



J.K. SHAH[®]
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SUGGESTED SOLUTION

FINAL May 2019 EXAM

SUBJECT- AUDIT

Test Code – FNJ 7088

BRANCH - () (Date :)

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Answer 1:

(A)

Other Misconduct: CA Kumar has engaged his Articled Assistant for his own election campaigning for the central Council elections of ICAI.

This aspect is covered under '**Other Misconduct**' which has been defined in **Part IV of the First Schedule and Part III of the Second Schedule**. These provisions empower the Council even if it does not arise out of his professional work this is considered necessary because a Chartered Accountant is expected to **maintain the highest standards of integrity** even in his personal affairs and any deviation from these standards, even in his non – professional work, would expose him to disciplinary action. **(3 marks)**

Thus, when a Chartered Accountant uses the services of his Articled Assistant for purposes other than professional practice, he is found guilty under 'Other Misconduct'. **(1 mark)**

Hence, **CA Kumar is guilty of 'Other Misconduct'**. **(1 mark)**

(B)

Audit Qualification vs. Emphasis of Matter :

REPORT	
Audit Qualification	Emphasis of Matter
<ul style="list-style-type: none">Standard on Auditing 705 "Modifications to the Opinion in the Independent Auditor's Report", deals with the provisions relating to Audit Qualification.	<ul style="list-style-type: none">Standard on Auditing 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" deals with the provisions relating to Emphasis of Matter.
<ul style="list-style-type: none">Audit Qualifications are also known as "subject to report" or "except that report".	<ul style="list-style-type: none">Emphasis of Matter is a paragraph which is included in auditor's report to draw users' attention to important matter(s) which are already disclosed in Financial Statements and are fundamental to users' for understanding of Financial Statements.
<ul style="list-style-type: none">Audit Qualifications are given when auditor is having reservations on some of the items out of the financial statements as a whole i.e. Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements relating to if the impact of material misstatements is not pervasive on the financial statements but is present at some levels of the financial statements, qualified report is issued.	<ul style="list-style-type: none">Emphasis of Matter is a paragraph which is issued when there is a uncertainty relating to future outcome of exceptional litigation, regulatory action, etc.; or there is early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.

(5 marks)

Answer 2:

(A)

Partnership with an Advocate : As per **Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949**, a chartered accountant will be guilty of professional misconduct if he enters into partnership with any person other than a chartered accountant in practice or a person resident outside India who but for his residence abroad would be entitled to be registered as a member under **Clause (v) of Sub – section (1) of Section 4 or whose qualification are recognized by the Central Government or the Council for the purpose of permitting such partnership.** (2 marks)

However, **Regulation 53B** of the Chartered Accountants Regulations, 1988 **permits** a Chartered Accountant in practice to enter into partnership with other prescribed Professionals which **includes an Advocate, a member of Bar Council of India.**

In the instant case, Mr. P, a chartered accountant, has entered into partnership with Mr. L, an advocate. (1 mark)

Thus, **he would not be guilty of professional misconduct** as per Clause (4) of Part I of First Schedule read with Regulation 53B. (1 mark)

(B)

Reporting for Default in Repayment of Dues : As per the general instructions for preparation of Balance Sheet, provided under **Schedule III to the Companies Act, 2013, terms of repayment of term loans and other loans is required to be disclosed in the notes to accounts.** It also requires **specifying the period and amount of continuing default** as on the balance sheet date in repayment of loans and interest, separately in each case. (2 mark)

Further, as per **clause (viii) of Para 3 of CARO, 2016**, the auditor of a company has to state in his report whether the Company has defaulted in repayment of dues to a financial institution or bank or debentures holders and if yes, the period and amount of default to be reported. (1 mark)

In the given case, C Ltd. has defaulted in repayments of dues to a financial institution during the financial year 2016 – 17 which remain outstanding as at March 31, 2017. However, the company has settled the total outstanding dues including interest in April, 2017 but, the dues were outstanding as at March 31, 2017. Therefore, it needs to be reported in the notes to accounts. (1 mark)

The draft report for above matter is as under :

“The company has taken a loan during the year, from a financial institution amounting to Rs. XXXX @ X% p.a. which is repayable by monthly instalment of Rs. XXXX for XX months.

The company has defaulted in repayment of dues including interest to a financial institution during the financial year 2015 – 16 amounting to Rs. XXXX which remained outstanding as at March 31, 2017. The period of default is XXX days. However, the outstanding sum was settled by the company in April, 2017.” (2 marks)

Answer 3:

(A)

Circulating Information Contained in Own Website : As per **clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he **solicits clients** or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means. **(2 mark)**

However, the **guidelines approved by the council of the Institute of Chartered Accountants of India permit creation of own website** by a chartered accountant in his or his firm name and **no standard format or restriction on colours is there**. The chartered accountant or firm, as per the guidelines, should ensure that none of the information contained in the website be circulated on their own or through E – mail or by any other mode except on a specific **“Pull” request**. **(2 marks)**

Further, members are not required to intimate the Website address to the Institute. Members are only required to comply with the Website Guidelines issued by the Institute in this regard.

In the given case, Mr. Brilliant has circulated the information contained in the website through E – mail to public at large. Therefore, **he is guilty of professional misconduct** under clause (6) of Part I of the First Schedule to the said Act. However, there is no such misconduct for not intimating website address to the Institute. **(1 mark)**

(B)

Special consideration is required for expressing Disclaimer of Opinion: When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall :

- (i) State that the auditor does not express an opinion on the accompanying financial statements ;
- (ii) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (iii) Amend the statement required in SA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701. **(5 marks)**

Answer 4:

(A)

Emphasis of Matters Para :

- We draw attention to Note XX, regarding certain income – tax demands of Rs. 100 crores pending in various stages of assessments/ appeals. The management based upon expert's advice believes that no demand or liability including interest and penalty on account of settlement of assessment/ appeals of the pending matters by the Income tax authorities is likely to devolve on the Company, in addition to those already provided for in these financial statements. Pending the final outcome of the aforesaid matters, no further adjustments have been made in these financial statements in this regard. **(3 marks)**
- Note XX of the financial statements that as at March 31, 2017, the Company has accumulated losses of Rs. 150 crores against equity of Rs. 100 crores and also net current liabilities of Rs. 35 crores. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern, which is dependent on establishing profitable operations and obtaining continuing financial support from its key shareholders. These mitigating factors have been more fully discussed in Note XX of the accompanying financial statements, in view of which the accompanying financial statements have been prepared under the going concern assumption, and consequently, no further adjustments have been made in these financial statements. Our opinion is not modified in respect of the above matters. **(3 marks)**

(B)

Maintenance of Books of Account by a CA in Practice : Chapter V of the Council General Guidelines, 2008 specifies that a member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his/its professional practice, **proper books of accounts including the following –**

(i) a Cash Book

(ii) a Ledger

(2 marks)

Thus, a Chartered Accountant in practice is required to maintain proper books of accounts.

In the instant case, **CA. Elegant does not maintain proper books of accounts** and writes the fees received from various clients in notes in his mobile. Notes maintained by him in mobile cannot be treated as books of accounts. **(1 mark)**

Hence, CA. Elegant, being a practicing Chartered Accountant will be **held guilty of misconduct** for violation of Council General Guidelines, 2008. **(1 mark)**

Answer 5:

(A)

Soliciting Clients : As per **Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949**, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if **he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means except applying or requesting for or inviting or securing professional work from another chartered accountant in practice and responding to tenders.** **(2 marks)**

Further, **section 140(4)(iii) of the Companies Act, 2013, provides a right, to the retiring auditor, to make representation in writing to the company.** The retiring auditor has the right for his representation to be circulated among the members of the company and to be read out at the meeting. However, **the content of latter should be set out in a dignified manner how he has been acting independently and conscientiously through the term of his office** and may, in addition, indicate, if he so chooses, his willingness to continue as auditor, if re – appointed by the shareholders. **(1 mark)**

Thus, the incorporation as an independent professional, made by CA. Smart, while submitting representation under section 140(4)(iii) of the Companies Act, 2013 and indication of willingness of continue as an auditor if reappointed by shareholders, does not leads to solicitation. **(1 mark)**

Therefore, **CA. Smart will not be held guilty for professional misconduct** under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949. **(1 mark)**

(B)

Disclosure of Information to third Party : Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practices shall be deemed to be guilty of professional misconduct if **he disclose information acquired in the course of his professional engagement to any person other than his client**, without the consent of the client or otherwise than as required by law for the time being in force. **(2 marks)**

SA 200 on “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” also reiterates that, **“the auditor should respect the confidentiality** of information acquired during his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose”. **(2 marks)**

In the instant case, Mr. B is a Chartered Accountant in practice and he was invited to deliver a seminar on GST which was attended by professional as well as by representatives of various industries. During his session, a query was raised on particular issue and Mr. B used the actual data of one of his clients with full identification of client details displayed to explain and elaborate such query. Applying the above provision, the **auditor cannot disclose the information in his possession without specific permission of the client.** Thus, **CA. B will be liable for professional misconduct under clause 1 of Part I of the Second Schedule to the Chartered Accountants Act, 1949.** **(1 mark)**