The Institute of Chartered Accountants of India

Code: 403629
Subject : AUDITING AND ASSURANCE

Total Marks: 70
Marks Obtained : 44

Subject ....

Number of Answer Books used : Main+ ....1.... additional sheets

For use by ICAI only

403629

MAY 2019

0 8 JUN 2019

ICAI

Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (to be filled by Examiner)					
		a	b	c	d	e	Total
1	✓						
2	✓						
3	✓						
4							
5	✓						
6	✓						
7							
8							
9							
10							
Total							

Use only Blue / Black Ball Point Pen to write and shade the circles.
AVOID RED PEN.
Write the marks in the boxes before shading the respective circles.

Total Marks awarded

0 1 2 3 4 5 6 7 8 9

0 1 2 3 4 5 6 7 8 9

Total Marks awarded (in words) ....

Examiner's Signature ....

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INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

… should be written in figures and words in the allotted space at the right hand corner of the …et only and nowhere else including additional answer book/s and graph paper.

…number should be written in the box in numbers and darken the appropriate circles of the OMR …ortion provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

3. Fill particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the Bar Code sticker of the particular paper from the Attendance sheet, and affix the same on the box provided in the right hand corner of the cover page.

5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.

6. The answers should be written neatly and legibly.

7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.

8. The answer to each question in all parts should be fully completed in one page, or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"

10. Before submission of answer book to the invigilator after completion of the exam, take care to score out (X) blank pages, if any, that you might have left.

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03

5 Q1

1 Answer 1

A) ~~False~~ / Incorrect
where firm is appointed as an
0 1a auditor of entity, audit report is signed in name of personal auditor or in name of auditor audit firm.
0 Step1

B) ~~False~~ ~~True~~ / Correct

Satisfactory Control Environment
1 1b is not an absolute deterrant to fraud. It is positive factor that assist auditor in identifying risk of material
1 Step1 misstatement
It reduce risk of fraud but not a absolute detterant to fraud.

~~C) Correct / True~~

C) Incorrect ~~False~~

~~Bhartiya Ltd~~ In, a Government company
1 1c Controller & auditor general of India shall appoint auditor within 180 days from commencement of financial year

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2 auditor appointed shall hold office till end of next financial year
Hence In Bhartiya Gas Ltd., a Government company, auditor appointed by C & AG within 180 days from end of financial year is not relevant

1 Step1

D ~~False~~ Incorrect

Joint auditor is not always bound by views of majority of joint auditors regarding matters to be covered in report
In case Joint auditor has given his work, he is responsible only for his work

0 1d

0 Step1

E) Correct

Auditors of Nationalized banks appointed at annual general meeting of shareholders after obtaining approval of reserve bank of India / central government

0 1e

0 Step1

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g) Incorrect

Positive confirmation request is a request where confirming party respond directly ~~or~~ to auditor when agrees or disagrees with information in request

1 1g

1 Step1

h) Incorrect

Rule 3 of Companies (Cost records & audit) Rule, 2014 provide classes of companies engaged in production of goods & services having an overall turnover of ~~35~~ 35 crore ~~or~~ more during immediately preceeding financial year, required to include cost records in books of account

2 1h

2 Step1

f) Correct

Accounts of every LLP audited in accordance with rule 24 of LLP rule 2009

0 1f

0 Step1

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10 Q2

Answer 2-A

As per SA '530' Audit Sampling

3 2a

Sampling Risk is a risk that ~~auditor reaches an erroneous conclusion~~ the auditor obtained the conclusion ~~obtained~~ from sample may be different from the conclusion if entire population were subject to same audit procedure.

There are two types of Sampling risk which leads to erroneous conclusion which are as follows :- 1 Step1

i) In case of test of control, control are more effective ~~they~~ then they actually are. & In case of test of Details material misstatement doesnot exist when infact it does.

Auditor is primarily concerned with this type of erroneous conclusion as it effect audit effectiveness

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ii) In case of test of controls controls are less effective than they actually are

In case of test of Details, material misstatement exist when infact it

2 Step2 does not exist

This type of erroneous conclusion effect audit efficiency as lead to additional work

3 2b

Answer 2-B

Points that should be kept in mind by auditor for purpose of constructing an audit programme are :-

i) Stay within the scope & limitation of assignment

ii) Determine the evidence reasonably available & whether sufficient & appropriate & reliable audit evidence has been obtained

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iii) Apply only those steps which are useful in applying verification of authentication ~~of checks~~ purpose

3 Step1

iv) Consider all posibilities of error

v) Co-ordinate the procedure.

2-c

Answer 2-C

0 2c

Information to be obtain before accepting an engagement are as follows :-

i) whether financial statement are prepared in accordance with applicable financial reporting frame work

ii) Obtain information which assist him in plan & supervise the audit

iii) whether there is independency

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in ~~inf~~ appointment

iv) whether financial statement give true & fair view

v) he must obtain information regarding the audit

0 Step1

2-D

Answer 2-D

Auditor sets the overall audit strategy that determine the scope, object of audit & guides the development of audit plan

4 2d

Overall audit strategy assist the auditor in marshalling human resource in following ways:-

1 Step1

i) Resource to be deployed for specific audit areas

ii) Amount of resource to be allocated to specific audit areas.

1 Step2

10

iii) when resource ~~ba~~ to be deployed at an interim audit state or at key cut-off date

1 Step3

iv) How resource, should be managed directed & supervised

1 Step4

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14 Q6

11

Answer 6-A

4 6a

Engagement team should hold discussion to gain better understanding of bank & its environment disclosure include following

i) Enable members of engagement team to share their insights

ii) Enable members of engagement team to share the business risk

iii) Understanding among engagement team members about results of procedure

Matters which is discussed at planning stage of an audit to gain better understanding of bank & its environment are as follows :-

i) Errors which are more likely to occur

ii) Errors which ~~rel~~ relate to prior period

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iii) Method by which fraud may be perpetrated by employees

iv) Audit response to specific risk, engagement risk & pervasive risk

4 Step1

v) Need to maintain behaviour of professional skepticism throughout the audit

vi) Need to alert for condition

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6B

Answer 6 B

There are ~~two~~ types of lease agreements as per Accounting standard / IND-AS

4 6b

i) Operating lease ii) Financial lease

financial lease → It is type of lease agreement in which ownership has been transferred at end of lease period There are some points in this regard.

a) when present value of payment by lessee covers the fair value of asset

4 Step1

b) when lease term covers substantial portion of life of asset

c) when lease asset is of specified nature that can only be used by lessee

d) At end of lease period, lessee have option to buy asset at less than fair value

Example :- land & building, plant & machinery

e) It is type of loan agreement

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Operating lease → It is type of lease in which ownership has not been transferred to lessee. Ownership remains with lesser.

It is type of renting agreement

lessee doesnot have option to purchase asset at end of lease period

lease term extends to 75% of projected useful life of asset

Example:- lease of computer, laptops, dispensers

Or

Effective risk management system in bank

i) Oversight & involvement in Control process by those charged with governance → This will lead to effective risk management

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ii) Control activities →
Risk management shall be effective when there are effective Control activities

iii) Reliable Information System →
Risk management shall be effective when Information System of bank is reliable

iv) Monitoring activities →
Monitoring of System aid in effective risk management

v) Identification, & Measurement & verification of ~~audit~~ financial Information
It also help in ~~de~~ making risk management effective

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6 - C

Answer 6 - C

Central Government has power to direct special audit when

i) affairs of entity are not being managed in accordance with prudent commercial practices, self help & mutual deed

3 6c

ii) Affairs are managed in manner that cause injury to ~~trade~~ interest of trade industry

1 Step1

iii) financial statement as such as it would endangers its solvency

1 Step2

1 Step3

Central Government may by order direct ~~an~~ special audit to be conducted only if when central government or state government or both hold ~~more~~ ~~than~~ 51% or more than 51% of paid up share capital

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Central government may appoint chartered accountant or society auditor for conduct of special audit

Auditor appointed shall have same power & he shall give report to central government

~~the~~ If Central Government not response to report within 4 months
Then Central Government shall sent to multi state co-operative society, a copy or extract from report

Central Government require Society submit report in general meeting.

Expenses of multi state co-operative Society determined by Central Government & paid by multi state Co-operative Society
& In case of default, arrear should be charged to land revenue.

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6-D

Answer 6-D

Power of C&AG in Government audit are as follows

3 6d

i) To inspect any office of ~~to Inspect relevant books~~, accounts, books papers & documents of ~~union~~ union or of each state having legislative assembly

ii) To put such question & make such observation he may consider necessary or to call for such information necessary for preperation of account

3 Step1

iii) To required that books & document be send to specified place

~~Central Government~~ C&AG shall also have power to dispense with detailed part of audit

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9 Q5

5-A

Answer 5-A

As per provision of companies act, 2013

4 5a

Auditor appointed under sec 139 can be removed from his office before expiry of his term by following the relevant procedure

i) Special resolution shall be passed & prior approval of central government is required

ii) Application is made to Central government in form ADT 2 along with fees

1 Step1

iii) Application shall be made to Central government within 30 days of passing of resolution

1 Step2

iv) Company shall within ~~6~~ 60 days of approval of Central government hold an general meeting & ~~at~~ pass necessary resolution

1 Step3

However before removal of auditor before expiry of his term he must

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~~be~~ be given reasonable opportunity
1 Step4 of being heard.

If auditor is found acted in fraudulent manner then application to Tribunal shall be made

Tribunall shall either on Suo moto or application by central government or by any person concerned satisfy that auditor acted in fraudulent manner then he give order to remove auditor or change the auditor

In case application given to tribunal by central government, then tribunal within 15 days of receipt of application direct central government to remove auditor & appoint another auditor

Removed auditor shall not be eligible to be appointed as auditor for a ~~per~~ consecutive periods of five years in any company & liable under sec 447 for fraud.

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5b.B

2 5b Answer 5 b - B

As per provisions of companies act, 2013

Auditor shall have right to attend any general meeting of company

He also have right to receive notices & communication relating to general meeting

~~He has to~~
Unless otherwise exempted, auditor have to attend either by himself or through his authorized representative who is qualified to be appointed as auditor

2 Step1

He also have right to be heard at meeting

Therefore, the given case, that auditor have right to attend only those general meeting at which accounts audited by them discussed is not relevant

Auditor can attend all general meetings

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1 5c

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5-C

Answer 5 ~~&~~- C

As per provisions of companies act, 2013

1 Step1

Auditor can exercise lien on books & vouchers of client placed at his possession by client for non payment of dues for work done on document.

Institute of chartered accountant in England & wales & similar view which describe that

i) Document must belong to the client

ii) Document ~~co~~ must come into possession of auditor by authority of his client ~~as~~ not by misleading

0 Step2

Auditor can retain document only if he has work done on document

iv) Auditor can retain document only if

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0 Step3

fees has been not paid

Yes ~~Hence~~, we ~~do~~ agree that auditor may exercise right of lien but it is most impracticable for legal & practicable constraints

5-D

Answer 5 ~~B~~-D

~~As~~ Auditor is required to report under clause i of Para 3 of CARO, 2016

2 5d

i) whether proper records are maintained

0 Step1

ii) whether fixed Assets physically verified by management at reasonable interval & ~~any material~~ ~~dis~~ whether any material discrepancies is noticed & if so whether reflect in accounts

1 Step2

iii) whether Title deeds of immovable property

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held in the name of company

If not, auditor shall provide the details thereof

1 Step3

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3-A

Answer 3-A

6 Q3

~~As per SA Audit Evi~~

3 3a Auditor is required to design & perform audit procedure to identify litigation & claim which could give rise to risk of material misstatement including:-

1 Step1 i) Inquiry of management including In house legal councel

1 Step3 ii) Reviewing the legal expenses account

iii) Reviewing the report of ~~as~~ management & external legal councel

1 Step4 If risk of material misstatement arise due to litigation & claim the auditor shall discuss with entities external legal councel through letter of enquiry

In case External legal counsel prohibited to Commiunicate with auditor by law then auditor shall perform alternative audit procedure

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In Certain Cases, Auditor decide necessary to meet with external legal counsel

i) when matter is significant risk

0 Step2 ii) when matter is complex

iii) when disagreement between management & entities internal legal counsel

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Addl. Book No. 1

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
MAY 2019

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

3.B

Answer 3-B

2 3b

following are specific risk to company's internal control having IT Environment

i) ~~Processing~~ inaccurate processing of data, processing inaccurate data or both

ii) Unathorized access to data in master files loss of data & damages to data

iii) failure to make necessary changes to data

iv) Potential loss of data, inability to access data

v) Excessive access or privilized access (super user)

vi) Unauthorized changes to system or programme

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vii) Unauthorized changes to data

viii) Possible manual Intervention

2 Step1

Answer 3- C

Code of ~~Ethics~~ Ethics require auditor to be independent for audit

1 3c Independency include both independency of mind & independency ~~&~~ in appearance.

~~Bo~~ Both are must require for auditor to be eligible for appointment

1 Step1

Hence they are interlinked perspectives of Independence of auditor

0 Step2

Independence of ~~appearance~~ appearance
Auditor should adopt professional skepticism in doing audit

0 Step3

Independence in ~~appearance~~ mind
auditor should make professional Judgement for concluding result

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0 3d

Answer 3-D

Audit Documentation is record of relevant audit procedure performed, audit evidence obtained & the conclusion that auditor's reached. It is also known as work papers & working papers

Audit documentation provide audit evidence about auditor - basis for evaluation

It also provide audit evidence that audit is planned in accordance with Standards on auditing

Purpose of audit documentation

i) Enable the engagement team to be accountable for its work

ii) Enable conduct of quality control reviews

iii) Enable conduct of external inspection

next page

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0 Step1

Audit documentation include

i) Audit programme
ii) check list
iii) Completion Memorandum
iv) Emails
v) Issue memorandum

Hence, Completion Memorandum is helpful as part of audit documentation.

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Result Overview

Score:
44/70

NA Not Attempted O Optional M Marked

Q1 Compulsory (Score: 5/14)

Question No	Score	Status
Q1	5/14	M
1a	0/2	M
1b	1/2	M
1c	1/2	M
1d	0/2	M
1e	0/2	M
1f	0/2	O
1g	1/2	M
1h	2/2	M

Q2_Q6 (Score: 39/56)

Question No	Score	Status
Q2	10/14	M
2a	3/4	M
2b	3/3	M
2c	0/3	M
2d	4/4	M
Q3	6/14	M
3a	3/4	M
3b	2/4	M
3c	1/3	M
3d	0/3	M
Q4	0/14	O

4a	0/4	O
4b	0/4	O
4c	0/3	O
4d	0/3	O
Q5	9/14	M
5a	4/4	M
5b	2/4	M
5c	1/3	M
5d	2/3	M
Q6	14/14	M
6a	4/4	M
6b	4/4	M
6c	3/3	M
6d	3/3	M