



CA Final (Nov. 2016)

(Paper-3)

Book No. 1 (containing 36 pages)

THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA

Advanced Auditing
& Professional Ethics

ICAI Examination

Group No. I Paper No. III

Subject Advance Auditing

Number of Answer Books used 4

(45 to 40 Marks)

For use by ICAI only



Q. No.	Please put ✓ against the Questions answered	Marks Awarded (to be filled by Examiner)					Total
		a	b	c	d	e	
1	✓	5	4	2	2		13
2	✓	1	-	3	4		8
3	✓	4	4	3	3		14
4							
5	✓		1	2			3
6	✓	3	0	3	-		6
7	✓				0	1	1
8							
9							
10							
Total							45

05 NOV 2016

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	4	0
①	①	①
②	②	②
③	③	③
④	④	④
⑤	⑤	⑤
⑥	⑥	⑥
⑦	⑦	⑦
⑧	⑧	⑧
⑨	⑨	⑨

Total Marks awarded (In words)

Examiner's Signature

Checked
(Initial of the Checker with date)

INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

- number should be written in figures and words in the allotted space at the right hand corner of the cover sheet.
2. Roll number should be written in the box in numbers and darken the appropriate circles of the OMR portion 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 perforated 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"

Ques 1(a)

Pg 1

Answer

As per SA 570 "Going Concern", it is the responsibility of the auditor appointed u/s 139 of the Companies Act 2013 to assess the reliability of the Management's use of the Going Concern assumption in the preparation of the financial statement.

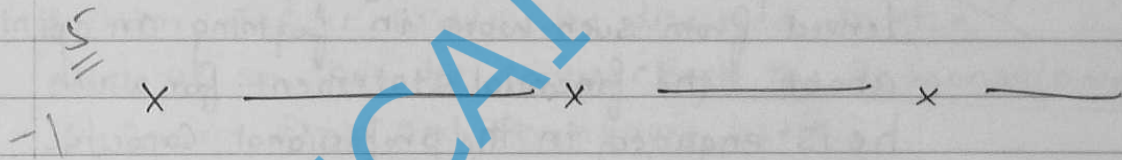
Entity is usually viewed as continuing in the business unless management intends to liquidate the entity as a whole or cease operations. At times it may happen that though the use of Going Concern assumption is appropriate but there might be some Events that individually or collectively may cast significant doubt on the entity's ability to continue in the foreseeable future and in such a case auditor should ask Management to make appropriate disclosures in the financial statements and auditor himself shall include an Emphasis of Matter paragraph in his report to draw the attention of the user's of the financial statement.

Further, auditor should perform following additional procedures as per SA-570

- (i) If management has prepared a cash flow, assess the reliability of the cash flow prepared by the Management.
- (ii) If management concludes that there are some mitigating factors and hence the going concern assumption is not violated and hence entity will be able to realize its assets and discharge its liabilities in the normal course of business, Auditor should verify the reliability of such response of Mgt.
- (iii) Auditor should obtain a written Representation from the management as per SA-580, that whether Management has made a preliminary Assessment whether going concern assumption is appropriate and auditor should assess its reliability.
- (iv) Auditor should look for other indicators such as financial, operating etc. and accordingly satisfy himself whether the uncertainties

exists that may cast doubt on the entity's ability to continue as going concern.

- (v) Auditor should assess whether there are some Contingent Liabilities existing on the Reporting Date as per AS-29, that if successful will result in outflow of Resources and which entity will be unable to settle and hence pose a threat on entity's ability to continue as going concern.



Ques 3(b)

Pgt

Answer:

SA-620, Using work of an Expert deals with auditor's responsibility in using the work of auditor's Expert and the manner in which auditor assesses the reliability of the Expert's work for using information derived from such work in forming an opinion about the financial statement for which he is engaged in the professional capacity.

It is the duty of the Auditor to verify the reliability of the Conclusions drawn by the expert based on his findings. Auditor should evaluate the Technical Competence & Integrity of the Expert, Basis on which he drew his Conclusion, Reliability and Source of Assumptions used, whether such ~~the~~ information is consistent with the other audit evidence etc.

Accordingly, following could be the factors which suggest for detailed and written agreement

between the auditor and auditor's Expert.

- ⇒ Auditor is bound by a Reporting Timetable, and hence auditor should request auditor's Expert to provide the Information / Audit Evidence for which he is engaged well before time, so that auditor could form an opinion on the Financial statements.
- ⇒ Auditor and auditor's Expert may decide among themselves that Assumptions and Sources of Data used by the auditor Expert would be disclosed to the auditor so that he could check the Reasonableness of Source Data and Assumptions used.
- ⇒ Auditor is bound to report any Event of Fraud committed by employees ~~or~~ against company and has to disclose it to CG u/s 143(12), to the Shareholders as per Clause (x) of Para 3 of CARO 2016 as the case may be. So ~~the~~ auditor might request auditor expert engaged as per SA-620 to communicate with the auditor anything which comes to his attention and which might be Indicative of Fraud.
- ⇒ Also as per Chartered Accountant Act 1949 it casts responsibility on the auditor Not to disclose.

Information Acquired in the course of Engagement
unless required by law or permitted by
client. Further SA-200 also contemplates the
Confidentiality requirement. So clause
in the agreement may be entered regarding
Confidentiality requirement.

Q-1

x ——— x ——— x ———

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Omit

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Omit

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Q 1(c)Pg 2Answer

Accounting estimates are often get revised on account of changed circumstances, more Experience etc. and management accordingly make appropriate changes in the financial statement items which are affected by such changed / revised accounting estimates.

As per AS-5, Prior period items are the items of Income or Expense which occur in the current period as a result of Error or omission in the ~~current~~ previous reporting periods. However Revision of accounting estimate is not a prior period item because no Error or omission had occurred in the previous periods and there is revision in the accounting estimate due to uncertainty involved as it requires professional Judgement which is based on the circumstances prevalent, Experience gathered and based on Events on the Reporting Date.

Accounting Estimate involve high estimation uncertainty and following could be some of the Examples of the accounting estimates:-

- (i) Life of a Depreciable, which is based on the management's estimate on the basis of experience with Similar assets, Technology, Obsolescence etc.
- (ii) Rate of Charging Depreciation on an Asset
Though rates of depreciation have been Specified in the Companies Act, but sometimes management estimate that useful life of the asset is less and thus required depreciation to be charged at higher rate.
- (iii) Provisions created in the financial statement based on the uncertainties involved which might require the outflow of Resources in the near future.

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Q1(d)
Pg 2

Q1(d)
Pg 2

Answer

As per SA-240, auditor is responsible for assessing that Financial Statements as a whole are free from Material Misstatement whether due to fraud or Error. Fraud refers to intentional act from one or two among the management to deceive entity and cause losses to it.

As per SA-500 Audit Evidence, Inquiry is one of the method of obtaining audit Evidence, and auditor inquires to obtain reasonable assurance that the financial Statements prepared as a whole are free from Misstatement, whether due to fraud or Error.

As per SA-580, auditor obtains written representation from the management that it has made an assessment of Risk of fraud and same has been disclosed to the auditor. As per SA-580 though written Representation is an audit evidence but it does not effect the reliability of other audit Evidence and

auditor's responsibility to assure that the Financial Statement are free from Material Misstatement.

However, if auditor comes across events or Circumstances that may cast significant doubt on the management assessment of risk of fraud, he should perform other audit procedures which includes evaluating whether any weakness exist in control environment and communicating the deficiency if any to TCWG.

Further auditor should evaluate the integrity of the management on the reliability of Mgt. Representation letter.

Further if the amt of Fraud Exceeds specified amount, the same shall be communicated to Co. u/s 143(12) within 60 days and shall be reported as per ~~para~~ clause (x) of para 3 of CARO 2016 if amt is within specified limit.

(13)

✓

✓

Ques 3(a)

pg 3

Answer

As per sec 143(12) read with Rule 13, if auditor observes a fraud committed by an Employee of co., the same shall be communicated immediately but not later than 2 days to the Board of Directors, who shall be asked to submit their response within specified ~~to~~ time limit.

If the amount of fraud observed exceeds ₹1cr same shall be communicated to CG within 60 days of auditor becoming aware of it by Registered Post acknowledgement due or by hand Delivery and an E-mail shall be sent to Secretary, Ministry of corporate affairs in ~~resp~~ regards to communication being made.

The Communication shall include the Report of Auditor regarding fraud observed along with the response (if any) received from Mgt.

Further, if amount is within the limit prescribed then it shall not be communicated to Cg, rather it shall be communicated to Mgt as

- Nature and Description of Fraud
- Amount Involved
- Parties Involved.

Moreover, ~~Para 3~~ clause (x) of Para 3 of CARO 20 prescribes responsibility on the auditor to report the Fraud to the Shareholders. which have been committed by employee against the co.

Q x x x

Ques 3(b) - Pg 3.

Answer

As per Sec 141(3) of the Companies Act 2013, an Auditor shall be disqualified from being appointed as the auditor of company if he, his Partner or Relative is indebted to the Company, its holding, Subsidiary, associate or Subsidiary of such holding for amount exceeding specified Amount.

Specified Amount is ₹ 500,000. Accordingly a CA ~~cannot~~ shall not be ~~be~~ Qualified for being appointed as the auditor of the Company if he is indebted by an amount exceeding ₹ 500,000 to the above mentioned on the date of appointment.

It should be noted that the Indebtedness has to be seen on date of appointment as per Sec 139 of the Co's Act 2013 and if auditor is not indebted on date of Appointment by such Amount though he was earlier indebted, he shall Not be disqualified.

In the given case, CA Admit was indebted to Infructuous (P) Ltd. for sum of ₹600,000. on 1-4-2015.

However on having come to know that he might be appointed as the auditor of co. he squared amount and ~~is~~ is not indebted for any amount on date of Appointment and accordingly he will not be disqualified u/s 141(3)

Contention of Shareholders is not valid

x ————— x ————— x —————

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Q 3(c).Pg 3Answer

Few erraunstances which require an adverse or Qualified Statement in the auditor's certificate in respect of Compliance of Requirements of corporate governance are as under:-

- 1) No. of Independent directors in the audit Committee are less than $\frac{2}{3}$ rd of Total
- 2) Audit Committee does not meet 4 times a year.
- 3) CEO/CFO Certifications were not being made available to the auditor
- 4) Audit Committee Chairperson was not being made available in the meeting of Shareholder's to address the Shareholder's Queries.

21/2

Q 3(d)

Pg 3

Answer:-

As per relevant clause of Para 3 of CARO 2016 Auditor has to make reporting in case of Nidhi companies.

✓ Reporting requirements among other things ~~including~~ include reporting about the compliance with net owned funds to deposit requirement which should be in the ratio of 20:1 and the fact need to be reported u/s 143(11) of the companies Act 2013 under the CARO 2016

✓ Audit procedures adopted for the verification of the same:-

- Auditor should vouch the accuracy of the calculations being made.
- Auditor should check whether deposits have been calculated appropriately

and has been disclosed correctly in the financial statements

⇒ Constituents of the Net owned funds needs to be checked to verify the accuracy of total Net owned funds.

x ——— x ——— x ———

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Q6(a)

Pg 5

Answer

Part IV of First Schedule of the Chartered Accountant Act 1949 contains the instances of other Misconduct being conducted by the Member of the Institute Generally

As per Clause 1 of the Part IV Schedule First, a member of the Institute ~~shall be~~ convicted of an offence involving moral turpitude and sentenced to imprisonment for period less than 6 months, shall be deemed to be guilty of other Misconduct and accordingly can be reprimanded.

Also, as per Clause 2, Part IV, First schedule a member shall be deemed to be guilty of other Misconduct if he commits certain acts which is against the Reputation of the Institute of Chartered Accountants of India.

Following could be some of the Examples of such Acts for which member shall be deemed to be guilty of other Misconduct.

- Engaging Article Assistants for performing work other than the training
- Utilising Amount obtained as a member of the Regional Councils / of the Institute of chartered Accountants of India for personal purposes or other purposes other than for which they were meant.

X ——— X ————— X —————

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Q 6-b)

Pg 6.

Answer:-

As per clause 1 of Part I Schedule II,

a member of the Institute in practice shall be deemed to be guilty of professional misconduct if he violates any of the provision of the Central Council Guidelines

As per Council Guidelines, a member of the Institute in practice shall be deemed guilty of professional misconduct if he signs more than the specified number of Tax audit reports.

In case of partnership firm Total limit shall be calculated by multiplying the specified limit as per council guidelines with Number of partners but the number of Tax audit reports which a partner is entitled to sign shall not exceed his individual limit

Accordingly taking into account the above, Mr. Gaurav has clearly violated the Council Guidelines by himself signing 290 tax audit reports though it is within the limit of the firm.

Accordingly he shall be deemed to be guilty of professional misconduct and can be reprimanded

X

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X

X

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Ques 6(c)

pg 6.

Ans.

As per clause 8 of Part I Schedule I of the CA Act 1949, an auditor shall be deemed to be guilty of professional Misconduct if he accepts appointment as auditor without first communicating with the previous auditor.

Also, if there is some dispute with the previous auditor, ~~and~~ auditor should interfere and persuade Mgt to have the dispute settled and arrears of audit fees if any shall be paid to the previous auditor.

2/

The above provisions however does not apply if the Co's net worth is eroded and it is considered as a sick unit.

Further a Statutory auditor is required to communicate with the previous Statutory auditor ~~or~~ ~~Internal~~ and not with Internal, Tax Auditor etc.

Accordingly, there is no professional
Misconduct on part of Mr. Z in accepting
Such Appointment

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Ques 2 (c)
Pg 2

Ans

Primary affect of Shifting from Manual System to Electronic Medium

1) Problem in the Evidence collection

Since Superior Limited is shifting the accounting process from Manual to Electronic Medium there will be problem for the auditor in Evidence collection as the Source Documents will not be ~~can~~ available to verify the transaction as the input will be automatic. Ex:- a telephonic order or an online order being placed by the customer. Moreover there might be problem with checking / verifying the accuracy of the transaction and will involve appropriate audit procedures to be performed to Evaluate whether any Misstatement exists.

2) Problem in the Evidence Evaluation

Shifting from Manual to Electronic System might create problem in the evaluation of the Evidence as it will be difficult to establish Audit Trail in such cases.

It would involve auditing around the Computer and using the Client's Terminology to check for the audit Evidence. Also since most of the transaction would be carried out automatically over the electronic system it would be difficult to trace the transaction. For Ex:- Depreciation will be calculated automatically and shall be posted automatically to profit and loss A/c and Fixed Asset Account without any source being available and thus difficult to verify calculations.

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Ques 2(d)

Ans.

As per Sec 2(35) of the Companies Act 2013 Dividend Includes Interim Dividend and thus all the provisions applicable to Dividend shall apply to the Interim Dividend.

As per Sec 123(i) of the Companies Act 2013 Dividend can be declared from current profits after providing for Depreciation Calculated as per Schedule II
or from the past profits calculated after providing for Depreciation and remaining undistributed.

As per First proviso to Sec 123(i) a company may transfer such % of profits to Reserves as it may deem appropriate. Accordingly it may be held that transfer is not mandatory as provided in first proviso to sec 123(i)

Accordingly Board of Directors of
prima Ltd. has not committed any
default by not transferring Profit—
to Reserve before Declaring Interim
Dividend.

✓

X ————— X ————— X —————

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Ques 2 (b)

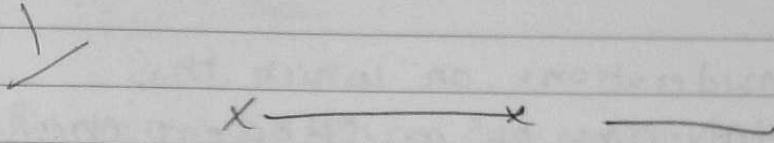
pg 2

Answers

Overall audit strategy and audit plan is interrelated to each other. As per SA-315 Understanding of the Entity's Environment and SA-330 Auditor Responses to the Assessed Risk, auditor should obtain an understanding of the entity in order to plan the audit procedures appropriate in circumstances to reduce the risk to acceptably low level.

Audit Strategy shall be considered keeping in mind the auditor's assessment of the Risk of Fraud and accordingly audit plan shall be documented and communicated to the Audit Engagement team so that they are aware of the audit procedures to be performed so as to carry out their Engagement responsibility.

Thus from above mentioned it can be concluded that audit strategy and audit plan are interrelated



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Ques 2 (b)
Ans.

Considerations on which the
Effectiveness of an Efficient check
Depends

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Ques 5 (b)

pg 5

Ans.

Relevant Sections of Companies Act 2013
and Steps involved in audit of
Government Companies

As per 139(7), First auditor of the Government Company are appointed by the CAG within 60 days of the Incorporation of the Govt co.

As per Sec 139(5), Subsequent auditor of the Government Company are appointed by CAG within 180 days of the commencement of the FY

On the Receipt of the Audit Report by CAG, following two Actions could be taken by the CAG which are enumerated as under:-

(1) Conduct a Test Audit :- CAG may order test audit of the Govt co. by such person as may be authorised and he shall be entitled to such ~~to~~ financial statement and other documents as may be reqd.

(2) Comment upon Or Supplement

CAG may comment upon or supplement audit~~ed~~ report and such comments

✓ Shall be attached to the audit Report and shall be forwarded to all those who are entitled to FS.



5 NOV 2016
Addl. Book No.

CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS
ADDITIONAL ANSWER BOOK

Ques 5-(b) -Pg 5
Ans.

Ans

Following are the Records/ Documents
to be checked by Auditor with respect
to Transaction of Dematerialized Securities

- (i) Whether Contract notes are issued online
and such contract note has Trade Date
and time.
- (ii) Whether Unique Number has been mentioned
on the Contract Notes which helps in
easy identification of the client with whom
transaction has been entered.
- (iii) Entries have been made in the database
on the same Date on which Transaction
has been executed.

3

Ques 7-(d)

Pg 7.

Ans Cost-Records to be maintained in case
Related party in terms of cost Audit

①

~~Name of the Related Party.~~

Cost Audit u/s 148 in respect of certain specified companies is held to verify the accuracy of the Cost Records maintained and the cost calculated etc.

Cost Audit helps in Fixation of prices and in identifying inefficiencies in the organisation and thus holds importance. Related party transactions can influence the cost for which a transaction is executed. And thus violates the objective of the cost Audit which is to examine and accuracy of the cost being calculated etc.

Appropriate Records should be maintained in case of the Related party transactions in case of cost Audit. So as to

Verify that transaction has not been influence on account of the related party transaction and trans. has been carried at F.V

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Ans 7(e)
Pg 7

Ans Objectives of Compilation Engagement

~~Accountant~~ Accountant compiles the Financial Statements for the entity.

Since No audit or Review is carried out Accountant expresses no opinion on the Financial Statements but will comply with the Mgt in case of any fraud which might come to his attention

Auditor compiles FS but Mgt is held Responsible for following

- Completeness and Accuracy of Data
- Preventing & Detecting fraud & Error
- Safeguarding of Assets
- Complying with Laws & Regulations

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