



The Institute of Chartered Accountants of India

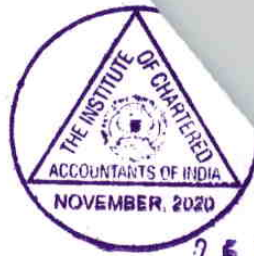
Code: FN3AP566609
 Subject : Advanced Auditing and Professional Ethics

Total Marks: 70
 Marks Obtained : 29

Number of Answer Books used : Main + additional sheets

For use by ICAI only

566609



25 NOV 2020

Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner)					Total
		a	b	c	d	e	
1	✓						
2	✓						
3	✓						
4	✓						
5	✓						
6							
7							
8							
9							
10							
11							
12							
13							
14							
Total							

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Use only Blue / Black Ball Point Pen to write and shade the circles.
AVOID RED PEN.
 Write the marks in the boxes before shading the respective circles.

Total Marks awarded

0	0
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9

Total Marks awarded (in words) _____

Examiner's Signature _____



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INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

Answers should be written in figures and words in the allotted space at the right hand corner of the answer book/s and nowhere else including additional answer book/s and graph paper.

Answers should be written in the box in numbers and darken the appropriate circles of the OMR bubbles provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

Write particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space provided in the right hand upper corner.

Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.

5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.

6. The answers should be written neatly and legibly

7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.

8. The answer to each question in all parts should be fully completed in one page or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"

10. Before submission of answer book to the invigilator take care to score out (X) blank pages, if any, that you might have left.



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3



Q.5
a)

ways to Tackle Behavioural Problems

1) Constructive criticism:

The management auditor should critically evaluate the functions and suggest improvements in a way through which the staff will be anticipative of the feedbacks given by the management. It is always possible to be firm without showing firmness.

2) Participative approach:

The management auditor here discusses the ideas of improvements with those managers who have to implement the same making them feel participated in the recommendations process.

This will increase the



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1

5aStep3

confidence of the managers in the auditor and thus, audit will become a co-operative approach.

Management auditor no longer has to force the implementation of the changes on them as the changes will be anticipatively implemented by the managers.

0

5aStep4

3) Discussion of the findings:

The management auditor shall discuss the evaluations with the manager before reporting of the same. Through this the managers may feel that management auditor is here to help them not criticize them.

0

5aStep1

2

5a

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Q.5 b).

Every listed entity shall have a Nomination and Remuneration Committee - as per SEBI (LODR), Regulations, 2015.

Composition:

Atleast 3 directors
a) All the directors shall be Non-executive directors.

b) Atleast half of the directors shall be independent directors.

c) Chairperson of the Nomination and Remuneration Committee (NRC) shall be an Independent director.

d) In case of company having outstanding superior right equity share, $\frac{2}{3}$ rd of the members shall be independent director.

2 5bStep1

e) The chairperson of the company whether executive or not,



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may be a member of the NRC, but he shall not chair such committee.

Quorum :-

The Nomination and remuneration committee shall meet at least once a year.

Quorum : 2 directors or $\frac{1}{3}$ rd

of the total directors which ever is higher. with at least 1 independent director.

ROLE :

- i) The NRC shall identify personnel who may be eligible to be appointed at the senior level of the management of the company.

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2	5bStep2	<p>ii) It shall formulate a policy for the benefits and the developments of the personnel engaged by them the company.</p>
4	5b	<p>ii) It shall formulate a policy for remuneration to the directors and senior personnel which shall be a balance between long run and short run perspectives.</p>

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Q. 5 c).

Legal Provision : Clause 6 Part I,
First Schedule,
The Chartered Accountants
Act, 1949.

A chartered accountant or member
in practice shall be deemed to be
guilty of professional misconduct,
if he ~~is~~

Solicits clients or professional
work by means of advertisement,
circular, personal communication
or interview, or any other
method.

Analysis: As per Clause 6, Part I
First schedule, a member
in practice is restrained
from advertising himself or
the work performed by him.

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1 5cStep1

i) The colour can be as per the choice of the member and there is no restriction on the same.

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ii) The nature of the services handled can ~~be~~ be displayed only after specific 'pull' request.

DO NOT WRITE ANYTHING HERE

1 5cStep2

iii) However, in no case the website shall disclose the names of the clients, and fees charged. The names of clients are permitted to be disclosed only if there is a regulatory requirement for the same.

DO NOT WRITE ANYTHING HERE

iv). The ~~users~~ information contained in the website shall also not



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1

5cStep3

circulated through e-mail on its

~~founder~~ As mentioned above,
Mr. Vineet, a CA in practice,
has not complied with the
requirements of the institute
as a result of which he is
guilty of professional misconduct.

2

5cStep4

There is no obligation to intimate
the name of the website to the
institute, and hence there is no
misconduct arising out of the
same.

3

5c

Conclusion: Hence Mr. Vineet, a
CA in practice shall be guilty
of professional misconduct
as per Clause 6 Part 3 First
Schedule to CA Act, 1949.

9

Q5

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Q. 3

a).



i) The amount given as an advance by the Bank, if the interest on any principal or amount outstanding is overdue for more than 90 days.

ii) Accordingly if the amount is overdue for more than 90 days, the same shall be classified as an 'Non performing Asset (NPA)' and provisioning shall be made.

iii) However where the amount has been regularized before the Bal sheet by way of payment of the outstanding amount, the same shall not be treated as an NPA.

iv) The auditor has to verify that the amount is paid by genuine sources.

1

3aStep1



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v) It may happen that the borrower may have been granted additional advances as a result of which the payment must have been made by him.

2

3aStep2

In such cases, the amount, as it is not regularised out of genuine sources, shall be treated as an NPA.

vi) As a result, the auditor shall verify whether the borrower has been in the receipt of additional source of finance or the overdue amount was paid out of genuine sources.

3

3a

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Q.3

b).

SA 265 - Communicating
significant deficiencies in
Internal Control to
TWCG.



3bStep1

SA 265 deals with the auditor's responsibility to communicate significant deficiencies in internal control with the client in case the auditor comes across deficiencies in internal control that are deemed as significant.

The matter which may classify the deficiency as significant or not are given below,

- i) The nature of the matter:
If the matter is of such nature that the effect is all pervasive



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on the financial statement, it may be treated as significant.

Eg. Overriding of controls by managers.

ii) The level of the auditors judgement required in such matter.

iii) The amount of the transactions, or account balance influenced by such matter.



3bStep2

iv) The users of the financial statement attention on such matter.

v). The repetitive nature of the occurrence of the deficiency.

vi) The possible collusion of the management in such overriding of controls.



3b

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Q.3

c).

UDIN -

It is the 'Unique Document Identification Number' which is required to generate by the members of the Institute, whenever he is concerned with such document in professional capacity.

Through UDIN, the document gets a number and is uploaded in the database maintained by the Institute from where it can be verified. Thus, this helps in curbing malpractices of issuing false documents / certificates by the members.

Accordingly, at the time of signing of any audit report whether under Direct Tax or indirect tax, the

 3cStep2



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member is required to generate UDIN and the same has to be mentioned in the ~~tax~~ reports so generated.

Tax Audit reports u/s 44AB have no specific clause to be required to be filled by mentioning UDIN, but the same does not reduce the liability of the member for generation of the same.

3cStep3

Even if the GST audit reports or Tax audit reports are submitted online, the same shall be requiring generation of UDIN.

The member cannot escape by contending that the reports do not contain any requirement of UDIN generation.

Hence, Mr Kaushal shall be guilty of professional misconduct under CA Act, 1949.
(Alternatively he can be held

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1 3cStep1 guilty under clause I Part II
Second Schedule, as he did not

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1 3cStep4 comply with the provisions of
the Act or the regulations
issued or guidelines of the
(council.)

DO NOT WRITE ANYTHING HERE

3 3c

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7 Q3

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Q. 1

a)

SA 501 'Audit Evidence -
Special Considerations'

This SA contains the auditor's
responsibility in collecting
sufficient and appropriate audit
evidence in case of

- i) Inventories.
- ii) ~~litigations~~ litigations and claims.

i) As per SA 501, the auditor shall
evaluate the existence and
condition of the inventory
by physical verification of the
same.

1aStep1

ii) It is the management who is
primarily responsible for
conducting physical count of the
inventory and the auditor
shall attend the same.

The inventory shall be physically
verified at the end of the
reporting period.

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- ii) The auditor shall observe and evaluate the management procedures of:
- a) Conducting the physical verification of inventory and managing the process of the same.
 - b) Evaluating the results of physical verification.
 - c) Controls over the results of the physical verification.

DO NOT WRITE ANYTHING HERE

1 1aStep2

- iv) The auditor shall satisfy himself as to the existence and the condition of the inventory.
- v) Where it is not possible to conduct physical verification at the date of financial statement due to circumstances beyond the entity's control, the auditor management shall conduct such verification at the time suitable (after the financial statements date).

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20

vi) The auditor shall conduct alternative audit procedure for arriving at the inventory at the Bal. Sheet date.

These may include:

a) Subsequent sales shall be ~~the~~ verified.

b) Subsequent purchases / production shall be observed.

0 1aStep3

vii) The auditor may also verify these through bought ledger and outward ledger.

Hence, MIS JK associates shall follow the above mentioned procedures for inventory counting.

2 1a

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Q. 1 b).

SA 560 - Subsequent Events.

SA 560 deals with the auditor's responsibility to identify and evaluate the effect of the subsequent event that may have on financial statements.

1 1bStep1

Subsequent events are those events which occur after the financial statements but before the financial statements are approved or audit report is signed.

a) In the given case, the entity (PQR Ltd.) is facing serious liquidity issues in the wake of the pandemic. This had its effects from April, 2020 onwards which was sufficiently after the financial statement date.



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b) The auditor is required to identify such events and ~~see~~ evaluate their impact on the financial statement as whole.

Auditor's procedures for evaluating the subsequent events:

1

1bStep2

i) The auditor shall identify the procedures and controls management has in place for identification of such events.

ii) The auditor shall evaluate the efficiency of such procedures.

iii) Information obtained from outside the entity shall also affect the transactions or account balances. (E.g. subsequent depreciation in value of inventory).

1

1bStep3

iv) The auditor can obtain written representation from the management regarding events which are subsequently discovered. (SA 580).

v) The auditor shall evaluate the possible effects of such

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0

1bStep4

Subsequent events and whether they require adjustment to the financial statement as per the applicable financial reporting framework. (Ind AS 10).

0

1bStep5

vi) Additionally, the entity shall also assess that effects such subsequent events, have on the going concern assumption.

3

1b

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Q. 1
c).

SA 720 deals with the auditors responsibility of the information contained in the other items of annual report (Financial statements).

0

1cStep1

These information, if not in consonance of the financial statement, can undermine the credibility of the audit report as the other items and audit report shall

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be at variance.

Hence, the auditor shall obtain such other information before the issue of the audit report and analyze whether there are significant differences in the same.

In the given case, the annual report ~~shall~~ has some information which is in variance with the auditor's report.

Hence the reporting responsibility in such case are:

i) Require the manager to revise the other information.

1

1cStep2

ii) If the management does not revise the other information, the auditor shall communicate to TCWG.

iii) Where the information has not been revised even after communicating with TCWG, the

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Auditors shall discuss with TCWG, the possible effects of this on the auditor report including,

a) Considering the mannerⁱⁿ which the audit report shall be issued and the opinion on the same.

b) Considering withdrawal from the engagement.

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0 1cStep3

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1 1c

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6 Q1



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Q. 2 a).

SA 550 Related Parties.

→ SA 550 Related parties requires the auditor to identify the related party and related party transactions and evaluate the effect of the same on financial statement.

Auditor shall evaluate such related party transactions by analysing the:

- i) The Business rationale (or lack thereof) in the transactions entered.
- ii) The amount of the transactions and the nature of the transaction.
- iii) The parties to the transactions.

1

2aStep1

Examples of such transactions are:

- i) The significant sale / purchase with amount at variance with arms length price.

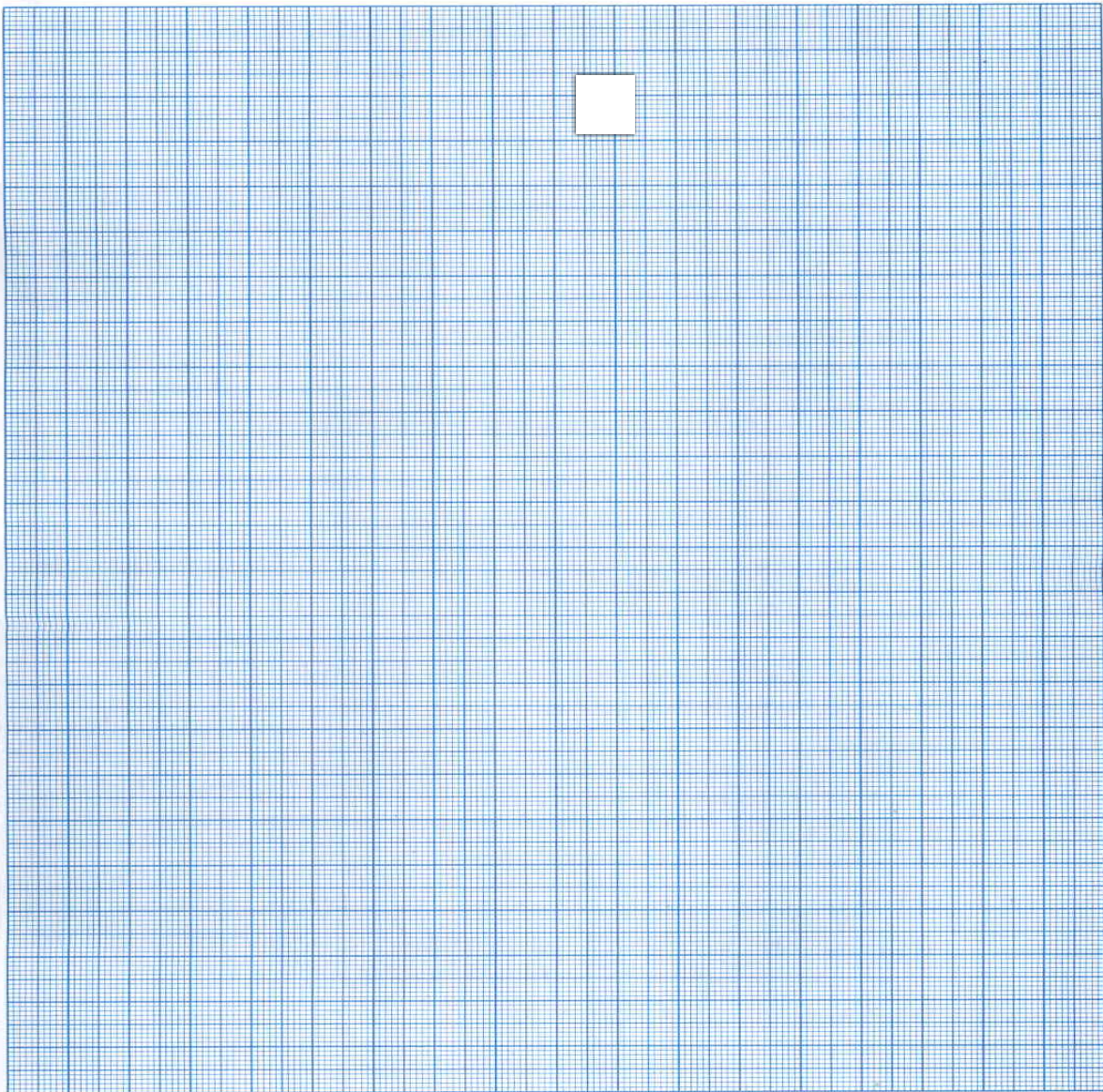


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iii) Complex equity transactions which may conceal the parties identity.
2aStep2 Material transactions not in the ordinary course of the entity.

E.g.,

2aStep3 Transaction which is not in the nature / not in consonance with entities objectives.

iv) Non cash transactions, which may be not reflected in the books.

v) ~~guarantees~~ guarantees / obligations given, etc.

2aStep5

2a

Q. 2 b)

2bStep1 The Central government has constituted National financial Reporting Authority in accordance with sec 132 of the Companies Act.

2bStep2

2bStep3 Accordingly the rules of NFR are applicable to all entities which are covered under NFRA rules. These are.

2bStep4 i) Listed entities having prescribed turnover or capital limits.

2bStep5 ii) as other entities as may be required.

2b



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Add. Book No. (1)

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ADDL. BOOK

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Q.2

c).

→ Legal Provision: Clause 5 and Clause 6 of Part I Second Schedule to Chartered Accountants Act, 1949.

Clause 5:

A CA in practice shall be deemed to be guilty of professional misconduct if he.

Clause 5: fails to disclose material facts, known to him which are not disclosed in the financial statements but the disclosure of which are necessary for not rendering such financial statements misleading, where he is concerned with such FS in professional



2cStep1



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0

2cStep2

Capacity-

Clause 6: Fails to disclose material misstatement known to him to appear in FS where he is concerned with such FS in professional capacity.

0

2cStep3

Here as the Balance Sheet fails to give the disclosure of the corporate guarantee which is of material amount as compared to FS, he would be liable for professional misconduct.

1

2cStep4

This change does not affect any item of Bal sheet but the same should have been disclosed by way of adequate disclosures.

Hence, CA Dice is guilty of professional misconduct as per Clause 5 and 6 of part 1 Second Schedule.

(He can be held guilty under clause 7 as well.)

2

2c

4

Q2

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Q. 4

a).

→ CA Jazz can implement any of the following:

<input type="checkbox"/>	
<input checked="" type="checkbox"/> 4aStep1	i) Appoint a dedicated office/ in house legal counsel for the purpose of compliance with laws and regulations.
<input checked="" type="checkbox"/> 4aStep2	ii) Identify outside independent entities which can provide such services and their reliability.
<input checked="" type="checkbox"/> 4aStep3	i) Require the officials of the entity to be vigilant for the purpose of such compliance as the non compliance may result in heavy fines or penalties.
<input checked="" type="checkbox"/> 4aStep4	
<input checked="" type="checkbox"/> 4aStep5	It may even bring disrepute or discredit to the organization.
	He may appoint an operational auditor as well for the purpose of analyzing the reported non compliance.
<input checked="" type="checkbox"/> 4a	



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Q.4

b).

It is the managements primary responsibility of preparing the consolidated financial statement as per the applicable financial reporting framework.

The auditor can perform following procedures to verify the managements information:

i) Identify the components which are required to the consolidated as per the applicable financial reporting framework. (AS 21/Ind AS 110).



4bStep1

ii) Determine the informations has been included of all components. as per the applicable ~~AS~~ FRF.

iii) Calculation of the permanent consolidation adjustments and

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the current period consolidation adjustments.

1

4bStep2

iv) The auditor shall also evaluate such components where the management does not have voting rights but controls the components likewise. These shall be treated as subsidiaries as per IndAS 110.

This can be evaluated by verifying the Board meeting minutes, agreement with the management, etc.

0

4bStep3

0

4bStep4

0

4bStep5

2

4b



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Q. 4

c).

As per clause (xiii) of Para 3 of the Company Auditors Report Order, 2016,

1

4cStep1

the auditors shall report out the following:

i) Whether the transactions entered into as per provisions 177 and 188 of the Companies Act, 2013 are as per the requirements of the same.

ii) ~~the~~ Whether related party transactions have been identified and disclosed as per the applicable accounting standard, (Ind AS 24)

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6 4cStep2

Accordingly, the auditor shall report the transaction with M/S MG Associates as it is a related party in accordance with Companies act, 2013.

6 Amount of ₹ 4 lakh per month has been paid to M/S MG Associates, a related party through Director and the same is higher by ₹ 1.5 lakh per month.

6 4cStep3

Also, the auditor shall report that the relevant transactions has not been given adequate disclosure which is not in line with applicable financial reporting framework).

1 4c

3 Q4



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Result Overview

Awarded Marks: 29

Max Marks:70

NA Not Attempted

O Optional

M Marked

Q1_Compulsary (Score: 6/14)

Question No	Awarded Marks	Maximum Marks	Status
Q1	6	14	M
1a	2	5	M
1b	3	5	M
1c	1	4	M

Q2_Q6 (Score: 23/56)

Question No	Awarded Marks	Maximum Marks	Status
Q2	4	14	M
2a	2	5	M
2b	0	5	M
2c	2	4	M
Q3	7	14	M
3a	3	5	M
3b	1	5	M
3c	3	4	M
Q4	3	14	M
4a	0	5	M
4b	2	5	M
4c	1	4	M
Q5	9	14	M
5a	2	5	M
5b	4	5	M
5c	3	4	M

Q6	0	14	0
6a	0	5	0
6b	0	5	0
6c	0	4	0

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Use Only H.B Pencil to darken the appropriate Circle.

Use Black Ball point pen to write in the Boxes

Roll Number

2	5	1	9	5	3
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	5	5	5	5	5
6	6	6	6	6	6
7	7	7	7	7	7
8	8	8	8	8	8
9	9	9	9	9	9
0	0	0	0	0	0

Paper No. (See Reverse)

3
2
4
6
7
8

Paper Code

A	T	W	1
A	A		
B	B	B	
C	C	C	
D	D	D	
E	E	E	
F	F	F	
G	G	G	
H	H	H	
I	I	I	
J	J	J	
K	K	K	
L	L	L	
M	M	M	
N	N	N	
O	O	O	
P	P	P	
Q	Q	Q	
R	R	R	
S	S	S	
T	T		
U	U	U	
V	V	V	
W	W		
X	X	X	
Y	Y	Y	
Z	Z	Z	

OMR Sheet No.



7068261

MCQ Booklet Serial No.

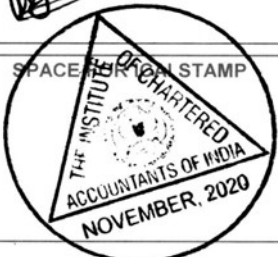
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4	4	4	4	4	4	4
5	5	5	5	5	5	5
6	6	6	6	6	6	6
7	7	7	7	7	7	7
8	8	8	8	8	8	8
9	9	9	9	9	9	9
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Level of Exam

Final
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FINAL <input checked="" type="radio"/>

Stream

New
OLD <input type="radio"/>
NEW <input checked="" type="radio"/>

Signature of Candidate with Pen
<i>Man</i>
Signature of Invigilator with Pen
<i>[Signature]</i>

DATE OF EXAM → 25 NOV 2020

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

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