
Note: Question No. 1 is compulsory. Answer any **five** from the rest

Question 1

- a. As per SA 620, “Using the work of an Auditor’s Expert”, some of the matters may affect the level of detail and formality of the agreement between the auditor and the auditor’s expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing: **(5 marks)**

- The auditor’s expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the auditor and the auditor’s expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the auditor’s expert’s work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor’s expert’s work, and its significance in the context of the audit.

- b. Obligation of the Statutory Auditor to report frauds to the Central Government during the audit carried out under the Companies Act, 2013: As per sub-section (12) of section 143 of the Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees 1 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government. **(1 mark)**

In the instant case, a fraud had been committed by a general manager and the amount involved for such misappropriation is exceeding 100 Lakh rupees i.e. 1 crore. Therefore, reporting of fraud should be done to Central Government in accordance with section 143(12) of the Act. **(1 mark)**

The manner of reporting the matter to the Central Government is as follows: **(3 marks)**

- the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days;
 - on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations;
 - in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;
 - the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;
 - the report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and
 - the report shall be in the form of a statement as specified in Form ADT -4.
- c. Branch Audit:** As per section 143(8) of the Companies Act, 2013 if a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country. **(2 marks)**

In the given situation, D Ltd. is a Delhi based company, having total turnover of `25 crores. The company is having a branch office in USA (having a turnover of rupees 10 lakhs i.e. as converted from US dollars) in an area which is recently affected by storm and the office along with all accounting records was completely destroyed. Due to unavailability of records, the financial statements of D Ltd. for the financial year 2016 -17 did not include the figures pertaining to the said branch. **(1 mark)**

Under such a circumstance beyond the control of the entity when the entity's accounting records have been destroyed the auditor's opinion has to be modified. The auditor has also to mention in his report the effect on the financial statements due to non -inclusion of financial data pertaining to the branch. **(2 marks)**

- d. **Disclosure of Earnings Per Share:** AS 20 on Earning Per Share (EPS) prescribes principles for the determination and presentation of EPS. As per AS 20, the earnings per share have to be disclosed as basic and diluted earnings per share on the face of the Statement of Profit and Loss for each class of equity shares that has a different right to share in the net profit for the period. **(1 mark)**

In the instant case, G Ltd., both the basic as well as the diluted earnings per share would be the same since there are no dilutive instruments that have been issued by the company. As per AS 20, in the case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration and thus would lead to increase in number of equity shares without any adjustment to outstanding capital amount. **(2 marks)**

Therefore, the number of equity shares outstanding is increased without an increase in resources. The standard further requires that the number of equity shares outstanding before the event of a bonus issue to be adjusted for the proportionate change in the number of equity shares outstanding as if the event had occurred at the beginning of the earliest period reported. Hence the EPS calculated as on 31 -03-2016 would be Adjusted EPS and the same would be disclosed. In view of the above, the EPS will be calculated as under: **(2 marks)**

	Profits				
As on 31.03.2016	Adjusted No. of Shares	=		Adjusted	EPS
	10,00,00,000				
	4,00,00,000	=		` 2.5	
	Profits				
As on 31.03.2017	No. of shares	=		EPS	
	15,00,00,000				
	4,00,00,000	=		` 3.75	

Since the above figures of EPS have not been disclosed, G Ltd. has not complied with the provisions of AS 20. Therefore, the auditor will have to qualify his report in terms of section 143(3)(e) of the Companies Act, 2013.

Question 2

a.

Evaluation of Internal Control System in the Area of Credit Card Operations in a Bank:		
(i) There should be effective screening of applications with reasonably good credit assessments		1/2
(ii) There should be strict control over storage and issue of cards.		1/2

(iii) There should be a system whereby a merchant confirms the status of unutilized limit of a credit-card holder from the bank before accepting the settlement in case the amount to be settled exceeds a specified percentage of the total limit of the card holder		1/2
(iv) There should be system of prompt reporting by the merchants of all settlements accepted by them through credit cards		1/2
(v) Reimbursement to merchants should be made only after verification of the validity of merchant's acceptance of cards.		1/2
(vi) All the reimbursements (gross of commission) should be immediately charged to the customer's account.		1/2
(vii) There should be a system to ensure that statements are sent regularly and promptly to the customer.		1/2
(viii) There should be a system of monitor and follow-up of customers' payments		1/2
(ix) Items overdue beyond a reasonable period should be identified and attended carefully. Credit should be stopped by informing the merchants through periodic bulletins, as early as possible, to avoid increased losses.		1/2
(x) There should be a system of periodic review of credit card holders' accounts. On this basis, the limits of customers may be revised, if necessary. The review should also include determination of doubtful amounts and the provisioning in respect thereof.		1/2

b.

<u>Section 17</u> of the Cooperative Societies Act, 1912 contains audit provision as under:		
(i) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society <u>once at least in every year</u>		1/2
(ii) The audit under sub-section (1) shall include an <u>examination of overdue debts</u> , if any, and a valuation of the assets and liabilities of the society		1/2
(iii) The Registrar, the Collector or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times <u>have access to all the books, accounts, papers and securities</u> of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require		1/2
On completion of audit, the auditor has to <u>submit his audit report to the society</u> , and copies thereof to the respective authorities such as <u>District Special Auditor, District Deputy Registrar etc.</u> The audit report has to be submitted in the prescribed form specified by the Registrar or as given in the related Rules. According to the present prescribed form in some of the States, the auditor has to state:		1/2

(a) Whether he has obtained all the <u>necessary information and explanations</u> which to the best of his knowledge and belief were necessary for the purpose of audit		1/2
(b) Whether in his opinion and to the best of his information and according to the explanations given to him, the said accounts give all the information required by the Act.		1/2
(c) Whether the Profit and Loss Account of the society gives a true and fair view of the Profit and Loss made by the society.		1/2
(d) Whether the Balance Sheet drawn up as at the end of the year gives a true and fair view of the state of affairs of the society as on the given date.		1/2
(e) Whether in his opinion, proper books of account as required by the Act, the Rules and the bye-laws of the society have been properly maintained.		1/2
(f) Whether the Balance Sheet and the Profit and Loss Account examined by him are in agreement with the books of account and returns of the society.		1/2
The auditor will have to give qualifying observations, if any of the answers to the above mentioned matters are negative		

c.

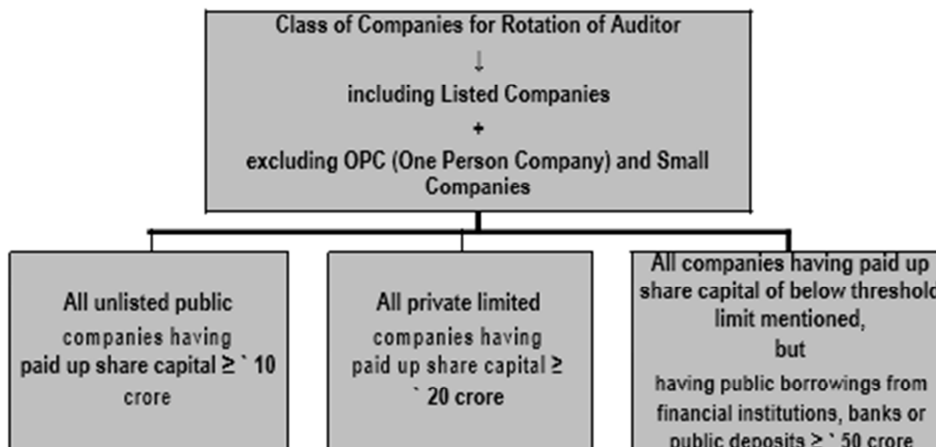
Auditing procedures using CAATs: CAATs may be used in performing various auditing procedures, including the following		
(i) Tests of details of transactions and balances, for example, the use of audit software for recalculating interest or the extraction of invoices over a certain value from computer records;		1
(ii) Analytical procedures, for example, identifying inconsistencies or significant fluctuations;		1
(iii) Tests of general controls, for example, testing the set-up or configuration of the operating system or access procedures to the program libraries or by using code comparison software to check that the version of the program in use is the version approved by management ;		1
(iv) Sampling programs to extract data for audit testing;		1
(v) Tests of application controls, for example, testing the functioning of a programmed control; and		1
(vi) Re-performing calculations performed by the entity's accounting systems.		1

Question 3

a.

<p>A) 1. Under <u>section 139(8) of the Companies Act, 2013</u>, any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within thirty days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting</p>		1
<p>2. Therefore, in the present case, as the auditor has resigned, the casual vacancy so created can be filled up by the Board appointing Mr. Champak. However, the appointment of Mr. Champak must be approved by the company by passing of an ordinary resolution at a general meeting of the company which must be convened by the Board within 3 months of the recommendation of the Board.</p>		1
<p>3. Mr. Champak will be entitled to hold office till the conclusion of the next Annual General Meeting.</p>		
<p>B) Under section 140(1) of the Companies Act, 2013, the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner:</p>		1
<p>1. Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.</p>		1/2
<p>2. Therefore, in terms of <u>section 140 (1) of the Companies Act, 2013</u> read with rule 7 of the Companies (Audit & Auditors) Rules, 2014, the following steps should be taken for the removal of an auditor before the completion of his term: a. Passing of the Board Resolution for the removal of the auditor; b. The application to the Central Government for removal of auditor shall made in <u>Form ADT-2</u> and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014 c. The application shall be made to the Central Government within thirty days of the resolution passed by the Board. d. The company shall hold the general meeting <u>within sixty days</u> of receipt of approval of the Central Government for passing the special resolution.</p>		1 ½

- b. Rotation of Auditor & Cooling Off Period Provisions:** The provisions related to Rotation of Auditor & Cooling Off Period are newly inserted by section 139(2) of the Companies Act, 2013 read with Rule 5 of the Companies (Audit & Auditors) Rules, 2014, which are discussed as under:



The provisions related to rotation of auditor are applicable to those companies which are prescribed in Companies (Audit and Auditors) Rules, 2014, which prescribes the following classes of companies excluding one person companies and small companies, namely:-

- (i) all unlisted public companies having paid up share capital of ₹ 10 crore or more;
- (ii) all private limited companies having paid up share capital of ₹ 20 crore or more;
- (iii) all companies having paid up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of ₹ 50 crores or more.

As per Section 139(2) of the Companies Act, 2013, no listed company or a company belonging to such class or classes of companies as mentioned above, shall appoint or re-appoint-

- (a) an individual as auditor for more than one term of 5 consecutive years; and
- (b) an audit firm as auditor for more than two terms of 5 consecutive years.

(2 marks)

In the given case, Apple Ltd. is an unlisted public company having paid up share capital of ₹ 5 crore and public deposits of ₹ 100 crore. The company has appointed M/s Pear & Co., a chartered accountant firm, as the statutory auditor in its AGM held at the end of September, 2016 for 11 years.

The provisions relating to rotation of auditor will be applicable as the public deposits exceeds ` 50 crore. Therefore, Apple Ltd. can appoint M/s Pear & Co. as an auditor of the company for not more than one term of five consecutive years twice i.e. M/s Pear & Co. shall hold office from the conclusion of this meeting upto conclusion of sixth AGM to be held in the year 2021 and thereafter can be re-appointed as auditor for one more term of five years i.e. upto year 2026. The appointment shall be subject to ratification by members at every annual general meeting of the company. As a result, the appointment of M/s Pear & Co. made by Apple Ltd. for 11 years is void. **(3 marks)**

- c. **Non-cash Transactions with Relative of Director:** As per Clause (xv) of paragraph 3 of CARO, 2016, the auditor is required to report “whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with”.

Section 192 of the said Act deals with restriction on non-cash transactions involving directors or persons connected with them. The section prohibits the company from entering into such types of arrangements unless it is an arrangement by which the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected. **(1 mark)**

In the instant case, RPS Ltd. has entered into non-cash transactions with Mr. Rahul, son of director, which is an arrangement by which RPS Ltd. is in process to acquire assets for consideration other than cash. In the above situation, the provisions of section 192 of Companies Act, 2013 have been complied with.

However, the reporting requirements under this clause are given in two parts. The first part requires the auditor to report on whether the company has entered into any non-cash transactions with the directors or any persons connected with such director/s. The second part of the clause requires the auditor to report whether the provisions of section 192 of the Act have been complied with. Therefore, the second part of the clause becomes reportable only if the answer to the first part is in affirmative. **(1 mark)**

In the given situation, RPS Ltd. has entered into non- cash transactions with Mr. Rahul, son of director which is affirmative answer to the first part of the Clause (xv) of Paragraph 3 of CARO, 2016, thus, reporting is required for the same. Draft report is given below.

According to the information and explanations given to us, RPS Ltd. has entered into non -cash transactions with Mr. Rahul, son of one of the directors during the year, for the acquisition of assets, which in our opinion is covered under the provisions of Section 192 of the Companies Act, 2013. (1 mark)

Title deeds of Immovable Property in the name of Director: As per Clause (i)(c) of Paragraph 3 of the CARO, 2016, the auditor is required to report on whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.

The auditor should verify the title deeds available and reconcile the same with the fixed assets register. The scrutiny of the title deeds of the immovable property may reveal a number of discrepancies between the details in the fixed assets register and the details available in the title deeds. This may be due to various reasons which needs to be examined. **(1 mark)**

In the given case, NSP Limited has its factory building, appearing as fixed assets in its financial statements in the name of director. Thus, the auditor shall report on the same under Clause (i)(c) of Paragraph 3 of the CARO, 2016. **(1 mark)**

The reporting under this clause, where the title deeds of the immovable property are not held in the name of the Company, may be made incorporating following details, in the form of a table or otherwise:

A In case of land:-

- *total number of cases,*
- *whether leasehold / freehold,*
- *gross block and net block, (as at Balance Sheet date), and*
- *remarks, if any.*

B. In case of Buildings:-

- *total number of cases,*
- *gross block & net block, (as at Balance Sheet date) and*
- *remarks, if any.*

(1 mark)

Question 4

a. SEBI's check list for auditors in respect of contract notes issued by a Stock Broker:

- Members should issue Contract Notes to his clients for all trades executed by him on their behalf.
- The member should stamp his order sheets/records and the order time should be reflected in the Contract Note along with the time of execution of order.
- The Contract Notes should bear SEBI Registration number of the member. It should be pre-printed with serial number and issued within 24 hours of trade execution. Appropriate stamps should be affixed on the contract Note. Duplicate copies of the contract note should be maintained.
- The Contract Note should be signed by the member or his constituted attorney.
- Contract note issued to the clients should show the brokerage separately.
- In case the broker acts as a principal, the Contract Note should be in Form B.
- Consent of the client should be taken for any trade done by the broker while acting as a principal.
- Brokerage should be within the limits prescribed by the exchange.

(4 marks)

b. Obligation of Auditor to Submit an Exception Report to the Bank

1. Where, in the case of a non-banking financial company, the statement regarding any of the matters to be included in the auditor's report is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

- the provisions of Chapter III B of Reserve Bank of India Act, 1934; or
- the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998; or
- Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; or
- Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998. **(3 marks)**

2. The duty of the Auditor under above stated paragraph (1) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions. **(1 mark)**

c. Power of Central Government to direct special audit in certain cases: As per the Multi-State Co-operative Societies Act, 2002, where the Central Government is of the opinion:

- that the affairs of any Multi-State co-operative society are not being managed in accordance with self-help and mutual aid and co-operative principles or prudent commercial practices or with sound business principles; or
- that any Multi-State co-operative society is being managed in a manner likely to cause serious injury or damage to the interests of the trade industry or business to which it pertains; or
- that the financial position of any Multi-State co-operative society is such as to endanger its solvency. **(3 marks)**

The central Government may at any time by order direct that a special audit of the Multi-State co-operative society's accounts for such period or periods as may be specified in the order, shall be conducted and appoint either a chartered accountant or the Multi-State co-operative society's auditor himself to conduct the special audit. However, Central Government shall order for special audit only if that Government or the State Government either by itself or both hold fifty- one percent or more of the paid-up share capital in such Multi-State co-operative society. **(1 mark)**

- d. Voting Power and Control over the composition of Board of Directors:** In this case, Alfa Ltd. holds only 10 percent of the voting power and control over the composition of the Board of Directors of Gamma Ltd. In such a case, Alfa Ltd. would be considered as a parent of Gamma Ltd. and, therefore, it would consolidate Gamma Ltd. in the consolidated financial statements as subsidiary.

The auditor should verify whether the parent controls the composition of the Board of Directors or corresponding governing body of any entity. There would be various means by which such kind of control can be obtained. **(1 mark)**

In this regard, the auditor may verify the Board's minutes, shareholder agreements entered into by the parent, agreements with the entities to which the parent might have provided any technology or know how, enforcement of statute, as the case may be, etc.

The auditor should verify that the adjustments warranted by the relevant accounting standards have been made wherever required and have been properly authorised by the management of the parent. The preparation of consolidated financial statements gives rise to permanent consolidation adjustments and current period consolidation adjustments. The auditor should make plans, among other things, for the understanding of accounting policies of the parent, subsidiaries, associates and joint ventures and determining and programming the nature, timing, and extent of the audit procedures to be performed etc. **(1 mark)**

Further, the duties of an auditor with regard to reporting of transactions with related parties as required by Accounting Standard 18 are given in SA 550 on Related Parties. As per SA 550 on "Related Parties", the auditor should review information provided by the management of the entity identifying the names of all known related parties. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity are considered as Related Party. **(1 mark)**

In forming an opinion on the financial statements the auditor shall evaluate whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework and whether the effects of the related party relationships and transactions prevent the financial statements from achieving true and fair presentation (for fair presentation frameworks) or cause the financial statements to be misleading (for compliance frameworks). **(1 mark)**

Question 5

- a. **Minimum Alternate Tax – Eligible to Claim the Credit:** As per the Guidance Note issued by ICAI on “Accounting for credit available in respect of MAT under the IT Act, 1961”, although MAT credit is not a deferred tax asset under AS 22, yet it gives rise to expected future economic benefit in the form of adjustment of future income tax liability arising within the specific period. **(1 mark)**

The Framework for the preparation and presentation of financial statements, issued by the ICAI, defines the term ‘asset’ is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise. **(1 mark)**

MAT paid in a year in respect of which the credit is allowed during the specified period under the Income-tax Act, 1961 is a resource controlled by the company as a result of past event, namely the payment of MAT. The MAT credit has expected future economic benefits in the form of its adjustment against the discharge of the normal tax liability if the same arises during the specified period. Accordingly, such credit is an asset.

According to the Framework, once an item meets the definition of the term ‘Asset’, it has to meet the criteria for recognition of an asset, so that it may be recognised as such in the financial statements. **(1 mark)**

Framework provide the following criteria for recognition of an asset:

An asset is recognised in the balance sheet when it is probable that the future economic benefits associated with it will flow to the enterprise and the asset has a cost or value that can be measured reliably.

In addition to the above, the auditor shall take a confirmation letter from the assessee for the said facts.

Thus, if the auditor is satisfied that the probability of the company to claim the said credit is high, it could recognise the same as an asset. **(2 marks)**

- b. **Differences between Financial and Operational Auditing:** The major differences between financial and operational auditing can be described as follows-
- (i) **Purpose** - The financial auditing is basically concerned with the opinion that whether the historical information recorded is correct or not, whereas the operational auditing emphasizes on effectiveness and efficiency of operations for future performance.
 - (ii) **Area** - Financial audits are restricted to the matters directly affecting the appropriateness of the presented financial statements but the operational auditing covers all the activities that are related to efficiency and effectiveness of operations directed towards accomplishment of objectives of organization.
 - (iii) **Reporting** -The financial audit report is sent to all stock holders, bankers and other persons having stake in the Organisation. However, the operational audit report is primarily for the management.
 - (iv) **End Task** - The financial audit has reporting the findings to the persons getting the report as its end objective, however, the operational auditing is not limited to reporting only but includes suggestions for improvement also

(5 marks)

c Factors to be considered while planning the Performance Audit: While planning a performance audit of an Industry, the auditors should take care of certain factors which are listed below:

- a. to consider significance and the needs of potential users of the audit report.
- b. to obtain an understanding of the program to be audited.
- c. to consider legal and regulatory requirements.
- d. to consider management controls.
- e. to identify criteria needed to evaluate matters subject to audit.
- f. to identify significant findings and recommendations from previous audits that could affect the current audit objectives. Auditors should determine if management has corrected the conditions causing those findings and implemented those recommendations.
- g. to identify potential sources of data that could be used as audit evidence and consider the validity and reliability of these data, including data collected by the audited entity, data generated by the auditors, or data provided by third parties.
- h. to consider whether the work of other auditors and experts may be used to satisfy some of the auditors' objectives.
- i. to provide sufficient staff and other resources to do the audit.
- j. to prepare a written audit plan.

(6 marks)

Question 6

k.

Following process will be followed for a complaint filed against a member alleged of misconduct-		
1) File a <u>complaint alongwith the prescribed fee to the Disciplinary Directorate</u>		1
2) The <u>Director (Discipline) shall arrive at a prima facie opinion on the occurrence of alleged misconduct and decide whether he is guilty of professional or other misconduct falling in First Schedule or Second Schedule or both</u>		1
A) For misconduct under First Schedule, the matter shall be placed before Board of Discipline and if found guilty, it can - i) reprimand the member ii) remove name of the member upto period of 3 months iii) impose fine upto Rs. 1,00,000		2

<p>B) For misconduct under Second Schedule or both First & Second schedule, the matter shall be placed before Board of Discipline and if found guilty, it can -</p> <p>i) reprimand the member</p> <p>ii) remove name of the member permanently or for any duration, it thinks fit</p> <p>iii) impose fine upto Rs. 50,000</p>		2
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c. Ceiling limit for signing the Tax Audit Reports: As per Council General Guidelines 2008, a member of the Institute in practice shall not accept, in a financial year, more than the “specified number of tax audit assignments” under Section 44AB of the Income-tax Act, 1961. It is also provided further that where any partner of a firm of Chartered Accountants in practice accepts one or more tax audit assignments in his individual capacity, the total number of such assignments which may be accepted by him shall not exceed the “specified number of tax audit assignments” in the aggregate.

In the case of firm of Chartered Accountants in practice “the specified number of tax audit assignments” means, 60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses.

Further, as per clarification issued by the Institute on Tax Audit Assignments, tax audit reports may be signed by the partners in any manner whosoever in accordance with specified audit limits. Thus, one partner can individually sign all the tax audit reports subject to specified tax audit assignment limits on behalf of all the partners in the firm of Chartered Accountants in practice or all the partners of the firm can collectively sign the tax audit reports. **(2 marks)**

In the instant case, there are 6 partners in M/s XYZ & Co., a Chartered Accountants firm, accordingly specified ceiling limit for the firm will be (60 tax audit assignments per partner X 6 partners) = 360. Therefore, all the 6 partners of the firm can collectively sign 360 tax audit reports. This maximum limit of 360 tax audit assignments may be distributed between the partners in any manner whatsoever. For instance, 1 partner can individually sign 360 tax audit reports in case remaining 5 partners are not signing any tax audit report.

Assuming Mr. Gaurav has signed 290 tax audit reports consisting of both corporate and non-corporate assessee on behalf of firm and remaining partners are signing audit reports within the specified number of tax audit assignments u/s 44AB i.e. upto 70.

Hence, Mr. Gaurav shall not be deemed to guilty of professional misconduct provided total number of tax audit reports on behalf of firm do not exceeds 360. **(2 marks)**

d.

<u>Using Designation Other Than a CA and Providing Details of Services Offered:</u>		
1) <u>Clause (6) of Part I of the First Schedule</u> 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. Such a restraint has been put so that the members maintain their independence of judgment and may be able to command respect from their prospective clients.		1
2) <u>Section 7 of the Chartered Accountants Act, 1949 read with Clause (7) of Part I of the First Schedule</u> to the said Act <u>prohibits advertising of professional attainments or services of a member.</u> It also <u>restrains a member from using any designation or expression other than that of a chartered accountant in documents through which the professional attainments of the member would come to the notice of the public.</u> Under the clause, use of any designation or expression other than chartered accountant for a chartered accountant in practice, on professional documents, visiting cards, etc. <u>amounts to a misconduct unless</u> it be a degree of a university or a title indicating membership of any other professional body recognised by the Central Government or the Council.		1
3) <u>Member may appear on television and films and agree to broadcast in the Radio or give lectures at forums and may give their names and describe themselves as Chartered Accountants.</u> Special qualifications or specialized knowledge directly relevant to the subject matter of the programme may also be given but no reference should be made, in the case of practicing member to the name and address or services of his firm. <u>What he may say or write must not be promotional of his or his firm but must be an objective professional view of the topic under consideration.</u>		1
4) Thus, <u>it is improper to use designation "Management Expert" since neither it is a degree of a University established by law in India or recognised by the Central Government nor it is a recognised professional membership by the Central Government or the Council.</u> Therefore, he is deemed to be guilty of professional <u>misconduct under both Clause (6) and Clause (7) as he has used the designation "Management Expert" in his speech and also he has made reference to the services provided by his firm of Chartered Accountants at reasonable rates.</u> Distribution of cards to audience is also a misconduct in terms of Clause (6).		1

- (a) **Contravening Provisions of the Act:** A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct under Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949, if he contravenes any of the

provisions of this Act or the regulations made there under or any guidelines issued by the Council. **(1 ½ marks)**

In the given case, CA. X has failed to make the payments of stipend to articled assistant every month in accordance with Regulation 48. The fact that the articled assistant will be compensated with extra sum in the form of interest on late payment is not relevant and the plea that cycle of professional receipts from clients is seasonal is not acceptable. **(1 ½ marks)**

Therefore, CA. X is guilty of professional misconduct under Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 as he has contravened Regulation 48 by not making the payment every month. **(1 marks)**

Question 7

Write short notes on **Any four** of the following:

a. Audit Risk.

As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

For purposes of the SAs, audit risk does not include the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not. This risk is ordinarily insignificant. Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of financial statements.

Three components of audit risk are:

1. Inherent risk (risk that material errors will occur);
2. Control risk (risk that the client's system of internal control will not prevent or correct such errors); and
3. Detection risk (risk that any remaining material errors will not be detected by the auditor). **(2 ½ marks)**

The nature of each of these types of risk and their interrelationship is discussed below:

Inherent risk - Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex calculations or for accounts consisting of amounts derived from

accounting estimates that are subject to significant estimation uncertainty. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterised by a large number of business failures. **(1/2 mark)**

Control risk - Control risk is a function of the effectiveness of the design, implementation and maintenance of internal control by management to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of internal control. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The SAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed. **(1/2 mark)**

Detection risk - For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.

Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:

- ☐ adequate planning;
- ☐ proper assignment of personnel to the engagement team;
- ☐ the application of professional skepticism; and
- ☐ supervision and review of the audit work performed,

assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. **(1/2 mark)**

Role of C&AG in the Audit of a Government company: Role of C&AG is prescribed under sub section (5), (6) and (7) of section 143 of the Companies Act, 2013.		
In the case of a Government company, the comptroller and Auditor-General of India shall appoint the auditor under <u>sub-section (5) or sub-section (7) of section 139</u> i.e. appointment of First Auditor or Subsequent Auditor and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.		1
The Comptroller and Auditor-General of India shall within sixty days from the date of receipt of the audit report have a right to,		1/2
(i) conduct a <u>supplementary audit</u> of the financial statement of the company by such person or persons as he may authorize in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and		1/2
ii) <u>Comment upon or supplement such audit report</u> : Provided that any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under <u>sub-section (1) of section 136</u> i.e. every member of the company, to every trustee for the debenture- holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.		1
<u>Test Audit</u> : Further, without prejudice to the provisions relating to audit and auditor, the Comptroller and Auditor- General of India may, in case of any company covered under <u>sub-section (5) or sub-section (7) of section 139</u> , if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.		1

d. Technical, Ethical and Professional Standards as per Statement on Peer Review: As per the Statement, Technical, Professional and Ethical Standards means -

1. Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India; **(1 mark)**
2. Standards issued by the Institute of Chartered Accountants of India including -
 - (i) Engagement standards
 - (ii) Statements

- (iii) Guidance notes
 - (iv) Standards on Internal Audit
 - (v) Statements on Quality Control
 - (vi) Notifications / Directions / Announcements / Guidelines / Pronouncements/ Professional standards issued from time to time by the Council or any of its committees. **(1 mark)**
3. Framework for the Preparation and presentation of financial statements, framework of statements and Standard on Auditing, Standard on Assurance Engagements, Standards on Quality Control and Guidance Notes on related services issued, from time to time, by the Institute of Chartered Accountants of India and framework for assurance engagements;**(1 mark)**
4. Provisions of the various relevant statutes and / or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements. **(1 mark)**

e. The main features of a qualified and independent audit committee to be set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are as follows:

1. The audit committee shall have minimum three directors as members. Two - thirds of the members of audit committee shall be independent directors;**(1/2 mark)**
2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise; **(1 ½ mark)**

Explanation (i): The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director;**(1/2 mark)**
4. The Chairperson of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries; **(1/2 mark)**
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee; provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.; **(1/2 mark)**

6. The Company Secretary shall act as the secretary to the committee. **(1/2 mark)**

e. Relevant Criteria for determining Reliability of Data as per SA 520 'Analytical Procedures'

- i. SA 520 on 'Analytical Procedures' provides that the reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. **(1 mark)**
- ii. Accordingly, the following are relevant criteria when determining whether data is reliable for purposes of designing substantive analytical procedures- **(3 marks)**
 1. Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
 2. Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;
 3. Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
 4. Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.
