

CA – Final

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

Division A – Multiple Choice Questions

Marks

- Q.1** (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. 2
- Q.2** (c) (ii) & (iii) 2

DIVISION B – DESCRIPTIVE QUESTION

Q.1 The SAs (as well as other statements on auditing) represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with these statements and fails to disclose the material departures there from, becomes liable to the disciplinary proceedings of the Institute as follow:

- (a) Under Clause 5 of Part I of the Second Schedule to the Chartered Accountants Act, 1949, according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.
- (b) Under Clause 7 of Part I of the Second Schedule to the Chartered Accountants Act, 1949 according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
- (c) Under Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, according to which a member of the Institute engaged into practice shall be guilty of professional misconduct if he “fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances”.

1 Mark
for each
Point

Q.2 Communication with the predecessor auditor:

- As per Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor without first communicating with him in writing.
- It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the inquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

3 Marks

- In the given situation, the incoming auditor has informed the previous auditor about their appointment and discussed about the qualifications given in audit report over telephone. Mere informing about appointment over telephone instead of writing is not correct in accordance with Clause 8.

Conclusion: Incoming auditor would be held guilty of professional misconduct under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 for not communicating with previous auditor in writing.

1 Mark

Q.3 Disabilities for the Purpose of Membership:

- As per Sec. 8 of the Chartered Accountants Act, 1949 a person is debarred from having his name entered in or borne on the Register of Members, if he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part.
- Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in the Register until the expiry of such period. In addition, failure on the part of a person to disclose the fact that he suffers from any one of the disabilities would constitute professional misconduct. The name of the person, who is found to have been subject at any time to any of the disabilities discussed in section 8, can be removed from the Register of Members by the Council.
- In the given case, it is clearly stated that Mr. Sheetal was discharged insolvent, and he has also obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part.

3 Marks

Conclusion: Mr. Sheetal has not violated the provisions of Section 8, and he is not debarred from having his name entered in the Register of Members.

1 Mark

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