

Roll No.

MAY 2016

Total No. of Questions – 7

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND
PROFESSIONAL ETHICS

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

Maximum Marks – 100

YAK

Answers to 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 valued.

Questions No. 1 is compulsory.

Candidates are also required to answer any five questions from the remaining six questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Working notes should form part of the respective answers.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra questions answered shall be ignored.

Marks

1. (a) Mr. Z who is appointed as auditor of Elite Co. Ltd. wants to use confirmation request as audit evidence during the course of audit. 5
What are the factors to be considered by Mr. Z when designing a confirmation request? Also state the effects of using positive external confirmation request by Mr. Z.

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Marks

- (b) R & M Co. wants to be alert on the possibility of non-compliance with Laws and Regulations during the course of audit of SRS Ltd. R & M Co. seeks your guidance for identifying the indications of non compliance with Laws and Regulations. 5
- (c) The management of CSITA Ltd. has prepared its summary financial statements for the year 2015-16 to be provided to its investors. Consequently the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements ? 5
- (d) The financial statements of Ace Ltd. have been prepared by the management in accordance with special purpose frame work to meet the financial reporting provisions of a regulator. As an auditor, what considerations would be undertaken while planning and performing an audit in case of such special purpose frame work ? 5
2. (a) ENP Ltd. engaged an actuary to ascertain its employee cost, gratuity and leave encashment liabilities. As an auditor of ENP Ltd., you would like to use the report of the actuary as an audit evidence. How would you evaluate the work of the actuary ? 4

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- (b) KSY & Co. Chartered Accountants is an audit firm having two partners CA K and CA Y. KSY & Co. is already holding appointment as auditors of 36 public companies. 4

KSY & Co. seeks your advice in the following situations :

- (i) KSY & Co. has been offered the appointment as Auditors of 7 more Private Limited Companies. Of the seven, one is a company with a paid up share capital of ₹ 150 crores, five are "Small companies" as per the Act and one is a "Dormant Company".
- (ii) Would your answer be different, if out of those 7 Private Companies, 3 Companies have paid up capital of ₹ 90 crores each ?

- (c) What are the General Steps in the conduct of Risk based audit ? 4

- (d) State the key requirements of auditing standards of Public Company Accounting over sight board. 4

3. (a) KG Ltd. wants to provide prospective Financial Information to its investors with information about future expectations of the company. You are engaged by KG Ltd. to examine the Projected Financial Information and give report thereon. What will you consider in assessing the presentation and disclosure of the prospective Financial Information and the underlying assumptions ? 4

- (b) M/s IO Ltd. is registered with Registrar of Companies on 1st of May 2014. The Company's 27% of paid up share capital is held by Central Government; 28% by State Government and the remaining 45% by public. The Board of Directors appointed RMG, Chartered Accountants as statutory auditors for the financial year 2014-15 by passing a resolution at the Board Meeting held on 25th May, 2014.

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Comment whether appointment is valid or not.

- (c) M/s ME Ltd. is a manufacturing company of M/s Bars and Rods. The turnover of the company for financial year 2014-15 was ₹ 870 crores. The audit committee has appointed M/s MK Associates, Chartered Accountants as an internal auditor of the company for the financial year 2015-16. As an auditor of ME Ltd., draw out the internal audit plan specifying the coverage of area.

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- (d) The Board of Directors of ACP Ltd. has recommended the dividend of 15% on paid up share capital of ₹ 450 crores for the year ended 31st March, 2015, at their meeting held on 1st of May, 2015 when the accounts for the financial year 2014-15 were approved. The Board of Directors when they met on 7th July, 2015 for the review of first quarter accounts, they realized that results were negative for the first quarter. Therefore, the Board has decided to rescind their decision to recommend dividend.

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The notice for AGM to be held on 14.8.2015 was sent on 15th July, 2015 without any recommendation for dividend.

At the AGM, the members asked the management how they can rescind the declaration of dividend once recommended.

Comment.

4. (a) Mr. Arjun, a newly qualified Chartered Accountant started his practice wants to specialize in Audits of corporates and requires your advice on criminal liabilities of an auditor under the Companies Act, 2013. Kindly guide him. 4

(b) During the course of audit of M/s CT Ltd. for the financial year 2014-15, it has noticed that ₹ 2.00 lakhs of employee contribution and ₹ 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 ₹ 4.00 lakhs only has been deposited with ESIC department during the year ended 31st March, 2015. 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. 4

Comment as a statutory auditor.

- (c) Kalmani & Co. Chartered Accountants have been appointed by C & AG for performance audit of a sugar industry. What factors should be considered by Kalmani & Co., while planning a performance audit of a sugar industry ? 4
- (d) B Pvt. Ltd. started stock broking activities in 2015 and for which it acquired membership of a stock exchange for ₹ 150 lakhs. While finalizing the accounts, the company disclosed the above amount under fixed assets schedule as "Stock Exchange Membership Rights". The company also did not write off any amount since the rights would enable the company to perpetually carry on its business. 4
- As a statutory auditor how would you deal with the above situation ?
5. Comment on the following with reference to CA Act, 1949.
- (a) Mr. Ankit, who passed his CA examination of ICAI on 18th July, 2015 had started his practice from 15th August, 2015. On 16th August, 2015 one candidate approached him for articleship. Mr. Ankit decided to give her 1% profits of his CA firm in addition to monthly stipend. She agreed to take both 1% of profits and prescribed stipend. The ICAI had sent a letter to Mr. Ankit objecting the payment of 1% profits. 4

Mr. Ankit replied stating that sharing 1% profits is over and above the stipend to help the articled clerk to overcome her financial crisis.

Is Mr. Ankit liable for Professional mis-conduct ?

- (b) Mr. X is a practicing Chartered Accountant. Mr. Y is a practicing Advocate representing matters in the court of law. X and Y decided to help each other in the matters involving their professional expertise. Accordingly, Mr. X recommends Mr. Y in all litigation matters in the court of law and Y consults X in all matters relating to finance and other related matters, which comes to him in arguing various cases. Consequently they started sharing profits of their professional work. Is Mr. X liable for professional misconduct ?

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- (c) CA Raghu is practicing in the field of Income-tax over a period of 12 years. He has gained experience in this domain over others.

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Sam, a student of Chartered Accountancy Course is very much impressed with the knowledge of CA Raghu. He approached CA Raghu to take guidance on some topics of Income-tax related to his course. CA Raghu, on request decided to spare time and started

providing private tutorship to Sam and some of his friends alongwith. However, he forgot to take specific permission from the ICAI, for such private tutorship,

Is CA Raghu, professionally liable for misconduct ?

- (d) CA P and CA Q are running a firm of Chartered Accountants in the name of M/s. PQ & Co. On 21.06.2015 they included the name of CA R a practicing CA, without his knowledge, as a partner while submitting an application for empanelment as auditors for public sector banks branches to the institute. 4

Whether CA P and CA Q are professionally liable for misconduct ?

6. (a) K Ltd. changed its employee remuneration policy from 1st of April 2015 to provide for 12% contribution to provident fund on leave encashment also. The leave encashment policy provides that employees can either utilize or encash it. As at 31st March, 2016, the company obtained an actuarial valuation for leave encashment liability. However, it did not provide for 12% PF contribution on it. The auditor of the company wants it to be provided but the management replied that as and when the employees availed leave encashment, the provident fund contribution would be made. It is further contended that this treatment is correct as it is not sure whether employees will avail leave encashment or utilize it. 4

Comment.

- (b) While auditing Suryakiran Insurance Ltd. as on 31st March, 2015, you observed that there is one policy which has been issued on 25th March, 2015 towards fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. It is the usual practice maintained by the company in respect of big customers that they would issue the policy before receiving the premium. The premium money was collected on 5th of April 2015. It is further noticed that there was a fire accident in the premises of insured on 31st March, 2015 and a claim was lodged. The insurance company also provided for the same.

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How would you respond ?

- (c) ABC Pvt. Ltd. and XYZ Pvt. Ltd. are the Companies in which public are not substantially interested.

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During the previous year 2015-16, ABC Pvt. Ltd. received some property being shares of XYZ Pvt. Ltd. The details of which are provided below :

No. of Shares	1000
Face Value	₹ 10 per share

Aggregate Fair Market Value ₹ 1,00,000

Consideration Value Nil

As the tax auditor how would you deal with the situation ?

- (d) You are appointed as tax auditor of Mr. X, a practicing advocate in Agra. During the previous year he collected Service Tax of ₹ 7 lakhs but utilized for personal use. The Commissioner of Central Excise issued a show cause notice to him why the tax collected by him is not deposited to the Government account. He appeared before the Commissioner and stated his inability to pay the sum due to financial crisis. The proceedings are still pending. Mr. X requests you not to disclose his Service Tax registration details while filling particulars to be furnished in Form No. 3CD.

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As a tax auditor how would you deal with this ?

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

- (a) Deferred Taxation
- (b) Exceptions to the General Rule of treating advances as Non performing Assets.

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Marks

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| (c) Advantages that accrue because of cost audit. | 4 |
| (d) Matters to be included in Auditor's Report in case of NBFC not accepting deposits. | 4 |
| (e) Areas to be reviewed in the assessment of independence of the practicing unit, while conducting peer review. | 4 |
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