10 crores from SPS. QRP has observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of QRP but the management has an action plan which they
have initiated and on the basis of which management is sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises, the impact would be significant for QRP. The auditors of QRP have evaluated this matter by involving a regulatory matters expert and also agree with the management's view.

QRP was using a customized ERP package up to 31 March 2018. However, with effect from 1 April 2018, QRP moved on SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP are of the view that for the financial year ended 31 March 2019, being the first year of SAP implementation, no work on IT controls would be required and they are also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past where the IT controls in the first year of ERP implementation were very weak.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

16. How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?
   (a) Auditors may perform some alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act.
   (b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality.
   (c) There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should insist the management to provide this declaration later on.
   (d) Auditors would need to report this matter in their main report.

17. How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?
   (a) In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS.
   (b) In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS.
   (c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.
   (d) In respect of QRP, auditors of QRP would need the management to include a note in the financial statements of QRP explaining about the recoverability of advances from RPS.

18. Please suggest the way auditors have handled the matter related to FEMA non-compliances is appropriate or not.
   (a) Auditors didn’t handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge.
   (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.
   (c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material.
Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company.

19. QRP has been preparing consolidated financial statements but they do not consolidate financial statements of SPS every year. This is because the financial year followed by SPS is January to December as against April to March followed by QRP. The auditors have also been fine with this position of the management of QRP year on year. Please suggest.

   (a) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.

   (b) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated financial statements.

   (c) QRP’s management’s view is right because SPS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India.

   (d) Auditors of QRP should have done materiality assessment in respect of non-consolidation of SPS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same.

20. As an expert what will be your advice about the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report.

   (a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files.

   (b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.

   (c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don’t want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation.

   (d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don’t want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation.

Division B- Descriptive Questions-70 Marks

Question No. 1 is compulsory.

Attempt any four questions from the Rest.

1. Comment on the following:

   (a) On 15th March, 2020, the directors of Phony Ltd. instructed their accountant to enter purchases amounting Rs. 1.02 crores from a company incorporated dated 11th March, 2020. However, no amount was actually paid and Rs. 1.02 crore was provided in the books of account as purchases for the year ending on 31st March, 2020.
On inspection, no documentary or other evidence of such purchases was found. As the auditor of Phony Ltd., what would be your approach regarding reporting of such bogus purchases? (5 Marks)

(b) CA. Jill, a recently qualified practicing Chartered Accountant got his first audit assignment of Natural (P) Ltd. for the financial year 2019-20. 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. Jill left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs. 190 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. Jill, 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) While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws. Comment in accordance with relevant Standards on Auditing. (4 Marks)

2. (a) Choti Limited had definite plan of its business being closed within a short period from the close of the accounting year ended on 31st March, 2019. The Financial Statements for the year ended 31/03/2019 had been prepared on the same basis as it had been in earlier periods with an additional note that the business of the Company shall cease in near future and the assets shall be disposed off in accordance with a plan of disposal as decided by the Management. The Statutory Auditors of the Company indicated this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, thereto to be made at the time of cessation only. Comment on the reporting by the Statutory Auditor as above. (5 Marks)

(b) The Property, Plant and Equipment of Nasir Ltd. included Rs.23.49 crores of earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected seven years back. As an Auditor, what may be your reporting concern in view of CARO, 2016 on matters specified above? (4 Marks)

(c) Mr. Yuvi, a Chartered Accountant in practice, is the auditor of Prime Ltd. He advised the Managing Director of the company to include 'orders under negotiation' in sales, to reflect higher profit and better financial position for obtaining bank loans in future. Mr. Yuvi, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (5 Marks)

3. (a) Ceta Ltd. is a company in which 58% of the paid up share capital is held by Rajasthan Government. The company is engaged in the business of providing consultancy services in relation to construction projects. The audit of the financial statements of Ceta Ltd. for the financial year ended 31 March 2019 got completed with lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&AG on the audit report of the auditors. Ceta Ltd is seeking advice to go against C&AG so that they can avoid unnecessary interference of C&AG. You are required to advise Ceta Ltd. with respect to role of C&AG in the audit of a Government company. (4 Marks)
(b) (i) SSM & Co. is a leading electronics company having multiple branches registered under GST in different states. The total aggregate turnover of all such branches exceed Rs. 2 crores. However, the Delhi branch has a turnover of 75 lakhs per annum. Pankaj Gupta, Finance officer of Delhi branch, is contending that GST audit is not applicable on Delhi branch as the turnover for that branch does not surpass the threshold. Whether the contention of Mr Pankaj Gupta is correct or not. Substantiate.

(ii) Colourful Ltd is a printing company with aggregate turnover exceeding rupees 2 crores. ZeM & Associates is a Chartered Accountant firm which has been appointed for GST audit of Colourful Ltd. Mr Zed, Chartered Accountant from ZeM & Associates, observes on 23 July 2019 that Colourful Ltd has not filed its GSTR 3B for the month of July & its GSTR-1 return is also not complied with. What should Mr. Zed advise the client before conducting GST audit of Colourful Ltd. (6 Marks)

(c) Mr. Vinod a practicing chartered accountant acting as liquidator of XYZ & Co. charged his professional fees on percentage of the realization of assets. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (4 Marks)

4. (a) Kammo & Co LLP, a firm of Chartered Accountants, was appointed as auditor of an NBFC. The audit work has been completed. The audit team which was involved in the fieldwork came across various observations during the course of audit of this NBFC and have also limited understanding about the exceptions which are required to be reported in the audit report. They would like to understand in detail regarding the obligations on the part of an auditor in respect of exceptions in his report so that they can conclude their work. Briefly explain. (6 Marks)

(b) You have been appointed as an internal auditor of a company RSM Ltd. The Managing Director Rakesh is worried about employee attrition in large number. Rakesh requests you to analyse the causes for high employee attrition rate in his company. What factors would you consider in such analysis? (4 Marks)

(c) CA. Nikhil, in practice, started project consultancy work as a part of his practice and to advance the same, sent mail to all the CAs in the country informing them of his services and for securing professional work. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (4 Marks)

5. (a) M/s CAS & Associates have been appointed as one of the statutory central auditors of FDMH Bank., for the Financial Year 2019-20. During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank. Being head-in-charge of the assignment, while planning, you distributed the work among your team members and assigned Mr. Ansh for verification of Balances in account of the bank situated in foreign country. However, Mr. Ansh, being fresh to the bank audits, needs your guidance. Kindly guide. (4 Marks)

(b) A real-time environment is a type of automated environment in which business operations and transactions are initiated, processed and recorded immediately (without any delay) as they happen. 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. (4 Marks)

(c) Comment on the following with reference to Schedule III to the Companies Act, 2013:

(i) A company has disclosed performance guarantee and counter guarantees as Contingent Liabilities.
(ii) A company has clubbed all other expenses under the head ‘Other Expenses’ on the basis of 1 percent of total revenue or Rs.5,000 whichever is higher.

(iii) A company has shown Deferred Tax Liability under Non-Current Liabilities and Deferred tax assets under Non-Current Asset in balance sheet. 

6. (a) Lamba, Malhora and Khandelwal are partners in a firm sharing profits and losses in the ratio 2:2:1. The partners have agreed to take Mr. Jain as a partner with effect from 1st April, 2019 as 1/4th partner. What are the important steps involved while conducting investigation on behalf of Mr. Mistri, the incoming partner? 

(b) You are appointed as an auditor of Azad Limited, a listed company which is a main supplier to the USA building and construction market. With a turnover of Rs.1.6 billion, the company operates through 9 business units and has nearly 135 branches across the countries. As an auditor, how will you draft the report in case (i) When the Parent’s Auditor is also the Auditor of all its Components? and (ii) When the Parent’s Auditor is not the Auditor of all its Components? 

(c) 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.

OR

“The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements.” You are required to explain the meaning assigned to Technical, Ethical and Professional Standards as per Peer Review Statement.