

NOV 2018

Roll No.

Final New Syllabus

Total No. of Questions – 6

Paper - 3

Total No. of Printed Pages – 8

Time Allowed – 3 Hours

**Advanced Auditing and
Professional Ethics**

Maximum Marks – 100

DKLE

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 **four** questions from the remaining **five** questions.

Working notes should form part of the respective answers.

Marks

1. (a) You are the Auditor of Power Supply Corporation Limited, a Government Company for the year ended on 31st March 2018. The turnover of the Company for the period was ₹ 12,000 crores from sale of power. During your audit, you found that the Company had procured Spares for Transmitters for ₹ 850 crores from abroad through a Corporation by name Procurement and Supply India Limited which is also owned and controlled by Government of India. The Financial Statements of the Power Supply Corporation Limited, prepared in compliance with Ind AS for the year ended on 31/03/2018 did not contain any additional disclosure regarding the procurement of spares as referred to above. To your query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises. Analyse this issue in finalizing the Audit Report.

**5×4
=20**

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P.T.O.

(2)

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(b) Amudhan & Co., are the Auditors of XYZ Company Ltd., for the year ended on 31/03/2018. The Audit Report for that year was signed by the Auditors on 04/05/2018. The Annual General Meeting was decided to be held during the month of August 2018. On 06/05/2018, the Company had received a communication from the Central Government that an amount of ₹ 5800 crore kept pending on account of incentives pertaining to Financial Year 2017-18 had been approved and the amount would be paid to the Company before the end of May 2018. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31/03/2018. On 08/05/2018, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report on the Financial Statements for the year ended on 31/03/2018. Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors.

(c) M/s Airlift Ltd., carrying on the business of Passenger Transportation by air is running into continuous financial losses as well as reduction in Sales due to stiff competition and frequent break down of its own aircrafts. The Financial Statements for the Year ended on 31/03/2018 are to be now finalized. The Management is quite uncertain as to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad situation. Till the study is completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the "Going Concern" would suitably be disclosed in notes to accounts. State the reporting requirement if any, in the Independent Auditor's Report in respect of this matter.

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(3)

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Marks

(d) There are certain circumstances in which Emphasis of Matter in Auditor's Report is mandated to be included. Explain this statement in the light of mandatory requirements of matters that are to be emphasised in Auditor's Report when the Audit Report is on Financial Statements prepared in accordance with Special Purpose Framework.

2. (a) Mr. X, a Chartered Accountant in Practice filed his income tax return for the Assessment Year 2018-19 under section 44ADA of the Income Tax Act, 1961, declaring his income on presumptive basis. In a disciplinary proceeding against him for an alleged misuse of funds of his clients, it was asked that he should submit his books of accounts for the financial year ended on 31/03/2018. Mr. X refused to submit books of accounts on the ground that he had not maintained any books and even for income tax purposes, he submitted his Return of Income on a presumptive basis. Is he right in putting such a defence ? Analyse the issues in the light of Professional Code, if any.

**5×4
=20**

(b) While doing Tax Audit, under section 44AB of the Income Tax Act, 1961, of the accounts of Glue Private Limited for the Assessment Year 2018-19, it was found that during the Financial Year 2017-18, Glue Private Limited had received 9,000 shares, the market value of which was ₹ 90,000 on the date of transfer, at a price of ₹ 45,000 from Stick Private Limited. The Management of Glue Private Limited maintained that the transaction was as per the terms of negotiations and there would be no cause for the Auditor to bring this matter in his Tax Audit Report-Comment.

DKLE

P.T.O.

(4)

DKLE

Marks

(c) During the financial year ended on 31/03/2018, LM Private Limited had borrowed from a Nationalized Bank, a term loan of ₹ 120 lakhs - consisting of ₹ 100 lakhs for purchase of a machinery for the new plant and ₹ 20 lakhs for erection expenses. As on the date of 31st March, 2018, the total of capital and free reserves of the Company was ₹ 50 lakhs and turnover for the year 2017-18 was ₹ 750 lakhs. The Bank paid ₹ 100 lakhs to the vendor of the Company for the supply of machinery on 31/12/2017. The machinery had reached the yard of the Company. On 28/02/2018, the Company had drawn the balance of loan viz. ₹ 20 lakhs to the credit of its current account maintained with the Bank and utilized the full amount for renovating its administrative office building. The machinery had been kept as capital stock under construction. Comment as to reporting issues, if any, that the Auditor should be concerned with for the financial year ended on 31/03/2018, in this respect.

(d) State what may be the evaluative or review procedures that the Statutory Auditor may do before concluding as to relevance and reasonableness of Auditor's Expert work for using it for his audit purposes.

3. (a) During the opening ceremony of a new branch office of CA.Young, his friend CA.Old introduced to CA.Young, his friend and client Mr. Rich, the owner of an Export House whose accounts had been audited by CA.Old for more than 15 Years. After few days, Mr. Rich approached CA.Young and offered a certification work which hitherto had been done by CA.Old. CA.Young undertook the work for a fee which was not less than fee charged by CA.Old in earlier period. Comment whether CA.Young had done any professional misconduct.

**5×4
=20**

DKLE

(5)

DKLE

Marks

- (b) The Board of Directors of XYZ Ltd. is concerned with decreasing operating efficiency in material consumption. As an Auditor entrusted with investigating the causes for this poor state, what may be the areas of your focus in this respect.
- (c) ABC Limited is in the practice of maintaining consistent dividend payment over a minimum of 14%. The Financial year 2017-18 was so very bad for the Company that it was not possible for the Company to maintain the payment of consistent dividend as above. The Management, being hopeful of recovery of its performance in next year, felt that the depreciation of the year to the extent of 75% alone be charged to the Statement of Profit and Loss and the remaining 25% be kept in a separate account code in the Balance Sheet- 'Debit Balances Adjustable against Revenue account'. The Management was of the view that it would be in fair practice of accounting if the depreciation for asset is charged before the expiry of the lives of assets and the amount parked in asset code as above would unfailingly be adjusted to Revenue before the close of next financial year anyway. Analyse the issues involved and state how the Auditor should decide on this matter.
- (d) H Limited is an Investment Company preparing its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need to consolidate accounts of any such investee companies with those of H Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your views.

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P.T.O.

(6)

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Mark

4. (a) D, a Chartered Accountant in practice was appointed by Realty Limited to represent its cases before GST Authorities under a duly executed power of representation. In the course of proceedings he submitted certain statements-written as well as oral- which later found to be false and materially misleading. Comment this in the light of Professional Code. **4x =2**
- (b) In audit of DEF Limited, the Auditor had made use of certain analytical procedures with regard to certain key data in the Statement of Profit and Loss. The results obtained showed inconsistencies with other relevant information. State the course of action that the Auditor should take to ensure that the risk of material misstatement would be contained to a low level fixed as per materiality level.
- (c) You have been appointed to carry out the audit of Sky Insurance Company Ltd. for the year 2017-18. In the course of your audit, you observed that the commission paid to agents constituted a major expense in operating expenses of the Company. Enumerate the audit concerns that address to the assertions required for the Auditor to ensure the continued existence of internal control as well as fairness of the amounts in accounting of commission paid to agents.
- (d) "The audit cycle consists of Planning, Execution and Completion. The automation in processing of business transactions has considerations to be weighed by Auditor at every phase of this cycle"- Enumerate the focal points of such considerations when auditing in automated environment.
- (e) SunLight Limited is a public sector undertaking engaged in production of electricity from solar power. It had commissioned a new project near Goa with a new technology for a cost of ₹ 5,750 crore. The project had seen delay in commencement and cost overrun. State the matters that a Comprehensive Audit by C&AG may cover in reporting on the performance and efficiency of this project.

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(7)

DKLE

Marks

5. (a) XYZ Associates, a Chartered Accountants Firm is having a relationship with a multi-national accounting firm in India. The ICAI required that all firms having networking relationship with any other entity need to furnish information online within the stipulated time. XYZ Associates failed to respond. Comment on this with reference to Professional misconduct, if any. **4×5
=20**
- (b) Internal auditor makes an appraisal of organization structure to ensure that it is in harmony with the objectives of the entity, besides checking of financial transactions and operational activities of the entity-Elaborate.
- (c) Give a check list of audit for checking the transactions of dematerialized securities in the conduct of audit of Financial Statements of a Member of a Stock Exchange.
- (d) List few documents that require mandatory review by Audit Committee.
- (e) In the use of standardized Internal Control Questionnaire (ICQ), certain basic assumptions about elements of a good internal control system are taken into account. List down few such assumptions.
- (a) The identified risks are assessed by Auditor as to its significance on account of its likely impact, by way of material misstatement appearing in financial statements or by affecting internal control system. What may be the points of indication that may direct the Auditor to judge that the risks identified may be significant ? **4×5
=20**

DKLE

P.T.O.

(8)

DKLE

- (b) What are the liabilities of a Chartered Accountant under Income Tax Act, 1961 for furnishing an incorrect statement in any report or certificate required to be submitted by him under the Act ?
- (c) A Review Report of an Auditor is negative in form in expression of conclusion- Explain.
- (d) You are the Concurrent Auditor of a Branch of Nationalized Bank which deals in foreign exchange transactions. Give focus areas of your checking in this respect.
- (e) What are the objectives of Peer Review ?

OR

What are the inherent limitations of Peer Review ?

DKLE