

Your overall performance is fine. Try hard to achieve more score in exams.
Test - 5

(Professional Ethics, Due-diligence, 30cs)

Q1 As per SA 701, Communicating Key audit matters in auditor's report. It is responsibility of auditor to communicate, as per auditor's judgement, matters of most significance in the audit report.

5 Marks

The factors help in determining the matter in key Audit Matter are

This makes it apparent that you've been giving time to your studies.

- i) areas assessed with high risk of material misstatement as per provision of SA 315
- ii) matters as per mgt's judgement involve significant judgement, e.g. accounting estimate which include a certain amt of uncertainty.
- iii) any significant event or transaction that occurred during the period of audit.

As our audit of revenue involved significant involvement of senior members of audit team. As the company's contract are different from other customer's and are quite complicated. Thus, member can assess high risk of material misstatement in revenue recognition.

Thus, auditor should mention the same in "Key Audit matters" in audit report. The contention of mgt is not correct.

2.5 Marks

Q2. Operational Due Diligence will be helpful to achieve the above objective as due diligence is conducted to find whether there is add. value to be brought out of target company by improving operation function and assess impact serious operational risk.

Content of Due Diligence Report

Elaborate these points in detail for better marks

1. Executive Summary
2. Introduction
3. Objective of Due Diligence
4. Term of due diligence period
5. History of the firm/ company
6. Capital structure of the company and details of shareholding pattern
7. Investments and financial obligations with group/associates companies, amounts receivables subject to litigation, any other likely liability which is not provided for in the books of account
8. Assessment of the management
9. Assessment of financial liability
10. Assessment of valuation of asset
11. Assessment of conduct of operation
12. Assessment of liability due taxation matter
13. Assessment of valuation of assets including comments on properties, terms of leases, lien and encumbrances including status of charges, liens, mortgages, assets and properties of the company.
14. Assessment of net worth of company
15. Recording the liabilities not recorded in books
16. SWOT analysis
17. Reporting any unrecorded claims
18. Conclusion
19. Signature
20. Date and time.

4 Marks

Q2. As per Clause 11, Part I, Second Schedule of Professional Ethics

A CA in practice is deemed to guilty of professional misconduct if he is engaged in any business other than CA unless permitted by Council. However, he can be appointed as director of Company.

This is an exhibition of your competency in this subject.

As per regulations issued by ICAI, a CA in practice may act as Recovery Consultant for a Bank with general permission from the Council.

However, a CA in practice ~~cannot~~ be appointed as MD / WTD of a company ~~other than~~ company where he / his relative or firm has ~~any~~ interest. as auditor

In given case, there are two situations

- whether Mr. D can be appointed as director of HH Ltd.
- whether Mr. D can be appointed as Recovery Consultant of Bank

Mr. D cannot be appointed as director of HH Ltd. as his firm is interested in subsidiary of HH Ltd as auditor. In case he accepts the appointment, he will be guilty of professional misconduct.

Mr. D may accept appointment as Recovery agent of Bank with general permission from Council. He will ~~not~~ be guilty of professional misconduct.

3 Marks

Q4. As per clause (7), Part I, Second Schedule of Professional Ethics

A CA in practice is deemed to be guilty of professional misconduct if he fails to exercise due diligence and is grossly negligent during professional conduct.
Your endurance has paid off.

Also, as per clause (2), Part I, Second Schedule, a CA in practice is deemed to be guilty of professional conduct where he expresses his opinion without examination of relevant documents and information by himself, his employee or his partner.

In given case, Mr. Yuii, gave a clean report without examination of accounts either by himself, his employee or his partner in the firm.

Mr. Yuii, also was professionally grossly negligent by suggesting to include 'order under negotiation' in sales to reflect higher profit and better financial position and even not mentioning same in audit report.

Thus, Mr. Yuii is guilty of professional misconduct under clause 2 and clause 7 of part I of Second Schedule.

5 Technique that can be used for identifying the hidden pattern in the information is
2 Marks Data Mining

Data Mining is the technique which is used to derive information, pattern, analysis from huge voluminous data, transaction etc.

Data mining is done in 3 ways, Discovery, Predictive modelling and Deviation and Cost Analysis.
This is done to form trends, analysis and patterns.

2 Marks

Q6. As per clause 5, Part I, Second Schedule of Professional Ethics

A CA in practice is deemed to be guilty of professional misconduct if he fails to disclose material fact, known to him and non-disclosure of same ~~be~~ affect the decision of interested user of accounts and books of accounts are materially misstated.

This work stands the expectations of an examiner.

In given case, loan taken to meet financial crunch and pay salary to employee is considered material misstatement. CA soft was aware of this material misstatement and did not mention the non-disclosure of same in books of a/c.

He is guilty of professional misconduct.

7 MCQ

1. (c) ✓
2. (b) ✓
3. (c) ✓
4. (a) (b) ✓
5. (d) ✓
6. (c) ✓
7. (d) ✓

10 Marks