

**Final New Syllabus
Paper - 3
Advanced Auditing and
Professional Ethics**

(1)

JAN 2021

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Roll No.

Total No. of Printed Pages – 8

Total No. of Questions – 6

Maximum Marks – 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Answers to the 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 evaluated.

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PART – II

1. (a) M/s NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the F.Y 2019-2020. The previous year's audit was conducted by M/s. LP & Associates. After the audit was completed and report submitted, it was found that closing balances of last financial year i.e., 2018-19 were incorrectly brought forward. It was found that M/s NK & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. 5
- Accordingly, a complaint was filed against NK & Co. in relation to this matter.
- You are required to inform what policies are required to be implemented by NK & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC).
- (b) GHK Associates, Chartered Accountants, conducting the audit of PBS Ltd., a listed company for the year ended 31.03.2020 is concerned with the presentation and disclosure of segment information included in Company's Annual Report. GHK Associates want to ensure that methods adopted by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework. Guide GHK Associates with 'Examples of Matters' that may be relevant when obtaining an understanding of the methods used by the management with reference to the relevant Standards on Auditing. 5
- (c) Nam & Co., conducted Stock Audit of DEF Ltd. as per instructions issued by HEG Bank. However instead of visiting the site where the stock was lying, the firm relied on the Management Information Systems report along with inspections reports and photographs of Stock taken by the employees of DEF Ltd. The photographs were also carrying the date and time printed on them. Comment with reference to the Chartered Accountants Act, 1949 and its schedules thereto. 4

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2. (a) Auditors are required to obtain an understanding of internal control relevant to the audit when identifying and assessing its effectiveness and risk of material misstatement. During the course of audit of ABC Ltd., you observed that significant deficiency exists in the internal control system and you want to ascertain the same. Elucidate the various indicators of significant deficiencies which will help you in assessing the efficiency of internal control system of the organization. 5
- (b) A European company engaged in the business of manufacturing and distribution of industrial gases, is interested in acquiring a listed Indian Company having a market share of 51% and assets over ₹ 1000 Crores. It requests you to conduct "Due Diligence" of assets of this Indian Company to find out, if any of the assets is overvalued. List down the areas of due diligence exercise to find out overvalued assets. 5
- (c) M/s. NKB Ltd. is engaged in the manufacturing of textile products having an annual capacity of producing 1,00,000 units of garments. NKB Ltd. is covered under the provisions of Goods and Service Tax Act with an applicable rate of 12%. During the financial year 2019-2020, NKB Ltd. received a demand notice of ₹ 15.00 Lacs pertaining to the F.Y 2013-14 when the provisions of Central Excise Act were applicable. NKB Ltd. deposited the demand amount after discussing with its legal department. Are you, as a tax auditor of NKB Ltd., required to report the same ? 4

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3. (a) You are engaged by M/s. Real Ltd. as an internal auditor for the financial year 2020-2021. While applying risk assessment procedures of inquiring from management and various analytical procedures, you have identified some risks which in your opinion may lead to material misstatement at the financial level and assertion level. Which factors as an auditor will you consider while exercising judgement as to whether such risks are significant risks or not ? 5
- (b) LDH Ltd., a company incorporated in India and Listed on a recognized Stock Exchange in India has entered into various related parties transactions during the financial year. You are required to answer the following keeping in mind the Listing Obligations and Disclosure Requirements (LODR) on corporate Governance.
- (i) Who should sign the report of material transactions with related parties ? 1
- (ii) What type of transactions and policy are required to be disclosed in relation to related party transactions ? 2
- (iii) Whether disclosures of related party transactions on consolidated financial statements are required to be made ? If yes, what are the guidelines ? 2
- (c) Please state which of the following is to be reported under Form 9C under GST audit for the period 2019-2020 ? 1+1
- +2
- =4
- (i) The GST registered firm donates the old washing plant as on 25.12.2019 to a charitable institute. This machinery was purchased on 10.05.2018 for ₹ 1,75,000 Plus GST @ 12%.
- (ii) Goods Transport Agent (GTA) issued a consignment note on 05.04.19. The consignment note does not charge GST. The consignor has booked the GTA. The recipient has paid the freight to GTA on 'to collect' basis.
- (iii) Sale of a building after completion certification has been obtained for ₹ 50,00,000 on 14.11.2019.

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4. (a) CA N was appointed as an auditor of JAL Ltd. The company has 4
branches all over the state of Haryana. CA N, in consultation with
management, decided to Visit 6 out of 10 branches. Management
decided to pay him advance of ₹ 2.00 Lacs against the estimated
expenses of ₹ 2.50 Lacs on visits to be conducted as a part of services
rendered. As agreed, ₹ 2.00 Lacs was transferred in his bank account
from which he met all the expenses. Comment with reference to
Chartered Accountants Act, 1949 whether the action of CA N of
receiving the advance money in his saving accounts and not keeping it
in separate bank account is valid.
- (b) The Comptroller and Auditor General of India has appointed a 5
chartered accountant firm to conduct the comprehensive audit of Metro
Company Limited (a listed government company) which is handling
the Metro project of the metropolitan city for the period ending
31-03-2020. The work to be conducted under **Project A** handled by
the Metro Company Limited was of laying down railway line of
124 kilometres. [The chartered accountant firm reviewed the internal
audit report and observed the shortcoming reported about the
performance of **Project A** regarding the understatement of the Current
liabilities and Capital work in progress by ₹ 84.68 crore.] Explain
some of the matters to be undertaken by the chartered accountant firm
while conducting the comprehensive audit of Metro Company Limited.

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(c) JRS Limited holds the majority ownership of R Ltd. & K Ltd. S Ltd. is an intermediate subsidiary of JRS Limited in Surat. The JRS Limited presents the consolidated financial statements for audit purposes to MMT & Co. As a statutory auditor MMT & Co. obtain a listing of all the components and verify that all the components included in financial statements unless any component meet criterion for exclusion. Explain any two reasons which are considered by MMT & Co. for exclusion of components from the consolidated financial statements and reporting of reasons of exclusion thereof. **5**

5. (a) M/s. HK & Co. was appointed as an auditor of GSB Limited, a company operating its business in telecom sector. As per spectrum allocation agreement with Government, GSB Limited is required to pay certain percentage of its annual revenue as license fee. GSB Limited paid the license fee on its core business for last two years. At the end of third year, the communication was received from Government that it needs to pay agreed percentage on its total revenues and not only on core business revenues. Matter was disputed and went to court of law. On prudence basis, GSB Limited made a provision on estimated business in its books of accounts of agreed percentage on non-core business receipts also. The amount of provision was of such huge amount that the GSB Limited's profit and loss account for that quarter reflected loss due to that provision. How you as an auditor can evaluate this accounting estimate which involves significant risk and what if Management has not addressed the effects of estimation uncertainty on provision made ? **4**

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- (b) The audit team is preparing to conduct audit for ABC Company for the period ending 31.3.2020. However, the audit team has not received its audit fees from ABC Company for its audit concluded for the period ended 31.3.2019. The audit team might be tempted to issue a favorable report so that ABC Company is able to secure a loan to settle the fees outstanding for their 31.3.2019 audit. The audit team is not complying the fundamental principles of auditing hence hindering the Auditor's Independence. Explain the types of threats that may hinder Auditor's Independence while issuing Audit Report. **5**
- (c) Explain the concept of Integrated framework issued by Committee of the Sponsoring Organisations of the Treadway Commission (COSO Framework) duly mentioning its four out of five components and discuss the three category of objectives that can be achieved as per COSO framework. **5**
6. (a) CA K have been doing audit of branch of LUD Bank Ltd. The principal business of the branch is lending advances to large corporates. Since last one year, many large accounts have become Non-Performing Asset (NPA) as per guidelines. The Management of the Bank decided to sell one of the NPA account and consequently one NPA namely DEF Ltd. amounting to ₹ 10.00 Crores was sold to Asset Reconstruction Company. What audit points CA K should keep in mind while doing audit of this transaction ? **5**
- (b) CA S has been appointed as peer reviewer of Shivam & Co. LLP. Shivam & Co. LLP submitted a list of its assurance and due diligence services for the peer review. CA S is in the process of deciding as to how many assurance services should be reviewed. Guide CA S in deciding the number of assurance services engagement to be reviewed. **5**

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(c) TNT Limited is engaged in the Life Insurance business. The company's operations have been considerable in the Northern India and its Head Office is also based at New Delhi. TNT Ltd. while preparing financial statements have classified administrative expenses under 14 heads as mentioned in Schedule 3 forming part of financial statements given under schedule A to IRDA Regulations, 2002. What is your responsibility as an auditor particularly in relation to administrative/expenses of management ? 4

OR

CA. AB, a practicing chartered accountant, is a promoter director of ABG Pvt. Ltd. and moreover he is also a sleeping partner in his family business of garments manufacturing firm. Is CA. AB liable for professional misconduct as per Chartered Accountant Act 1949 ? 4

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