

November 2020 Exams

1. Enumerate Factors to be for Outsourcing in case of FR
2. Assessment of Services provided by the Service Organisation
3. Subservice Organisation

NOV RTP -2020

- 4. ENN Limited is availing the services of APP private limited for its payroll operations. Payroll cost account for 65% of total cost for ENN Limited. APP limited has provided the type 2 report as specified under SA 402 for its description, design and operating effectiveness of control.
- APP private limited has also outsourced a material part of payroll operation to export M/s SMP & Associates in such a way that M/s SMP & Associates is sub-service organization to ENN limited. The Type 2 report which was provided by APP private limited was based on carve-out method as specified under SA 402.
- CA Raman while reviewing the unmodified audit report drafted by his assistant found that, a reference to the work done by service audit has been made. CA Raman hence asked his assistant to remove such reference and modify report accordingly.
- Comment whether CA Raman is correct in removing the reference of the work done by service auditor?

- SA 402 – UA- shall modify the opinion in the user auditor's report in accordance with SA 705, if the UA is unable to obtain SAAE regarding the services provided by the SO relevant to the audit of the UEFS.
- The UA shall not refer to the work of a SA in the UAR containing an UMO unless required by L&R.
- reference does not diminish the user auditor's responsibility for the audit opinion.
- contention of CA. Raman in removing reference of the work done by service auditor is in order .

NOV 2019 RTP

5. MNO Limited is one of the prominent players in the chemicals industry. The company is a public company domiciled in India and listed on BSE and NSE. The Company was facing extreme liquidity constraints and there were multiple indicators that casted doubt over the company's ability to continue as a going concern.

- The Company was led into insolvency proceedings by consortium of banks led by PNB and the NCLT ordered the commencement of corporate insolvency process against the Company on 31 August 2018. The company invited prospective lenders, investors and others to submit their resolution plans to the Resolution Professional (RP) latest by 1 January 2019. The RP reviewed the resolution plans and ensured conformity with Insolvency and Bankruptcy Code 2016. The compliant plans were presented to Committee on Creditors (CoC) on 2 February 2019 and the resolution plan submitted by PQR Ltd. was evaluated as highest evaluated Compliant Resolution Plan. CoC of MNO Ltd. approved the Resolution Plan submitted by PQR Ltd. on 2 March 2019. The approval of NCLT was finally obtained on 4 May 2019.
- PQR Ltd. submitted detailed plans and commitments as part of the resolution plan including clearance of all outstanding debts which were leading to negative cash flows. Please suggest how would you deal with this situation as the auditors of MNO Ltd.

- **As per SA 570 Going Concern**, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:
 - (i) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
 - (ii) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
 - (iii) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in -
 - (1) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (2) Determining whether there is adequate support for the assumptions underlying the forecast.
 - (iv) Considering whether any additional facts or information have become available since the date on which management made its assessment.
 - (v) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.
- The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.
- In the instant case, the approval of the resolution plan is a significant mitigating factor to counter the going concern issues of MNO Ltd. PQR Ltd. has submitted a detailed plan and commitments that has been given as part of the resolution plan which includes clearance of all outstanding debts which were leading to negative cash flows. Therefore, it can be said that the events and conditions are mitigated effectively and there is no material uncertainty in relation to the ability of the company to continue as a going concern.

May 2020 MTP – 6 question

Choti Limited had definite plan of its business being closed within a short period from the close of the accounting year ended on 31st March, 2019. The Financial Statements for the year ended 31/03/2019 had been prepared on the same basis as it had been in earlier periods with an additional note that the business of the Company shall cease in near future and the assets shall be disposed off in accordance with a plan of disposal as decided by the Management. The Statutory Auditors of the Company indicated this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, thereto to be made at the time of cessation only. Comment on the reporting by the Statutory Auditor as above.

NOV 2019 RTP

7. Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2018-19. While verification of company's inventories as on 31st March 2019, you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties. What is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held and the stock as disclosed in company's records actually belongs to them?

- (b) **Inventory under the Custody and Control of a Third Party:** As per SA 501, "Audit Evidence—Specific Considerations for Selected Items" when inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:
- (i) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
 - (ii) Perform inspection or other audit procedures appropriate in the circumstances, for example where information is obtained that raises doubt about the integrity and objectivity of the third party, the auditor may consider it appropriate to perform other audit procedures instead of, or in addition to, confirmation with the third party. Examples of other audit procedures include:
 - Attending, or arranging for another auditor to attend, the third party's physical counting of inventory, if practicable.
 - Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded.
 - Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts.
 - Requesting confirmation from other parties when inventory has been pledged as collateral.

May 2020 RTP

8. RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. During the financial year ended 31 March 2019, the company carried out a detailed physical verification of its inventory and property, plant and equipment.

- You are the auditor of RIM Private Ltd. The inventory as at the end of the year was
- ₹ 2.25 crores. Due to unavoidable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order?

- (b) As per **SA 501 “Audit Evidence – Additional Considerations for Specific Items”**, the auditor should perform audit procedures, designed to obtain sufficient appropriate audit evidence during his attendance at physical inventory counting. SA 501 is additional guidance to that contained in SA 500, “Audit Evidence”, with respect to certain specific financial statement amounts and other disclosures.
- If the auditor is unable to be present at the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded. The auditor would also verify the procedure adopted, treatment given for the discrepancies noticed during the physical count. The auditor would also ensure that appropriate cut off procedures were followed by the management. He should also get management's written representation on (a) the completeness of information provided regarding the inventory, and (b) assurance with regard to adherence to laid down procedures for physical inventory count. By following the above procedure, it will be ensured that the physical verification conducted by the management was in order.

Nov 2019 RTP

9. Mr. Ram Kapoor, Chartered Accountant, has been appointed as the statutory auditor by XYZ Private Limited for the audit of their financial statements for the year 2018-19. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Ram during the course of audit. Further, company also imposed some limitation on scope of Mr. Ram.

- What are the preconditions Mr. Ram should ensure before accepting/ refusing the proposal? Also advise, whether Mr. Ram should accept the proposed audit engagement?

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NOV 2020 RTP

- 10. MEA limited is a listed company having its operation across India. MEA Limited appointed Mr. X, Mr. Y and Mr. Z, as its joint auditors for the year 2019 -20. After making sure that all of them are qualified to be appointed as statutory auditor, MEA Limited issued engagement letter to all of them. But Mr. X was not clear on some points, so he requested MEA Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. In your opinion what was the discrepancy in the Audit engagement letter issued by MEA limited?

May 2020 RTP

11. Your firm has been appointed as the statutory auditors of AGM Private Limited for the financial year 2018-19. While verification of company's trade receivables as on 31 st March 2019, accountant of AGM Ltd. has requested you, not to send balance confirmations to a particular group of trade receivables since the said balances are under dispute and the matter is pending in the Court. As a Statutory Auditor, how would you deal in this situation?

May 2020 RTP

12. Mr. PM, a practising Chartered Accountant, has been appointed as an auditor of Truth Pvt. Ltd. What factors would influence the amount of working papers required to be maintained for the purpose of his audit?

May 2020 MTP

13. CA. Jill, a recently qualified practicing Chartered Accountant got his first audit assignment of Natural (P) Ltd. for the financial year 2019-20. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Jill left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs. 190 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year. CA. Jill, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by predecessor auditor. Comment.

May 2020 MTP

14. On 15th March, 2020, the directors of Phony Ltd. instructed their accountant to enter purchases amounting Rs. 1.02 crores from a company incorporated dated 11 th March, 2020. However, no amount was actually paid and Rs. 1.02 crore was provided in the books of account as purchases for the year ending on 31st March, 2020.

May 2020 MTP

15. While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws. Comment in accordance with relevant Standards on Auditing.

MAY 2020 RTP

1. Navjeevan Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which basis system of control has been violated? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management.

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MAY 2020 RTP

- During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system.

MAY 2020 RTP

- (b) The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
 - (i) Circumstances beyond the control of the entity;
 - (ii) Circumstances relating to the nature or timing of the auditor's work; or
 - (iii) Limitations imposed by management. Explain with the help of examples.

MAY 2020 RTP

15. Mr. Anand is appointed as statutory auditor of XYZ Ltd. XYZ Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Bhola as its internal auditor. The external auditor Mr. Anand asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.
- (a) Discuss whether Mr. Anand, statutory auditor, can ask direct assistance from Mr. Bhola, internal auditor as stated above in view of Standards on Auditing.
 - (b) Will your answer be different, if Mr. Anand ask direct assistance from Mr. Bhola, internal auditor with respect to external confirmation requests and evaluation of the results of external confirmation procedures?

Introduction

CA Final

BANK AUDIT – Nov 2020 RTP

1.) ABN Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?

BANK AUDIT – May 2020 RTP

- 2. In course of audit of Good Samaritan Bank as at 31st March, 2019 you observed the following:
 - (1) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government?
 - (2) The bank's advance portfolio comprised of significant loans against Life
 - Insurance Policies. Write suitable audit program to verify these advances.

Bank Audit MAY MTP 2020

- M/s CAS & Associates have been appointed as one of the statutory central auditors of FDMH Bank., for the Financial Year 2019-20. During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank. Being head-in-charge of the assignment, while planning, you distributed the work among your team members and assigned Mr. Ansh for verification of Balances in account of the bank situated in foreign country. However, Mr. Ansh, being fresh to the bank audits, needs your guidance. Kindly guide. **(4 Marks)**



INSURANCE AUDIT - NOV 2020 RTP

1. M/s MPS & Associates Chartered Accountants firm started the statutory audit of their client Contingencies Ltd., a General Insurance company, which has a paid-up capital of ₹ 16,800/- lakhs. During the course of the audit, it was found that the company was not maintaining the required solvency margin as per the provisions of Insurance Act. When the issue was escalated to the management, they replied that solvency margin needs to be maintained as per limits prescribed only on last day of a financial year. Comment whether reply of management is tenable.

INSURANCE AUDIT – May 2020 RTP

- Amrapali & Co., Chartered Accountants are the Auditors of Natural Care General Insurance Company Limited. As on March 31, 2019 the Management made a provision for claims outstanding. Enumerate the steps to be taken by the Auditor while verifying the "Claims Provision".



AUDIT COMMITTEE AND CORPORATE GOVERNANCE – Nov 2020 RTP

1. M/s FCA & Associates Chartered Accountants is one of the leading auditing firms in Guwahati. The firm received an assignment to examine the compliance conditions [as stated in SEBI (LODR) Regulations] of corporate governance by ABC Ltd., a listed entity with no outstanding SR equity shares. The firm had made the following observations:
 - **Observation No. 1:** Mr. Fine, a director of the company, also the chairman of the Stakeholder Relationship Committee, was also acting as the audit committee chairman in 4 other listed companies & 1 private company, simultaneously.
 - **Observation No. 2:** The Nomination & Remuneration Committee consisted of 6 members, who regularly met biannually.
 - **Observation No. 3:** The Risk Management Committee consisted of 9 directors, out of which the number of independent directors is the majority, but it was less than 2/3 rd of the total strength.
 - Which among the above three observations made by the auditor in case of ABC Ltd. should be reported by M/s. FCA & Associates?



Company Audit

- Petro Ltd. is engaged in generation of electricity for captive consumption through Captive Generating Plant. The Company also maintain cost records in their books of account as required under Cost Records and Audit Rules. Mr. Xylo, friend of Managing Director of the company, suggested name of his brother, who is a Cost Accountant in Practice, for the purpose of cost audit. However, the statutory auditor of the company, is of the view that the company is not legally required to conduct cost audit. Now, the Managing Director is in dilemma about the requirement of cost audit. Being an expert in cost records and audit rules, you are required to guide in this regard.

Company Audit – May 2020 MTP

(b) Comment on the following with reference to Schedule III to the Companies Act, 2013:

- (i) A company has disclosed performance guarantee and counter guarantees as Contingent Liabilities.
- (ii) A company has clubbed all other expenses under the head 'Other Expenses' on the basis of
 - 1 percent of total revenue or Rs.5,000 whichever is higher.
- (i) A company has shown Deferred Tax Liability under Non-Current Liabilities and Deferred tax assets under Non-Current Asset in balance sheet.

(6 Marks)

Audit Reports

- AKB Associates, a renowned audit firm in the field of CA practice for past two decades. The firm was appointed to conduct statutory audit of Rica Ltd. an unlisted company, which is engaged in the business of paper manufacturing. It decided to commence the audit for the recently concluded financial year. Once after making significant progress in the audit, the auditors made the following observations:
- **Observation 1:** The management had disclosed in the financials that, during the year, one of the warehouses of the company was affected due to a major flood. As a result of the same, the company had incurred some losses. But the management told that it was not material.
- **Observation 2:** Due to the flood, few records of maintained by the company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the firm. However, those details were not pervasive, but material.
- You are required to advise, whether AKB Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported?



Audit Under Fiscal Laws

- M/s PQRS & Associates is appointed for conducting tax audit as per Income Tax Act to QW Ltd., a cotton textile company. The company had incurred rupees 6 lakhs towards advertisement expenditure on a brochure/ pamphlet published by a political party in Pune. Advise the auditor whether such expenditure should be included in the tax audit report or not.

Audit Under Fiscal Laws

- Mr. Ramanuj, a Chartered Accountant by profession, has been appointed as GST auditor for ABC Ltd. The management has asked Mr. Ramanuj for GST audit and to file GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9. Mr. Ramanuj contended that he has been appointed only for GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the management. In context of above dispute, you have to suggest whether the contention of Mr. Ramanuj is correct or not. Justify.

Audit Under Fiscal Laws

ABC Printing Press, a proprietary concern, made a turnover of above ₹ 1.03 crore for the year ended 31.03.2019. The Management explained its auditor Mr. Z, that it undertakes different job work orders from various customers. The raw materials required for each job are dissimilar. It purchases the raw materials as per specification/ requirements of each customer and there is hardly any balance of raw materials remaining in the stock except pending work-in-progress at the year end. Because of variety and complexity of materials, it is impossible to maintain a stock- register. Give your comments.

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Audit Under Fiscal Laws

- **Non-maintenance of stock register:** The explanation of the entity for the use of varieties of raw materials for different jobs undertaken may be valid. But the auditor needs to verify the specified job-orders received and the different raw materials purchased for each job separately. The use of different papers (quality, quantity and size) ink, colour etc. may be examined. If possible, the auditor may also enquire with the other similar printers in the locality to ensure the prevailing custom. At the same time, he has to report and certify under clause 35(b) and clause 11(b) of Form 3CD read with the Rule 6G(2) of the Income-tax Act, 1961, about the details of stock and account books (including stock register) maintained. He must verify the closing stock of raw materials, work-in-progress and finished goods of the concern, at least on the date of its balance sheet. In case the said details are not properly maintained, he has to specifically mention the same with reasons for non-maintenance of stock register by the entity.

Audit Under Fiscal Laws

- PQR Ltd is a textile company with aggregate turnover exceeding 2 crores. XYZ & Associates is a Chartered Accountant firm which has been appointed for GST audit of PQR Ltd. Mr Sandhu, Chartered Accountant from XYZ & Associates, observes on 23 July 2019 that PQR Ltd has not filed its GSTR 3B for the month of July & its GSTR- 1 return is also not complied with. What should Mr Sandhu advise the client before conducting GST audit of PQR Ltd.

Audit Under Fiscal Laws

- (b) The auditor should advise the company to file all the GSTR-3B, GSTR-1 and annual returns before conducting GST audit so that auditor can validate and verify the returns filed by the company, verification of ITC claimed, verification of output GST liability discharged by the company and for collation of return workings and reconciliations. Auditor needs to have a comprehensive picture of -
 - (i) Understanding of the back-up of monthly returns as well as annual return and understanding of reports generated by the GSTN portal as well as internal records of the company.
 - (ii) Understanding of the eligibility of Input Tax Credit (ITC) availed i.e. whether ITC availed by the company is creditable or not and understanding of reversal of ITC undertaken or applicable (if any).
 - (iii) Understanding of the taxability of outward supplies and transactions covered under Reverse Charge Mechanism and other miscellaneous/ specific transactions and understanding of the positions taken on various transactions by the company.





DUE DILIGENCE INVESTIGATION AND FORENSIC AUDIT

- APK Bank Ltd., received an application from a pharmaceutical company for takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. APK Bank Ltd., requires you to make a due diligence audit in the areas of assets of pharmaceutical company especially with reference to valuation aspect of assets. State what may be your areas of analysis in order to ensure that the assets are not stated at overvalued amounts.



PEER REVIEW

- Selection of sample by the reviewer in case of peer review.
 - (i) The Reviewer shall within 15 days of receiving the information from the Practice Unit select a sample of the assurance services that he would like to Review and intimate the same to the Practice Unit.
 - (ii) The Reviewer may also seek further / additional clarification from the Practice Unit on the information furnished / not furnished.
 - (iii) The Reviewer shall plan for an on-site Review visit or initial meeting in consultation with the Practice Unit. The Reviewer shall give the Practice Unit at least fifteen days' time to keep ready the necessary records of the selected assurance services.
 - (iv) The Reviewer and Practice Unit shall mutually cooperate and ensure that the entire Review process is completed within 90 days from the date of notifying the Practice Unit about its selection for Review.



NBFC

- Classification of frauds by NBFC.

In order to have uniformity in reporting, frauds have been classified as under based mainly on the provisions of the Indian Penal Code:

- (i) Misappropriation and criminal breach of trust.
 - (ii) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
 - (iii) Unauthorised credit facilities extended for reward or for illegal gratification.
 - (iv) Negligence and cash shortages.
 - (v) Cheating and forgery.
 - (vi) Irregularities in foreign exchange transactions.
 - (vii) Any other type of fraud not coming under the specific heads as above.
- **Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions'** referred to in items (d) and (f) above are to be reported as fraud if the intention to cheat/ defraud is suspected/ proved. However, the following cases where fraudulent intention is not suspected/ proved, at the time of detection, will be treated as fraud and reported accordingly:
 - (i) cases of cash shortages more than ` 10,000/- and
 - cases of cash shortages more than ` 5000/- if detected by management/ auditor/ inspecting officer and not reported on the occurrence by the persons handling cash.

NBFC MAY 2020 MTP

- Kammo & Co LLP, a firm of Chartered Accountants, was appointed as auditor of an NBFC. The audit work has been completed. The audit team which was involved in the fieldwork came across various observations during the course of audit of this NBFC and have also limited understanding about the exceptions which are required to be reported in the audit report. They would like to understand in detail regarding the obligations on the part of an auditor in respect of exceptions in his report so that they can conclude their work. Briefly explain.



General steps in the conduct of risk based audit.

- (b) RBA consists of four main phases starting with the identification and prioritization of risks, to the determination of residual risk, reduction of residual risk to acceptable level and the reporting to auditee of audit results. These are achieved through the following:
- **Step 1 Understand auditee operations to identify and prioritize risks:** Understanding auditee operations involves processes for reviewing and understanding the audited organization's risk management processes for its strategies, framework of operations, operational performance and information process framework, in order to identify and prioritize the error and fraud risks that impact the audit of financial statements. The environment in which the auditee operates, the information required to monitor changes in the environment, and the process or activities integral to the audited entity's success in meeting its objectives

Contents of an Audit Plan:

(b) The auditor shall develop an audit plan that shall include a description Of-

- (i) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".
- (ii) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks".
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- (i) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
 - The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

Audit of PSU

- XYZ & Co., a CA. firm was appointed by C&AG to conduct comprehensive audit of ABC Public undertaking. C&AG advised to cover areas such as investment decisions, project formulation, organisational effectiveness, capacity utilisation, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems, etc. Discuss stating the issues examined in comprehensive audit.

• **Issues examined in Comprehensive Audit:** Some of the issues examined in comprehensive audit are-

- (i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
- (ii) Have the accepted production or operational outputs been achieved? Has there been under utilisation of installed capacity or shortfall in performance and, if so, what has caused it?
- (iii) Has the planned rate of return been achieved?
- (iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
- (v) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
- (vi) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
- (vii) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
- (viii) If the enterprise has an adequate system of repairs and maintenance?
- (ix) Are procedures effective and economical?
- (x) Is there any poor or insufficient or inefficient project planning?

Audit of PSU

- A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.” Briefly discuss the issues addressed by Performance Audits conducted in accordance with the guidelines issued by C&AG.

- (b) Accounting and the audit process
- (i) **Economy** - It is minimising the cost of resources used for an activity, having regard to appropriate quantity, quality and at the best price.
 - Judging economy implies forming an opinion on the resources (e.g. human, financial and material) deployed. This requires assessing whether the given resources have been used economically and acquired in due time, in appropriate quantity and quality at the best price.
 - (i) **Efficiency** - It is the input-output ratio. In the case of public spending, efficiency is achieved when the output is maximised at the minimum of inputs, or input is minimised for any given quantity and quality of output.
 - **Auditing efficiency embraces aspects such as whether:**
 - (a) sound procurement practices are followed;
 - (b) resources are properly protected and maintained;
 - (c) human, financial and other resources are efficiently used;
 - (d) optimum amount of resources (staff, equipment, and facilities) are used in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;
 - (e) public sector programmes, entities and activities are efficiently managed, regulated, organised and executed;
 - (f) efficient operating procedures are used; and
 - (g) the objectives of public sector programmes are met cost-effectively.
 - (i) **Effectiveness** - It is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.
 - **In auditing effectiveness, performance audit may, for instance:**
 - (a) assess whether the objectives of and the means provided (legal, financial, etc.) for a new or ongoing public sector programme are proper, consistent, suitable or relevant to the policy;
 - (b) determine the extent to which a program achieves a desired level of program results;
 - (c) assess and establish with evidence whether the observed direct or indirect social and economic impacts of a policy are due to the policy or to other causes;
 - (d) identify factors inhibiting satisfactory performance or goal-fulfilment;
 - (e) assess whether the programme complements, duplicates, overlaps or counteracts other related programmes;
 - (f) assess the effectiveness of the program and/or of individual program components;
 - (g) determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost;
 - (h) assess the adequacy of the management control system for measuring, monitoring and reporting a programme's effectiveness;
 - (i) assess compliance with laws and regulations applicable to the program; and
 - (j) identify ways of making programmes work more effectively.

May 2020 MTP – Audit of CFS

- You are appointed as an auditor of Azad Limited, a listed company which is a main supplier to the USA building and construction market. With a turnover of Rs.1.6 billion, the company operates through 9 business units and has nearly 135 branches across the countries. As an auditor, how will you draft the report in case (i) When the Parent's Auditor is also the Auditor of all its Components? and (ii) When the Parent's Auditor is not the Auditor of all its Components?

PROFESSIONAL ETHICS

FIRST SCHEDULE

May 2020 MTP

1. Mr. Vinod a practicing chartered accountant acting as liquidator of XYZ & Co. charged his professional fees on percentage of the realization of assets. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

MAY 2020 MTP

2. CA. Nikhil, in practice, started project consultancy work as a part of his practice and to advance the same, sent mail to all the CAs in the country informing them of his services and for securing professional work. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

NOV 2020 RTP

3. CA. Srishti and CA. Mishti are two partners of the CA firm 'Srishti Mishti & Associates'. Being very pious, CA. Srishti organised a religious ceremony at his home for which he instructed his printing agent to add his designation "Chartered Accountant" with his name in the invitation cards. Later on, the invitations were distributed to all the relatives, close friends and clients of both the partners.

NOV 2020 RTP

4. Ms. Preeto, a CA, had an account with a bank. The normal balance in this account remained at a level below ₹ 25,000. The bank inadvertently credited this account with a cheque of ₹ 2,50,000 belonging to another account holder. When CA. Preeto came to know about this she withdrew the amount of ₹ 2,75,000 and closed the bank account. After 1 year the bank noticed the mistake and claimed ₹ 2,75,000 with interest. CA. Preeto contested this claim. Can the bank approach the Institute of Chartered Accountants of India for disciplinary action against CA. Preeto?

NOV 2020 RTP

5. CA. Moni is practicing since 2009 in the field of company auditing. Due to his good practical knowledge, he was offered editorship of a 'Company Audit' Journal which he accepted. However, he did not take any permission from the Council regarding such editorship.

MAY 2020 RTP

6. OPAQ & Associates, a firm of Chartered Accountants responded to a tender issued exclusively for Chartered Accountants by an organisation in the area of tax audit. However no minimum fee was prescribed in the tender document.

MAY 2020 RTP

7. Agarwal Pvt Ltd. approached CA. Prem, a Chartered Accountant in practice, for debt recovery services. CA Prem accepted the work and insisted for fees to be based on 2% of the debt recovered.

May 2020 RTP

8. ABZ & Co., a firm of Chartered Accountants, develops a website “abz.com”. The colour chosen for the website was a very bright green and the web-site was to run on a “push” technology where the names of the partners of the firm and the major clients were to be displayed on the web-site without any disclosure obligation from any regulator.

NOV 2019 RTP

9. Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant, his employee, for taking care of routine matters of his office. During his absence, Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co.:

- (i) He issued the audit queries to client which were raised during the course of audit.
- (ii) He attended the Income Tax proceedings for a client as authorized representative before Income Tax Authorities.
- Please comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and liability of Mr. 'A' under the Chartered Accountants Act, 1949.

Second Schedule

NOV 2019 RTP

1. M/s Amudhan & Co., a firm of Chartered Accountants, received ₹ 2.8 lakhs in January, 2019 on behalf of one of their clients, who has gone abroad and deposited the amount in their Bank account, so that they can return the money to the client in July, 2019, when he is due to return to India.

NOV 2019 RTP

2. CA Raman who is contesting Regional Council Elections of Institute, engages his Articled Assistant for his election campaigning promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period.

NOV 2019 RTP

3. Mr. Anil, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements.

May 2020 MTP

4. Mr. Yuvi, a Chartered Accountant in practice, is the auditor of Prime Ltd. He advised the Managing Director of the company to include 'orders under negotiation' in sales, to reflect higher profit and better financial position for obtaining bank loans in future. Mr. Yuvi, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

May 2020 RTP

5. Mr. P and Mr. Q are running a firm of Chartered Accountants in the name of PQ & Co. On 23.05.2019, they included the name of Mr. R, a practicing Chartered Accountant, without his knowledge, as a partner while submitting an application for empanelment as auditor for branches of a public sector bank, to the Institute. However, they added Mr. R as a partner to their firm offering a share of 25% of the profits, on 25.05.2019.

NETWORK & NETWORK FIRMS

- Network =
- larger structure
- + aimed at co-operation
- + profit or cost sharing
- + shares common ownership
- + control or management
- + common quality control policies and procedures
- + common business strategy
- + the use of a common brand name
- + significant part of professional resources.
- **Network Firm** – “NF” means a firm or Entity that belongs to a Network.

Concept of Network

1. Whether Network is created enhance their ability to provide professional services ?
2. larger structure may be aimed only at facilitating the referral of work ?
3. a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources ?
4. facts and circumstances & judgment shall be applied consistently throughout the network.
5. Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure ?

Forms of the Network:

1. A network can be constituted as a mutual entity which will act as a facilitator for the constituents of the Network.
2. A network can be constituted as a partnership firm and the total number of partners can exceed twenty.
3. Can a network can be constituted as a Limited Liability Partnership ?
4. Can a network can be constituted as company ?
5. management consultancy services company.
6. Network Firms = ? ?
7. Can a firm join Multiple network ?
8. What about Firms having common partners can join more Network ?
9. Consequence of Network not Registered with ICAI ?

Approval of Name of Network amongst firms registered with Institute:

1. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" shall be used after the name of the network .
2. the words The prescribed format of application for approval of Name for Network is at Form 'A' (enclosed).
 - (a) If the Network is a Mutual Entity or Partnership Firm: AB & Affiliates
 - (b) If the Network is a LLP: AB Affiliates LLP
 - (c) If the Network is a Limited Company: AB Affiliates P. Ltd/Limited
3. Whether we can use "& Co." / "& Associates" for Network Firm ??
4. The Institute shall approve or reject the name of the Network and intimate the same to the Network at its address mentioned in Form 'A' within a period which shall not be later than 30 days from the date of receipt of the said Form.

Concept of Network

6. the sharing of immaterial costs ?

7. the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses ?

8. an association between a firm to jointly provide a service or develop a product ?

9. Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management

10. Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures ?

Registration of Network with entities in India

1. After the name of a Network is approved as per provision under Guideline 5, the Institute same shall reserve such name for a period of three (3) months from the date of approval.
2. The Network shall get itself registered with the Institute by applying in Form B within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period.
3. Registration of Network with Institute is mandatory.
4. Whether Indian firms networked with a common Multinational Accounting Firm ?

F - Listing of Network with entities outside India

1. The duly authorized representative(s) of the Indian Member firm (s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement.
2. Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to join only one network and firms having common partners shall join only one such network.

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Concept of Network

1. Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy ?
2. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives.
3. An entity co-operates with another entity solely to respond jointly to a request for a proposal for the provision.
4. Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name.

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Ethical Compliance:

1. If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm Whether they can accept the internal audit or book-keeping or such other professional assignments ?
2. The guidelines of ceiling on Non-audit fees is applicable in relation to a Network For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership). Should we have ceiling limit ?
3. In those cases where rotation of firms whether member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring.
4. Can The Network advertise the Network to the extent permitted by the Advertisement Guidelines issued by Institute.
5. Can firms constituting the network are permitted to use the words "Network Firms" on their professional stationery.

Framework of Network

- (i) Appointment of a Managing Committee, from among the managing partners of the member firms of the network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon.
- (ii) Administration of the network
- (iii) Contribution of membership fees to meet the cost of the administration of the network.
- (iv) Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- (v) Dispute settlement procedures through arbitration and conciliation
- (vi) Development of training materials for members of the network
- (vii) Issue of News-letters for staff and clients
- (viii) Development of softwares for different types of assignments
- (ix) Development and maintenance of data bases relevant for different types of assignments
- (x) Library
- (xi) Appointment of a technical director to whom references can be made
- (xii) Determining the methodology for drawing resources from each member firm
- (xiii) Determining compensation to member firms for resources to be drawn from them

Concept of Network

1. A common brand name includes common initials or a common name.
2. Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms.
3. Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources ?
4. Professional resources include:
 - Common systems that enable firms to exchange information such as client data, billing and time records;
 - Partners and staff;
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
 - Audit methodology or audit manuals; and
 - Training courses and facilities.
5. The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances.
6. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information ?
7. common training endeavor.
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Stock and Exchange Board of India circular no. CIR/CFD/CMD1/114/2019 dated 18th October, 2019 on resignation of statutory auditors from listed entities and their material subsidiaries:

1. Listed companies are required to make timely disclosures to investors .
 2. Audit Committee recommendations for the appointment, remuneration and terms of appointment of auditors of a listed entity.
 3. Detailed reasons to be disclosed by the listed entities to the stock exchanges in case of resignation of the auditor of a listed entity as soon as possible but not later than 24 hours of receipt of such reasons from the auditor.
 4. Resignation of an auditor of a listed entity / its material subsidiary pre-occupation may seriously hamper investor confidence ?.
- A. All listed entities/material subsidiaries shall ensure compliance with the following conditions while appointing/re-appointing an auditor:**
- (i) If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.
 - (ii) If the auditor resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter.
 - (iii) Notwithstanding the above, if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.

























