

**Note: All questions are compulsory.**

**Question 1(8 Marks)**

**Engagements to Report on the Compilation of Pro Forma Financial Information:** As per SAE 3420, "Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall-

1. Determine that the practitioner has the capabilities and competence to perform the engagement; **(1 Mark)**
2. On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended; **(1 Mark)**
3. Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE; **(1 Mark)**
4. Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources; **(1 Mark)**
5. If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; **(1 Mark)**
6. If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and **(1 Mark)**
7. Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: **(2 Marks)**
  - a. Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;
  - b. Compiling the pro forma financial information on the basis of the applicable criteria; and
  - c. Providing the practitioner with:
    - i) Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria;
    - ii) Additional information that the practitioner may request from the responsible party for the purpose of the engagement;

- iii) Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and
- iv) When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

**Question 2 (8 marks)**

a) As per **SA 402 "Audit Considerations relating to an Entity Using a Service Organisation"**, for obtaining understanding of the user entity in accordance with SA 315, the user auditor shall obtain an understanding of how a user entity uses the services of a service organization in the user entity's operation including: **(1/2 mark for each point)**

1. The nature of services provided by the service organisation and the significance of such services to the user entity, including its effect on the internal control of user entity.
2. The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation.
3. The degree of interaction between the activities of the service organization and those of user entity and
4. The nature of the relationship between the user entity and the service organization including the relevant contractual terms for the activities undertaken by the service organisation.

When obtaining an understanding of internal control relevant to the audit in accordance with SA 315 "Identifying and Assessing the Risks of Material Mis-statement through Understanding the Entity and its Environment", the user auditor shall evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organization.

**(2 marks)**

b) The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement. **(1 mark)**

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures: **(3marks)**

1. Obtaining a Type 1 or Type 2 report, if available;
2. Contacting the service organisation, through the user entity, to obtain specific information;
3. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation; or
4. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation

**Question 3 (8 marks)**

**As per SRE 2400, "Engagement to Review Historical Financial Statements", prior to accepting a review engagement, the practitioner shall:**

1. Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users; and **(1 mark)**
2. Obtain the agreement of management that it acknowledges and understands its responsibilities:

- a. For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation; **(1 mark)**
- b. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and **(1 mark)**
- c. To provide the practitioner with: **(2 marks)**
  - (1) Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - (2) Additional information that the practitioner may request from management for the purpose of the review; and
  - (3) Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE. **(1 marks)**

If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with management or those charged with governance, and shall determine: **(2 marks)**

- a. Whether the matter can be resolved;
- b. Whether it is appropriate to continue with the engagement; and
- c. Whether and, if so, how to communicate the matter in the practitioner's report.

#### **Question 4 (5 Marks)**

**Examples of Accounting Estimates that may have a High Estimation Uncertainty:** As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures", the auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risks. **(1 Mark)**

Examples of accounting estimates that may have high estimation uncertainty include the following: **(1 Mark each)**

- i Accounting estimates that are highly dependent upon judgment, for example, judgments about the outcome of pending litigation or the amount and timing of future cash flows dependent on uncertain events many years in the future.
- ii Accounting estimates that are not calculated using recognised measurement techniques.
- iii Accounting estimates where the results of the auditor's review of similar accounting estimates made in the prior period financial statements indicate a substantial difference between the original accounting estimate and the actual outcome.
- iv Fair value accounting estimates for which a highly specialised entity-developed model is used or for which there are no observable inputs.

### Question 5(5 Marks)

**Auditor to make Inquiries regarding Management's own Assessment of Risk of Fraud and Controls:** As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", management accepts responsibility for the entity's internal control and for the preparation of the entity's financial statements. **(1 mark)**

Accordingly, it is 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. The nature, extent and frequency of management's assessment of such risk and controls may vary from entity to entity.**(1 mark)**

In some entities, management may make detailed assessments on an annual basis or as part of continuous monitoring. In other entities, management's assessment may be less structured and less frequent. The nature, extent and frequency of management's assessment are relevant to the auditor's understanding of the entity's control environment. For example, the fact that management has not made an assessment of the risk of fraud may in some circumstances be indicative of the lack of importance that management places on internal control. **(1 mark)**

The auditor's inquiries of management may provide useful information concerning the risks of material misstatements in the financial statements resulting from employee fraud. However, such inquiries are unlikely to provide useful information regarding the risks of material misstatement in the financial statements resulting from management fraud. **(1 mark)**

Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with an attitude of professional skepticism, the auditor may judge it necessary to corroborate responses to inquiries with other information. . **(1 mark)**

### Question 6

- (a) Delegation of Authority to the Employee:** As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements". **(1 mark)**

In this case CA. 'Zen' proprietor of M/s Z & Co., went to abroad and delegated the authority to another Chartered Accountant Mr. Yen, his employee, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants of India. **(1 mark)**

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the certain instances and such delegation will not attract provisions of this clause like issue of audit queries during the course of audit, asking for information or issue of questionnaire, etc. **(1 mark)**

However, issuance of production certificate to a client under Central Excise Act, 1944 is not a routine work. Thus, issuance of such certificate by Mr. "Yen" being an employee of M/s Z & Co. is outside his authorities. Therefore, CA. 'Zen' is guilty of professional misconduct under Clause (12) of Part I of First Schedule of the Chartered Accountants Act, 1949. **(1 mark)**

- (b) Making Roving Inquiries:** Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of

misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means. **(1 mark)**

Such a restraint has been put so that the members maintain their independence of judgement and may be able to command respect from their prospective clients. **(1 mark)**

In case of making an application for the empanelment for the allotment of audit and other professional work, the Council has opined that, "where the existence of such a panel is within the knowledge of the member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the member to make roving inquiries by applying to any such organization for having his name included in any such panel." **(1 mark)**

Accordingly, Mr. Den is guilty of misconduct in terms of the above provision as he has solicited professional work from the Finance Ministry, by inquiring about the maintenance of the panel . **(1 mark)**

- (c) Charging Excess Fees:** The prescribed scale of fees for the professional assignments done by the chartered accountants is recommendatory in nature. Charging an excessive fee for a professional assignment does not constitute any misconduct in the context of the provisions of the Chartered Accountants Act, 1949 and regulation made thereunder since the matter of fixation of actual fee charged in individual cases depends upon the mutual agreement and understanding between the member and the client. **(2 marks)**

In the given case, CA. Pratash has charged excess fees comparative to the scale of fees recommended by the Committee as well as duly considered by the Council of ICAI. In this context, it may be noted that the scale of fees is the minimum prescribed scale of fees. **(1 mark)**

From the above facts and provisions, it may be concluded that CA. Pratash is not liable for any misconduct under the Chartered Accountants Act, 1949. Therefore, the contention of WRV Pvt. Ltd. is not tenable. **(1 mark)**

- (d) Maintenance of Branch Office in the Same City:** As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in-charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 Kilometres from the municipal limits of a city, in which the first office is located. **(1 mark)**

In the given case, Mr. Ken, Chartered Accountant in practice as a sole proprietor at Mumbai has an office in suburbs of Mumbai, and due to increase in the work he opened another branch within the city near the sales tax office. **(1 mark)**

He also employed a retired sales tax commissioner to run the new office and the second office is situated within a distance of 30 kms from his office in the suburb. **(1 mark)**

In view of above provisions, there will be no misconduct if Mr. Ken will be in-charge of both the offices. However, he is bound to declare which of the two offices is the main office. **(1 mark)**

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