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Question Paper	
Advanced Audit And Professional Ethics	Duration: 60
Details: Test-6 (CH-6)	Marks: 30

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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Q-1. AKY Ltd. is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is Rs. 40,000 crores with profits of Rs. 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. The company's contracts with its various customers are quite complicated and different. During the course of the audit, the audit team spends significant time on audit of revenue – be it planning, execution or conclusion. This matter was also discussed with management at various stages of audit. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner.

After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein they also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management did not agree with revenue recognition to be shown as key audit matter in the audit report. Comment.

(6 marks)

Q-2 GS & Co., Chartered Accountants, have been appointed Statutory Auditors of MAP Ltd. for the F.Y 2019-20. The audit team has completed the audit and is in the process of preparing audit report Management of the company has also prepared draft annual report. Audit in-charge was going through the draft annual report and observed that the company has included an item in its Annual Report indicating downward trend in market prices of key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. Audit Manager discussed this issue with partner of the firm who in reply said that auditors are not covered with such disclosures made by the management in its annual report, it being the responsibility of the management.

Do you think that the partner is correct in his approach on this issue. Discuss with reference to relevant Standard on Auditing the Auditor's duties with regard to reporting.

(5 marks)

Q-3 ALM Associates has been appointed as auditor of M/s Hary Ltd. which acquired 55% shares- in M/s Sam Ltd. on 15th October, 2018. During audit of Harry Ltd., the auditors found that the company has not prepared consolidated financial statements because on the date of acquisition the fair value of certain assets & liabilities has not been ascertained which is significant and are accounted for on estimated basis only. Help ALM Associates in framing opinion paragraph of audit report.

(4 marks)

Q-4 It was observed from the modified audit report of the financial statements of ULFA Ltd. for the year ended 31st March, 2020 that depreciation of Rs. 4.25 crore for the year 2019-20 had been charged off to the Statement of Profit and Loss instead of including it in "carrying value of asset under construction". State in relation to the audit for the year ended 31st March 2021, whether such modification in the previous year's audit report would have any audit implication for the current year i.e. FY 2020-21 and if yes, how the auditor is required to deal with the same in his audit report for the current year?

(5 marks)

Q5. MCQ:

1. Best Manufacturers were required to pay Rs.20 Lakhs as signing amount and the balance amount was required to be paid in three instalments of Rs.25 lakhs each in the month of May,

July and September 2017. The title deed for the land was to be transferred after the payment of second instalment in July 2017, so in the accounts for the year 2016-17 of the Best Manufacturers the payment of signing amount was booked as an expense. Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for the year 2016-17. There is conflict between Financial Reporting Framework and Legal requirement, so what will be the duty of your firm in such case?

a) Incorporate the changes in financial statements as per the legal requirement.

b) As the title deed has not been transferred in favour of the company in the year 2016-17, there is no need to review the payment in terms of Accounting Standard or any other legal requirement.

c) Take management representation on the same.

d) Discuss the matter with management and ensure disclosure of the same in notes to accounts. In the absence of same, the auditor may consider issuing modified opinion.

2. APP Ltd. is listed on National Stock Exchange in India. Post audit rotation, KYP & Co LLP have been appointed as the statutory auditors of APP Ltd. The company has a pending litigation in respect of service tax matter which has been going on for long time now and exposure of the company towards that litigation is very significant.

The new auditors got the exposure of this case evaluated by involving their in-house tax experts who have shared a view that the exposure of the company would be medium. As per the requirements of accounting standards, medium exposure would be considered as a possible impact for which probability is 50%. The company has been disclosing this as a contingent liability in the previous years. However, the new auditors are of the view that this is a significant matter that requires user's attention by disclosing this in the financial statements and it is of such importance that it is fundamental to user's understanding of financial statements. Further

there is a material uncertainty in respect of this matter (i.e. demand raised by service tax department)

Basis this, auditors want to include Emphasis of matter (EOM) in their report. Management is of the view that since this was not reported by previous auditors as EOM, hence it should not be included by new auditors also and also being a listed company, it is not appropriate to include EOM in the first year of audit by a new firm.

Please suggest which of the following is correct.

- (a) EOM should be included by new auditors.
- (b) EOM should not be included by new auditors if the previous auditors have not given that.
- (c) EOM should not be given, however, there should be a disclosure of this matter in the financial statements and also the fact that auditors are in the first year of audit and this matter would require detailed evaluation.
- (d) Auditors should qualify the report instead of EOM.

3. OPP & Co LLP is the statutory auditor of ABBA Private Limited. The company has an annual turnover of INR 1000 crores and profits of INR 250 crores. The company is planning to get listed next year. The company appointed OPP & CO LLP as new auditors to have a fresh look on their financial systems so that the financial reporting can be improved wherever required.

During the course of audit, the auditors have been facing lot of challenges to obtain sufficient appropriate audit evidence and have discussed the same with the management. Now the auditors are determining the implications. Please suggest which one of the following should not be the implication in respect of this matter.

- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion.

(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation.

(c) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

(d) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, report the matter to the Registrar of Companies.

4. CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2020- 21. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to Rs. 46 crores (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to Rs. 33 crores (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the material discrepancies just before the finalisation of the audit report for the year ending 31.03.2021. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent.

What is correct course of action that CA Kamal should consider in such a situation?

(a) CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2020-21.

(b) CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor's report.

(c) CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor's report.

(d) CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor's report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.

5. CA Ram identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA Ram. Guide CA Ram on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?

(a) In accordance with SA 710, CA Ram should give unmodified opinion, but include Other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.

(b) In accordance with SA 710, CA Ram should seek legal opinion.

(c) In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only.

(d) In accordance with SA 710, CA Ram should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of matter paragraph.

(2 × 5 = 10 marks)