The Institute of Chartered Accountants of India

Code: FN3AP360445 **Total Marks:** 70

Subject : 03 Advanced Auditing and Professional Ethics **Marks Obtained :** 33

GRAPH PAPER IS ON THE PEN... MATE PAGE

Book N... ntaining 28 pages)

THE I...TUTE OF CHARTERED ACCOUNTANTS OF INDIA

CA - Final (New) Examination

Group No. I Paper No. 3

Subject Advanced Auditing & Professional ethics

Number of Answer Books used : Main + ... additional sheets

Date Seal

For use by ICAI only

360445

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
PUT THE SEAL IN THE CIRCLE
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DECEMBER 2021
09 DEC 2021

ICAI

Paper Code: T H G 1

MCQ Booklet Serial No.	Paper No. (See Reverse)
2 0 3 2 9 8 5	3

Level of Exam → Final — Intermediate / Final

Stream → New — Old / New

Answers

1	A B C D		11	A B C D		21	A B C D				
2	A B C D		12	A B C D		22	A B C D				
3	A B C D		13	A B C D		23	A B C D				
4	A B C D		14	A B C D		24	A B C D				
5	A B C D		15	A B C D		25	A B C D				
6	A B C D		16	A B C D		26	A B C D				
7	A B C D		17	A B C D		27	A B C D				
8	A B C D		18	A B C D		28	A B C D				
9	A B C D		19	A B C D		29	A B C D				
10	A B C D		20	A B C D		30	A B C D				

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...space provided for the purpose or writing distinguishing mark,
...etc., will tantamount to adoption of "unfair means"
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Illustration for Filling the MCQ Booklet Serial No.

...NS TO THE CANDIDATE FOR FILLING THE **MCQ ANSWER FIELDS**

...il to Darken the appropriate Circle.
...r the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluatio...
...andidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
...ken the complete circle.
...want to change your Answer, erase the all darkened circle completely and make a fresh mark.
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... Rough work must NOT be done o... MR cover page.
7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers
CORRECT METHOD Ⓐ ● Ⓒ Ⓓ WRONG METHO...

Q. No.	To be ticked (✓) by the candidate against the Questions answered Descriptive Type
1	
2	
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Total	

LIST OF EXAM, PAPER NO. AND PAPER NAME (TO BE REFERRED TO FOR FILLING ON THE REVERSE SIDE)

EXAM	PAPER NO.	PAPER NAME
Intermediate (IPC) - Old course		
Intermediate (IPC) - (OLD COURSE)	2	BUSINESS LAWS, ETHICS AND COMMUNICATION
Intermediate (IPC) - (OLD COURSE)	4	TAXATION
Intermediate (IPC) - (OLD COURSE)	6	AUDITING AND ASSURANCE
Intermediate (IPC) - (OLD COURSE)	7	INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT
Intermediate - New		
Intermediate - (NEW COURSE)	2	CORPORATE AND OTHER LAWS
Intermediate - (NEW COURSE)	4	TAXATION
Intermediate - (NEW COURSE)	6	AUDITING AND ASSURANCE
Intermediate - (NEW COURSE)	7	ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEME...
Final - Old		
FINAL - (OLD COURSE)	3	ADVANCED AUDITING AND PROFESSIONAL ETHICS
FINAL - (OLD COURSE)	4	CORPORATE AND ALLIED LAWS
FINAL - (OLD COURSE)	6	INFORMATION SYSTEMS CONTROL AND AUDIT
FINAL - (OLD COURSE)	7	DIRECT TAX LAWS
FINAL - (OLD COURSE)	8	INDIRECT TAX LAWS
Final - NEW		
FINAL - (NEW COURSE)	3	ADVANCED AUDITING AND PROFESSIONAL ETHICS
FINAL - (NEW COURSE)	4	CORPORATE AND ECONOMIC LAWS
FINAL - (NEW COURSE)	7	DIRECT TAX LAWS AND INTERNATIONAL TAXATION
FINAL - (NEW COURSE)	8	INDIRECT TAX LAWS

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3

Question- 4(C)

4(c)

A Company engaged in a Business and The principle Business of such company is financing activity it will be treated as NBFC

→ Financing activity means if it is satisfied following two Condition

(i) If total financial Assets of such Company is more than 50% of total Assets (excluding intangible Asset) of such Company and

(ii) Income from financial Assets is more than 50% of total Gross total income of such Company

if it is satisfied above two Condition Then Sec 45-IA of RBI Act 1997, Can apply for Certificate of Registration as Non Banking Financial Company.

R
2
4cStep1

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4

-) in The given Case ABC Ltd is Company as engaged in the Business of loan & Advances & acquisition of Shares / stock etc.

→ total Asset of Company will be
= 530 Cr.
Intangible Assets = 3 Cr
total net Asset = 530 − 3
= 527 Cr
50% of total net Assets
= 527 Cr × 50%
= 263.5 Cr
Financial Asset = 344.47 Cr
so financial Assets exceeds 50% of total Assets of such Company

Gross income total = 102.57 Cr
⇒ 50% × 102.57 Cr
⇒ 51.285 Cr.

R
2 4cStep2

So Income from financial Assets = 52 Cr
So both the Condition are satisfied

Conclusion
ABC Ltd is eligible for registration as NBFC under Sec. 45-IA of RBI Act 1937.

R
4 4c

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R
1 4aStep1

Question 4(a)

4(a) → as per Section 129(3) of Companies Act, every company shall Prepare Consolidated financial Statements of it Companies and Subsidiary Company, its holding Company, Associated Company in that formate in which its own financial statements will prepare.

→ However if ~~the~~ few Companies are elegible ~~for~~ for Exemption for preparation of Consolidated financial Statements

(i) if the Company hold the Invesment for temporary purpose (or) further disposal of Investment, (or) hold for know how, Intangible Assets for future purpose those are not required to prepare Consolidate financial statements as per AS 27. However Such exemption not available in Ind AS.

→ Consolidation financial statement is applicable ~~only~~ all Companies which are elegible except Invesment Company. Invest in Some other Companies

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→ in the given Case M&B Investment Ltd. it is invested in shares and debentures of ₹ 10 Cr. in various Companies and also earned the profit due to appreciation prices

→ So even though it is invested in various Companies, it is not elegible to prepare Consolidated Financial Statement because it is investment Company, as per Sec 129, of Companies 2013, specially excluded the Investment Companies but Holding Company of Investment Company is elegible for ~~Consolidated~~ preparation of Consolidated Financial Statements

R 1 4aStep3

Conclusion:

M&B Investment Ltd is not elegible for preparation of Consolidated financial statements

R 0 4aStep2

R 2 4a

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Question - 4(b)

4(b)

→ forensic Audit on transfer of funds:

⇒ Examine the proper records are available for payments

⇒ Examine whether Those Companies are ~~Producer~~ Subsidiary Companies, (or) Associate Companies

⇒ Reconcile the payments & proper records in Bank Statement

R
0 4bStep1

⇒ Check whether those shell Companies really exist (or) not.?

⇒ Check Authorization for approval of payments ~~and~~

⇒ Check register maintained as per Section 189 of Companies act 2013, ~~for~~ if those Companies are Related parties

⇒ inquiry management and MOA, AOA. whether those payments properly approved

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8

=> examine Internal Control of Business, whether [illegible] hose are adequate (or) not

=> Verify the Funds flow payments is transferred, whether through Cash (or) B[illegible] (or) any electronic means

=> So B&S Associates can follow the above foreign Audit process on AET Silk Industries, to acheive proper report.

R 0 4b

R 6 4

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9

Question - 3(c)

3(c) → as per C[...]se (8), part - I of first schedule of The Chartered Accountant Act 1949 CA in practice shall be deemed to be guilty of professional misconduct if he accept a position as auditor, which is previously held by another auditor. without first communicating with previous audit in writing

→ as per [...]ause 9 part - I of first schedule of The chartered Accountant Act 1949 CA in practice shall be deemed to be guilty of professional miscount if he appoint as auditor of The [...]mpany with out ascertaining compliance of Section 139 and 140 of Companies 2013.

R
2
3cStep1

→ in The given Case CA mehta was appointed as a auditor of CS Ltd for the year 2021-21 in the place of retiring auditor CA Gupta and CA mehta also [...] Complied provision of Section 139 [...]d 140 of Companies act 2013 for his appoint but CA mehta is fa[...]t to Communicate retiring

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10

auditor CA Gupta (we assume that CA mehta is not Communicated with CA Gupta)

R 0 3cStep2

Conclusion:-

→ CA mehta is professional guilty of miscound as per Clause (8) part-1 of first schedule

R 0 3cStep3

CA mehta is not professional guilty of misconduct as per Clause 9 of the part-1 of first Schedule

R 2 3c

DO NOT WRITE ANYTHING HERE

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Question - 3(b)

3(b)

Audit procedures for Checking foreign Exchange transactions:

- Check prior approval is obtained from RBI for dealing with foreign Exchange transaction

→ Check whether FEMA regulation is Complied (or) not

→ Check whether proper KYC Document is obtained from Customers for dealing foreign Exchange transaction

→ Examine Significant transactions and approval for such transactions

→ Verify the transaction are processed under the liberlised Scheme, such transaction also with in the limit

→ Examine the import & Export related transaction

→ Examine the any guarantee given

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Subject : 03 Advanced Auditing and Professional Ethics Marks Obtained : 33

12

to importer, and such limit is with their Authorization level limit

Examine the letter of credit any given to importee

⇒ Check process followed while paying the import payment and whether required documents is obtained or not

R
3 3bStep1

⇒ Verify the compliance reports and KYC norms reports is submitted to RBI..

R
3 3b

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Marks Obtained : 33

13

Question - 3(a)

3(a) Content of Audit report presented by CAG :

→ CAG can Submit the Audit report to president or Governer

→ Content of Audit report will be

R
1 3aStep1

(i) operating results of all public enterprises and department and Local Authority

(ii) Comments of Auditor and Explanation of management and TCWG. ~~those~~ [Those charged with governance]

R
0 3aStep2

(iii) Comments and further recommendations of the C&AG

(iv) assist to Committee of public undertaking ~~as~~ while ~~reviewing~~ reviewing Audit Report

(v) Details of Supplementary Audit and Test Audit Conduct list of PSU and Reason for that.

R
R
1
0
3a
3

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15

Question - 5 (b)

5 (b)

Data Analytic tools used in Audit is Called Computer Assisted Audit Techniques

Benefit from the use of CAATs

Step 1:- Understanding of Entity Automated Environment

R 5 5bStep1

Step 2 Identifying objective & Criteria

Step 3 Analysing Data & Source

Step 4 Extract data from source of objective

Step 5 Performing the Analysis on Extracted data

Step 6 : apply the Criteria on such data

Step 7 Evaluate Results & minimize risks.

R 5 5b

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Question - 5 (C)

5(C) as per GHVA & IRDA, No insurance Company Can issue policy document for following situations unless when policy Documents actual matured (or) [illegible] Date of policy is arived

Situation for policy Document not required issued
[illegible] Premium Insurance is paid in the Advance.

[illegible] Cheque received from the policy holder and it is dishonoured

R
2 5cStep1

The above two situation Company is not required to issue policy docoment because as per Rules and Regulation There is no risk is establishes

→ Company also not recognise the Income ~~do~~ of Advance received from policy holder and when Cheque is Received

R
2 5c

→ any insurance premium is ~~Received~~ receivable in such situation also no risk is established

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~~Question 5(a)~~

~~5(a) SA 505: External Confirmation, The Auditor objective is to obtaine Sufficient and appropriate Audit Evidence ~~about~~ from management for. Confirme~~

Question 5(a)

5(a)

SA :- 505 External Confirmation :

→ The following factors may help the Auditor External Confirmation procedure to be performed or not.

R
0 5aStep1

(i) Nature timeing and Extentent of Audit procedure

(ii) adequacy of Internal Control System

R
0 5aStep2

(iii) Realtability of management Data

(iv) Risk from the Substantive Audit procedre.

R
0 5aStep3

(v) effect of material exist in financial statement

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→ Complexity of Business ~~Transaction~~
→ Volumeness of Transactions
→ Policies and procedures followed by The Organisation.

R 0 5a

R 7 5

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20

Question- 2(c)

2(c)

as per ~~Clause~~ (...)use 7 part 1 of 2nd Schedule, CA in practice Shall be deemed to guilty of professional misconduct if he does not exercise the d(...) diligence ~~and~~ on gross negligent in his professional Engagement

R 2 2cStep1

→ in the given case Cashier of the Company is Committed the fraud and Auditor is failed to found out such during the physical verification of ~~fraud~~ Cash. ~~check~~ ~~&~~ and after that the fraud was discovered by Cheif Account

R 0 2cStep2

→ So in the given case Auditor was does not exercise due diligence during verification fraud so t(...) is guilty of professional misconduct as per clause of Part 1 of 2nd schedule.

R 1 2cStep3

R 3 2c

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21

Question 2(b)

2(b) while ~~first~~ Complying the Compliance to Companies (Indian Accounting Standard) Rule 2015, The following Consideration shall be keep in mind while preparing financial statement Company such as:-

(i) Change in Accounting polices and their effect should be given in disclosure to sch-III

R
1 2bStep1

(ii) effect to Previous Accounting Standards and Current Ind AS Complaincy

(iii) Consider the non financial Information also while preparing financial statements

(iv) Separate General Disclosure require) to any particular Expenses exceed the 1% of turnover (or) 10 lakhs whichever is higher

R
1 2b

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Question 2(a)

2(a) Standared operating procedure in the assessment and evaluation & Control

→ No Single person Can handle the Two Authorities in Company
→ give them to employes go for leave once in a year

R
3 2aStep1

→ Physical haldidke of Asset by the person Can not give access to Books & Asset

→ without informing to employee, change their Roles & Shifts & Responsibility

→ One person work Can be checked another correlated person.

→ Sudden Surprise Checks on employees and on their duties

→ policies and procedure followed by Company

→ Strict implementation of Roles and Regulation on employees and authority

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→ Company structure & Governance and maintenance of their records

→ procedures for maintaining Records

→ effectiveness of ~~Internal~~ ~~Co~~

→ effectiveness of Information System Control.

R
3 2a

R
7 2

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Question - 1(a)

1(a)

as pe SA - 240 auditors Responsibility on fraud identified during The audit

R 1 1aStep1

auditor Can maintain Professional Skeptisism during the ~~entires~~ entire audit to maintain the alertness, for any Susceptibility of fraud arise

→ ~~fora~~ Risk factors an misappropriation of Assets

(i) embezzement of Assets

R 0 1aStep2

(ii) Paying the goods and services Taxes with out proper Documents

(iii) management action ~~about~~ on employees about fraud

(iv) effect on financial statements

R 0 1aStep3

(v) year end adjustment in depriciation

R 1 1a

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Question - 1 (b)

1 (b) S - How Auditors Responsibility ~~extn~~ on User entity while using Service Organization is :

R 1 1bStep1

- ~~a~~. in the User entity, nature & designing to internal Control on Services organisation

→ User Entity Relationship ~~be~~ with Service organisation

R 3 1bStep2

→ Interaction between the User entity and Service organization

→ if Auditor unable to obtain sufficient and appropriate audit evidence from User entity Then Auditor folle following procedure.

(i) Contact with the service ~~organi~~ Organization

(ii) Visit the Service Organisation

(iii) obtaine the type 1 ~~and~~ (or) Type - 2 report from Service organization

R 4 1b

(iv) take expert opinion from Service Orgation and Their Internal Control

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Question – 1 (C)

1(C) as per SA-705 modification opinion in ~~in the given~~ ~~on~~ Independent Audit report,

→ the given Case Sriman Pvt Ltd taken a loan & Advance ₹ 75 Lakh and related to those loans Auditor is unable to obtain Sufficient and appropriate Audit evidence, So Auditor Can draft Auditor as per below

R 1 1cStep1

Opinion :- Qualified Opinion.

R 0 1cStep2

Basis for Qualified opinion :-

→ in the given Case we are ~~Auditor~~ ~~is~~ unable to obtain the sufficient and appropriate Audit evidence related to the loans and on Advance. and ~~we~~ we treated such Amount as material misstated in financial statement.

R 1 1cStep3

So as per above we expressed as Qualified Opinion on financial statements of Lakshmi Ltd. [Amount of loan = ₹ 75 Lakhs]

R 2 1c

R 7 1

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Result Overview

Awarded Marks: 33 **Max Marks:**70

NA **Not Attempted** O **Optional** M **Marked**

Q1_Compulsory (Score: 7/14)

Question No	Awarded Marks	Maximum Marks	Status
1	7	14	M
1a	1	5	M
1b	4	5	M
1c	2	4	M

Q2_Q6 (Score: 26/56)

Question No	Awarded Marks	Maximum Marks	Status
2	7	14	M
2a	3	5	M
2b	1	5	M
2c	3	4	M
3	6	14	M
3a	1	5	M
3b	3	5	M
3c	2	4	M
4	6	14	M
4a	2	5	M
4b	0	5	M
4c	4	4	M
5	7	14	M
5a	0	5	M
5b	5	5	M
5c	2	4	M

6	0	14	o
6a	0	5	o
6b	0	5	o
6c	0	4	o