

## DLK2

### Final New Syllabus

#### Paper - 3

Total No. of Printed Pages – 7

Roll No. ....

Total No. of Questions – 6 **Advanced Auditing and Professional Ethics**

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.

#### 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. 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.

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PART - H

1. (a) Mr. L while conducting the audit of ABC Ltd., observed that a substantial amount is recognized in respect of obsolescence of inventory and warranty obligation in the financial statements. Mr. L wants to obtain written representation from the management to determine whether the assumptions and estimates used are reasonable. Guide Mr. L with reference to the relevant Standard on Auditing. 5
- (b) LMP Associates, Chartered Accountants, conducting the audit of PQR Ltd., a listed Company for the year ended 31<sup>st</sup> March, 2019 is concerned with the auditor's responsibilities relating to other information, both financial and non-financial, included in the Company's annual report. While regarding other information, LMP Associates considers whether there is a material inconsistency between other information and the financial statements. As a basis for the consideration the auditor shall evaluate their consistency, compare selected amounts or other items in the other information with such amounts or other items in the financial statements. Guide LMP Associates with examples of "Amounts" or "other items" that may be included in the "other information" with reference to SA 720. 5
- (c) MB & Associates is a partnership firm of Chartered Accountants which was established seven years back. The firm is getting new clients and has also been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1. 4

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2. (a) The Entity's Risk Assessment Process includes how management identifies business risks relevant to the preparation of financial statements in accordance with the entity's applicable financial reporting framework, estimates their significance, assesses the likelihood of occurrence and decides upon actions to respond to and manage them and the results thereof. Elucidate the circumstances in which risks can arise or change. 5

(b) CA. G, was appointed by DP Ltd., as Statutory Auditor. While doing the audit of DP Ltd., CA. G observed that certain loans and advances were made without proper securities; certain trade receivables and trade payables were adjusted *inter se*; and personal expenses were charged to revenue. As a company auditor comment on the reporting responsibilities of CA. G. 5

(c) Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto : 4

A special notice has been issued for a resolution at 3<sup>rd</sup> annual general meeting of LED Ltd., providing expressly that CA. Anoop shall not be re-appointed as an auditor of the company. Consequently, CA. Anoop submitted a representation in writing to the company with a request to circulate to the members. In the detailed representation, CA. Anoop included the contributions made by him in strengthening the control procedures of the company during his association with the company and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the company.

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3. (a) As an auditor of a company registered under section 8 of the Companies Act, 2013 you find that as per the notification of the Ministry of Corporate Affairs regarding applicability of Indian Accounting Standards (Ind-AS), the company has to prepare its financial statements for the year ended 31<sup>st</sup> March, 2019 under Ind-AS. The management of the company is however of the strong view that being a section 8 company having charitable objects, Ind-AS cannot apply to the company. The financial statements are therefore prepared by the management under the earlier GAAP and a note for the same is given in the financial statements. How would you report on these financial statements ? 5
- (b) Cineplex, 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 café, shops, pubs etc. located in the complex. It's other income includes advertisements exhibited within/outside the premises such as hoardings, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises. 5
- Cineplex 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 relating to a complex.
- (c) In a controls-based audit, the audit approach can be classified into three broad phases comprising of planning, execution, and completion. You are required to briefly explain the relevant considerations for every phase in above audit approach in case of an automated environment. 4

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4. (a) Mr. G has been appointed as an auditor of LMP Ltd., a NBFC 5  
company registered with RBI. Mr. G is concerned about whether the  
format of financial statements prepared by LMP Ltd. is as per  
notification issued by the Ministry of Corporate Affairs (MCA) dated  
October 11, 2018. The notification prescribed the format in Division  
III under Schedule III of the Companies Act, 2013 applicable to  
NBFCs complying with Ind-AS. Mr. G wants to know the differences  
in the presentation requirements between Division II and Division III  
of Schedule III of the Companies Act, 2013. Help Mr. G.
- (b) You have been appointed as an auditor of LCO Bank, a nationalized 5  
bank. LCO Bank also deals in providing credit card facilities to its  
account holder. The bank is aware of the fact that there should be strict  
control over storage and issue of credit cards. How will you evaluate  
the Internal Control System in the area of Credit Card operations of a  
Bank ?
- (c) Mr. PK is conducting the Tax audit under section 44 AB of the Income 4  
Tax Act, 1961 of MG Ltd. for the year ended 31<sup>st</sup> March, 2019. There  
is a difference of opinion between Mr. PK and the Management in  
respect of certain information to be furnished in Form No. 3CD. As a  
tax auditor, Mr. PK has to report whether the statement of particulars  
in Form 3CD are true and correct and the same is to be annexed to the  
report in Form No. 3CA. Advise on the matters to be considered by  
Mr. PK while furnishing the particulars in Form No. 3CD.

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5. (a) Mr. 'K', a practicing Chartered Accountant is the proprietor of M/s 5

K & Co. since 1995. He went abroad in the month of December 2018.

He delegated the authority to Mr. 'Y' a Chartered Accountant, his employee for taking care of the important matters of his office.

During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s K & Co.

(i) He issued Net worth certificate to a client for furnishing to a Bank.

(ii) He attended the GST proceedings for a client as authorized representative before GST Authorities.

Please comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s K & Co. and liability of Mr. 'K' under the Chartered Accountants Act, 1949.

(b) D Ltd., a company incorporated in India has six members in its Audit 5

Committee. Due to recessionary conditions in India the revenue of the company is going down and there is slowdown in other activities of the company. Therefore, it is expected that there would not be significant work for members of the Audit Committee.

Considering the overall recession in the company and the economy, the members of the Committee decided unanimously to meet only once at the year end. They reviewed monthly information system of the Company and found no errors.

As an auditor of D Limited would you consider the decision taken by the Audit Committee to hold the meeting once in a year, is complying with Listing Obligation and Disclosure Requirements (LODR) ? Also state the quorum requirements for such meetings.

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- (c) Mr. X has been appointed as an auditor of M/s ABC Ltd., Mr. X wants to be satisfied about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements. Lay down the audit procedure, Mr. X should follow, in the initial audit engagement of M/s ABC Ltd. Also suggest the approach to be followed regarding mention in the audit report if Mr. X is not satisfied about the correctness of 'Opening Balances' ? 4
6. (a) "The C & AG may direct the appointed auditor about the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India". What are the relevant sections of the Companies Act, 2013 and steps involved in the audit of Government Companies ? 5
- (b) Mr. 'C', a Chartered Accountant employed as Senior executive in charge of Tax in a company, and not holding certificate of practice recommends a particular lawyer to his employer in respect of a case. The lawyer, out of the professional fee received from the employer of Mr. 'C' paid a particular sum as referral fee to Mr. 'C'. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. 5
- (c) MF Ltd., engaged in the manufacturing of various products in its factory, is concerned with shortage in production and there arose suspicion of inventory fraud. You are appointed by MF Ltd. to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory ? 4

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