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Answer Paper	
ADV. Audit & Professional Ethics	Duration: 75
Details: Test – 1	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

(a) Auditing Planning

Circumstances	Outline audit approach
<p>This is the first year that the firm Has undertaken the audit of Worth Ltd.</p>	<ul style="list-style-type: none">• In order to be satisfied about the previous financial statements the auditor should: <ol style="list-style-type: none">1. Hold consultations with management2. Review client's records, working papers and accounting and control procedures for the previous period3. (Possibly) hold consultations with the previous auditor.4. Be familiarizing with the nature of the business, market, accounting systems etc by discussions with management and by review of interim/management accounts.
<p>Worth Ltd. has</p> <ul style="list-style-type: none">- A head office in Telangana- A factory in Live pool- Ten depots throughout the country	<ul style="list-style-type: none">• The staff must be planned to carry out the audit from the firm's offices throughout the country.• They must all be adequately briefed and provided with a copy of the audit plan detailing their specific tasks and deadlines.

<p>No inventory records have been maintained but a full inventory count is to be carried out at the year end.</p>	<ul style="list-style-type: none"> • It is very important that the auditors are satisfied with the inventory count • The written count instruction must be reviewed well in advance of the year end, so that improvement can be suggested by the auditors and incorporated into the client's instructions. • The auditors should ensure that sufficient staff with the necessary experienced is available to attend the count at all material locations
<p>'L' a major product of the company, has been identified as being potentially dangerous</p>	<p>Ascertain</p> <ul style="list-style-type: none"> - For how long Worth Ltd. has been selling 'L' and in what quantity? - How much 'L' the company now holds in inventory? <p>Ensure that the firm keeps up-to-date with the findings of the government working party.</p> <p>Consider whether any of the employees of Worth Ltd. may have been harmed and, if so, the consequential liability of the company to them.</p>

(4 marks)

(b) Objectives of the audit planning

(i) To ensure that appropriate attention is devoted to important areas of the audit: This is done via a formal written audit plan, laying down the objectives and the procedures to be followed in order to meet those objectives.

(ii) To facilitate review: Work should be delegated to staff with the appropriate level of experience. All work should be properly supervised and reviewed by a more senior member of staff.

(iii) To ensure that potential problems are identified: The auditor must ensure that resources are directed towards material/high risk areas.

(iv) To assist in the proper assignment of work: This may be to members of the audit team or to experts or other auditors. It helps the audit to proceed in a timely and efficient manner

(2 marks)

ANS-2

Reporting requirement under CARO, 2020: Para 3(vi) of CARO, 2020 requires the auditor to comment “whether maintenance of cost records has been specified by the CG u/s 148(1) of the Companies Act, 2013 and whether such accounts and records have been so made and maintained”

The word “made” applies in respect of cost accounts (or cost statements) and the word “maintained” applies in respect of cost records relating to materials, labour, overheads, etc.

The auditor has to report under the clause irrespective of whether a cost audit has been ordered by the Central Government. The auditor should obtain a written representation from the management stating:

(a) whether cost records are required to be maintained for any product(s) or services of the company u/s 148 of the Act, and the Companies (Cost Records and Audit) Rules, 2014; and

(b) Whether cost accounts and records are being made and maintained regularly.

The auditor should also obtain a list of books/records made and maintained in this regard. The Order does not require a detailed examination of such records. The auditor should, therefore, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained. He should, of course, make such reference to the records as is necessary for the purposes of his audit. It is necessary that the extent of the examination made by the auditor is clearly brought out in his report. The following wording is, therefore, suggested:

“We have broadly reviewed the books of account maintained by the company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 148 of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.”

(4 marks)

ANS-3

Relevant section and law

- As per section 141(3)(d)(i) of the Companies Act, 2013
- Rule 10 of Companies (Audit and Auditors) Rules, 2014

Requirement of Relevant section and law

According to Section 141(3)(d)(i) of the Companies Act, 2013 , A person shall not be eligible for appointment as an auditor of a company, who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

Rule 10 of Companies (Audit and Auditors) Rules, 2014 However, as per proviso to this section, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of Rs. 1,00,000. Corrective Action It is also to note that in the event of acquiring any security or interest by a relative above the threshold prescribed, the corrective action to maintain the limits as specified above can be taken by the auditor within 60 days of such acquisition or interest. Relative Further the definition of relative also includes daughter and a daughter's husband. Both are covered in the definition of relative as defined by the Companies Act 2013.

Case discussion

In the instant case, Daughter of Mr. Y purchased the securities on 10th September 2018 of face value of rupees 45,000 and husband of daughter of Mr. Y purchased the securities on 10th of December, 2018 of face value of rupees 90,000. Aggregating the value of holding of securities exceeds the limits mentioned in proviso to section 141(3)(d)(i) i.e. rupees 1,00,000

Conclusion

Thus, the disqualifications will be applicable As the relative/s are holding securities of face value of more than Rs 100,000 and market value is not important. Further, corrective action taken by Husband of Daughter of Mr. Y on 10th March, is also not in accordance with prescribed grace period of 60 days. Therefore, CA.Y will be disqualified for appointment as an auditor of M/s. Z Ltd. as per section 141(3)(d)(i) and he shall vacate his office.

(5 marks)

ANS-4

Improvements to be made in the internal control in this area:

(i) Ensure that all scrap have been put into the bin by the work force. This can be achieved by documenting the scrap generated in every production lot/shift/day.

(ii) Check should be available, that the merchant is paying the best prices for the scrap. This can be achieved by getting a quote periodically from few dealers or getting market price and validation.

(iii) Ensure that quantity collected is paid for this can be achieved by company quantity lifted with the amount paid/quantity for which payment is received.

(iv) An independent official should attend the weighing and the enter in the book.

Key audit procedures under these circumstances to mitigate audit risk: Key audit procedures under these circumstances to mitigate audit risk:

(i) Budget figures should be prepared for waste and compared to actual waste and variance being investigated.

(ii) Compare remittance advices/related quantity and reconcile with the quantity in gate keeper's book.

(iii) Ensure all entries in the weight book are paid for.

(iv) Ensure all remittance matching entries in the cash book.

(v) Review the reasonableness of total scarp sold during the period by comparing with manufacturing records of steel used in processing.

(6 marks)

ANS-5

Relevant section and law

Section 139(8) of the Companies Act, 2013

Requirement of Relevant section and law

Casual Vacancy - 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 30 days.

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 3 months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

Case discussion

In the given case, CA Max, the statutory auditor of Y Ltd. has resigned from the office of auditor. The Board of Directors of Y Ltd. itself appointed CA Mini, a practicing Chartered Accountant, as the statutory auditor till the conclusion of 6th meeting.

Conclusion

Such casual vacancy can be filled by the Board of Directors subject to approval by the company at a general meeting convened within 3 months of the recommendation of the Board.

Thus, the appointment of CA Mini made by the Board of Directors without the approval of the company at a general meeting is invalid.

Further, if appointment is approved by the company, CA Mini cannot hold the office of auditor till the conclusion of 6th meeting i.e. the appointment cannot be made for five years. The auditor can hold office only till the conclusion of the next AGM.

(4 marks)

ANS-6

As per SA 610 Using the Work of Internal Auditor, the external auditor (Statutory Auditor) shall not use internal auditors to provide direct assistance to perform procedures that:

- (a) Involve making significant judgments in the audit;
- (b) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
- (c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or
- (d) Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

In the given case where the valuation of accounts receivable is assessed as an area of higher risk, the statutory auditor could assign the checking of the accuracy of the aging to an internal auditor providing direct assistance. However, because the evaluation of the adequacy of the provision based on the aging would involve more than limited judgment, it would not be appropriate to assign that latter procedure to an internal auditor providing direct assistance.

(5 marks)

ANS-7 CASE STUDY BASED MCQs:-

- 1) (c) The Auditor contends that last year the inventory levels in Kochi was not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk.

2) (b) Control Risk & Detection risk- Control risk due to inappropriate design and ineffective implementation of internal controls and audit detection risk due to possibility of auditor not identifying risk of misstatement.

3) (c) Segregation of Duty

(2×3=6 Marks)

4) GENERAL MCQs:-

i. (c) Narang & Co. needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the valuation service.

ii. (c) Under Clause (ix) of paragraph 3 of the CARO, 2020.

iii. (a) The first auditor of VAS Ltd shall be appointed by the Comptroller and Auditor- General of India within 60 days from the date of registration.

iv. (c) Acceptable but incomplete as CA Mahesh has not given any audit programme to the audit assistants to follow.

(1 × 4 = 4 Marks)