

**Final New Syllabus  
Paper - 3  
Advanced Auditing and WAH2  
Professional Ethics**

MAY 2019

Roll No. ....

Total No. of Printed Pages – 7

Total No. of Questions – 6

Maximum Marks – 70

**GENERAL INSTRUCTIONS TO CANDIDATES**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

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**PART – II**

**70 marks**

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

**WAH2**

**P.T.O.**

(2)

WAH2

**PART - II**

Q. No. 1 is Compulsory. Answer any **four** out of the remaining **five**.

1. (a) You are engaged by M/s Active Ltd. to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state. The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you, while determining the nature, timing and extent of examination procedure to be applied in the review of the same ? **5**
- (b) Dice Ltd. appointed two CA firms MN & Associates and PQ & Co. as joint auditors for conducting audit for the year ended 31<sup>st</sup> March, 2019. In the course of audit, it has been observed that there is a major understatement in the value of inventory. The inventory valuation work was looked after by MN & Associates but there was no documentation for the division of the work between the joint auditors. Comment on the above situation with regard to responsibilities among joint auditors. **5**

**WAH2**



(3)

**WAH2**

- (c) After accepting the statutory audit of M/s All in One Ltd., a departmental store, you became aware of the fact that management of the company have imposed certain limitations on the scope of your assurance function which may adversely affect and result in your inability to obtain sufficient appropriate audit evidence to discharge your responsibility required by the statute. Indicate the consequences and your response to the limitations imposed by the management on your scope. 4
2. (a) CA Dabu has been appointed as an auditor of M/s MAP Technocraft Ltd. to conduct statutory audit. While conducting audit, he came across some difficulties which the management could not explain to him properly and, therefore, he decided to take services of Mr. Jay, an engineering consultant. Mr. Jay performed his work and submitted details to CA Dabu. State the specific procedure which CA Dabu should follow to evaluate the adequacy of work performed by Mr. Jay. 5
- (b) ALM Associates has been appointed as auditor of M/s Hary Ltd. which acquired 55% shares in M/s Sam Ltd. on 15<sup>th</sup> October, 2018. During audit of Harry Ltd. the auditors found that the company have not prepared consolidated financial statements because on the date of acquisition the fair value of certain assets & liabilities has not been ascertained which is significant and are accounted for on estimated basis only. Help ALM Associates in framing opinion paragraph of audit report. 4

**WAH2**

**P.T.O.**

(4)

**WAH2**

- (c) A professional accountant in public practice is always subject to various threats in compliance with fundamental principles of his profession and you, as a professional accountant, is worried about engagement specific threat in your audit assignment of M/s Soft Ltd. and want to implement some measures to eliminate and reduce the same. Enumerate some engagement specific safeguards which you may introduce in your work environment to ward off such threats. **5**
3. (a) You have been appointed as an auditor of M/s Real Ltd. in which total number of directors in the board is 9. As an auditor, state the points to be considered in verification of composition of Board under Regulation 17 of The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. **6**
- (b) Banks, because of certain characteristics, are distinguished from other commercial enterprises and hence it needs special audit consideration. As an auditor of a bank, specify the various peculiarities which may necessitate special audit consideration to be taken care by you. **4**
- (c) CA Natraj, in practice, accepted an assignment as advisor and consultant to the public issue of shares by his client M/s Super Ltd. Besides helping the company as an advisor, he also underwrote the public issue of the company to the extent of 25% at a commission of 1%. Remaining shares were underwritten by banks and other financial institutions at the same rate of commission. He contends that above assignments are part of management consultancy work permitted by the council of the Institute. Do you agree with the view of CA Natraj ? Decide in the light of applicable code of conduct. **4**

**WAH2**



(5)

**WAH2**

4. (a) A newly qualified professional has received his first appointment as auditor of a large company and is very much concerned about the effectiveness of internal control and wants to assess and evaluate the control environment as part of his audit program. Towards achieving his objective, he seeks your help in knowing the Standard Operating Procedures (SOPs) of assessment and evaluation of control. 5
- (b) PQ & Co. is an audit firm with P and Q as partners. For the financial year 2018-19, the firm has been appointed as statutory auditor of M/s Mango Orchards Hotel Ltd. The audit firm is a regular customer of the hotel and the partners usually stay in the same hotel at various locations in the course of travelling for their various professional assignments. Normally, payments for such stay are settled against quarterly bills raised by the company. Give your comment with respect to the Companies Act, 2013. 4
- (c) On receipt of statutory audit report on 30-03-2018 of M/S Sunlight Ltd., a government company, C&AG on 25-05-2018 appointed M/s Veeru & Associates to conduct supplementary audit u/s 143(6)(a) of the Companies Act, 2013 . They submitted their report to C&AG as per their scope of work. The Company held its AGM on 01-09-2018 but directors did not think it necessary to discuss supplementary auditor's report and comment of the C&AG. Is the approach of the directors of Sunlight Ltd. correct ? Guide the company with the provisions related to supplementary audit. 5

**WAH2**

**P.T.O.**

(6)

**WAH2**

**Either**

5. (a) The volatility, unpredictability and pace of fast changes that exists in the automated environment today is far greater than in the past and consequently it throws more risk to business which requires them to have a need to continuously manage such risks. State various risks which an enterprise may have to face and manage. 5

**Or**

- A professional accountant is often required to give certificates or report for special purposes required by various authorities and statute and he needs to take careful evaluation of such engagement. However, issuing such special purpose certificates or reports has some inherent limitations which could limit his review and evaluation. Enumerate some of the limitations associated with such special purpose report or certificates.
- (b) In the course of your tax audit assignment u/s 44AB of the Income Tax Act, 1961 of Dream Bank Ltd. you have instructed your assistant to find out receipt of capital nature which might not have been credited to Profit & Loss Account and needs to be reported in Para 16(e) of 3CD. Your audit assistant seeks your guidance in reporting the same. Specify any four illustrative examples of such receipt. 4
- (c) You have been appointed as a forensic accountant in M/s Secure Ltd. to carryout various analysis as a part of your assignment to arrive at a particular result. Specify the various analysis which might have to be carried out by you to arrive at your result. 5

**WAH2**

(7)

**WAH2**

6. (a) Pearl Ltd. is an exporter of precious and semi-precious stones. The turnover of the company is ₹ 150 crore, out of which ₹ 105 crore is from export business and remaining ₹ 45 crore from domestic sales. Amount received from export business is all in foreign currency. Directors of Pearl Ltd. is of the opinion that cost audit is not applicable to their company as maximum revenue has been generated from export business. Give your opinion. 4
- (b) You have been appointed as an auditor of ABC Insurance Co. Ltd. and found that M/s PQR Ltd. got their plant & Machinery insured on 01-10-2018 but the amount of premium has been paid by them on 15-10-2018. In the meanwhile, on 10-10-2018 a fire has broken out in the factory and the company filed a claim for damages of plant & machinery with the Insurance company. Advise the insurance company in this regard. 5
- (c) CA Sant, a newly qualified professional with certificate of practice, approached CA Pant, the auditor of his father's company M/s Max Ltd., to allow him to have some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA Pant allowed him to sit in his office for 6 month and allotted a small chamber with other office infrastructure facility. In the course of his association with CA Pant's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT and GST return and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA Pant's office he did not get any salary or share of profit or commission but only re-imbusement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 3,00,000 by CA Pant for his association out of gratitude. 5
- Examine the case in the light of code of professional misconduct.

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**WAH2**