



GRAPH PAPER IS ON THE
PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA**

CA Final

Examination

Group No. *1* Paper No. *3*

Subject *Audit*

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

For use by ICAI only

841245



Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner)					Total
		a	b	c	d	e	
1	✓	2	1	$\frac{1}{2}$			-3 $\frac{1}{2}$
2	✓	5	2	2			-9
3							
4	✓	4	2	0			-6
5	✓	4	3 $\frac{1}{2}$	2 $\frac{1}{2}$			-10
6	✓	3	4	1			-8
7							
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11							
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13							
14							
Total							36 $\frac{1}{2}$ = 37



03 NOV 2019
05 NOV 2019

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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

37

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

Total Marks awarded (in words)

Thirty Seven

Examiner's Signature

INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

- Answers should be written in figures and words in the allotted space at the right hand corner of the answer sheet only and nowhere else including additional answer book/s and graph paper.
- 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 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 take care to score out (X) blank pages, if any, that you might have left.



Q2) a) Risk can arise or change due to various circumstances, viz.:

* New Personnel - the people or the management in the company has changed and is new to the process. Thus, it will be time consuming for them to adapt to the new environment

* New or revamped Information system - there is a new information system in the entity which will lead to additional training and problems to adopt the same

* Expanded Foreign Operations - there is always a foreign exchange risk with respect to appreciation or depreciation of currency if the entity has foreign operations. It will have to hedge the same in order to avoid the currency risk.

* New accounting pronouncements - a new pronouncement will be difficult for an entity to adopt and comply with and it can also have an adverse effect on its results.



* Rapid Growth - any rapid growth can expose an entity to the global competition and it will have to maintain the same (which is a challenge)

* Change in Technology - this will have an adverse effect on the functioning of the company if the advantage is not exploited

* New business model - this may pose a risk of whether the new model will work as per the requirements or no

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Q2)b) Sec. 143(1) of the Companies Act, 2013 states that the auditor should conduct an enquiry on the following matters:

- * Whether the loans and advances have been sanctioned on terms which are not prejudicial to the interests of the company [Sec. 143(1)(a)]
- * Whether amounts, represented by way of book entries, are not prejudicial to the interests of the company [Sec. 143(1)(b)]
- * Whether amounts, represented by way of personal expenses, have been charged to the revenue account [Sec. 143(1)(e)]

Further, the auditor has to report on these matters only if the answer to the questions is in adverse i.e. when there are modifications.

Therefore, in accordance with above, the auditor will have to report that:

- * the loans and advances are made without proper securities and may not be in



best interests of the company

* the amount of debtors and creditors have been offset in the financials

1 * personal expenses have been expensed off in the revenue i.e profit & loss account

2 //

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Q 2) c)

Clause: (6) of Part I of First Schedule of the Chartered Accountants Act, 1949

Provision: A Chartered Accountant in practice will be held guilty of misconduct if he solicits client or professional work, directly or indirectly, through circular, advertisement, personal communication, or interview or any other means.

Analysis: As per Sec. ¹³⁹ 440 of the Companies Act, ~~when~~ an auditor cannot be reappointed if a special notice expressing the same has been sent by the requisite number of shareholders (as given in Sec. 115). In that case, an auditor has a right to submit a representation in writing.

The auditor mentioned that he contributed towards strengthening the control procedures and indicated his willingness to continue. Thus, he is indirectly soliciting work through personal communication.

Conclusion: He will be guilty of misconduct under



1 / Clause (6) of Part I of the First
Schedule of the Chartered Accountants
Act, 1949.

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Q5) a)

Clause: (12) of Part I of First Schedule of the Chartered Accountants Act, 1949

Provision: A Chartered Accountant in Practice shall be held guilty of misconduct if he allows any person, not being his partner or not being a member of institute in practice, to sign reports on his behalf.

However, the Council has clarified that the Chartered Accountant may delegate routine matters to his employee, which, inter alia, includes acting as an authorized representative of the client.

Analysis: On the contrary, issuing a Net Worth certificate to a client for furnishing to a Bank will not be considered to be a routine matter as the bank has to decide upon the same whether to grant loan or no.

Conclusion: Therefore, the following will be the answer to the question:



* Mr. K will be held guilty of professional misconduct as issuing of a Net Worth certificate is not a routine matter.

* Mr. K will not be held guilty since attending the GST proceedings for a client as authorized representative is a routine matter as permitted by the Council

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Q5) b)

Regulation: 18 of the LODR, 2015

Provision: The Audit Committee shall meet at least 4 times in a year and a gap of not more than 120 days should occur between 2 consecutive meetings.

Moreover, the Audit Committee has to mandatorily review the following:

- $\frac{1}{2}$ * any related party transactions entered into by the company
- $\frac{1}{2}$ * the appointment, remuneration, and term of the Chief Internal Auditor
- $\frac{1}{2}$ * the internal audit report relating to the internal control weaknesses
- $\frac{1}{2}$ * the management observation on internal control weaknesses issued by the statutory auditor
- $\frac{1}{2}$ * any statement of deviations, if any

Analysis: The Audit Committee decided to meet unanimously once in a year and reviewed only the monthly information system



Conclu- The aforesaid decision is, therefore, not
sion complying with the LODR.

Further, the quorum requirement of an
Audit Committee shall be $\frac{1}{3}$ rd of Total
Strength or 2 Directors, whichever is
higher with not less than 2 directors
being Independent Directors.

$\frac{1}{2}$
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Q5) c)

SA: 510 - Initial Audit Engagement - Opening Balances

Provision: The auditor should perform audit procedures that will satisfy him that the opening balances are not materially misstated. He should check:

* For Current Assets & Liabilities - any subsequent receipt or payment from/to the debtor or creditor. This will ensure that the opening balances do not contain any misstatements. Obtaining confirmation is another method the auditor may apply

* For Non-Current Assets & Liabilities - inquire with the management about the existence and valuation of the same by obtaining a Written Representation from the management. Also, he may check the previous year's audit report to verify whether there was any modification in the report, if the previous year's financial statements were audited. He may also verify the fixed asset register to check the valuation.



Conclu-
sion: even if, after performing the aforesaid procedure, the auditor is not satisfied about the accuracy of the opening balances, he may:

- * ask the management to correct the same;
- * if the management refuses, he may qualify his report or might even disclaim or make an adverse remark if the misstatement is pervasive.
- * have to mention in the "Other Matter" paragraph that the previous year's audit was done by different person.

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Q6) a) The companies covered u/s 139(5) and 139(7) of the Companies Act, 2013 (i.e. Government Companies) will be subject to audit by the Comptroller & Auditor General (CAG). The CAG may direct a person to audit the accounts of the company, and may:

* Conduct a supplementary audit u/s 143(6)(a) - he may direct a person to conduct a supplementary audit of the company and issue directions about the way it has to be conducted

* Cause or supplement to such report u/s 143(6)(b) - he may ask the company to send such report to all the members entitled, the trustees of the debenture holders, any person other than member or trustee entitled to attend the general meeting, and such report to be placed at the place where the general meeting is held

* Conduct a Test Audit u/s 143(7) - in this case, the provisions of Sec. 19A of the Comptroller and Auditor-General's



(Duties, Powers, and Conditions of Service) Act,
1971 will apply and he may have
to proceed accordingly.

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Q 6) b)

Clause : (2) of Part II of First Schedule of the Chartered Accountants Act, 1949

Provision: A Chartered Accountant in service will be held guilty of misconduct if he accepts, or agrees to accept, any share in the fees, from any lawyer, customer, or broker of the company.

Analysis: Mr. C recommends a lawyer to his employer company, and in return, accepts a share in the fees under the nomenclature of "Referral fees". Thus, he has accepted a share in the part of the profits of the company's lawyer.

This may affect the integrity and the independence of the Chartered Accountant. A CA should maintain highest degree of ethical standards.

Conclusion: Thus, Mr. C will be held guilty of professional misconduct under Clause (2) of Part II of First Schedule of CA Act, 1949



Q6) c) An ~~an~~ investigating accountant should follow the below mentioned procedure for verification of defalcation of inventory:

- * Check whether the physical count of inventory is done on periodic intervals
- * Verify the corresponding amount from the supplier's ledger regarding the valuation of purchases and hence, the cost of inventory
- * Examine the internal control system in relation to recording the inventory transactions and their subsequent disposal i.e. whether there is proper segregation of duties and 2 functions have not been delegated to a single person
- * Obtain a record of subsequent sales and after the particular period and add them back to obtain a correct value at the beginning of the period
- * Check whether inventories have been properly valued at lower of the cost and Net Realisable Value and the amounts are not manipulated
- 8 * Scutinize the journal entries especially at the year end to see whether there are unusual, non-recurring transactions.



Q 4) a) The following are the differences:

* Division III permits the Balance Sheet classification based on liquidity and the NBFC may classify the assets/liabilities as financial and non-financial unlike current and non-current mentioned in Division II

* Division III states that NBFCs will have to disclose income or expense which exceeds 1% of the turnover i.e. there is no limit of ₹ 10 lakhs which is present in Division II

* The NBFCs have to separately disclose the "receivables" from any limited liability Partnership in which the director of the NBFC is a member or partner

* The NBFCs will have to disclose items comprising of "revenue from operations" and "other comprehensive income" on the face of statement of profit and loss instead of as part of notes.



Q4) b) An auditor should evaluate the following in the area of Credit Card Operations:

- 1/2 * Check whether the expired cards are properly destroyed and not issued to any other person
- 1/2 * Verify the reconciliation of the physical stock of credit cards in respect of the opening balance, cards issued, cards received with the closing balance
- * Scrutinize the credit card inventory register and cross check the same with the physical count on test check basis
- 1/2 * Examine that the limit of the credit card is not exceeded and regularly review the account of the person
- 1/2 * Check whether the credit cards issued are authorized and only the officer responsible does the same
- 0 * Obtain a copy of the statement from the bank about the reconciliation submitted to the Reserve Bank of India
- 0 * Verify that all the different types of credit cards (gold, platinum) have been issued to appropriate persons having the required creditworthiness



Q 4) c) While furnishing the particulars in Form No. 3CD, the following should be considered by M_e. PK:

- * The name of the entity, its PAN and the general description of the business
- * A statement that whether the statement of particulars in Form No. 3CD are true and correct (and not true and false) as per the records given and the evidence available.
- * Whether the entity was liable to tax audit in the previous year, and if so, the name of the previous tax auditor of the entity
- * The turnover of the entity in the previous year during which the tax audit was conducted
- * The amount of profit (taxable profit) reported by the entity and the amount as determined by the tax auditor (after considering all disallowances and deductions)
- * A statement by the tax auditor that "We have verified the books of accounts and based on the information given to us, the report reflects a true and



correct view"

- * Date of the report
- * Signature (Digital) of the auditor and the entity's representative
- ① * Registration number of firm and the membership number of the Tax Auditor
- * Place

⑥

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Q1) a)

SA : 580 : Written Representation

Provision: The auditor can obtain written representation on the obsolescence of inventory & warranty obligation but must ensure that the Written Representation cannot be a substitute for obtaining audit evidence.

The auditor will have to apply further additional procedures in order to ensure that the amount of the items is not materially misstated.

For instance, to verify the warranty obligation, the auditor can apply the requirements of SA 540, check the contract between the entity and the customer, and check the current period outcomes of previous year's estimates. Additionally, the auditor should check the relevance and reasonableness of the assumptions used, and if they have been made using a source data, checking its relevance, completeness



1 and accuracy.

For inventory obsolescence, the auditor may take the assistance of expert using SA 620 and identify whether there is a significant diminution in the value of inventory.

Conclusion: Thus, the auditor should not merely rely on the written representation but should apply further audit procedures to test the veracity of the same.

2



Q1) b) "Amounts" or "Other Items" that may be included in the "Other Information":

- * Any significant contract the company has entered into having an impact on future profits
- * The outcomes of exceptional litigations and the current litigations pending against the entity
- * Any plan of amalgamation, demerger, or financial restructuring in the future
- * The adoption of a new pronouncement and its impact
- * The existence of a major competitor or labour shortages, the vanishing of the main supplier because of which a material uncertainty exists for the entity to continue as a going concern.
- * The status of income tax assessments pending against the company, and whether the company has preferred an appeal on the same



Q1) c) matters to be considered with regard to integrity of the client:

- * The past experience with the client, of any engagement
- 1/2 * The frequency of change in the senior management
- * Any allegations / litigations faced against the client
- * The amount of employee turnover in the organisation
- * The time the client takes to give the required data
- * Whether any matters have been noticed where the client concealed a particular fact which was subsequently detected by the auditor
- * The professional qualifications of the client's management.

1/2
2/2



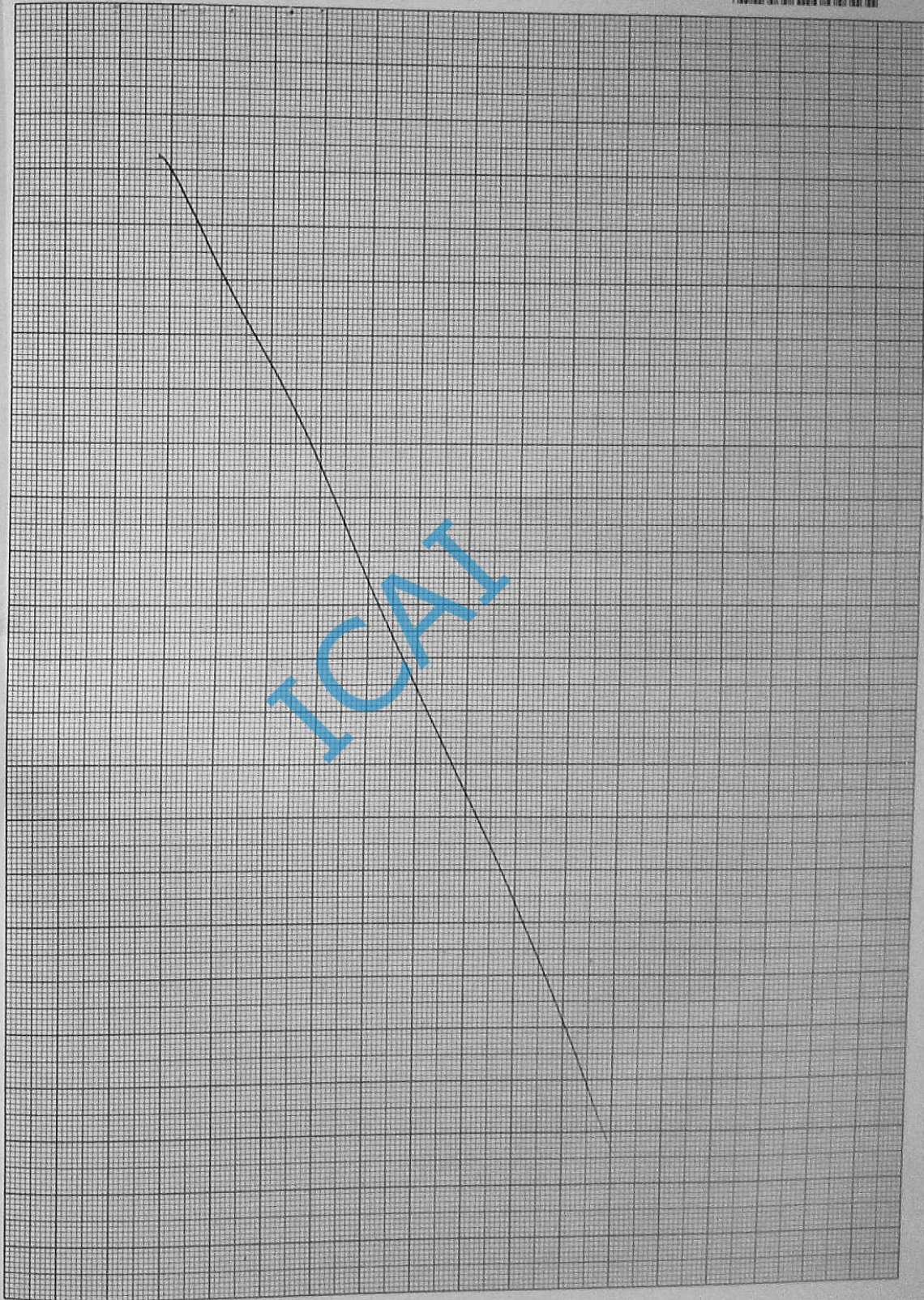
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OMR ANSWER SHEET

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OMR Sheet No.

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Roll Number

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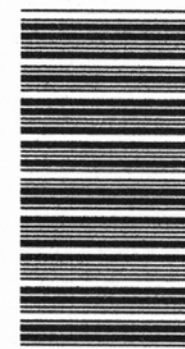
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Question Booklet
Serial No.

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Question Booklet Set No.

B

A
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D

Level of Exam

Final

INTERMEDIATE	1
FINAL	

Stream

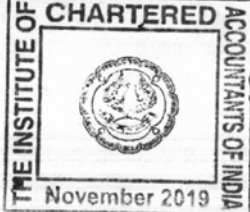
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Signature of Candidate with Pen

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DATE
OF
EXAM

0 5 NOV 2019

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