



FOR CA FINAL EXAM PREPARATION

CA Final 2021 Question Paper · Paper 3 Advanced Auditing and Professional Ethics

EXAM

CA Final

YEAR

2021

TYPE

Question Paper

SUBJECT

Paper 3 Advanced Auditing and Professional Ethics

DATE

December 2021

Final New Syllabus
Paper - 3
Advanced Auditing and
Professional Ethics

THG2

DEC 2021

Roll No.

Total No. of Printed Pages – 8

Total No. of Questions – 6

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 given on the Cover Page of descriptive answer book only. Answers to questions in Part II are to be written on the same descriptive type answer book. Answers to MCQs, if written inside the descriptive answer book, will not be evaluated.
6. OMR answer sheet given on the Cover Page of descriptive answer book 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.**
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 and (b) the answer book in respect of descriptive type answer book with OMR Cover Page 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. Working notes should form part of the answer.
3. 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 – II

1. (a) M/s Kumar & Co., Chartered Accountants were appointed as statutory auditors of PC limited for the financial year 2020-21. During the course of audit, one of the partners CA. Kumar observed that there is misappropriation of assets in the form of theft of entity's inventory and is perpetrated by employees in relatively small and immaterial amounts. CA. Kumar is concerned with the existence of certain circumstances for increasing the susceptibility of assets to misappropriation. 5

Guide CA. Kumar with respect to Risk factors related to misstatements arising from misappropriation of assets with reference to relevant Standard on Auditing.

- (b) In the course of audit of Tech limited you observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Tech Limited used a service organisation to record transactions and process related data. As an auditor, what would be your considerations regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk. 5

Discuss with reference to relevant Standard on Auditing.

- (c) CA Madhu is the statutory auditor of Lakshmi Ltd. for the Financial year 2020-21. In respect of loans and advances of ₹ 75 Lakh given to Sriman Pvt. Ltd., the Company has not furnished any agreement to CA Madhu and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. 4

Justify the type of opinion which CA Madhu should give in such situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph.

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2. (a) During the course of audit of Fortune Ltd., CA Prasad is concerned with the quality and effectiveness of internal control. Towards achieving his objective he wants to assess and evaluate the control environment. Guide CA Prasad with well-defined set of the Standard Operating Procedures in the assessment and evaluation of control. **5**
- (b) Mr. Khanna has been appointed as statutory auditor of RST Ltd. for the financial year ended 31st March, 2021. The financial statements of RST Ltd. are to be drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. The Chief financial officer is of the view that the disclosure requirements specified under Division II of Schedule III of the Companies Act, 2013 are complete and no other additional disclosures shall be made in the Notes or by way of additional statements. Advise on the General instructions to be considered by RST Ltd. while preparing its financial statements. **5**
- (c) The Cashier of a company committed a fraud and absconded with the proceeds thereof. The Chief Accountant of the company also did not know when the fraud had occurred. In the course of the audit, the auditor failed to discover the fraud. After the audit was completed, however, the fraud was discovered by the Chief Accountant. Investigation made at that time indicates that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **4**

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3. (a) The reports of the Comptroller and Auditor General of India on the audit of PSUs are presented to the Parliament and to various state legislatures to facilitate a proper consideration. Enumerate the contents of Audit Report presented by C & AG. **5**
- (b) You have been appointed as Concurrent auditor of one of the branches of Coin Bank Ltd. This branch is dealing mainly in foreign exchange. State the suggested audit procedures to be covered by you to check the foreign exchange transactions of this branch while doing Concurrent audit. **5**
- (c) CA Mehta was appointed as the Auditor of CS Ltd. for the year 2020-21 in the place of retiring auditor CA Gupta. CA Mehta accepted the appointment after obtaining a certificate from the management that the provisions of the Sections 139 and 140 of the Companies Act, 2013 have been complied with. **4**

Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

4. (a) M & B Investments Ltd. is a company having paid up share capital of ₹ 1 Crore. It has a subsidiary, Investors Fund Management Ltd. Major business of M & B Investments Ltd. is to pool money from investors on a collective basis and invest this money in various funds. This company pooled ₹ 10 Crore from a number of clients, which represent the Company's shareholders. **5**

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While auditing books of accounts of M & B Investments Ltd. CA. X observed that whole amount of ₹ 10 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company.

Now, CA X raised an issue while auditing financial statements of M & B Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013 ?

Analyse the above issue and give your opinion.

- (b) ACT Silk Industries is a leading textile manufacturing listed company. 5
In the course of evidence collection and analysis, it was observed that the company is involved in siphoning of funds through payments to shell companies. Hence, SEBI appointed B & S Associates, Chartered Accountants, as forensic auditors of the company.

Enumerate in brief the steps to be taken by B & S Associates in forensic audit process.

- (c) ABC Ltd. is a company registered under the Companies Act, 2013. 4
The company is engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures / securities issued by Government or local authorities. For the year ended 31st March, 2021 following are some extracts from the financial statements :

(i) Paid-up share capital	₹ 40.53 Cr.
(ii) Non-Current Assets - Loans & Advances	₹ 55.90 Cr.
(iii) Current Assets - Loans and advances	₹ 344.47 Cr.

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(iv) Total assets of the company	₹ 530 Cr.
(v) Intangible assets	₹ 3 Cr.
(vi) Profit for the Year	₹ 7.25 Cr.
(vii) Income from interest and dividends	₹ 52 Cr.
(viii) Gross income	₹ 102.57 Cr.

Directors intend to apply for registration as Non-Banking Financial Company (NBFC) under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997. Advise.

5. (a) Mr. Agarwal, in the course of audit of PQ Limited, wants to perform external confirmation procedures to obtain audit evidence. Guide Mr. Agarwal, listing out the factors that may assist him in determining whether external confirmation procedures are to be performed as substantive audit procedures. 5
- (b) Long Age Foundations Ltd. (LAF), a pharmaceutical company, collected the data from some hospitals and their experts tried to understand medical needs of elderly people. After complete study, their experts developed an application where LAF will provide complete health care after charging a nominal amount from the customers, if customers download this application in their mobile phones. CA P in his audit has used data analytics method also known as Computer Assisted audit techniques. 5
- Give illustrations of suggested approach to get the benefit from the use of CAATs.

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- (c) CA. M has been appointed as an auditor of Life Secure Insurance Ltd. 4

He observed that few insurance policies have been sold by the company in the last month of the financial year ending 31st March, 2021. While recognizing income in the income statement of the company, it is the responsibility of CA. M to make an assessment of the reasonability of the risk pattern managed by the management. Also, it is to be ensured by him that Life Secure Insurance Ltd. should not issue policies, if the risk is not established before the closure of the F.Y. 2020-21.

Indicate the circumstances when the company should not issue the policy documents.

6. (a) CA. Pradeep is appointed auditor of Delicious Foods Ltd. (DFL) a 5

listed company to audit the financial statements for the year ended 31st March 2021. Paid-up share capital of DFL is ₹ 5.97 Cr. While auditing director's remuneration CA. Pradeep observed that Mr. Shrinivas Gupta has been appointed as an independent director. Mr. Srinivas Gupta is holding shares of ₹ 8,95,500 in DFL and his wife is holding shares of ₹ 2,98,500 in the same company.

CA. Pradeep raised an objection on the appointment of independent director, but other directors explained that holding of shares by Mr. Srinivas is less than the prescribed limit hence, he is eligible to be appointed as independent director.

How will CA. Pradeep deal with this situation and how will he report this issue ?

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- (b) CA Nitesh, while carrying out the Tax audit of PQR Ltd. observed that PQR Ltd. has entered into specified financial transactions covered under Section 285BA of the Income tax Act, 1961. PQR Ltd. has furnished statement of the specified financial transaction in Form No. 61 & Form No. 61 A. 5

Guide CA. Nitesh with reporting requirements under clause 42 of Form 3CD ?

The management contends that tax auditor need not report, if the transactions are not covered in the ambit of Section 269ST. Comment.

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

CA. D, a practicing Chartered Accountant, was appointed as a simplicitor Director in a Pvt. Ltd. company on 01-01-2020. After serving 18 months, Mr. D resigned as the Director. He accepted the appointment as the Statutory Auditor of the company with effect from 01-10-2021.

Is CA. D right in accepting the audit ?

OR

CA. Manoj has been appointed as Peer Reviewer of M/s UV Associates, a Chartered Accountant firm consisting of 18 partners. As a Practicing unit what are the obligations that are to be complied by M/s UV associates in addition to furnishing the questionnaire, statements and such other particulars as the Board may deem fit ? 4

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