SUGGESTED ANSWERS, MAY 2019-OLD SYLLABUS

Please see question wise source analysis at the end.

Q.1 Answer the following

(a) As an auditor of a listed company for the year ended 31St March 2019, how would you determine the 'Key Audit Matters' ? (5 Marks)

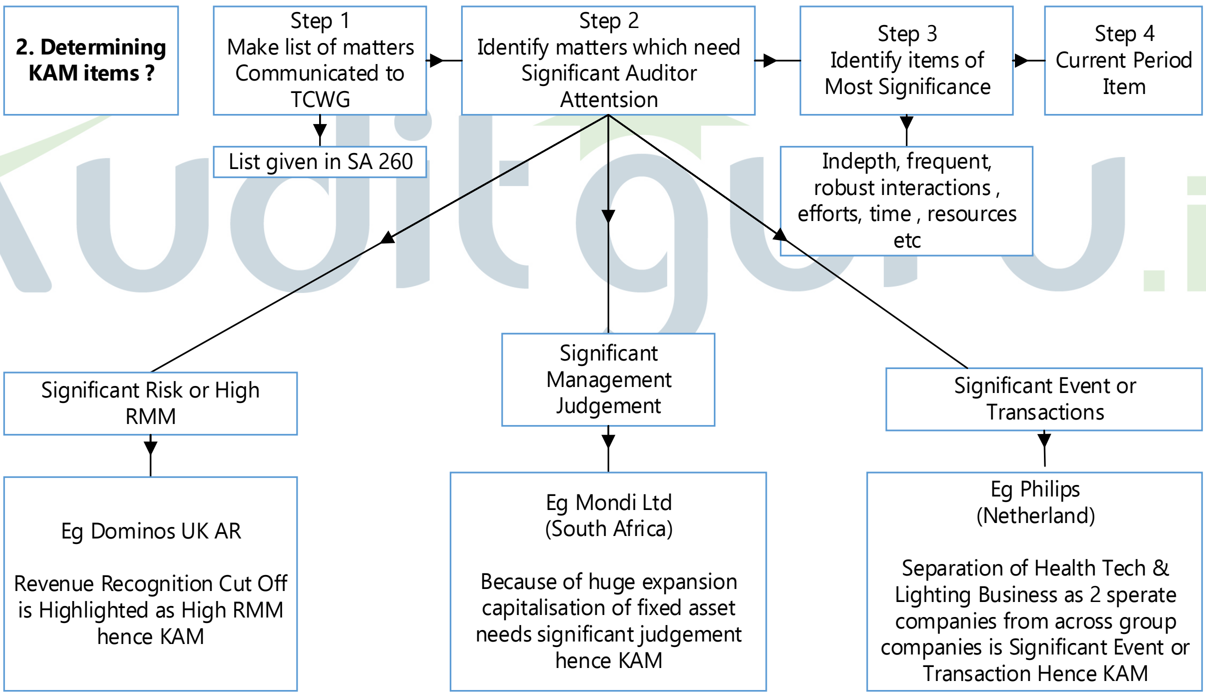
Answer:-

Factors determining Key Audit Matters: As per SA 701 "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

(i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.

(ii) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

(iii) The effect on the audit of significant events or transactions that occurred during the period.



(b) As the auditor appointed under the GST Act, 2017, how would you verify 'Unbilled transactions at the beginning of the financial year? (5 Marks)

Answer:-

Unbilled revenue is the revenue recognized in the books of accounts before the issue of an invoice at the end of a particular period. Accounting Standard- 9 / IND AS 115 provides for recognition of revenue on full completion / partial completion of the services though the due date for issuing invoice as per the contract would be on a later date.

Clause 5B requires the addition of unbilled revenue at the beginning of a Financial Year. Unbilled revenue which was recorded in the books of accounts on the basis of accrual system of accounting in the earlier financial year for which the invoice is issued under the GST law is required to be declared here. In other words, when GST is payable during the financial year on such revenue (which was recognized as income in the earlier

year), the value of such revenue is to be declared here.
Unbilled revenue would appear in the profit and loss account of the previous year. For information of unbilled revenue at the beginning of a Financial Year, reference may be made to previous year's audited financial statements

(c) Enumerate the Operating conditions of an entity that may cast significant doubt on the entity's ability to continue as a "Going Concern". (4 Marks)

Answer:-

- **Evaluating Going Concern Assumption:** Events or Conditions that individually or collectively may cast significant doubt about Going concern / List is not all-inclusive nor does existence of one or more items signify material uncertainty.

  The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

- **Operating Events or Conditions-** In Sequence of Business Process Management Intention to Liquidate or Cease Operations / Supply Shortage / Loss of KMP without replacement / Labour Difficulties / Loss of Major Market or Customer / Emergence of highly successful competitor
  1. Management intentions to liquidate the entity or to cease operations. (**E.g.** Start-up's)
  2. Shortages of important supplies. (**E.g.** Power Generating Plants)
  3. Loss of key management without replacement.
  4. Labour difficulties.
  5. Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
  6. Emergence of a highly successful competitor. (**E.g.** Milk Butter Vs Peanut Butter)

Q.2 Answer the following

(a) You have been appointed as an auditor of M/s Excellent Hotels Ltd. As a senior partner, you want to use analytical procedures in respect of room rentals as well as payroll expenses. Discuss. (5 Marks)

Answer:-

- **Predictive Model: -** Unsophisticated predictive models can be effective
  As per SA 520 in some cases, even an unsophisticated predictive model may be effective as an analytical procedure.

- **Payroll Cost: -** If numbers of employees are known and there is fixed rate of pay, auditor can predict total payroll cost and compare it with actual payroll cost as presented in P&L. Reducing need to perform test of details.

- **In case of Payroll cost-** Where an entity has a known number of employees at fixed rates of pay throughout the period, it may be possible for the auditor to use this data to estimate the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the financial statements and reducing the need to perform tests of details on the payroll.

- **Room Rental Income: -** Predicted Total Room Rental Income = Total Rooms (1-Vacancy Rates) x Room Tariff / If actual room rental are near to this predicted rentals then it gives lot of assurance about room income / this can reduce test of details on room rental / different analytical procedures give different level of assurance for eg comparing growth of room rentals with nearby property will give less assurance as it may different circumstances all together.

- **In case of Room Rental Income of Hotel-** Different types of analytical procedures provide different levels of assurance. Analytical procedures involving the prediction of total rental income in case of Hotel taking the room tariff rates, the number of rooms and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified.

(b)	**The Directors and senior management of a listed company of which you are the statutory auditor, want to know their obligations under the SEBI Regulations in regard to Board or Non-Executive Directors. (Mention any five) (5 Marks)**

Answer:-

Obligations of Directors & Senior Management

- **(Discloser of Shareholding by Non-Executive Directors)**
  Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed entity in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

- **(Senior Manager Disclosure)**
  Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

- **(Max Directorships)**
  A director shall not be a member in more than 10 committees or act as Chairperson of more than 5 committees across all listed entities in which he is a director. Furthermore, every director shall inform the listed entity about the committee positions he occupies in other listed entities and notify changes as and when they take place. It may be noted that for the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 8 of the Companies Act, 2013 shall be excluded and for the purpose of reckoning the limit under this subclause, Chairpersonship/membership of the Audit Committee and the Stakeholders' Relationship Committee alone shall be considered.

- **(BOD Meetings)**
  The Board shall meet atleast four times a year, with a maximum time gap of one hundred and twenty days between any two meetings.

- **(Review Compliance Reports)**
  The Board shall periodically review compliance reports of all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.

- **(Liability of Independent Director)**
  An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently with respect of the provisions contained in the LODR Regulations.

- **(Notice Period of Independent Director)**
  An independent director who resigns or is removed from the Board of Directors of the listed entity shall be replaced by a new independent director at the earliest but not later than the immediate next Board meeting or three months from the date of such vacancy, whichever is later.

  Provided that where the listed entity fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.

- **(Succession of BOD / Senior Management)**
  The Board of Directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.

(c)	**A Chartered Accountant in practice, empanelled as an Insolvency Professional (IP) has mentioned the same on his visiting cards, letter heads and other communications also. A person residing in his neighbourhood, has filed a complaint for professional misconduct**

against the said member for such mention of IP. You are required to examine the same with reference to The Chartered Accountants Act, 1949. (4 Marks)

Answer:-

As per the Clause 7 of Part 1 of the First Schedule, if any Chartered Accountant advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the ICAI of any other institution that has been recognized by the Central Government or may be recognized by the council, will be guilty of professional misconduct.

Here A Chartered Accountant empanelled as IP (Insolvency Professional) can mention 'Insolvency Professional' on his visiting cards, Letter heads and other communication, as this is a title recognised by the Central Government in terms of Clause-7 of Part-1 of First Schedule to the Chartered Accountants Act, 1949. Thus, complaint of neighbour is not enforceable/valid.

Q.3 Answer the following

(a) M/s ABC & Co, LLP are appointed auditors of Sharp Company Ltd for the year ended 31St March 2019. As part of the audit process, they want to use confirmation procedures as audit evidence during the Course of audit. In view of the fact that positive confirmations are not responded favorably, the firm also intends to use negative confirmation requests. What are the factors to be considered for the same? (7 Marks)

Answer:-

Negative Confirmation Request:- A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Situation where it should be used:

- Assessed the RMM is low (cash balances with agents)
- Controls relevant to assertion are operating effectively (Proper records & daily reporting)
- Comprises a large number of small, homogeneous items (all cash balances)
- Very low exception rate is expected (mismatch)
- Not aware of circumstances or conditions that would cause recipients of negative confirmation to disregard request (reliable & old).

(b) M/s LMP Associates, Chartered Accountants while conducting the audit of PQR Ltd want to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. Guide M/s LMP Associates with the matters where specific enquiry may be conducted to evaluate subsequent events. (7 Marks)

Answer:-

Specific Enquiry to be conducted to evaluate subsequent events:- In inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, The auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- Whether sales or acquisitions of assets have occurred or are planned.
- Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
- Whether any events have occurred that is relevant to the recoverability of assets.
- Whether new commitments, borrowings or guarantees have been entered into.
- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether there have been any developments regarding contingencies.

Q.4	**Answer the following**
(a)	**Mr. Y, a practising Chartered Accountant, has been appointed as an auditor of M/s Z Ltd on 12th June 2018 for the year ended 31st March 2019. The following persons have done following transactions in securities of M/s Z Ltd.:** **(i) Daughter of Mr. Y: Purchase of Securities on 10"1 September 2018 of face value of f 45,000 (market value Rs. 90,000)** **(ii) Husband of daughter of Mr. Y: Purchase of Securities on 10th December 2018 of face value of Rs. 90,000 (market value Rs. 1,90,000).** **All the above securities were sold on 10'th March 2019 for Rs. 3,00,000. Discuss the implications of the above on the appointment of Mr. Y. (5 Marks)**
	Answer:- **<u>Securities of the Company held by relatives:</u>** **Relevant Provisions:** **As per sub-section (3)(d)(i) of Section 141 of the Companies Act, 2013 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, 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.** **Provided that the relative may hold security or interest in the company of face value not exceeding rupees one lakh. If the Relatives hold securities exceeding rupees one lakh, then same should squared off within a period of 60 days.** **Also, as per sub-section (4) of Section 141 of the Companies Act, 2013, where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.** As per sec 2 (77) of the Companies Act, 2013, a relative is defined as: 1. Spouse 2. Father & Step-father 3. Mother & Step-mother 4. Brother & Step-brother 5. Sister & Step-sister 6. Daughter & Husband of the daughter 7. Son & Stepson & wife **Facts of the case:** In the present case, Mr. Y, a practicing Chartered Accountant, has been appointed as the auditor of M/s Z Ltd. On 12th June, 2018 for the year ended 31/03/2019 and the following securities have been purchased by the relatives: I. Daughter of Mr. Y purchased securities of Rs. 45000 on 10th September, 2018. II. Husband of daughter of Mr. Y purchased securities of Rs. 90000 on 10th December, 2018. **Conclusion:** Therefore, Mr. Y will be disqualified from being appointed as an auditor because the face value of securities held by the relatives exceed Rs. One lakh and the corrective period of 60 days is also over. Mr. Y will be disqualified after 60days i.e 10th February, 2019 and he shall be liable to vacate his office and this will result in a casual vacancy in the office of the auditor.
(b)	**Webcam Ltd, a public company with a paid-up share capital of Rs. 20 crores have a turnover for the financial year 2018-19 of T 220 crores. X, a recently qualified Chartered Accountant, has been appointed for conducting internal audit. He seeks your advice in**

	drafting a good quality internal audit report. Please guide him by elaborating (in brief) the essential features of a good internal audit report. (5 Marks)

Answer:-

Essential Features of a Good Internal Audit Report: The contents of an internal audit report are influenced by various factors such as the nature of internal auditing function in the organisation, level of reporting, degree of management support and capabilities of internal audit staff. However, for preparing a good internal audit report, the following general rules may be observed-

1. **Objectivity -** To maintain the credibility of internal audit function the comments and opinions expressed in the report should be as objective and unbiased as possible.
2. **Clarity -** The language used should be simple and straight-forward. As far as practicable, use of technical terms and jargon should be avoided. Each draft of the report should be reviewed by a senior who should attempt to read it from the point of view of the users of the report.
3. **Accuracy -** The information contained in the report, whether quantified or otherwise, should be accurate. Where approximation or assumptions have been made the fact should be clearly stated along with reasons, if material.
4. **Conciseness -** Brevity is vital subject, of course, to the condition that important information should not be omitted.
5. **Constructiveness -** Destructive criticism should carefully be avoided in the report. The report should clearly demonstrate that the internal auditor is trying to assist the auditor in an effective discharge of his responsibilities.
6. **Readability -** The reader's interest should be captured and retained throughout. For this, appropriate paragraph heading may be used.
7. **Timeliness -** The report should be submitted promptly because if the time lag between the occurrence of an event and its reporting is considerable, the opportunity for taking action may be lost or a wrong decision may be taken in the absence of the information.
8. **Findings and conclusions -** These may be given either department-wise or in the order of importance. All the facts and data pertaining to the situation should be assembled, classified and analysed. Each conclusion and opinion should normally follow the findings. Tables or graphs may be used for the presentation of statistical data in appendices.
9. **Recommendations -** An internal audit report usually includes recommendations for potential improvements. In order to enable the management to accept and implement the recommendations, the internal auditor should be able to convince the management that the conclusions are logical and valid, and the recommendations represent effective and feasible ways of taking action.
10. **Auditee's views -** The auditee's views about audit conclusions or recommendations may also be included in the audit report in appropriate circumstances.
11. **Summary -** A summary of conclusions and recommendations may be given at the end. This is particularly useful in long reports.
12. **Supporting information -** The internal auditor should supplement his report by such documents and data which adequately and convincingly support the conclusions. Supporting information may include the relevant standards or regulations.
13. **Draft Report -** Before writing the final report, the internal auditor should prepare a draft report. This would help him in finding out the most effective manner of presenting his reports. It would also indicate whether there is any superfluous information or a gap in reasoning.
14. **Writing and issuing the Final Report -** The final report should be written only when the auditor is completely satisfied with the draft report. The head of the internal auditing department may review and approve the final report. Before issuing the final report, the auditor should discuss conclusions and recommendations at appropriate levels of management. The report should be duly signed.

(c)	**R Ltd. owns 51% voting power in S Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its financial statements since 'the shares are held exclusively with a view to their subsequent disposal in the near future. R Ltd. represents that while preparing**

Consolidated Financial Statements, S Ltd. can be excluded from the consolidation. As the Statutory Auditor of R Ltd, how would you deal when the consolidated financial statements are to be drawn up in compliance with Ind AS? (4 Marks)

Answer:-

Consolidation of Financial Statement:

- **Part I -- Relevant Standards & Laws**
  Ind AS 110'Consolidated Financial Statements'
  Section 129(3) of the Companies Act, 2013
  Companies (Accounts) Rules, 2014

- **Part II -- Requirements of Relevant Standards & Laws**
  1. **Section 129(3) of the Companies Act, 2013**
     Where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.
  2. **Companies (Accounts) Rules, 2014,**
     The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.
  3. **AS 21 'Consolidated Financial Statements'**
     AS 21 "Consolidated Financial Statements", states that a subsidiary should be excluded from consolidation when:
     (i)Control is intended to be temporary because the shares are acquired and held exclusively with a view to its subsequent disposal in the near future or
     (ii)Subsidiary operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

- **Part III – Case Discussion**
  In the given case, R ltd. owns 51% voting power in S Ltd. It holds & discloses all shares as "Stock-in-Trade" in its financial statements since the shares are held exclusively with a view to their subsequent disposal in the near future.

- **Part IV – Conclusion**
  In view of provisions discussed in AS 21, the Company is not required to prepare consolidated financial statements however, for the compliance of Companies (Accounts) Rules, 2014, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.

  Thus, it can be concluded that ultimate authority on consolidation is AS / Ind AS as prescribed by law and if they give some exemption it should be followed. If out of exemption some subsidiaries are not consolidated then list should be disclosed in notes to accounts with reason.

Q. 5 Answer the following

(a) Discuss the types of Margins under stock exchange trading regulations. (5 Marks)

Answer:-

Types of Margins under stock exchange trading regulations:

- **To Cover Losses**
  There can be wide fluctuations at the time of settlement in the prices of securities since the rate at time of trade, there can be default risk and corresponding loss, so to cover losses advance money generally taken. Margin is intended to protect the members by providing them with funds to cover anticipated fluctuations in prices of securities, particularly, if the client delays in paying the amount or is unable to meet his commitments.
  (**E.g.** Gross Exposure & Mark to Market Margin)

	(Mr. A purchased shares of Rs 1,00,000 on 1st March and his settlement date is 3rd March but by 3rd March price has fallen to 80,000 so there is notional loss of 20,000 so he may not pay and complete transactions, in this case if advance margin money of 25,000 is taken then it will cover such losses) ▼ **To Restrict Speculation** In order to restrict excessive speculation. Margins also help prevent excessive speculation as clients would be required to invest some funds and not indulge in speculation without adequate resources. (**E.g.** Volatility & Additional Volatility Margin) ▼ **Safeguard Investors** And also, to safeguard the interests of the investors, (**E.g.** Special Margin & Ad Hoc Margin) Members are required to keep certain deposits with the stock exchange authorities. These deposits are termed 'margins. ▼ **Margin is regularly computed and deposited & sometimes upfront** The members are required to compute margin payable for all securities traded by them and make the margin payments on the due date to the Stock Exchange authorities. At times, the margins are also required to pay upfront, without which the trade cannot take place. ▼ **Who decides Margin & Collection?** • Different types of margins are payable at stipulated time, as decided by the Exchange or Clearing House of the Exchange. • The members are required to collect the margin from their clients, wherever applicable, and deposit the amount collected with the Clearing House. (Client →(Margin) →Member → (Deposits)→ Clearing House (Stock Exchange Appointed)
(b)	**M/s Sri & Co., Chartered Accountants have been allotted the branch audit of a nationalized bank for the year ended 31st March 2019. You are part of audit team and have been instructed by your partner to verify the following areas:** **(i) Fulfilment of the criteria prescribed for NPA norms for the advances given for agricultural purposes.** **(ii) Drawing power calculation from stock statements in respect of working capital accounts.** **What may be your areas of concern as regards matters specified above? (5 Marks)**
	Answer:- ▼ **Criteria for determination of NPA norms in respect of agricultural advances:** **1.** A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons **2.** A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season. ▼ **As per the guidelines, the following points are to be considered:** **1.** long duration" crops would be crops with crop season longer than one year. **2.** crops, which are not "long duration" crops would be treated as "short duration" crops. **3.** The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers Committee in each State. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him. **4.** The above norms should be made applicable to all direct agricultural advances as listed in the Master Circular on Lending to Priority Sectors. In respect of all other agricultural loans, identification of NPAs would be done on the same basis as non-agricultural advances, which, At present, is the 90 days delinquency norm **5.** If natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines issued by RBI.

(ii)

DRAWING POWER CALCULATION	
➢ **Drawing Power & Sanctioned Limit**	All accounts should be **kept within both the drawing power and the sanctioned limit** times. The accounts which exceed the sanctioned limit or drawing power or are a unapproved securities or are otherwise irregular should be **brought to the notice o Management/Head Office regularly.** *Sanction Limit = 1/5th of Last Year Turnover or (75% of LY Stock – Creditor + 60% of LY De whichever is lower* *Drawing Limit = (75% of Actual Stock – Actual Creditor) + 60% Actual Debtor*
➢ **Stock Statements / Annual Report / Policy**	The stock statements, quarterly returns and other statements submitted by the borro the bank should be scrutinized in detail. The audited Annual Report submitted by the bor should be scrutinized properly. **The monthly stock statement of the month for whic audited accounts are prepared and submitted should be compared and the reaso deviations, if any, should be ascertained. It needs to be ensured that the drawing po calculated as per the extant *(Existing)* guidelines formulated by the Board of Directors respective bank and agreed upon by the concerned statutory auditors *(Outdated it s be simply as per sanction letter)*. Special consideration should be given to proper rep of sundry creditors for the purposes of calculating drawing power.**
➢ **Irregular Account**	Banks should ensure that drawings in the working capital account are **covered b adequacy of the current assets.** Drawing power is required to be arrived at based on c stock statement. **However, considering the difficulties of large borrowers, stock state relied upon by the banks for determining drawing power should not be older than months.** The outstanding in the account based on drawing power calculated from statements older than three months is deemed as irregular. If such "irregular" ac continues for 90 days, account has to be classified as NPA, even though the acco otherwise operated regularly.
➢ **Stock Audit**	**The stock audit should be carried out by the bank for all accounts having funded exp of more than Rs 5 crores.** Auditors can also advise for stock audit in other cases if the situ warrants the same. Branches should obtain the stock audit reports from lead bank in the where the Bank is not leader of the consortium of working capital. The report submitt the stock auditors should be reviewed during the audit and special focus should be giv the comments made by the stock auditors on valuation of security and calculation of dr power. **The drawing power needs to be calculated carefully in case of working c advances to companies engaged in construction business.** The valuation of work in pro should be ensured in consistent and proper manner. **It also needs to be ensured mobilization advance being received by the contractors is reduced while calculating dr power.** *(Generally, 15% of total project cost)*

(c) **Discuss Solvency Margin in case of an Insurer carrying on General Insurance Business.** **(4Marks)**

Answer:-

- **Part I -- Relevant Standards & Laws**
  Section 64VA of the Insurance Act, 1938

- **Part II -- Requirements of Relevant Standards & Laws**

Solvency Margin in Case of an Insurer Carrying on General Insurance Business:

Section 64VA of the Insurance Act, 1938 as amended by Insurance Laws (Amendment) Act, 2015 requires every insurer and re-insurer to maintain an excess of the value of assets over the amount of liabilities at all times which shall not be less than 50% of the amount of minimum capital as stated under section 6 (requirement as to capital) of the Act and arrived at in the manner specified by the regulations.

The Authority, by way of regulation, shall specify a level of solvency margin known as 'control level of solvency'. However, in certain special circumstances, the authority may direct application of this provision with some modifications provided this shall not result in the control level of solvency being less than what is stipulated in above para.

If, at any time, an insurer or re-insurer does not maintain the required control level of solvency margin, he is required to submit a financial plan to the Authority indicating the plan of action to correct the deficiency. If, on consideration of the plan, the Authority finds it inadequate, the insurer has to modify the financial plan.

Maintenance of solvency margin has a great importance for an insurance company considering their size and nature of business and also involvement of public money. Sub-section (2) of section 64VA states that if an insurer or re-insurer fails to comply with the prescribed requirement of maintaining excess of value of assets over amount of liabilities, it shall deemed to be insolvent and may be wound up by the Court on an application made by the authority.

Q.6 Answer the following

(a) While conducting GST audit of PQR Ltd, you have observed the following:
PQR Limited has exported goods to a Company located in USA. The value of goods is \$100,000. The exchange rate on the date of filing Shipping Bill is: CBEC notified Rs. 65 and RBI Reference rate Rs. 68.
At the time of receiving money, the bank exchanged the foreign currency at Rs. 70.
How would you report the adjustments in turnover due to foreign exchange fluctuations in Reconciliation statement in Form GSTR 9C prescribed in terms of Rule 80(3) of CGST Rules, 2017? (5 Marks)

Answer:-
For the purpose of GST Returns, the exchange rate would be Rs 65 and the exports to be disclosed in the GST Returns would be Rs 65,00,000. For the purpose of accounting records, the exchange rate would be Rs 68 and the exports recorded in the books would be Rs 68,00,000. <u>The difference in revenue being Rs 300,000 would have to be **reduced**</u> from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

Additionally, difference in the amount booked in the accounts and actual amount received being Rs 70 – Rs 68 = Rs 2 x \$100,000 = <u>Rs 200,000 would be credited to the Profit and Loss Account as Forex Gain which again needs to be **reduced**</u> from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

(b) The reports of the Comptroller and Auditor General of India on the audit of PSUs are presented to the Parliament and to various state legislatures to facilitate a proper consideration. Enumerate the contents of Audit Report presented by C & AG. (5 Marks)

Answer:-
Reports of the CAG on the PSU of Central Government are presented to the Parliament in the following parts:

1. Introduction containing a general review of the working result of Government Companies, Deemed Government Companies and Corporations
2. Result of comprehensive appraisals of selected undertakings conducted by the Audit Board.
3. Resume of the company auditor's reports submitted by them under the directions issued by the CAG and that of comments on the accounts of the Government Companies.
4. Significant results of audit of the undertakings not taken up for appraisal by the Audit Board.

(c) Mr. A, Chatered Accountant in practice as a Sole proprietor at Mumbai has an office in the suburbs of Mumbai." Due to increase in the income tax assessment work, he opens another office near the income tax office, which is within the city and at a distance of 30 kms from his office in the suburbs. For running the new office, he has employed a retired Income Tax Commissioner who is not a Chartered Accountant. Examine the above with respect to the Chartered Accountants Act, 1949. (4 Marks)

OR

What is the eligibility to be a 'Peer Reviewer'? (4 Marks)

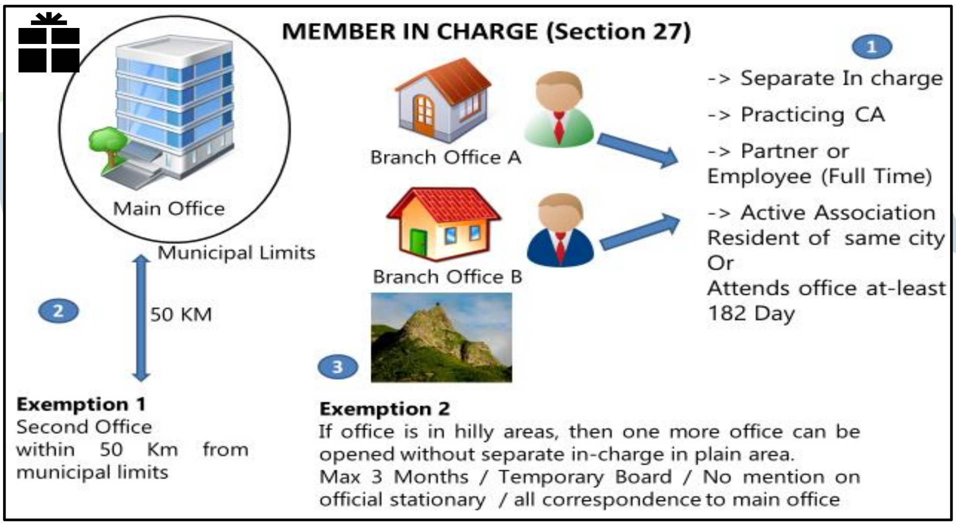
Answer:-

- **Part I -- Relevant Standards & Laws**
  Section 27 of Chapter VII of the Chartered Accountants Act, 1949

- **Part II -- Requirements of Relevant Standards & Laws**
  In terms of 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.
  There is however an exemption for the above if
  1. the second office is located in the same premises, in which the first office is located; or
  2. the second office is located in the same city, in which the first office is located; or
  3. the second office is located within a distance of 50 kms from the municipal limits of a city, in which the first office is located.

- **Part III – Case Discussion**
  In the given case, Mr. A, Chartered Accountant in practice as a sole proprietor at Mumbai has an office in suburbs of Mumbai, and due to increase in the work he opened another branch within the city near the income tax office. He also employed a retired income tax commissioner to run the new office and the second office is situated within a distance of 30 kilometres from his office in the suburb.

- **Part IV – Conclusion**
  In view of above provisions, there will be no misconduct if Mr. A will be in-charge of both the offices. However, he is bound to declare which of the two offices is the main office.



OR

Eligibility to be a Reviewer:

- **A Peer Reviewer shall: -**
  - Be a member with at least 10 years of experience in practice.
  - Is in Practice as per the Chartered Accountants Act, 1949.
  - Should have undergone the requisite training as prescribed by the Board.
  - Should furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.
  - Should have signed the Declaration of Confidentiality as prescribed by the Board.
  - Should have conducted audit of Level I Entities for at least 7 years to be eligible for conducting Peer Review of Level I Entities as referred to in Para II of this Statement.

- **For being a Reviewer, a member should not have: -**
  - Disciplinary action / proceedings pending against him.
  - been found guilty by the Council or the Disciplinary Board or Committee at any time.
  - been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment.

	• any Obligation or conflict of interest in the Practice Unit or its Partners / Personnel. A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment.

Q	SQ	Marks	Area	Topic	Difficulty	PM	Past Paper	MTP / RTP	SOURCE
1	a	5	SA	SA 701	Medium	N	N	Y	M18M
1	b	5	Chapters	Tax Audit	Difficult	N	N	Y	M19R
1	c	4	SA	SA 570	Easy	Y	Y	N	N17E P17M N05E
2	a	5	SA	SA 520	Easy	Y	Y	N	N13E P17M
2	b	5	Chapters	Corporate Governance	Difficult	N	N	N	S17M
2	c	4	PE	S I, P1, C7	Easy	N	N	Y	N18R
3	a	7	SA	SA 505	Easy	N	N	N	
3	b	7	SA	SA 560	Difficult	N	N	N	
4	a	5	Company Audit	Sec 141	Medium	N	N	N	
4	b	5	Chapters	M&O Audit	Easy	N	N	Y	N15R
4	c	4	Chapters	Audit of CFS	Easy	Y	Y	Y	M18E M18M N18M N18R M17E P17M S17M M16M M15R M08E M06E
5	a	5	Chapters	Stock Exchange	Easy	Y	Y	Y	P17M S17M N17R M12R M5E
5	b	5	Chapters	Bank Audit	Medium	Y	Y	N	P17M M14E
5	c	4	Chapters	GIC	Easy	Y	Y	N	P17M M12E N11R N9R N6E
6	a	5	Chapters	Tax Audit	Medium	N	N	Y	M19R
6	b	5	Chapters	Audit of PSU	Easy	N	Y	N	N17E
6	c	4	PE	Sec 27	Easy	Y	Y	N	P17M M17M S17M N15E N12E
6	c	4	Chapters	Peer Review	Easy	N	Y	N	M18E