

## KCT2



Roll No. ....

Total No. of Questions – 6

Total No. of Printed Pages – 8

Maximum Marks – 70

### GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book, will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, and (b) the answer book in respect of descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

### PART – II

70 Marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

KCT2

P.T.O.

(2)

KCT2

PART – II

1. State with reasons whether the following statements are correct or incorrect. 7×2  
=14

(Answer any seven)

- (a) The relationships between individual financial statements items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or other non-business public sector entities.
- (b) NGOs registered under the Companies Act, 2013 are not allowed to maintain accounts on cash basis.
- (c) Sales invoice is an example of external evidence.
- (d) Any casual vacancy in the office of a Cost Auditor, due to resignation, shall be filled in Annual General Meeting within 60 days of occurrence of such vacancy and the company shall inform the central government in Form CRA-2 within 45 days of such appointment of cost auditor.
- (e) Under 'finance lease' lease term generally extends to less than 75% of the projected useful life of the leased asset.
- (f) Block sampling does not involve judgement, does not even use the random number tables and has no structured approach.
- (g) In government expenditure audit, audit against provision of funds aims at ensuring that each item of expenditure is covered by sanction, either general or special, of the competent authority.
- (h) Internal controls over financial reporting is required where auditors are required to express an opinion on the effectiveness of an entity's internal controls over financial reporting.

KCT2

(3)

KCT2

2. Answer the following questions :

- (a) M/s ABC & Associates, statutory auditors of Opaque Ltd., are in the process of finalizing the audit report of the company but in view of their inability to obtain sufficient appropriate audit evidence, they would like to disclaim their opinion on the financial statements. Explain reporting responsibilities of M/s ABC & Associates pursuant to SA 700(Revised). How they will address key audit matters section in accordance with SA 701 when they are expressing disclaimer of an opinion on the financial statements ? 4
- (b) Strained relationship between management and the current or predecessor auditor is one of the risk factors relating to misstatements arising from Fraudulent Financial Reporting. Mention such circumstances. 4
- (c) The engagement partner shall form a conclusion on compliance with independence requirements that apply to an audit engagement. State the relevant requirements as per relevant SA 220- Quality control for an audit of Financial Statements. 3
- (d) As per Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 auditor's report should state whether the accounting software used for maintaining its books of account has a feature of recording audit trail (edit log) facility. What are the reporting requirements under Rule 11(g) ? 3

KCT2

P.T.O

(4)

KCT2

5. (a) UVW Ltd. a biopharma company and global manufacturers of select critical care medical products, has been sanctioned working capital limits of ₹ 5.99 crores from a nationalized bank on the basis of security of current assets. During the year under audit, the statutory auditor of UVW Ltd. considers that inventory is material to the financial statements and performs audit procedures over the company's final inventory records to determine whether they accurately reflect actual inventory count and without any major discrepancies for each class of inventory. What are the reporting requirements under CARO 2020 in this case ?
- (b) Narrate the audit procedures to be performed by an auditor in order to ascertain that the Raw materials and consumables are valued appropriately and as per generally accepted accounting policies and practices.
- (c) Elucidate the impact on substantive audit if IT related risks are not mitigated in an automated environment.
- (d) The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Explain with the help of examples.

KCT2

(5)

KCT2

4. (a) The auditor's determination of materiality is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, what are the assumptions that an auditor reasonably makes in respect of the users of the financial statements ? 4
- (b) How is "Short Term Borrowings" disclosed in the Financial Statements as required under Part I of Schedule III to the Companies Act, 2013 ? 4
- (c) Discrepancies in the accounting records, including transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification or entity policy is one of the circumstances that indicate the possibility of fraud. Give four other examples relating to discrepancies in the accounting records which indicate the possibility of fraud. 3
- (d) The nature of the comparative information that is presented in an entity's financial statements, depends on the requirements of the applicable financial reporting framework. There are two broad approaches to the auditor's reporting responsibilities in respect of such comparative information. Mention those two approaches and also mention the essential audit reporting differences between the two. 3

KCT2

P.T.O.

(6)  
KCT2

5. (a) You are the senior member of the engagement team of M/s BB & Associates. Before starting the audit, you explained to other junior assistants about the meaning of Audit evidence. One of the junior assistant is of the view that audit evidence includes only information contained in the accounting records and no other information. You are of the opinion that a combination of tests of accounting records and other information is generally used by the auditor to support his opinion on the financial statements. 4

In the above context, illustrate with two appropriate examples of each :

- (i) Information contained in the accounting records.
- (ii) Other information that authenticates the accounting records.

- (b) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." Give a brief description about management's responsibilities in the auditor's report as it helps to explain the users the premise on which an audit is conducted. 4

Also state the requirement specified in Standard on Auditing 210 for the auditor to agree management's responsibilities.

KCT2

(7)

KCT2

- (c) While conducting the audit of PDP Ltd. for the financial year 2022-23, the statutory auditor identified certain inconsistencies while applying analytical procedures to the financial and non-financial data of PDP Ltd. Can statutory auditor investigate results of Analytical Procedures duly performed in accordance with SA 520 ? Discuss. 3
- (d) The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, explain the areas of concern that an auditor should take into account. 3
6. (a) CA Z is appointed as the auditor of Chanakya Open University which offers higher learning educational courses through the Distance Mode of Education. Discuss four steps involved in his audit of other receipts/grants and donations received by the University. 4

OR

On 1<sup>st</sup> May 2022, NGO has been founded with the objective of disaster relief registered under section 8 of the Companies Act, 2013. In addition to corpus contribution, substantial foreign contributions also have been received by NGO. You have been appointed as the first auditor of the said NGO for the F.Y. 2022-23. While planning the audit of NGO which points you will focus upon ? Mention any four such points. 4

KCT2

P.T.O.

(8)

**KCT2**

- (b) Mention any four factors that should be considered for deciding upon the extent of checking on sampling plan. <sup>70%</sup> <sub>10 marks</sub> 4
- (c) An auditing firm should monitor compliance with quality control policies and procedures. Discuss the purpose of this. 3
- (d) Mention any three expenses which are revenue in nature but qualify as capital expenditure. 3
- 

**KCT2**