

CA – Final

Paper – 3 “Advanced Auditing & Professional Ethics (MTP 1)”

M.M.: 15

Time allowed: 25 Mins.

Instructions: All Questions are compulsory.

Division A – Multiple Choice Questions		
		Marks
Case Scenario 1		
Q.1	<p>BMV LLP, a firm of Chartered Accountants has various divisions/verticals. Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMV LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not a positive evidence of delivery and violates the code of ethics, if the firm accepts the audit assignment.</p> <p>With respect to the dilemma being faced by Mr. B partner of the firm regarding acknowledgment of the communication from the retiring auditor's vide their official email is not a positive evidence of delivery:</p> <p>(a) The dilemma of Mr. B is correct as it is not a positive evidence of delivery.</p> <p>(b) The dilemma of Mr. B is not correct as it is a positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the code of ethics.</p> <p>(c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.</p> <p>(d) The dilemma of Mr. B is correct as the email address of the outgoing auditor vide which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.</p>	2
Q.2	<p>On 27th August 2022, Mr. Jambu, the auditor of Sidharth Ltd. had resigned from his post, citing personal reasons. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of Maniprabh & Co. Chartered Accountants as statutory auditors of Sidharth Ltd. As a part of the terms and conditions of appointment as auditors, Maniprabh & Co. agreed for the following:</p> <p>(a) Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company (however, Mr. Jambu had agreed to charge only ₹ 45,000/-),</p> <p>(b) Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd.</p>	2

	<p>Another partner of the firm, Mr. Shantinath, who is also responsible for signing the financials statements of Sidharth Ltd. was also engaged in the teaching profession during his free time approx 3 to 4 hours weekly.</p> <p>Which among the below are permitted as per Chartered Accountants Act, 1949:</p> <p>(i) Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company.</p> <p>(ii) Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd.</p> <p>(iii) Mr. Shantinath, one of the partners who is responsible to sign the financials of Sidharth Ltd. was into teaching profession during his free time approx. 5 hours weekly.</p> <p>(a) (i) & (ii)</p> <p>(b) (iii) only</p> <p>(c) (ii) & (iii)</p> <p>(d) (i), (ii) & (iii)</p>	
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DIVISION B – DESCRIPTIVE QUESTION

- Q.1 Mr. B K Gupta is the Managing Director of Beta Ltd., a company set up just 3 years ago and is growing rapidly in the field of Heavy Electronics and equipment. He approached CA Kumar Mishra, who got qualified 7 years back as a CA and is practicing successfully in the field of auditing and taxation. CA Kumar is also duly appointed as the Statutory Auditor of the Company and he conducts the audit of Beta Ltd. for the Financial Year 2022-23. 3**
- Mr. Dutta, one of the Directors, requests CA Kumar to not strictly adhere to such standards while carrying out the audit of their company as he is scared of some serious qualifications that CA Kumar would have to give in his Audit Report, if he follows such standards to which CA Kumar replies, “Mr. Dutta! There are many Professional responsibilities envisaged upon me as a member of the Institute of Chartered Accountants of India under the Chartered Accountants Act, 1949 and certain Disciplinary Proceedings may be initiated against me under if I don’t perform my duties as per such Standards and other accepted statements owing to a linkage between the SA’s and Disciplinary Proceedings”.**
- Comment on the reply given by CA Kumar to Mr. Dutta in response to his request of not following Standards on Auditing while carrying out the audit of their Company in terms of provisions of the Chartered Accountants Act, 1949.**

- Q.2** Mr. X is a knowledgeable Chartered Accountant and appointed as a partner in an established firm of Chartered Accountants based out of Mumbai. His firm added a new client, "Sunshine Cot Spin Ltd" (SCSL), a family owned, closely held, Public Limited Company, located at Pune to act as the Statutory Auditors of the Company and audit the books of accounts of the Company for the financial year 2022-23. The Audit firm's Senior Partner, CA. Sriman Narayan, has allocated the client to Mr. X to conduct the audit. 4

Before the commencement of the audit, Mr. X reviewed the Company's audited accounts of the previous year. He noticed that the Auditors Report was qualified due to non-compliance with a mandatory accounting standard with respect to valuation of a high valued property that the Company owns. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with the accounting standard. At this point, he made a telephonic conversation with the previous auditor informing them about his firm's appointment as auditor and also discussed the qualification in the previous audit report.

With reference to the case study, comment on whether communication made with the previous auditor is in line with relevant clause of Schedule to the Chartered Accountants Act, 1949 and Code of Ethics.

- Q.3** Mr. Sheetal is a practicing chartered accountant. Due to natural calamities and misfortune during the year 2021, he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 2023, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto, (especially from the point of section 8: Entry of name in Register of Members). 4



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