

NOV 2016

Roll No.
Total No. of Questions – 7
Time Allowed – 3 Hours

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

Total No. of Printed Pages – 7

Maximum Marks – 100

BSF

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.

Question 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 a 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 question(s) answered shall be ignored.

Marks

1. (a) Mr. Ram, an auditor, identified some events that cast significant doubt on the entity's ability to continue as a going concern. What are the additional procedures he should perform as per the related Standard on Auditing ? 5

BSF

P.T.O.

(2)

BSF

Marks

- (b) Mr. Mohan, an auditor of K TEN Limited wants to use the work of an expert. With reference to the Standard on Auditing state the factors which suggest the need for detailed and written agreement between the auditor and the auditor's expert. **5**
- (c) With reference to the Standards on Auditing state the examples of accounting estimates that may have a high estimation uncertainty. **5**
- (d) Is it appropriate for the auditor to make inquiries of management regarding management's own assessment of the risk of fraud and the controls in place to prevent and detect it ? Discuss. **5**
2. (a) Discuss the relationship between overall audit strategy and audit plan. **4**
- (b) State the considerations on which effectiveness of an efficient system of internal check depends. **4**
- (c) Superior Limited wants to shift its accounting process from manual to electronic medium. Discuss the primary effect of such changes. **4**
- (d) While adopting the accounts for the year, the Board of Directors of Prima Ltd., decided to consider the Interim Dividend declared @ 12% as final dividend and did not consider transfer of profit to Reserves. As a statutory auditor, how would you deal with this ? **4**

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(3)

BSF

Marks

3. (a) An auditor observed a fraud committed by an employee of the company. State the manner and timing of reporting of the fraud by the auditor. **4**
- (b) CA Adroit was indebted to Infructuous (P) Limited for a sum of ₹ 6,00,000 as on April 1, 2015. However, CA Adroit having come to know that he might be appointed as auditor of the company, he squared up the amount on July 10, 2015. Later on, he was appointed as auditor of the company for the year ended March 31, 2016 at the Annual General Meeting held on July 16, 2015. Subsequently, one of the shareholders complains that the appointment of CA Adroit as an auditor is invalid because he incurred disqualification under section 141 of the Companies Act, 2013. Comment. **4**
- (c) The auditor of Mould Limited made an adverse statement in his certificate as the Audit Committee of the company did not meet four times a year. Discuss few circumstances which require an adverse or qualified statement in the auditor's certificate in respect of compliance of the requirements of Corporate Governance. **4**
- (d) CARO 2016 has made several significant changes and has introduced many new reporting requirements vis-à-vis CARO 2015. **4**

In view of the above, describe the relevant clause relating to Nidhi Companies – compliance with net owned funds to deposit requirements and the relevant provisions.

What audit procedures are to be adopted for verification and reporting on the same ?

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P.T.O.

(4)

BSF

Marks

4. (a) B Ltd is the Subsidiary company of A Ltd. ABC & Associates has been appointed as auditor of A Ltd. for the Financial year 2014-2015 and XYZ & Associates has been appointed as auditor of B Ltd for the year 2014-2015. Explain the role of ABC & Associates and XYZ & Associates as auditors of the parent company and subsidiary respectively. **4**
- (b) In order to check and prevent the diversion of funds in case of non-corporate borrowers, the lending bank sometimes obtains special report from the auditor on quarterly basis. **4**

Describe the details to be given in special report in respect of –

- (i) Operating data
- (ii) Inventory
- (iii) Information in respect of other items
- (c) What are the obligations of auditor to submit Exception Report to RBI in case of non-banking financial companies ? **4**
- (d) Under which circumstances can the Central Government appoint the special auditor of a Multi State Cooperative Society ? **4**

BSF

(5)

BSF

Marks

5. (a) Explain the difference between the Proportional Treaties and Non Proportional Treaties ? 4
- (b) While conducting audit of a member of stock exchange, what records / documents are to be checked by the auditor with respect to transactions of dematerialized securities ? 4
- (c) What are the relevant sections of the Companies Act, 2013 and steps involved in audit of Government Companies ? 4
- (d) The Central Government is of the view that there are certain interested members and companies who are financially interested in the success or failure of the company or who have been able to control or to materially influence the policy of the company. 4

Hence the Central Government wants to investigate the ownership of the company.

Describe the scope and extent of investigation by an Investigator / Chartered Accountant on behalf of Central Government under Companies Act, 2013.

6. (a) A Chartered Accountant is liable for disciplinary action under section 21 of CA Act, 1949, if he is found guilty of any professional or other misconduct. 4

Explain the meaning of other misconduct with the help of two illustrative examples.

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(6)

BSF

Marks

- (b) A member of the institute shall not accept in a year more than the specified number of tax audits under section 44AB of the Income Tax Act. **4**

Mr.Gaurav is a partner in M/s XYZ & Co., a firm of Chartered Accountants with 6 partners.

During the assessment year 2015-16, Mr.Gaurav alone had signed 290 tax audit reports consisting of both corporate and non-corporate assessees.

Comment.

- (c) Mr. Z accepted the statutory audit of a sick unit – NCT Limited for the year ending 31-3-2015. During course of audit it was noticed by the statutory auditor that company's net worth was negative for year ended 31-3-2014 and there was also a liability of tax audit fees of ₹ 35000 in favour of the previous auditor.**Comment.** **4**
- (d) What are the fundamental principles as per code of ethics of ICAI ? **4**
What are the threats involved while complying with the fundamental principles ?

7. Write short notes on any **four** of the following: **4x4 =16**
- (a) Restrictions on investments of funds of a Central Co-operative Society.
- (b) Requirements of a Risk Management process / system in a bank.

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(7)

BSF

Marks

- (c) "Trade credit insurance policy" and basic requirements of a trade credit insurance product.
 - (d) Write a short note on Records to be maintained for Related party Transactions in terms of Cost Audit.
 - (e) Objectives of compilation engagement.
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