



# CA Test Series.org (Since 2015)

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Answer Paper	
ADV. Audit & Professional Ethics	Duration: 75
Details: Test – 4	Marks: 40

**Instructions:**

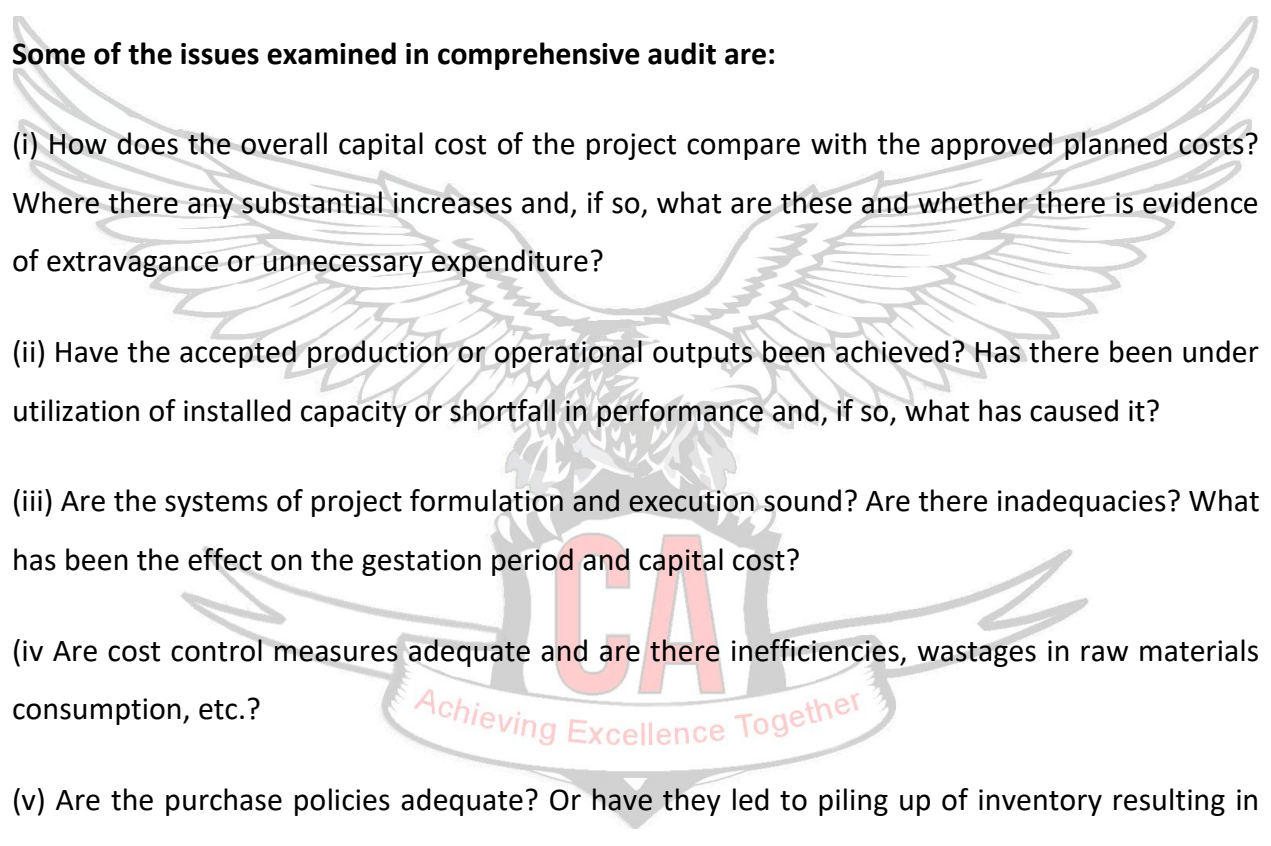
- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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### **ANS-1**

The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. However, in general, the covered areas are those of investment decisions, project formulation, organizational effectiveness, capacity utilization, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems, etc.

#### **Some of the issues examined in comprehensive audit are:**

- 
- (i) How does the overall capital cost of the project compare with the approved planned costs? Where there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
  - (ii) Have the accepted production or operational outputs been achieved? Has there been under utilization of installed capacity or shortfall in performance and, if so, what has caused it?
  - (iii) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
  - (iv) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
  - (v) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
  - (vi) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
  - (vii) Are procedures effective and economical?
  - (viii) Is there any poor or insufficient or inefficient project planning?

(5 marks)

**ANS-2**

**As per amendment** 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 that are applicable for entities other than companies under the Companies Act, 2013;
2. Accounting Standards prescribed under section 133 of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation with the National Financial Reporting Authority (NFRA) and notified as Accounting Standards Rules 2006, as amended from time to time;
3. Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time;
4. 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) Guidelines/ Notifications / Directions / Announcements / Pronouncements / Professional

Standards issued from time to time by the Council or any of its Committees

5. Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for

Assurance engagements;

6. 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.

(6 marks)

### ANS-3

**SA 500 on "Audit Evidence"** discusses the **auditor's responsibility** in relation to and the procedures the auditor should consider in, **using the work of an expert as audit evidence**. During the audit, the auditor may seek to obtain, in conjunction with the client or independently, **audit evidence in the form of reports, opinions, valuations and statements of an expert**, e.g., legal opinions concerning interpretations of agreements, statutes, regulations, notifications, circulars, etc. Before relying on advocate's opinion, the auditor should have seen that opinion given by the expert is **prima facie dependable**.

The question states very clearly that the opinion of the advocate was inconsistent with legal position with regard to certain items. It is, perhaps, quite possible that auditor did not seek reasonable assurance as to the appropriateness of the source data, assumptions and methods used by the expert properly.

In fact, SA 500 makes it incumbent upon the part of the auditor to resolve the inconsistency by discussion with the management and the expert. In case, the experts' work does not support the related representation in the financial information the inconsistency in legal opinions could have been detected by the auditor if he had gone through the same. This seems apparent having regard to wide difference in the liability worked out by the assessing authority. Under the circumstance, the **auditor should have rejected the opinion and insisted upon making proper provision.**

(5 MARKS)

**ANS-4**

Reviewers, based on the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A clean report indicates that the reviewer is of the opinion that the affairs are being conducted in a manner that ensures the quality of services rendered. However, a **reviewer may qualify the report due to one or more of the following**

- non-compliance with technical standards;
- non-compliance with relevant laws and regulations;
- quality control system design deficiency;
- non-compliance with quality control policies and procedures; or
- non-existence of adequate training programmes for staff

(4 marks)

**ANS-5**

**Liability of Auditor:** "It is the auditor's responsibility to audit the statement of accounts and prepare tax returns on the basis of books of accounts produced before him. Also if he is

**satisfied with the books and documents** produced to him, he **can give his opinion** on the basis of those documents only **by exercising requisite skill and care** and observing the laid down audit procedure.

In the instant case, Income tax Officer observed some irregularities during the assessment proceeding of M/s Cloud Ltd. Therefore, he started investigation of books of accounts audited and signed by Mr. Old, a practicing Chartered Accountant. While going through the books, he found that M/s Cloud Ltd. Used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the ICAI saying Mr. Old had negligently performed his duties.

**Mr. Old, the auditor was not under a duty to prepare books of accounts of assessee** and he should, of course, neither suggest nor assist in the preparations of false accounts. He is **responsible for the books produced before him for audit**. He completed his audit work with official set of books only.

In this situation, as Mr. Old, **performed the auditing with due skill and diligence**; and, therefore, **no question of negligence arises**. It is the duty of the Department to himself investigate the truth and correctness of the accounts of the assessee.

**(5 MARKS)**

#### **ANS-6**

**The following steps are involved in the audit of government companies:**

(i) **Appointment of Auditors under Section 139(5) and 139(7) read with section 143(5) of the Companies Act, 2013** - Statutory auditors of Government Companies are appointed or re-appointed by the C&AG. There is thus, a departure from the practice in vogue in the case of private sector companies where appointment or re- appointment of the auditors and their remuneration are decided by the members at the annual general meetings. In the case of



government companies, though the appointment of statutory auditors is done by the C&AG, the remuneration is left to the individual companies to decide based on certain guidelines given by the C&AG in this regard.

(ii) **The C&AG may direct the appointed auditor** on the manner in which the accounts of the Government company are required to be audited and the auditor so appointed has to submit a copy of the audit report to the Comptroller and Auditor-General of India. The report, among other things, includes the directions, if any, issued by the C&AG, the action taken thereon and its impact on the accounts and financial statement of the company. The report under section 143(5) is in addition to the reports issued by the Statutory Auditors under various other clauses of section 143

(iii) **Supplementary audit under section 143(6)(a) of the Companies Act, 2013** –The Comptroller and Auditor-General of India shall **within 60 days** from the date of receipt of the audit report have a right to conduct a supplementary audit of the financial statements of the government 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 C&AG may direct.

(iv) **Comment upon or supplement such Audit Report under section 143(6)(b) of the Companies Act, 2013** - Any comments given by the C&AG upon, or in supplement to, the audit report issued by the statutory auditors **shall be sent by the company to every person entitled** to copies of audited financial statements **under sub- section (1) of section 136** of the said Act 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.

(v) **Test audit under section 143(7) of the Companies Act, 2013** -Without prejudice to the provisions relating to audit and auditor, the C&AG may, in case of any company covered under

**sub-section (5) or sub-section (7) of section 139** of the said Act, 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.

**(5 marks)**

**ANS-7**

1. (c) This may lead to criminal liability wherein every person who authorizes issue of such prospectus shall be liable under section 447 of Companies Act.
2. (d) The time for on-site review should not have extended beyond 7 working days.
3. (d) Stand of Nocri Ltd is wrong as the C&AG may get involved in the audit of Nocri Ltd.

**(2 × 3 = 6 Marks)**

4. (c) Compliance audit.
5. (c) Three members
6. (b) The approach of the auditors looks reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification
7. (d) i), ii), iii), iv)

**(1 × 4 = 4 Marks)**