SUGGESTED ANSWERS-MAY 2019, NEW SYLLABUS

Question 1:

(a) You are engaged by M/s Active Ltd. to examine & report on prospective financial information which the management of the company has prepared for presentation at Investor Meet Programme organized by a State Government to attract investment in their state. The company in its vision document descripted various plans & proposals of the company with projected financial goals and means to achieve the same & various benefits accruing to the economic development of the state. What important matters will be considered by you, while determining the nature, timing & extent of examination of audit procedure to be applied for the review of the same?

(5 Marks)

(b) Dice Ltd. appointed two CA firms MN & Associates and PQ & Co. as joint auditors for conducting audit for the year ended 31st March 2019. In the course of audit, it has been observed that there is a major understatement in the value of the inventory. The inventory valuation work was looked after MN & Associates but there was no documentation for the division of work between the joint auditors. Comment on the above situation with regard to responsibilities among the joint auditors. **(5 Marks)**

(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 & your response to the limitation imposed by the management on your scope. **(5 Marks)**

(a)

Answer	➢ Factors affecting the nature, timing and extent of examination procedures: When determining the nature, timing and extent of examination procedures, the auditor should consider matters such as: **Business of Entity & Team:** • The engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information. (Less experience more NTE) • The knowledge obtained during any previous engagements; (No previous experience more NTE) • The stability of entity's business; and (Unstable business more NTE) **Management** • Management's competence regarding the preparation of prospective financial information; (Management is less competent more NTE) • The extent to which the prospective financial information is affected by the management's judgment; (More subjectivity more NTE) • The sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;(Less reliable data more NTE) • The likelihood of material misstatement; (Complicated & new area more NTE)

(b)

Answer	**Part I -- Relevant Standards & Laws**
	▪ SA 299 on, "Responsibility of Joint Auditors"
	Part II -- Requirements of Relevant Standards & Laws

- **Documentation for Division of Work between the Joint Auditors:** As per SA 299 "Responsibility of Joint Auditors", where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves.

  The division of work would usually be in terms of audit of identifiable units or specified areas.

  In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure or with reference to periods of time.

  Certain areas of work, owing to their importance or owing to the nature of the work involved, would not be divided and would be covered by all the joint auditors.
  The division of work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity.

Division of audit areas

By Mutual Discussion
1. Business Units
2 .Specified Areas.
3 .Assets or Liab.
4 .Inc or Exp

Common audit areas

Due to:
1. Their imp .
2. Nature.
Would not be divided & Covered by all JA

Further, each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures. It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.

Each joint auditor is entitled to rely upon the other joint auditors for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.

J.A Is Entitled to assume that

a. The other J.A's have brought to the Notice of said joint auditor:
1.Any Departure from app. FRF or
2.Sig. observations,
relevant to their responsibilities .

b. 1.Other J.A's have performed their part of the audit worK.
2.Work has been performed as per Relevant SA's (ICAI).

c. Any Review/Tests by other J.A to ascertain the Same is NOT NECESSARY.

Part III -- Facts

- In the present case, there was no documentation for the division of work and the responsibility of revenue aspect was delegated to DEF & Co., in which gross understatement of revenue has been observed. ABC & Co. has not reviewed the work as they have put their reliance on the orc performed by DEF & Co.

Part IV -- Conclusion

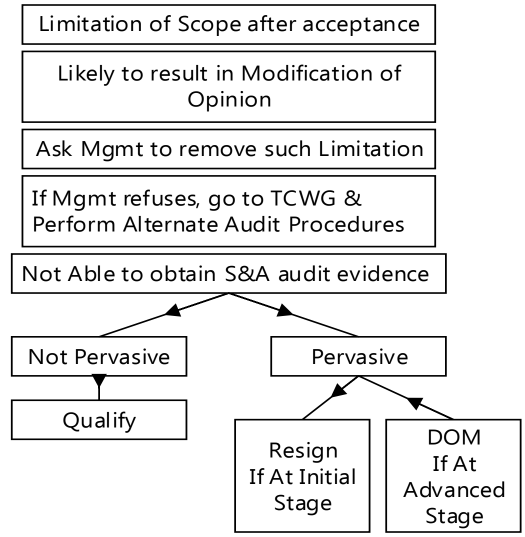
- Hence, there is a violation of SA 299 as the division of work has not been documented. In the normal course MN & Associates. will be held liable for negligence. If they refuse to accept sole responsibility for the fault, PQ & Co. have to prove by other ways and means of evidences that the particular area of audit was exclusively done by MN & Associates only.

Note : Point 5
1.Documentation helps in Avoiding dispute or confusion among the J.A regarding the scope of work.

(c)

Answer ***Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement***

- If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.



- If management refuses to remove the limitation referred to in above paragraph, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
- If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
    - If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
    - If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
        - Withdraw from the audit, where practicable and possible under applicable law or regulation; or
        - If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.
- If the auditor withdraws as discussed above, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion

Question 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 Marks)**

(b) ALM Associates has been appointed as auditor of M/s Hary Ltd. which acquired 55% shares· in M/s Sam Ltd. on 15th 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 Marks)**

(c) A professional accountant in public practice is always subject to 5 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 Marks)**

(a)	
Answer	The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:

	➢ if that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.
	➢ If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and (iii) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;
	➢ If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall:
	    ∇ Agree with that expert on the nature and extent of further work to be performed by that expert; **or**
	    ∇ Perform further audit procedures appropriate to the circumstances.

(b)

Answer	**Adverse Opinion :** We have audited the accompanying consolidated financial statements of M/s Harry Ltd. (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 2XXX,the consolidated statement of profit and Loss, consolidated statement of changes in equity{where applicable} and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "consolidated financial statements"). In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (consolidated position of changes in equity)){where applicable} and the consolidated cash flows for the year then ended. **Basis for Adverse Opinion** As explained in Note X, the Group has not consolidated subsidiary M/s Sam Ltd. that the Group acquired during 20XX because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on estimated basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had M/s Sam Ltd. been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined. We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group, its associates and jointly controlled entities, in accordance with the Code of Ethics and provisions of the Companies Act, 2013 that are relevant to our audit of the consolidated financial statements in India under the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the requirements under the Companies act, 2013. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

(c)

Answer	➢ **Engagement-specific safeguards in the work environment may include**
	    ∇ Consulting **an independent third party, such as a committee of independent directors**, a professional regulatory body or another professional accountant.
	    ∇ **Discussing ethical issues with those charged with governance** of the client.
	    ∇ **Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.**

	- Involving an **additional professional accountant** to review the work done or otherwise advise as necessary - Involving **another firm to perform or re-perform part of the engagement.** - **Rotating senior assurance team personnel.**

Question 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 Marks)**

(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 Marks)**

(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 Marks)

Answer:

(a)

Answer	➢ **Verification regarding Composition of Board [Regulation 17]** - The auditor should ascertain whether, throughout the reporting period, the Board of Directors comprises an optimum combination of executive and non-executive directors, with at least one-woman director and not less than 50% of the Board of Directors comprising non-executive directors. The minutes of the Board of Directors' meetings should be verified to ascertain whether a director is an executive director or a non-executive director. - The auditor should also verify that where the Chairperson of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case the listed entity does not have a regular non-executive Chairperson, at least half of the Board of Directors should comprise independent directors. Further, if the regular non-executive Chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the listed entity shall consist of independent directors. In determining the number of requisite independent directors and/or non-executive directors, the fraction, if any, in the number of one-half or one-third as the case may be, should be rounded off. Since the terms in this clause refer to 'not less than' and 'at least', it would be appropriate to compute the number by rounding off any fraction to the next integer. For example, in a Board headed by a non-executive Chairman and comprising of six other directors (i.e., seven directors), the independent directors should be three or more. - Annual disclosure submitted by the directors to the Board of Directors may be examined for this purpose. If the Board of Directors has followed any particular procedure(s) to ascertain the independence of directors, the auditor should examine the same. Effect of changes in the composition of the Board and/or its Chairman and its impact on compliance throughout the reporting period should also be examined. - An independent non-executive director, apart from receiving remuneration, should not have had/ should not have any material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year. Also, such independent director, either by

	himself or with any of his relatives should not be a material supplier, service provider or customer or a lessor or lessee of the listed entity and should not also be a substantial shareholder of the listed entity. In determining 'not a substantial shareholder', he (together with his relatives) should not own 2% or more of total voting power of the listed entity.

(b)

Answer	➢ **Special audit considerations arise in the audit of banks because of:** ∀ the particular nature of risks associated with the transactions undertaken; ∀ the scale of banking operations and the resultant significant exposures which can arise within short period of time; ∀ the extensive dependence on IT to process transactions; ∀ the effect of the statutory and regulatory requirements; ∀ the continuing development of new products and services and banking practices which may not be matched by the concurrent development of accounting principles and auditing practices. Evolution of technology and providing services through Net Banking and Mobiles has exposed banks to huge operational and financial risk. The auditor should consider the effect of the above factors in designing his audit approach. It is imperative for Branch Auditor and SCAs to have detailed knowledge of the products offered and risks associated with them, and appropriately address them in their audit plan to the extent they give rise to the risk of material misstatements in the financial statements. In today's environment, the banks use different applications to carry out different transact ions which may include data flow from one application to other application; the auditor while designing his plans should also understand interface controls between the various applications.

(c)

Answer	➢ **Underwriting Services:** **Relevant Provisions:** The Council of the Institute of Chartered Accountants of India (ICAI) pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 has passed a resolution permitting a Chartered Accountant in practice to render entire range of "Management Consultancy and other Services". A clause of the aforesaid resolution allows Chartered Accountants in practice to act as advisor or consultant to an issue of securities including such matters as drafting of prospectus, filing of documents with SEBI, preparation of publicity budgets, advice regarding selection of brokers, underwriters etc., advice regarding post issue activities, like, follow up steps for listing of instruments, dispatch of certificates, refunds etc. It is, however, specifically stated that Chartered Accountants in practice are not permitted to undertake the activities of broking, underwriting and portfolio management services. ➢ **Facts of the case:** In the given case, CA Natraj, who is in practice, accepted an assignment as advisor & consultant to the public issue of shares by his client M/s Super Ltd. He also underwrote the public issue to the extent of 25% of the issue at a commission of 1%. ➢ **Conclusion:** Therefore, CA Natraj would be guilty of misconduct under the Chartered Accountants Act, 1949 as a chartered accountant in practice is not permitted to perform underwriting for his clients.

Question 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 Marks)**

(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 Marks)**

(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 Marks)**

(a)

Answer	➢ **Standard Operating Procedures (SOPs):** A well-defined set of SOPs helps define role, responsibilities, process & controls & thus helps clearly communicate the operating controls to all touch points of a process. The controls are likely to be clearly understood & consistently applied even during employee turnover; ∀ **Enterprise Risk Management:** An organization which has robust process to identify & mitigate risks across the enterprise & its periodical review will assist in early identification of gaps & taking effective control measures. In such organizations, surprises of failures in controls is likely to be few. ∀ **Segregation of Job Responsibilities:** A key element of control is that multiple activities in a transaction/decision should not be concentrated with one individual. Segregation of duties is an important element of control such that no two commercial activities should be conducted by the same person. ∀ **Job Rotation in Sensitive Areas:** Any job carried out by the same person over a long period of time is likely to lead to complacency & possible misuse in sensitive areas. It is therefore important that in key commercial functions, the job rotation is regularly followed to avoid degeneration of controls. For example, if the same buyer continues to conduct purchase function for long period, it is likely that he gets into comfort zone with existing vendors & hence does not exercise adequate controls in terms of vendor development, competitive quotes etc. ∀ **Delegation of Financial Powers Document**: As the organization grows, it needs to delegate the financial & other powers to their employees. A clearly defined document on delegation of powers allows controls to be clearly operated without being dependent on individuals. ∀ **Information Technology based Controls**: With the advent of computers & enterprise resource planning (ERP) systems, it is much easier to embed controls through the system instead of being human dependent. The failure rate for IT embedded controls is likely to be low, is likely to have better audit trail & is thus easier to monitor. For example, at the stage of customer invoicing, application of correct rates in invoices or credit control can all be exercised directly through IT system improving control environment.

(b)

Answer	**Part I -- Relevant Standards & Laws**
	▪ Section 141 (3) of the Companies Act, 2013
	Part II -- Requirements of Relevant Standards & Laws
	➢ As per the provisions of Section 141 (3) of the Companies Act, 2013 a person shall be disqualified to be appointed as auditor if such a person or a firm who, whether directly or indirectly has business relationship with the Company, or its Subsidiary, or its Holding or Associate Company or Subsidiary of such holding company or associate company, of such nature as may be prescribed; the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except – (i) commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;

(ii) commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the auditor, as customer, in the ordinary course by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

Part III – Case Discussion

- In the given question, PQ & CO. is an audit firm & has been appointed as the 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.

Part IV – Conclusion

- Therefore, assuming the transactions are at the arm's length price, there is no violation of Section 141(3) of the Companies Act, 2013. Hence no disqualifications are attracted.

(c)

Answer

Part I -- Relevant Standards & Laws

section 143(6)(a) of the Companies Act, 2013.

Part II -- Requirements of Relevant Standards & Laws

- The Comptroller and Auditor-General of India shall within 60 days from the date of receipt of the audit report have a right to**,**
  - conduct a supplementary audit under section 143(6)(a), of the financial statement of the company by such person or persons as he may authorize in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorized, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and comment upon or supplement such audit report under section 143(6)(b).
  - Any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub-section (1) of section 136 i.e. every member of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report**.**

Part III – Case Discussion

- 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 of M/s Sunlight Ltd., a government company. 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.

Part IV – Conclusion

- Since the company has not sent the comments given by the C&AG to the members neither placed the same before the annual general meeting of the company, it leads to the violation of section 143(6). Hence the approach of the company is incorrect.

Question 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.

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. **(5 Marks)**

(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 Marks)**

(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 Marks)**

(a)

Answer

- **Risk**

  Risk is the possibility that something could go wrong. In other words, Risk is the possibility that an event will happen which prevents a company from achieving business objectives. Examples of risks include
  - Market Risks
  - Regulatory & Compliance Risks;
  - Business Partner Risk
  - Technology & Security Risks
  - Product or Project Risk;
  - Operational Risks
  - Credit Risk;
  - Environmental Risks.
  - Financial Reporting Risks

- **Definition of Risk Management**

  Risk Management is a combination of process, people, tools and techniques through which companies
  - Identify,
  - Assess,
  - Respond,
  - Mitigate and
  - Monitor risks.

  Enterprise Risk Management is a formal program or framework that is implemented across an enterprise or company for enabling risk management.

OR

(a)

Answer

- The inherent limitations could arise from:
  - the **nature of financial reporting;**
  - the **inherent limitations of internal controls;**
  - the use of **selective testing;**
  - the **nature of procedures** to be performed in a specific situation; *(Inquiry*
  - the fact that much of the evidence available to the practitioner is **persuasive rather than conclusive;**
  - the use of **professional judgment** in gathering and evaluating evidence and forming conclusions based on that evidence;
  - in some cases, the **characteristics of the underlying subject matter** when evaluated or measured against the criteria; and *(R&D Expenses)*
  - the need for the engagement to be conducted within Therefore, whenever a practitioner is required to give a "certificate" or a "report" for special purpose, the practitioner needs to undertake a careful evaluation of the scope of the engagement, i.e., whether the practitioner would be able to provide reasonable assurance or limited assurance on the subject matter.

(b)

Answer	Part I -- Relevant Standards & Laws
	▪ Clause 16 of Form 3CD:
	Part II -- Requirements of Relevant Standards & Laws
	➢ If there is any capital receipt during the previous year and such amount is not credited to the P&L A/c, then it should be reported by the tax auditor. **Following is an illustrative list of capital receipts which, if not credited to P&l, are to be stated under clause 16 of Form 3CD-** - Government grants received in the form of Capital subsidy, which are in the nature of promoters' contribution i.e., they are given • With reference to the total investment of the undertaking or • By way of contribution to its total capital outlay. For e.g.- Capital Investment Subsidy Scheme. - Government grant in relation to a specific fixed asset where such grant is shown as a deduction from the gross value of the asset by the concern in arriving at its book value. - Compensation for surrendering certain rights. - Profit on sale of fixed assets/investments to the extent not credited to the profit and loss account.

(c)

	➢ **Perform the analysis** The actual analysis performed will be dependent upon the nature of the assignment and may involve: - summarizing a large number of transactions; - calculating economic damages; - performing present value calculations utilizing appropriate discount rates - performing a regression or sensitivity analysis; - utilizing a computerized application such as a spread sheet, data base or computer model; - utilizing charts and graphics to explain the analysis. - performing a tracing of assets;

Question 6.

(a) Pearl Ltd. is an exporter of .precious and semi-precious stones. The turnover of the company is Rs. 150 crores, out of which Rs. 105 crores is from export business and remaining Rs. 45 crores 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 Marks)**

(b) You have been appointed as an auditor of ABC Insurance Co. Ltd. and 5 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 Marks)**

(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-imbursement 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 t 3,00,000 by CA Pant for his association out of gratitude.
Examine the case in the light of code of professional misconduct. **(5 Marks)**

(a)

Answer

Part I -- Relevant Section & Laws

- Section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Rules, 2014.

Part II -- Requirements of Relevant Section & Laws

- **Applicability of Provisions related to Cost Records and Audit:** The provisions relating to cost records and audit are governed by section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Rules, 2014.The audit conducted under this section shall be in addition to the audit conducted under section 143.

- **Rule 3 of the Companies (Cost Records and Audit) Rules, 2014**
  It provides the classes of companies, engaged in the production of goods or providing services, required to include cost records in their books of account. The said rule has divided the list of companies into regulated sectors and non-regulated sectors. Company belonging to sugar industry is one of the types of companies prescribed under the regulated sectors.

- **Exception**
  However, the requirement for cost audit under these rules shall not be applicable to a company which is covered under Rule 3, and,
  (i) whose revenue from exports, in foreign exchange, exceeds 75 per cent of its total revenue; or
  (ii) which is operating from a special economic zone.
  (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant.

Part III – Case Discussion

In the given case, Pearl Ltd. is an exporter of precious and semi-precious stones. The turnover of the company is Rs. 150 crore, out of which Rs. 105 crore is from export business and remaining Rs. 45 crore from domestic sales. Amount received from export business is all in foreign currency.

Part IV – Conclusion

From above it is clear that 70% (105/150 x 100) of revenue is from exports, but for exemption we need more than 75% revenue form exports so they will not get exemption form cost audit.

(b)

Answer

Part I -- Relevant Section & Laws

section 64VB of the Insurance Act, 1938

Part II -- Requirements of Relevant Section & Laws

No Risk Assumption without Premium –

No risk can be assumed by the insurer unless the premium is received. According to section 64VB of the Insurance Act, 1938, no insurer should assume any risk in India in respect of any insurance business on which premium is ordinarily payable in India unless and until the premium payable is received or is guaranteed to be paid by such person in such manner and within such time, as may be prescribed, or unless and until deposit of such amount, as may be prescribed, is made in advance in the prescribed manner. The premium receipt of insurance companies carrying on general insurance business normally arise out of three sources, viz., premium received from direct business, premium received from reinsurance business and the share of co - insurance premium.

Part III – Case Discussion

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.

Part IV – Conclusion

Therefore, the insurance company is not liable to pay the claim and hence no provision for claim is required.

(c)

Answer	Part I -- Relevant Section & Laws
	Clause 1, Part I of the first schedule of the Chartered Accountants Act, 1949 and Clause 12, Part I of the first schedule of the Chartered Accountants Act. 1949
	Part II -- Requirements of Relevant Section & Laws
	➢ As per the provisions of the Clause 1, Part I of the first schedule of the Chartered Accountants Act, 1949, A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he allows any person to practice in his own name unless such person is also a Chartered Accountant in practice & in partnership with or employed by him.
	Part III – Case Discussion
	➢ CA Sant is a newly qualified professional with certificate of practice, and was allowed to sit in the office of CA Pant. He was allotted a small chamber & other infrastructural 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-imbursement 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 t 3,00,000 by CA Pant for his association out of gratitude.
	Part IV – Conclusion
	➢ CA Sant is a CA having COP, but he was neither partner nor employee of CA Pant. Hence CA Pant is guilty of misconduct as per Clause (1) of Part I of First Schedule to the Chartered Accountants Act 1949.