By CA Ravi Taori

Paper Analysis / Suggested Answers / Common Mistakes

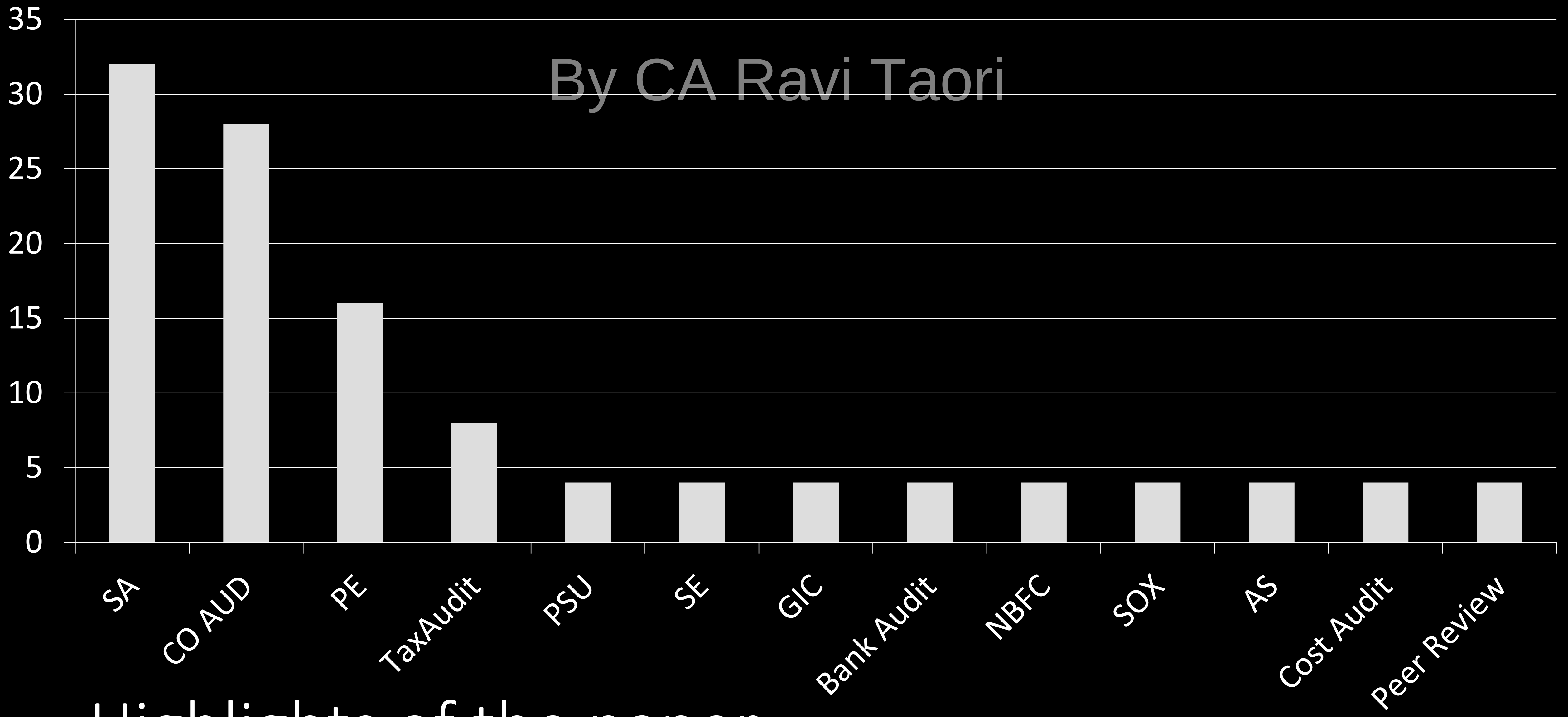
CA Final May 2016 Exams

By CA Ravi Taori

- Generally audit paper from past 4 attempts was of 7 pages but this time it increase to 11 pages (57% increase)
- Questions of around 50 marks were from PM rest of 70 marks questions were new from module / SAs

Level of Questions	Marks
Easy	61
Medium	22
Difficult	37
Grand Total	120

Highlights of the paper



Highlights of the paper

1. (a) Mr. Z who is appointed as auditor of Elite Co. Ltd. wants to use confirmation request as audit evidence during the course of audit. What are the factors to be considered by Mr. Z when designing a confirmation request ? Also state the effects of using positive external confirmation request by Mr. Z. 5

Factors to consider when designing confirmation requests include: (From SA 505)
 The assertions being addressed.
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 Specific identified risks of material misstatement, including fraud risks.
 The layout and presentation of the confirmation request.
 Prior experience on the audit or similar engagements.
 The method of communication (for example, in paper form, or by electronic or other medium).
Management’s authorisation or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management’s authorisation.
 The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).

When a Response to a Positive Confirmation Request is Necessary to Obtain Sufficient Appropriate Audit Evidence

In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Such circumstances may include where: The information available to corroborate management’s assertion(s) is only available outside the entity. Specific fraud risk factors, such as the risk of management override of controls, or the risk of collusion which can involve employee(s) and/or management, prevent the auditor from relying on evidence from the entity

Letter Head of the Company

1. Layout & Presentation
Letter Head Vs Blank

To

Customer
Address

2. Management Encouragement
More Encouragement—More Response

Subject:- Confirmation Request

3. Assertions

Existence – Debtor Balance
Occurrence-Transactions
Completeness – Total Transactions

Our annual audit is being conducted by ABC & Associates; it's their regular audit procedure to call for confirmations. This time you account is selected for confirmation process. This doesn't change or has any impact on our legal understandings & balances. It has nothing to do with discounts and other issues.

4. Ability to Confirm
Knowledge / Policy / Tools (Software)

Balance / Transaction / Cheque / Agreement etc as per our records is.......

5. Management Authorisation
Higher Authority—More Response

Please write balance as per your records in cut out area given below

6. Risk of Material Misstatement

Low Risk—Negative Confirmation Request

High Risk—Positive Confirmation Request

7. Method of Communication

Paper Form / Electronic Form / Any Other Form

8. Prior Experience
When it should be sent / How many should be selected

Positive Confirmation Request

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Positive confirmation request – Party has to indicate whether they agree or disagree with the information in the request, or they have to provide information. (any either case reply is requested)
Positive confirmation request is necessary, alternative audit procedures will not provide sufficient evidence. (Risk of management override controls (Cheques issued / loan taken from bank) / Risk of collusion (Purchase Manager & Store keeper & Supplier) / Only outside evidence is available (Goods sent to Consignee, no records at stores)

If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

(b) R & M Co. wants to be alert on the possibility of non-compliance with Laws and Regulations during the course of audit of SRS Ltd. R & M Co. seeks your guidance for identifying the indications of non compliance with Laws and Regulations. 5

Indicators of non compliance (From SA 250)

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When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:

Could be non compliance (C^2-PUPATE)

- **Payments for goods or services made other than to the Country from which the goods or services originated. (Non Compliance of Customs Act)**
- **Unusual Payments in Cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. (May be bribe)**
- **Payments for unspecified services or loans to consultants, related parties, employees or government employees. (Non Compliance of Company Act)**
- **Unauthorised transactions or improperly recorded transactions.(Secrets payments against law Eg No approval as per company law etc)**
- **Purchasing at Prices significantly above or below market price. (Non Compliance of Income Tax Act)**
- **Sales commissions or Agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received. (Non compliance of IRDA Regulations etc)**
- **Unusual Transactions with companies registered in tax havens (Non Compliance of Income Tax**

Post non compliance matters

- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Unusual payments towards legal and retainership fees.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Adverse media comment.

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(c) The management of CSITA Ltd. has prepared its summary financial statements for the year 2015-16 to be provided to its investors. Consequently the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements ? 5

a. **Procedure to do Audit of Summary (From SA 810)**
b. **As soon as auditor gets summary financial statement he should see whether e summary financial statements "adequately disclose their summarised nature and identify the audited financial statements"**
c. **Whether the summary financial statements adequately "disclose the applied criteria"**
d. **Evaluate whether the summary financial statements are "prepared in accordance with the applied criteria".**
e. **When summary financial statements are not accompanied by the audited financial statements:-FST should describe from whom or where the audited financial statements are available or legal restrictions if any.**
f. **Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty.**
g. **Compare / Agree / Recalculate amounts & disclosures in summary with audited regular financial statements.**
h. **Whether summary contains necessary information keeping in mind purpose of summary (Eg if summary FST is used for goodwill valuation then P&L should specify abnormal items / non recurring / non business etc) and it should not be misleading (They cannot specify fixed assets & investments or current assets & fictitious assets etc).**

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(d) The financial statements of Ace Ltd. have been prepared by the management in accordance with special purpose frame work to meet the financial reporting provisions of a regulator. As an auditor, what considerations would be undertaken while planning and performing an audit in case of such special purpose frame work ? 5

Considerations for Planning and Performing Audit in case of Special Purpose Framework: As per SA 800 "Special Considerations-Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks", financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed.

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While planning and performing audit of such special purpose framework based company, the auditor should consider below mentioned factors:

(i) To obtain an understanding of the entity's selection and application of accounting policies. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements.

(ii) Compliance of all SAs relevant to audit, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.

(iii) Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor.

For example, in SA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.

(iv) In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

(v) Communication with those charged with governance in accordance with SAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility.

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2. (a) ENP Ltd. engaged an actuary to ascertain its employee cost, gratuity and leave encashment liabilities. As an auditor of ENP Ltd., you would like to use the report of the actuary as an audit evidence. How would you evaluate the work of the actuary ? 4

Using the work of a management's expert (FROM SA 500)

By CA Ravi Taori

When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes,:

(a) Evaluate the competence, capabilities and objectivity of that expert;

(b) Obtain an understanding of the work of that expert; and

(c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Key to remember

Using the work of a management's expert

Before relying on work done by managements expert, check following things (Similar to SA 620)

→Competence

→Capable

→Objectivity

→Obtain required understanding of the field & experts work

→Appropriateness of experts work

(Data used / Methods used / Assumptions / Professional Standards / Legal requirements / whether expert has area of specialty relevant for audit)

(b) KSY & Co. Chartered Accountants is an audit firm having two partners CA K and CA Y. KSY & Co. is already holding appointment as auditors of 36 public companies. Total Limit 2 x 20 = 40 4

KSY & Co. seeks your advice in the following situations :

(i) KSY & Co. has been offered the appointment as Auditors of 7 more Private Limited Companies. Of the seven, one is a company with a paid up share capital of ₹ 150 crores, five are "Small companies" as per the Act and one is a " Dormant Company". Out of 7 only one will be counted, Private Company Having paid up capital more than 100 crores

(ii) Would your answer be different, if out of those 7 Private Companies, 3 Companies have paid up capital of ₹ 90 crores each ? No answer will not change as paid up capital limit is 100 crores and they will be still within limit

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Section 141(3)

Ceiling Limit

a) If CA is in full time employment his limit will be ZERO.
b) If he is in part time practice, then also limit is ZERO
c) Limit of firm will be 20 multiplied by number of partners
d) If CA is partner in multiple firms then, total audits in his name should not exceed limit of 20.
e) Limit of one CA cannot be used by another CA, number of signatures of each CA cannot exceed 20.
f) Exemptions while counting OPC / Dormant Co / Small Co / Pvt Co paid up capital below 100 crores.

Further there are ICAI Guidelines 2008, which says ceiling limit should be 30 including all types of companies. So if we take combined interpretation, then CA can do 20 audits excluding 4 types of companies specified above and 30 companies including 4 types companies specified. But this point can be given at the end as additional knowledge. Solve problems as per limit of 20 only, unless specifically mentioned about guidelines.

(c) What are the General Steps in the conduct of Risk based audit ? 4

By CA Ravi Taori

General Steps in the Conduct of RBA – 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:

--Understand auditee operations to identify and prioritize risks
--Assess auditee management strategies and controls to determine residual audit risk
--Manage residual risk to reduce it to acceptable level
--Inform auditee of audit results through appropriate report

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 are the key factors to an understanding of agency risks. Likewise, a performance review of the audited entity's delivery of service by comparing expectations against actual results may also aid in understanding agency operations.

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Assessment of management risk strategies and controls is the determination as to how controls within the auditee are designed. The role of internal audit in promoting a sound accounting system and internal control is recognized, thus the SAI should evaluate the effectiveness of internal audit to determine the extent to which reliance can be placed upon it in the conduct of substantive tests.

Management of residual risk requires the design and execution of a risk reduction approach that is efficient and effective to bring down residual audit risk to an acceptable level. This includes the design and execution of necessary audit procedures and substantive testing to obtain evidence in support of transactions and balances. More resources should be allocated to areas of high audit risks, which were earlier known through the analytical procedures undertaken.

The results of audit shall be communicated by the auditor to the audited entity. The auditor must immediately communicate to the auditee reportable conditions that have been observed even before completion of the audit, such as weaknesses in the internal control system, deficiencies in the design and operation of internal controls that affect the organization’s ability to record, process, summarize and report financial data.

(d) State the key requirements of auditing standards of Public Company Accounting over sight board. 4

Public Company Accounting Oversight Board (PCAOB) Established in an independent private board, to regulate the accounting profession, to be dominated by executives and experts from outside the accounting profession (a self-regulatory body so far). The PCAOB requires the Public Accounting Firms to register with the Board and to follow certain regulations for audit of Public Companies.

Auditing Standards of the Public Company Accounting Oversight Board (PCAOB) has the following key requirements:

♦ The design of controls-relevant assertions related to all significant accounts and disclosures in the financial statements;

♦ Information about how significant transactions are initiated, authorized, supported, processed, and reported;

♦ Enough information about the flow of transactions to identify where material misstatements due to error or fraud could occur;

♦ Controls designed to prevent or detect fraud, including who performs the controls and the regulated segregation of duties;

♦Controls over the period-end financial reporting process;

♦Controls over safeguarding of assets;

♦ The results of management's testing and evaluation.

3. (a) KG Ltd. wants to provide prospective Financial Information to its investors with information about future expectations of the company. You are engaged by KG Ltd. to examine the Projected Financial Information and give report thereon. What will you consider in assessing the presentation and disclosure of the prospective Financial Information and the underlying assumptions ? 4

Presentation & Disclosure of Prospective Financial Information (FROM SAE 3400)

C-DRAMA

By CA Ravi Taori

The assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;(Eg Fuel prices has material impact on aviation industry, further there may be high degree of uncertainty regarding the same so it should be appropriately described)

(a) "The date as of which the prospective financial information was prepared" is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;(Eg Date is very important as changing events and information can have big impact on PFI and user can understand events till which date are taken into consideration)

(b) The accounting policies are clearly disclosed in the notes to the prospective financial information;(Eg so that is easy to understand calculations)

(c) There is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements and whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.(Eg Users should be aware about changes and their impact on results)

(d) The basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and(Eg Maximum / Minimum of past are used or Deviation of 5-10% adhoc is taken etc.)

(b) M/s IO Ltd. is registered with Registrar of Companies on 1st of May 2014. The Company's 27% of paid up share capital is held by Central Government; 28% by State Government and the remaining 45% by public. The Board of Directors appointed RMG, Chartered Accountants as statutory auditors for the financial year 2014-15 by passing a resolution at the Board Meeting held on 25th May, 2014. 4

Comment whether appointment is valid or not.

Appointment is not valid.
It is government company and right to appoint first auditor is with C&AG

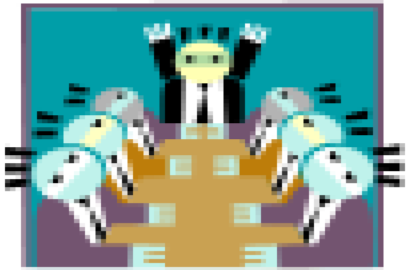
FIRST AUDITOR OF GOVERMENT COMPANY

COMPANY INCORPORATION

Within 60 Days

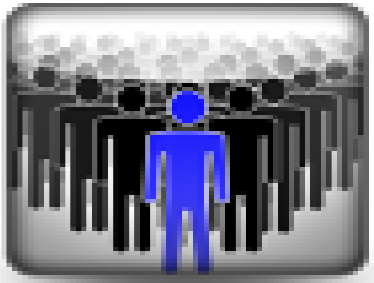
CAG

Within 30 Days



Board of Directors

Within 60 Days



Shareholders @ EGM

(c) M/s ME Ltd. is a manufacturing company of M/s Bars and Rods. The turnover of the company for financial year 2014-15 was ₹ 870 crores. The audit committee has appointed M/s MK Associates, Chartered Accountants as an internal auditor of the company for the financial year 2015-16. As an auditor of ME Ltd., draw out the internal audit plan specifying the coverage of area. 4

Internal Audit Programme for P&M / Tools / Dies

By CA Ravi Taori

→Check whether internal control covers following things

(Flow of answer Register-Purchase-Sale-Other Points)

Separate Register for Hired Assets, Owned Assets, Jointly Owned Assets / Procedure for purchasing new assets (Written Authority, Work Order, Vouchers Etc) / Independent Checking of Purchases by authorised person / Recording of movements of assets on various sites after purchase / Authorisation before declaring asset obsolete / scrapping & selling / After procedures proper recording of all additions & disposals / Periodic Inspection / Reconciling register with physical inspection & nominal ledger (general ledger) Regular review of security arrangements & insurance cover

(Register)

→Review of Asset Register (Date / Cost / Location / Depreciation etc)

→Code Register (Distinct Code for each asset or identification & maintenance)

(Purchase)

→Cost Register & Journal Register (to verify purchases)

→Movement Register (Proper recoding for movable assets to ensure physical verification & control)

(Sale)

→Asset Disposal Register (After proper Advice / Authorisation / Sale Records)

By CA Ravi Taori

(Others)

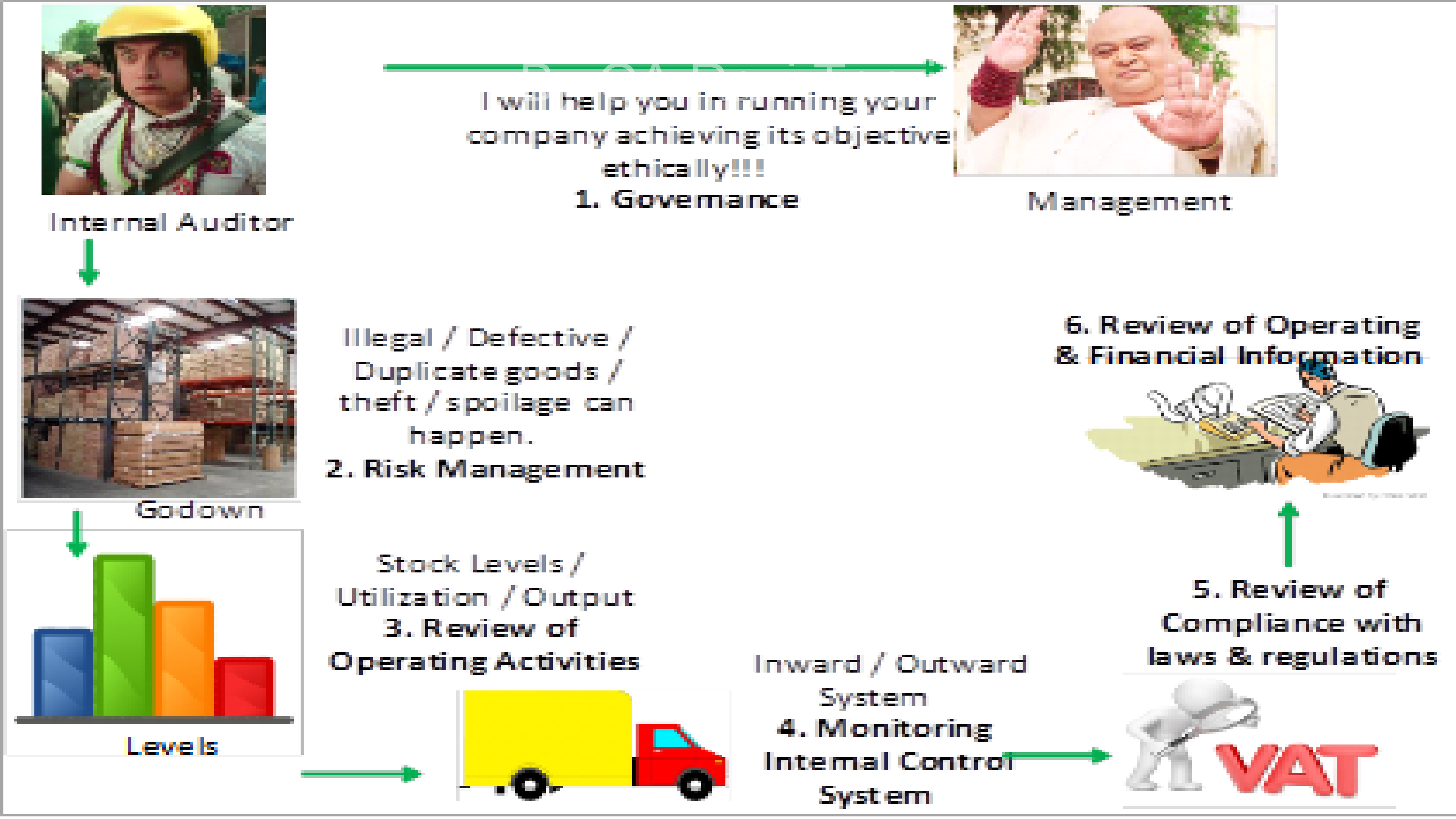
→Review of Maintenance Activity (Performance of Maintenance Department)

→Spare Part Register (Availability of Spare Parts)

→Review of Obsolescence

→Review of R&D (Relevance for operations / maintenance / prevention of early obsolescence)

→Physical Verification



Internal Auditor
I will help you in running your company achieving its objective ethically!!!
1. Governance
Management
Godown
Illegal / Defective / Duplicate goods / theft / spoilage can happen.
2. Risk Management
6. Review of Operating & Financial Information
Levels
Stock Levels / Utilization / Output
3. Review of Operating Activities
Inward / Outward System
4. Monitoring Internal Control System
5. Review of Compliance with laws & regulations
VAT

(d) The Board of Directors of ACP Ltd. has recommended the dividend of 15% on paid up share capital of ₹ 450 crores for the year ended 31st March, 2015, at their meeting held on 1st of May, 2015 when the accounts for the financial year 2014-15 were approved. The Board of Directors when they met on 7th July, 2015 for the review of first quarter accounts, they realized that results were negative for the first quarter. Therefore, the Board has decided to rescind their decision to recommend dividend.

The notice for AGM to be held on 14.8.2015 was sent on 15th July, 2015 without any recommendation for dividend.

At the AGM, the members asked the management how they can rescind the declaration of dividend once recommended.

Comment.

Section 123 & Clause 80 of Table F→Dividend once declared becomes debt, as it is not yet declared in AGM it can be reversed by board of directors.

4. (a) Mr. Arjun, a newly qualified Chartered Accountant started his practice wants to specialize in Audits of corporates and requires your advice on criminal liabilities of an auditor under the Companies Act, 2013. Kindly guide him. 4

Explain Section 34:- if prospectus includes any statement untrue (fake sales) or misleading (other income added to sales) then every person who authorises (auditor is one of them) issue of prospectus is liable U/s 447

By CA Ravi Taori

Protection if proved that it is immaterial or authoriser had reasonable ground to believe that information is true & not misleading.

Explain Sec 147:-

No Compliance by Company (139-146) Min 25,000 to Max 5,00,000

No Compliance by officer (139-146) Min 10,000 to Max 1 lakhs

No Compliance by Auditor (139, 143,144,145) Min 25,000 to Max 5,00,000 | If fraud Min 1,00,000 Max 25,00,000 + Imprisonment of 1 year or both | May have to refund fees | Party to pay damages | Responsibility Joint & Several on all partners | Govt can set up authority for recovery

Explain Sec 447:- Imprisonment Min 6 months (if public interest is involved then minimum 3 years) Max 10 years | Fine up to 3 times amount

Explain Sec 448:- If any return , report, certificate, financial statement, prospectus, etc under company act 2013 by any person (includes auditor) make statement which is false or omission which is material will be liable u/s 447

(b) During the course of audit of M/s CT Ltd. for the financial year 2014-15, it has noticed that ₹ 2.00 lakhs of employee contribution and ₹ 9.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that ₹ 4.00 lakhs only has been deposited with ESIC department during the year ended 31st March, 2015. The Finance Manager informed the auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. **4**

CARO Clause 7

Comment as a statutory auditor.

CARO 16 Clause 7 (Same clause as per CARO 15)

1st Comment→ Regularity in depositing undisputed statutory dues including (PF / ESIC / Direct Taxes / Indirect Taxes etc

2nd Comment→ Arrears of outstanding statutory dues outstanding more than 6 months as on balance sheet date

3rd Comment→ Details of taxes not been deposited on account of any dispute, specify amount & forum

(c) Kalmani & Co. Chartered Accountants have been appointed by C & AG for performance audit of a sugar industry. What factors should be considered by Kalmani & Co., while planning a performance audit of a sugar industry ? 4

By CA Ravi Taori

Factors to be considered while planning the Performance Audit: While planning a performance audit of Sugar Industry, the auditors should take care of certain factors which are listed below:

(x) to prepare a written audit plan.

(ix) to provide sufficient staff and other resources to do the audit.

(vi) to identify significant findings and recommendations from previous audits that could affect the current audit objectives. Auditors should determine if management has corrected the conditions causing those findings and implemented those recommendations. ***(Powers Cuts & Breakdowns)***

(i) to consider significance and the needs of potential users of the audit report. ***(Capacity Utilization / Cost of Production)***

(ii) to obtain an understanding of the program to be audited. ***(MANREGA / Disinvestment of companies)***

(iii) to consider legal and regulatory requirements. ***(Central / State rules for production)***

(iv) to consider management controls. ***(Internal Control System)***

(v) to identify criteria needed to evaluate matters subject to audit. ***(Other States)***

(vii) to identify potential sources of data that could be used as audit evidence and consider the validity and reliability of these data, including data collected by the audited entity, data generated by the auditors, or data provided by third parties.
(Collector Offices / Industry Association)

(viii) to consider whether the work of other auditors and experts may be used to satisfy some of the auditors' objectives. ***(Excise Auditors)***

(d) B Pvt. Ltd. started stock broking activities in 2015 and for which it acquired membership of a stock exchange for ₹ 150 lakhs. While finalizing the accounts, the company disclosed the above amount under fixed assets schedule as "Stock Exchange Membership Rights'. The company also did not write off any amount since the rights would enable the company to perpetually carry on its business. **4**

As a statutory auditor how would you deal with the above situation ?

It is a fixed asset.
It should be treated as intangible asset.
AS 26 is applicable.
Maximum useful life can be 10 years, if there is persuasive evidence it can be more also. But it should be finite.
Motilal Oswal writes-off over period of 5 years.

5. Comment on the following with reference to CA Act, 1949.

(a) Mr. Ankit, who passed his CA examination of ICAI on 18th July, 2015 had started his practice from 15th August, 2015. On 16th August, 2015 one candidate approached him for articleship. Mr. Ankit decided to give her 1% profits of his CA firm in addition to monthly stipend. She agreed to take both 1% of profits and prescribed stipend. The ICAI had sent a letter to Mr. Ankit objecting the payment of 1% profits. Mr. Ankit replied stating that sharing 1% profits is over and above the stipend to help the articled clerk to overcome her financial crisis. **4**

Is Mr. Ankit liable for Professional mis-conduct ?

First Schedule, Part I, Clause 2 is applicable.

By CA Ravi Taori

Sharing can be done only with persons prescribed in clause.

Article is not covered in the list, hence it is not allowed.

It is a professional misconduct.

(b) Mr. X is a practicing Chartered Accountant. Mr. Y is a practicing Advocate representing matters in the court of law. X and Y decided to help each other in the matters involving their professional expertise. Accordingly, Mr. X recommends Mr. Y in all litigation matters in the court of law and Y consults X in all matters relating to finance and other related matters, which comes to him in arguing various cases. Consequently they started sharing profits of their professional work. Is Mr. X liable for professional misconduct ? 4

First Schedule, Part I, Clause 2 & Clause 3 are applicable.

By CA Ravi Taori

Sharing can be done only with persons prescribed in clause.

Advocate is covered in the list, hence it is allowed.

It is not a professional misconduct.

(c) CA Raghu is practicing in the field of Income-tax over a period of 12 years. He has gained experience in this domain over others. 4

Sam, a student of Chartered Accountancy Course is very much impressed with the knowledge of CA Raghu. He approached CA Raghu to take guidance on some topics of Income-tax related to his course. CA Raghu, on request decided to spare time and started providing private tutorship to Sam and some of his friends alongwith. However, he forgot to take specific permission from the ICAI, for such private tutorship, First Schedule, Part I, Clause 11 is applicable.

By CA Ravi Taori

Private Tutorship is covered in general permission, so prior approval is not required.

So it is not a professional misconduct, but if number of hours exceed 25 hours then CA will be considered to be in part time practice.

(d) CA P and CA Q are running a firm of Chartered Accountants in the name of M/s. PQ & Co. On 21.06.2015 they included the name of CA R a practicing CA, without his knowledge, as a partner while submitting an application for empanelment as auditors for public sector banks branches to the institute. 4

Whether CA P and CA Q are professionally liable for misconduct ?

Second Schedule, Part II, Clause 3

By CA Ravi Taori

If false information is sent to ICAI / Committees / QRB etc then guilty of professional misconduct.

Here false information is sent to institute (ICAI) hence guilty of professional misconduct.

6. (a) K Ltd. changed its employee remuneration policy from 1st of April 2015 to provide for 12% contribution to provident fund on leave encashment also. The leave encashment policy provides that employees can either utilize or encash it. As at 31st March, 2016, the company obtained an actuarial valuation for leave encashment liability. However, it did not provide for 12% PF contribution on it. The auditor of the company wants it to be provided but the management replied that as and when the employees availed leave encashment, the provident fund contribution would be made. It is further contended that this treatment is correct as it is not sure whether employees will avail leave encashment or utilize it. 4

Comment.

AS 15 is applicable for accounting of employee benefits. PF on leave encashment is also a employee benefit. It is long term employee benefit.

Provision for leave encashment means expected cash outflow in leave encashment in future, they will have to pay PF contribution also (even this is expected).

Company should make provision.

(b) While auditing Suryakiran Insurance Ltd. as on 31st March, 2015, you observed that there is one policy which has been issued on 25th March, 2015 towards fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. It is the usual practice maintained by the company in respect of big customers that they would issue the policy before receiving the premium. The premium money was collected on 5th of April 2015. It is further noticed that there was a fire accident in the premises of insured on 31st March, 2015 and a claim was lodged. The insurance company also provided for the same. 4

How would you respond ?

As per Sec 64 VB of Insurance Act 1938, date of policy can start only after receiving premium through cash or cheque.

Policy can never start from back dated time. So in this case policy should start from 5th April and not 25th March so accident of 31st March will not be covered by policy. Many companies take deposit from big clients to resolve this matter.

(c) ABC Pvt. Ltd. and XYZ Pvt. Ltd. are the Companies in which public are not substantially interested. 4

During the previous year 2015-16, ABC Pvt. Ltd. received some property being shares of XYZ Pvt. Ltd. The details of which are provided below :

No. of Shares	1000
Face Value	₹ 10 per share
Aggregate Fair Market Value	₹ 1,00,000
Consideration Value	Nil

As the tax auditor how would you deal with the situation ?

It should be reported under Clause 28 of Form CD.
Explain Clause 28. Explain how auditor will verify this information.

(d) You are appointed as tax auditor of Mr. X, a practicing advocate in Agra. During the previous year he collected Service Tax of ₹ 7 lakhs but utilized for personal use. The Commissioner of Central Excise issued a show cause notice to him why the tax collected by him is not deposited to the Government account. He appeared before the Commissioner and stated his inability to pay the sum due to financial crisis. The proceedings are still pending. Mr. X requests you not to disclose his Service Tax registration details while filling particulars to be furnished in Form No. 3CD. 4

As a tax auditor how would you deal with this ?

Form 3CD Clause 4 requires that registration number under indirect taxes to be disclosed. So we will have to qualify our report on form 3CD if it is not disclosed

7. Write short notes on any **four of the following :**

(a) Deferred Taxation 4

(b) Exceptions to the General Rule of treating advances as Non performing Assets. 4

(c) Advantages that accrue because of cost audit. 4

(d) Matters to be included in Auditor's Report in case of NBFC not accepting deposits. 4

(e) Areas to be reviewed in the assessment of independence of the practicing unit, while conducting peer review. 4