

CA FINAL

TEST-1

Subject:- Audit (SA 300, 400 Series, Company Audit -1, PSU, CARO, PE)

Marks:- 50

Time: - 1 Hour 50 Min

Note: -

- Try to Attempt all questions.
- Solve any 10 Questions.
- Each Question carries equal marks.

Any Two (SA 300 Series)

Q-1 a. Mr. X was appointed as the auditor of M/s Easygo Ltd. and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose.

b. In the course of audit of Z Ltd, its auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of retesting the same during the current audit. As an advisor to the auditor kindly caution him about the factors that may warrant a re-test of controls.

c. While commencing the statutory audit of ABC Company Limited, what should be the considerations of the auditor to assess Risk of Material Misstatement and his response to such risks?

d. What are the points to be considered while evaluating the "Knowledge of the Business" in the conduct of an audit?

e. As the auditor of a large multi locational company, in the planning process, you are requested to identify the inherent audit risk at the account balance and class of transaction level.

Any One SA 400 Series)

Q-2 a. In audit plan for T Ltd, as the audit partner you want to highlight the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements. (PM)

b. When a sub-service organization performs services for a service organization, there are two alternative methods of presenting the description of controls. The service organization determines which method will be used. As a user auditor what information would you obtain about controls at a sub-service organization? (PM)

Any Two (Company Audit-1)

Q-3 a. M/s. PQR has been appointed the sole statutory auditor of a large company for 2014-15, where till last year M/s. LMN was also one of the joint auditors along with M/s. PQR. Mention the steps that should be taken by M/s. PQR before commencing the audit.

b. Mr. Ram, a relative of a Director was appointed as an auditor of the company. Comment. (PM, Nov-2010)

c. While doing the audit, X, the Statutory Auditor of ABC Ltd. observes that certain loans and advances were made without proper securities, certain trade receivables and trade payables were adjusted inter se, and personal expenses were charged to revenue. Comment.

d. Dabloo Ltd. offered appointment as its auditor to Mr. Bee, a practicing Chartered Accountant. Later on, Mr. Dee, the step-brother of Mr. Bee, purchased securities of the company having face value of Rs. 4,99,000. Comment, whether Mr. Bee may accept the offer of appointment as an auditor?

e. MSY & Co. is an Audit Firm having partners CA Mukti, CA Shakti and CA Yukti. CA Mukti, CA Shakti and CA Yukti are holding appointment as an Auditor in 4, 6 and 10 companies respectively. (i) Provide the maximum number of audits remaining in the name of MSY & Co. (ii) Provide the maximum number of audits remaining in the name of individual partner i.e. CA Mukti, CA Shakti, CA Yukti. (iii) Can MSY & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than Rs. 100 crore, 2 small companies and 1 dormant company? (iv) Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of ₹ 110 crore each?

Any Two (CARO-2016)

Q-4. a. Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of ₹ 25 lakhs in December 2014. The company replied to the above notice in January 2015 contending that it is not liable for the levy. No further action was initiated by the central excise department upto the finalization of the audit for the year ended on 31st March, 2015. As the auditor of the company, what is your role in this?

b. Mr. X, Director of ABC Ltd. made a purchase contract for ₹ 10,00,000 with the company. Comment.

c. As a Statutory Auditor, how would you deal with the following: PQR Ltd. has not deposited Provident Fund contribution of ₹ 10 lakhs with the authorities till the year-end?

Any One (PSU)

Q-5. a. Enumerate the right of C&AG of India to conduct a supplementary audit of the financial statement of a company, or comment upon or supplement audit report provided under section 143(6) of the Companies Act, 2013.

b. General principles relating to propriety aspect.

Any Three (Professional Ethics)

Q-6 a. B, a Chartered Accountant in practice is a partner in 3 firms. While printing his personal letter heads, B gave the names of all the firms in which he is a partner.

b. CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA. Ram. He approached CA. Ram to take guidance on some topics of financial management subject related to his course. CA. Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants. However, he forgot to take specific permission for such private tutorship from the Council.

c. K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in the suburbs of Chennai. Due to increase in the income tax assessment work, he opens another office near the income tax office. For running the new office, he has employed a retired income Tax Commissioner.

d. A firm of Chartered Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for their operation system. One of the partners of the firm of chartered accountants was a non-executive director of the company.

Q-1 a.

Reference to SA (1/2 Mark)

SA 320 "Materiality in Planning and Performing an Audit" prescribes the use of Benchmarks in Determining Materiality for the Financial Statements as a Whole.

Defining Benchmarking Process & Explaining Benchmarking Process (1/2 Mark)

Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

5 Factors with examples (4 Marks)

Factors that may affect the identification of an appropriate benchmark include the following:

Shortcut Apple LOVE

- (i) The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
- (ii) Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
- (iii) The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- (iv) The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- (v) The relative volatility of the benchmark.

Q1 b.

Reference to SA (1/2 Mark)

As per SA 330 on "The Auditor's Responses to Assessed Risks", changes may affect the relevance of the audit evidence obtained in previous audits such that there may no longer be a basis for continued reliance.

Explaining Background of Concept & Its application (1/2 Mark)

The auditor's decision on whether to rely on audit evidence obtained in previous audits for control is a matter of professional judgment. In addition, the length of time between retesting such controls is also a matter of professional judgment.

Factors affecting test of controls (4 Marks)

Factors that may warrant a re-test of controls are-

CPM @ MCG

- The effectiveness of **other elements of internal control**, including the Control environment, the entity's monitoring of controls, and the entity's risk assessment process; ***(Poor attitude of management towards internal control system is encouragement to wrong doers)***
- The risks arising from the characteristics of the control, including whether it is **Manual or automated**; ***(Quotation Selection & Issuing PO is subjective matter and depends on approving authority, behaviour can change over period of time)***
- The effectiveness of **General IT-controls**; ***(Purchase entries are ID restricted but people use each other's computer and they know username passwords)***
- The effectiveness of the **control and its application by the entity**, including the nature and extent of deviations in the application of the control noted in previous audits, and whether

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there have been Personnel changes that **significantly affect the application of the control;**
(Purchase & Store Manager Retired at the beginning of the year, they were replaced my new comers)

- Whether the lack of a change in a particular control poses a risk due to **Changing** circumstances; and *(GST)*
- The risks of Material misstatement and the extent of reliance on the control. *(Higher risk less reliance on previous year evidence)*

Q1 c.

Reference to SA (1/2 Mark)

Considerations of Auditor for Assessing the Risk of Material Misstatement: As per SA 315 "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment",

Explaining Background of Concept & Its application (1/2 Mark)

The auditor shall identify and assess the risks of material misstatement at:

- a) The financial statement level; and
- b) The assertion level for classes of transactions, account balances, and disclosures; to provide a basis for designing and performing further audit procedures.

Steps in Identifying & Assessing Risk (2 Marks)

For this purpose, the auditor shall-

- a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements; *(Har information collect karne ke baad risk ke baarein mein sochtein raho)*
- b) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and *(Kahi assertion level pet oh nahi)*
- c) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions; *(Ya financial statement level pet oh nahi)*
- d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement. *(Badi risk toh nahi hai , with big amount and more probability)*

Response to Risk & Designing Audit Procedures (2 Marks)

Auditor's Responses to the Assessed Risk of Material Misstatement: According to SA 330 "The Auditor's Responses to Assessed Risks", the auditor shall design and implement overall responses to address the assessed risks of material misstatement.

In designing the audit procedures to be performed, the auditor shall-

- (i) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including:
 - (1) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure; and
 - (2) Whether the risk assessment takes into account the relevant controls, thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively; and
- (ii) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

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Q1 d.

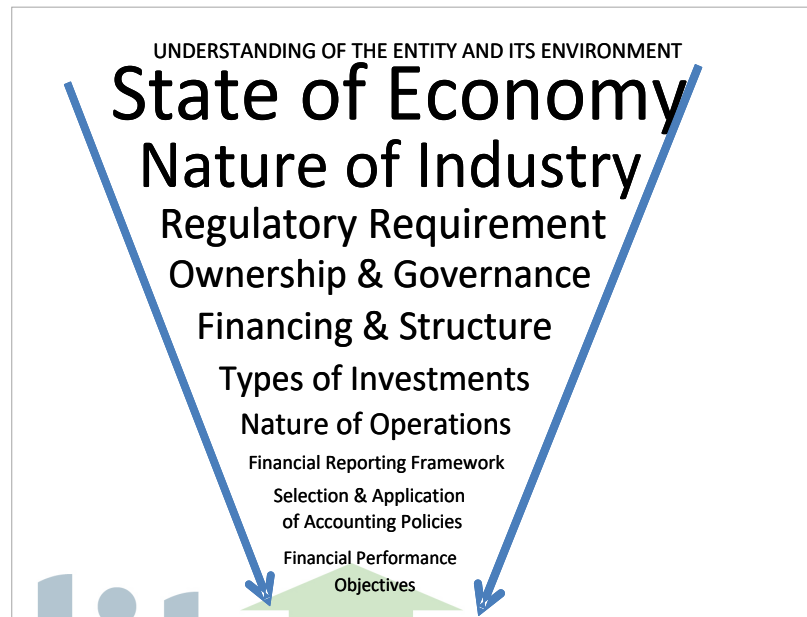
Reference to SA & Background (1/2 Mark)

The broad matters to be considered while obtaining knowledge of business for a new audit assignment are set out in SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment. These are:

Points for which understanding should be obtained (4 & 1/2 Marks)

The auditor shall obtain an understanding of the following:

- a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.
- b) The nature of the entity, including:
 - its operations;
 - its ownership and governance structures;
 - The types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
 - The way that the entity is structured and how it is financed; to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
- c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.
- d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
- e) The measurement and review of the entity's financial performance.



In addition to the importance of knowledge of the client's business in establishing the overall audit plan, such knowledge helps the auditor to identify areas of special audit consideration, to evaluate the reasonableness both of accounting estimates and management representations, and to make judgement regarding the appropriateness of accounting policies and disclosures.

Q1 e.

Reference to SA & Background (1/2 Mark)

Evaluating Risk at the account balance and class of transaction level: As per SA 315 "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment", risk of material misstatement at the assertion level for classes of transactions, account balances, and disclosures need to be considered because such consideration directly assists in

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determining the nature, timing, and extent of further audit procedures at the assertion level necessary to obtain sufficient appropriate audit evidence.

Assertions (2 Marks)

In representing that the financial statements are in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of financial statements and related disclosures. Assertions at different levels are discussed below:

- (a) Assertions about account balances at the period end-
 - (i) Existence—assets, liabilities, and equity interests exist.
 - (iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded.
 - (iv) Valuation and allocation—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
 - (ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

- (b) Assertions about classes of transactions and events for the period under audit-
 - (i) Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.
 - (ii) Completeness—all transactions and events that should have been recorded have been recorded.
 - (iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - (v) Classification—transactions and events have been recorded in the proper accounts.
 - (iv) Cut-off—transactions and events have been recorded in the correct accounting period.

When making assertions about the financial statements of certain entities, especially, for example, where the Government is a major stakeholder, in addition to those assertions mentioned before, management may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of the financial statement audit.

Factors which may lead to Inherent Risk (2 Marks)

To assess inherent risk, the auditor would use professional judgement to evaluate numerous factors, having regard to his experience of the entity from previous audit engagements of the entity, any controls established by management to compensate for a high level of inherent risk, and his knowledge of any significant changes which might have taken place since his last assessment.

Inherent audit risk at the level of Account Balance and Class of Transactions is:

- (i) Quality of the accounting system.
- (ii) Financial statements are likely to be susceptible to misstatement, for example, accounts which required adjustment in the prior period or which involve a high degree of estimation.
- (iii) The complexity of underlying transactions and other events which might require using the work of an expert.
- (iv) The degree of judgement involved in determining account balances.
- (v) Susceptibility of assets to loss or misappropriation, for example, assets which are highly desirable and movable such as cash.

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(vi) The completion of unusual and complex transactions, particularly at or near period end.

(vii) Transactions not subjected to ordinary processing.

Q.2 a

Reference to SA & Background (1 Mark)

According to SA 450 “Evaluation of Misstatements identified during the Audit” , the following are the sources of misstatements arising from other than fraud -

Reasons for Misstatements (4 Marks)

- a) An omission of an amount or disclosure;
- b) An inaccuracy in gathering or processing data from which the financial statements are prepared;
- c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
- d) Selection or Application of accounting policies that the auditor considers inappropriate.
- e) Judgments of management concerning accounting estimate that the auditor considers unreasonable.

Q2 b.

Reference to SA & Background (1 Mark)

Controls at a Sub-Service Organization: In accordance with SA 402 “Audit Considerations relating to an Entity Using a Service Organization”, a user entity may use a service organization that in turn uses a sub-service organization to provide some of the services provided to a user entity that are part of the user entity’s information system relevant to financial reporting. The sub-service organization may be a separate entity from the service organization or may be related to the service organization. A user auditor may need to consider controls at the sub-service organization.

Nature of Services / Materiality / Interaction of Sub Service Organisation to be Included (1 Mark)

In situations where one or more sub-service organizations are used, the interaction between the activities of the user entity and those of the service organization is expanded to include the interaction between the user entity, the service organization and the sub-service organizations. The degree of this interaction, as well as the nature and materiality of the transactions processed by the service organization and the sub-service organizations are the most important factors for the user auditor to consider in determining the significance of the service organization’s and sub-service organization’s controls to the user entity’s controls.

Further, the user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity’s internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement.

Type 1 / 2 Report (1 Mark)

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding by application of the following two methods of presenting description of internal controls i.e. (i) Type 1 report; or (ii) Type 2 report.

Inclusive Vs Carve Out Method (1 Mark)

If a service organization uses a subservice organization, the service auditor's report may either include or exclude the subservice organization's relevant control objectives and related controls in the service organization's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method respectively.

Consequence of Carve Out Method (1 Mark)

In either method, the service organization includes in its description of controls a description of the functions and nature of the processing performed by the subservice organization. If the Type 1 or Type 2 report excludes the control at a subservice organization and the services provided by the subservice organization are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of the SA 402 in respect of the subservice organization.

The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organization depend on the nature and significance of those services to the user entity and relevance of those services to the audit.

Q-3 a.

Explaining Situation & Applicability of Sec 140 for Removal at AGM (1/2 Mark)

When one of the joint auditors of the previous year is considered for ratification by the members as the sole auditor for the next year, it is similar to non re-appointment of one of the retiring joint auditors. The provisions of section 140 of the Companies Act, 2013 (hereinafter referred as the Act) relating to non-reappointment of the retiring auditor need to be considered.

Special Notice

As per sub-section 4 of section 140 of the Act, special notice shall be required for a resolution at an annual general meeting appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed, except where the retiring auditor has completed a consecutive tenure of five years or, as the case may be, ten years, as provided under sub-section (2) of section 139 of the Act.

Checking Compliance of Sec 140 (2 & 1/2 Marks)

The following steps should be taken care of by M/s. PQR before commencing the audit:

- (i) Ascertain that special notice under Section 140(4) of the Act was duly received by the company, from such number of members holding not less than one percent of total voting power or holding shares on which an aggregate sum of not less than five lakh rupees has been paid up on the date of the notice, not earlier than three months but at least 14 days before the AGM date as per Section 115 of the Act read with the Companies (Management and Administration) Rules, 2014.
- (ii) Check whether the said notice has been sent to all the members at least 7 days before the date of the AGM as per Section 115 of the Act.
- (iii) Verify the notice contains an express intention of a member for proposing the resolution for appointing a sole auditor in place of both the joint auditors who retire at the meeting but are eligible for re-appointment.
- (iv) Verify that the said notice is also sent to the retiring auditor as per Section 140(4)(ii) of the Act.
- (v) Verify whether any representation received from the retiring auditor was sent to the members of the company to whom notice of the meeting was sent as per Section 140(4)(iii) of the Act.
- (vi) Verify from the minutes book whether the representation received from the retiring joint auditor was considered at the AGM.
- (vii) Examine that proposed resolution was properly passed.

Professional Ethics (CA Act) (1/2 Mark)

Further, Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant without first communicating with him in

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writing. Moreover, Clause (9) of Part I of the same Schedule, provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Sections 224 and 225 of the Companies Act, 1956 (now Section 139 and 140 read with section 141 of the Companies Act, 2013), in respect of such appointment have been duly complied with.

Conclusion (1/2 Mark)

Therefore, M/s PQR is required to comply with all the above mentioned provisions provided under Companies Act and Chartered Accountant Act before commencing the audit.

Q-3 b.

Sec 141 Disqualification (1 & ½ Marks)

Appointment of the Auditor: Section 141 of the Companies Act 2013 (herein after referred as the Act) deals with the eligibility, qualifications and disqualifications of Auditors. Sub-section (3)(f) of the Section 141 of the Act, explicitly disqualifies a person from being appointed as an auditor of a company whose relative is a director or is in the employment of the company as a director or key managerial personnel.

Professional Ethics Council Guidelines 2008 (1 & ½ Marks)

Further, as per Council Guidelines, 2008 a member of the institute shall desist from expressing his opinion on financial statements of any business or enterprise in which one or more persons, who are his relatives within the meaning of AS-18, have either by themselves or in conjunction with such member, a substantial interest in the said business or enterprise. Therefore, if the director has substantial interest in the company then his relative should not accept the appointment of auditor of that company.

Case Discussion & Conclusion (2 Marks)

In the instant case, Mr. Ram is the relative of a Director of the company, therefore, he should not accept the appointment as an auditor of that company. If he accepts such appointment, he would be guilty of professional misconduct and would also be liable for punishment for contravention of the provisions of the Companies Act.

Q-3 c.

Inquiry under Sec 143 (1) (1/2 Mark)

Section 143(1) of the Companies Act, 2013 requires the auditor to make an enquiry in respect of specified matters during the course of his audit. Since the law requires the auditor to make an enquiry, the Institute opined that the auditor is not required to report on the matters specified in sub-section (1) unless he has any special comments to make on any of the items referred to therein. If the auditor is satisfied as a result of the enquiries, he has no further duty to report that he is so satisfied. It is to be noted that the auditor is required to make only enquiries and not investigate into the matters referred to therein.

Clause on Loans & Advances & its Reporting (1 & ½ Marks)

Clause (a) of Section 143(1) requires the auditor to inquire: "Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members".

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If the auditor finds that the loans and advances have not been properly secured, he may enter an adverse comment in the report but cannot probably doubt the true view of the accounts by reference to this fact so long the loans and advances are properly described and presented in terms of Part I of Schedule III to the Companies Act. Further the auditor to inquire whether or not the terms on which the loans or advances have been made are prejudicial to the interests of the company or its members. If it is, he should qualify his report.

Clause on Mere Book Entries & Its Reporting (1 & ½ Marks)

If trade receivables and trade payables are adjusted inter se, this amounts to merely book entries. The auditor, as per clause (b) of section 143(1), should enquire "whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company". This proposition has got to be inquired into by reference to the effects of the book entries, unsupported by transactions, on the legitimate interests of the company. The auditor has to exercise his judgment based on certain objective standards".

Clause on Personal Expenses & Its Reporting (1 & ½ Marks)

Regarding Personal Expenses, Clause (e) of section 143(1) requires the auditor to inquire: "Whether personal expenses have been charged to revenue account". The charging to revenue of such personal expenses, either on the basis of the company's contractual obligations, or in accordance with accepted business practice, is perfectly normal and legitimate or does not call for any special comment by the auditor. Where, however, personal expenses not covered by contractual obligations or by accepted business practice are incurred by the company and charged to revenue account, it would be the duty of the auditor to report thereon. It suffices to say that if the auditor finds that personal expenses have been charged to revenue and if the amounts are material, he should qualify his report also.

In the instant case, Mr. X, the statutory auditor of ABC Ltd., needs to enquire in light of above provisions, as a result of the enquiries if he is satisfied then there is no further duty to report on these matters.

Q-3 d.

Holding of Securities by Relative: According to section 141(3)(d)(i) of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rule, 2014, a person is disqualified to be appointed as an auditor if he, or his relative or partner 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.

However, as per the 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. Further, the term "relative" as defined under the Companies Act, 2013 includes step- brother. In the present situation, Mr. Dee, the step-brother of Mr. Bee, is holding the securities having face value of Rs. 4,99,000 in Dabloo Ltd. It may be noted that step-brother is included in the definition of the term "relative" as per the Companies Act, 2013. Thus, holding of securities in Dabloo Ltd. by Mr. Dee having face value exceeding Rs. 1,00,000, will disqualify Mr. Bee from being appointed as an auditor of Dabloo Ltd.

Therefore, Mr. Bee may not accept the offer of appointment as an auditor of Dabloo Ltd.

Q-3 e.

Sec 141 Ceiling Limit (1/2 Mark)

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Ceiling on Number of Audit: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than Rs. 100 crore.

Ceiling Limit of Firm(1/2 Mark)

As per section 141(3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 3 partners, the overall ceiling will be $3 \times 20 = 60$ company audits. Sometimes, a chartered accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Limit Used (1 Mark)

In the given case, CA Mukti is holding appointment in 4 companies, whereas CA Shakti is having appointment in 6 Companies and CA Yukti is having appointment in 10 Companies. In aggregate all three partners are having 20 audits.

Remaining Limit(1 Mark)

(i) Therefore, MSY & Co. can hold appointment as an auditor of 40 more companies:

Total Number of Audits available to the Firm = $20 \times 3 = 60$

Number of Audits already taken by all the partners

in their individual capacity = $4 + 6 + 10 = 20$

Remaining number of Audits available to the Firm = 40

(ii) With reference to above provisions an auditor can hold more appointment as auditor = ceiling limit as per section 141(3)(g) - already holding appointments as an auditor. Hence (1) CA Mukti can hold: $20 - 4 = 16$ more audits. (2) CA Shakti can hold $20 - 6 = 14$ more audits and (3) CA Yukti can hold $20 - 10 = 10$ more audits.

Exclusion from Counting (1 Marks)

(iii) In view of above discussed provisions MSY & Co. can hold appointment as an auditor in all the 60 private companies having paid-up share capital less than Rs. 100 crore, 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.

Accepting Audits

(iv) As per fact of the case, MSY & Co. is already having 20 company audits and they can also accept 40 more company audits. In addition, they can also conduct the audit of one person companies, small companies, dormant companies and private companies having paid up share capital less than rupees 100 crores. So they can accept all audits offered.

Accepting Audits If Paid up Capital is 110 Crores

In the given case, out of the 60 private companies, MSY & Co. is offered 45 companies having paid-up share capital of ` 110 crore each.

Therefore, MSY & Co. can also accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than Rs. 100 crore and 40 private companies having paid-up share capital of ` 110 crore each in addition to above 20 company audits already holding.

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So they will have to forego 5 audits of private company where paid up capital is 110 Crores

Q-4. a

CARO (2 Marks)

Furthermore, the auditor's report under section 143 of the Companies Act, 2013 has to specifically include certain matters specified in Para 3 of CARO, 2015. One of such matter is non-payment of dues to Government, on account of any dispute. As per clause (vii)(b) of Para 3 of CARO, 2015, in case dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

Not a Dispute (1 Mark)

In the present case of Big and Small Ltd., issuance of show cause notice by Excise Department does not tantamount to demand payable by the Company. In so far as the Company has replied to the notice and no further correspondence was received from the Department.

SA 250 Laws having Direct Effect (1/2 Mark)

Compliance of Laws and Regulations & Reporting Requirements: As per SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statement", the auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements including tax and labour laws.

SA 250 Non-Compliance (1 Mark)

During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected noncompliance with laws and regulations to the auditor's attention. Then the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. In case, if the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statements.

Indication of Non Compliance (1/2 Mark)

This show cause notice may be an alert or indication of non-compliance for the auditor. So auditor need to discuss with management and apply additional procedure. If the auditor concludes that there is non-compliance then provision for the same should be made as per AS 29. The auditor should also report the amount of dues not deposited on account of dispute and the forum where dispute is pending, in his audit report. If the management does not accept the request, the auditor should qualify the audit report accordingly or vice versa.

AS 29

Further, as per AS 29 "Provisions, Contingent liabilities and Contingent Assets", future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that the event will occur.

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Q-4 b.

Sec 188 (2 Mark)

As per Section 188 of the Companies Act, 2013, no company shall enter into any contract or arrangement with a related party to sale, purchase or supply of any goods or materials, except with the consent of the Board of Directors given by a resolution at a Board Meeting. Further, it is provided that no contract or arrangement, in the case of a company having specified paid-up share capital, or transactions exceeding prescribed sum, shall be entered into except with the prior approval of the company by a special resolution.

The contracts referred to in section 188 are for sale, purchase or supply of any goods, materials or services and contract of underwriting the subscription of any securities or derivatives of the company between a Company and its director or, its relative, a firm in which the director or relative is a partner, any other partner in such a firm or a private company of which the director is a member or director. The auditor will have to obtain the list of such parties which are covered by section 188 mentioned above.

Sec 189 (1 & ½ Mark)

The contracts or arrangements mentioned above are those for which the register(s) are maintained under section 189 of the Companies Act, 2013. The scope of the auditor's inquiry under this clause is restricted to such transactions referred to in sections 184 and 188 of the Act.

CARO (1 & ½ Mark)

Reporting under CARO Clause 13, Whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards

Hence, the auditor should ensure that all the above mentioned provisions have been complied with.

Q-4 c.

CARO (2 Marks)

The auditor is, therefore, required to report under clause (vii)(a) of Para 3 of CARO, 2015 whether the company is regular in depositing undisputed statutory dues including provident fund with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.

Sec 128 Accrual Basis & Not Payment Basis (1/2 Mark)

Further, as per Section 128 of the Companies Act, 2013, a company has to maintain proper books of account on accrual basis and according to the double entry system of accounting.

Sec 43B Payment Basis Deduction (1/2 Mark)

Additionally, as per Section 43B of the Income Tax Act, 1961, there are certain expenses, which includes any sum payable by the assessee as an employer by way of contribution to any provident fund, which are allowed only on its actual payment.

SA 250 Laws Management Responsibility (1/2 Mark)

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Non-Compliance of Laws and Regulations & Reporting Requirements: As per SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statement", it is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

SA 250 Auditor Responsibility (1/2 Mark)

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.

If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statements.

Conclusion (1 Mark)

In the instant case, even though accrual principles have been followed, disclosure of non-payment is necessary. The auditor should disclose the fact of non-payment of ` 10 lakhs in his report.

Q-5 a.

Sec 143 (1 Mark)

Right of C&AG of India under section 143(6) of the Companies Act, 2013:

According to section 143(6) of the Companies Act, 2013, the Comptroller and Auditor-General of India shall within sixty days from the date of receipt of the audit report have a right to,

Supplementary Audit (2 Marks)

- (i) conduct a supplementary audit 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 authorized,
- (ii) on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and

Comment or Supplement Audit Report (2 Marks)

- (iii) comment upon or supplement such audit report.

It may be noted 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 sub-section (1) of section 136 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.

b. General principles to be confirmed by Propriety

Propriety Audit (1 Mark)

Principles: - Propriety requires the transactions, and more particularly expenditure, to conform to certain general principles.

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Each Point (1 Mark)

These principles are:

- that the expenditure is **not prima facie more than the occasion demands** (*Eg Car of 1 crore for MPs*) and that every official exercise the **same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money**; (*Eg 50 cars were ordered without quotations*)
- that the authority exercises its power of sanctioning expenditure to pass an order which **will not directly or indirectly accrue to its own advantage**; (*Eg Cars were used by government employees or given for rent*)
- that funds are not utilized for the **benefit of a particular person or group of persons** and (*Eg Benefit was given only to ruling parties*)
- that, apart from the agreed remuneration or reward, no other avenue is kept open to **indirectly benefit the management personnel, employees and others**. (*Eg Bribes were paid to government employees*)

Q-6 a.

PE Clause Number & Clause (3 Marks)

Advertisement of Professional Attainments: Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits advertising of professional attainments or services of a member. It also 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. Even a member is not permitted to specify the date of setting up of practice or establishment of firm.

Case Discussion & Conclusion (2 Marks)

However, there is no prohibition for printing names of all the three firms on the personal letterheads in which a member holding Certificate of Practice is a partner. Thus B is not guilty of any misconduct under the Chartered Accountants Act, 1949.

6 b.

PE Clause Number & Clause (2 Marks)

Permission for Providing Private Tutorship: As per Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

General Permission Vs Specific Permission (1 Marks)

Further, regulation 190A of the Chartered Accountants Regulation, 1988 provides that a Chartered Accountant in practice shall not engage in any other business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the Council. According to the same there is no specific permission from the council would be necessary in the case of private tutorship.

Case Discussion & Conclusion (2 Marks)

In the given case, CA. Ram has started providing private tutorship to Mr. Ratan along with some other aspirants, without obtaining specific or prior approval of the Council.

CA Ravi Taori

On this context, it may be noted that the Council has provided general permission for providing such private tutorship. Therefore, CA. Ram would not be held guilty of professional misconduct under Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Q6 c.

Sec 27 (1 Marks)

Maintenance of Branch Office in the Same City: As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute.

Second Office Exemption (1 Marks)

However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 Kilometers from the municipal limits of a city, in which the first office is located.

Assumption / Discussion & Conclusion (3 Marks)

In the given case, Mr. K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in suburbs of Chennai, and due to increase in the work he opened another branch near the income tax office. He also employed the income tax commissioner to run the new office.

Assuming that the second office is situated within a distance of 50 Kms from municipal limits, there will be no misconduct if Mr. K will be in charge of both the offices, however, he will be liable to declare which of the two offices is the main office.

Alternative View

Note: Alternative view is possible on the assumption that distance of both the office is more than 50 Km, Hence, Mr. K will be liable for misconduct under section 27 of the Chartered Accountant Act, 1949.

d.

PE Clause Number & Clause (2 Marks)

Expression of Opinion on Financial Statements: Clause 4 of Part I of the Second Schedule to Chartered Accountants Act, 1949, states that expressing an opinion on financial statements of any business or any enterprise in which the auditor, his firm or a partner in his firm has a substantial interest would constitute misconduct. Also, the Council of the Institute of Chartered Accountants of India has stated that in cases where a member of the Institute is a director of a company, or the firm in which the said member is a partner, should not express any opinion on its financial statements.

Case Discussion- Management Consultancy (2 Marks)

As per facts of the case, the firm has been retained to evaluate the cost of products manufactured by it for its information system. It is a part of management consultancy service of the firm and moreover its partner was on the Board.

Conclusion (1 Mark)

Hence, the firm can perform this assignment and it will not constitute misconduct. However, the firm while accepting the position as auditor in future would have to consider whether it would be possible to act in independent manner and express opinion on financial statements.