

## NEW SCHEME

**FINAL COURSE – GROUP I**  
**PAPER 3: ADVANCED AUDIT AND PROFESSIONAL ETHICS**

*Syllabus 100%*

*Question 1 is compulsory.*

*The students may attempt any five of the remaining six questions.*

Maximum Time: 3 hours

Maximum Marks: 100

### 100 A

1. a) The financial statements of Cipla & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit?

*(5 marks)*

- b) While commencing the statutory audit of Alex Co. Ltd., what would you consider as an auditor to assess risk of material misstatement and responses to such risks?

*(5 marks)*

- c) State the main features of the Qualified and Independent Audit Committee set up SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

*(5 marks)*

- d) In the course of audit of Sudev Ltd. , its auditor Mr. Raghav observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. Raghav insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. Raghav.

*(5 marks)*

2. a) As an auditor, how would you deal with the following situation:

Dawson Ltd. is a subsidiary of Amrut Ltd., whose 20% shares have been held by Central Government, 25% by Uttar Pradesh Government and 10% by Madhya Pradesh Government. Dawson Ltd. appointed Mr. Owen as statutory auditor for the year.

*(5 marks)*

b) During the course of audit of Moon Limited the auditor received some of the confirmation of the balances of trade payables outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of trade payables, there are number of trade payables of small balances except one old outstanding of ₹ 25 Lakhs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing.

*(5 marks)*

c) State the Features of Environmental Audit.

*(5 marks)*

d) xLoud, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe shops, pubs etc. located in the complex. Its 'other income' includes advertisements exhibited within/outside the premises such as hoarding, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

xLoud appointed your firm as the auditor of the entity. Being the head of the audit team, you are therefore required to draw an audit programme initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points related to a complex.

*(5 marks)*

3. a) Mr. Nivin, a Chartered Accountant in practice, delivered a speech in the national conference organized by the Ministry of Textiles. While delivering the speech, he told to the audience that he is a management expert and his firm provides services of taxation and audit at reasonable rates. He also requested the audience to approach his firm of chartered accountants for these

services and at the request of audience he also distributed his business cards and telephone number of his firm to those in the audience. Comment.

*(5 marks)*

b) Mr. Brilliant, a chartered accountant in practice, created his own website in attractive format and highlighted the contents in blue colour. He also circulated the information contained in the website through E-mail to acknowledge public at large about his expertise. However, due to shortage of time, he could not intimate his website address to the Institute.

*(5 marks)*

c) M/s PULPY, a firm in practice, develops a website “Pulpy.com”. The color 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.

*(5 marks)*

d) IKEA Co. Ltd. has applied to a bank for loan facilities. The bank on studying the financial statements of the company notices that you are the auditor and requests you to call at the bank for a discussion. In the course of discussions, the bank asks for your opinion regarding the company and also asks for detailed information regarding a few items in the financial statements. The information is available in your working paper file. What should be your response and why?

*(5 marks)*

4. a) ZEN & Co. Ltd. seeks your advice while preparing financial statements the general instructional to be followed while preparing Balance Sheet under Companies Act, 2013 in respect of current assets and liabilities.

*(4 marks)*

b) Write a short note on Objective of Quality Review.

*(4 marks)*

c) What is an agreed upon procedure engagement under SRS 4400?

*(4 marks)*

d) State the important aspects to be considered by the External auditor in the evaluation of Internal Audit Function.

*(4 marks)*

e) State the procedure for verification of Agents' Balances in the course of audit of a General Insurance Company.

*(4 marks)*

5. a) "When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section." As an expert you are required to brief the special considerations required for expressing:

- (a) Qualified Opinion;
- (b) Adverse Opinion and
- (c) Disclaimer of Opinion.

*(4 marks)*

b) Jerusalem Ltd. is interested in acquiring Supreme Ltd. The valuation of Supreme Ltd. is dependent on future maintainable sales. As the person entrusted to value Supreme Ltd. what factors would you consider in assessing the future maintainable turnover?

*(4 marks)*

c) Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. State your views on the following issues which were brought to your notice by your Audit Manager:

- (a) The bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year.

(b) The bank is a consortium member of Cash Credit Facilities of ` 50 crores to X Ltd. Bank's own share is ` 10 crores only. During the last two quarters against a debit of ` 1.75 crores towards interest the credits in X Ltd's account are to the tune of ` 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing.

*(4 marks)*

d) In assessment procedure of M/s Dominos Ltd., Income Tax Officer observed some irregularities. Therefore, he started investigation of Books of Accounts audited and signed by Mr. Dhawal, a practicing Chartered Accountant. While going through books he found that M/s Dominos Ltd. used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the Institute of Chartered Accountants of India saying Mr. Dhawal had negligently performed his duties. Comment.

*(4 marks)*

e) You are doing the tax audit of a Limited Company. After submission of Tax Audit Report, management notices that there was apparent mistake of law and due to this mistake, revised the final accounts. As a tax auditor, company seeks your opinion whether the tax audit can also be revised or not.

*(4 marks)*

6. a) Enumerate the steps to be undertaken in case of forensic audit process.

*(4 marks)*

b) Compare and explain the following:

Audit Qualification vs. Emphasis of Matter.

*(4 marks)*

c) A real-time environment is a type of automated environment in which business operations and transactions are initiated, processed and recorded immediately as they happen without delay. It has several critical IT components that enable anytime, anywhere transactions to

take place. You are required to name the components and its example of real-time environment.

*(4 marks)*

d) Enumerate the verification procedures in relation to audit of a Hire-Purchase Finance Company.

*(4 marks)*

e) Rose Ltd. owns 51% voting power in Sun Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its accounts. The shares are held exclusively with a view to their subsequent disposal in the near future. Rose Ltd. represents that while preparing Consolidated Financial Statements, Sun Ltd. can be excluded from the consolidation. As a Statutory Auditor, how would you deal?

*(4 marks)*