

WT 1 (Ch. 19 – Professional Ethics and Liabilities of Auditors)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Q.1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat. 2

Hence, a requirement has been raised under Revised Code of Ethics as disclosure of fees to ICAI. Accordingly, disclosures are required where for 2 consecutive years, gross annual professional fees from an audit client represents more than:

- (a) 20% of total fees of the firm in case of Non-Public Interest Entities as well as Public Interest Entities.
- (b) 25% of total fees of the firm in case of Non-Public Interest Entities as well as Public Interest Entities.
- (c) 20% of total fees of the firm in case of Non-Public Interest Entities; 40% of total fees of the firm in case of Public Interest Entities.
- (d) 40% of total fees of the firm in case of Non-Public Interest Entities; 20% of total fees of the firm in case of Public Interest Entities.

Q.2 On 27th August 2023, Mr. Jambu, the auditor of Sidharth Ltd. had resigned from his post, citing personal reasons. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of Maniprabh & Co. Chartered Accountants as statutory auditors of Sidharth Ltd. As a part of the terms and conditions of appointment as auditors, Maniprabh & Co. agreed for the following: 2

- (a) Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company (however, Mr. Jambu had agreed to charge only ₹ 45,000/-),
- (b) Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd.

Another partner of the firm, Mr. Shantinath, who is also responsible for signing the financials statements of Sidharth Ltd. was also engaged in the teaching profession during his free time approx 3 to 4 hours weekly.

Which among the below are permitted as per Chartered Accountants Act, 1949:

- (i) Charge fees at 7% of the paid-up capital plus 0.1% of net profit of the company.
 - (ii) Select and recruit personnel, conduct training programmes for and on behalf of Sidharth Ltd.
 - (iii) Mr. Shantinath, one of the partners who is responsible to sign the financials of Sidharth Ltd. was into teaching profession during his free time approx. 5 hours weekly.
- (a) (i) & (ii)
 - (b) (iii) only
 - (c) (ii) & (iii)
 - (d) (i), (ii) & (iii)

Q.3 Responding to Non-Compliance of Laws and Regulations (NOCLAR) is one of the new features in the revised Code of Ethics. In the course of providing a professional service to a client or carrying out professional activities for an employer, a professional accountant may come across an instance of NOCLAR committed or about to be committed by the client or the employer, or by those charged with governance, management or employees of the client or employer. 1

As per Revised Code of Ethics, requirements relating to NOCLAR is applicable in case of:

- (a) Senior Professional Accountants in service, being employees of public sector entities.
- (b) Senior Professional Accountants in service, being employees of listed entities.
- (c) Audit engagements of entities the shares of which are listed on recognized stock exchange(s) in India and have turnover of ₹ 250 crores or more.
- (d) Audit engagements of entities the shares of which are listed in recognised stock exchange(s), whether in India or Outside India and have net worth of ₹ 250 crores or more.

Q.4 BMY LLP, a firm of Chartered Accountants has various divisions/verticals. Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMY LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not a positive evidence of delivery and violates the code of ethics, if the firm accepts the audit assignment. 1

With respect to the dilemma being faced by Mr. B partner of the firm regarding acknowledgment of the communication from the retiring auditor's vide their official email is not a positive evidence of delivery:

- (a) The dilemma of Mr. B is correct as it is not a positive evidence of delivery.
- (b) The dilemma of Mr. B is not correct as it is a positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the code of ethics.

- (c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.
- (d) The dilemma of Mr. B is correct as the email address of the outgoing auditor vide which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt Any two from the rest.

- Q.1 (a) Identify what kind of threat to independence may be involved in following cases: 2
- (i) A Chartered accountant receives about 40% of his total audit fees from a single client.
 - (ii) CA Murli Madhavan provides accounting and book keeping services to a leading NGO engaged in environmental protection work. He is also offered audit of the accounts of NGO.
- (b) Identify which fundamental principle governing professional ethics is disregarded in following cases: 2
- (i) CA P. Suryakantam has conducted audit of accounts of an entity for a particular year. ICAI has issued a letter to him relating to certain matters concerning audit. He didn't even bother to reply to the letter despite reminders.
 - (ii) A Chartered accountant in practice issued a certificate showing original cost of plant and machinery installed in premises of a client for ₹ 9 crores to save some regulatory fees for his client. However, original cost of plant and machinery was ₹ 15 crore as per records of client.
- (c) CA Raman Gupta is offered appointment as auditor of a company. One of his distant uncles held some shares in the same company. Holding of such shares, by a distant relative, is not prohibited under provisions of law nor does it affect his independence. Before he could accept appointment, he received unfortunate news of death of his uncle who had died without any children. He came to know that he was nominee of these shares having substantial value. It landed him in a tricky situation. What should be proper course of action for him? 2
- Q.2 Mr. X is a knowledgeable Chartered Accountant and appointed as a partner in an established firm of Chartered Accountants based out of Mumbai. His firm added a new client, "Sunshine Cot Spin Ltd" (SCSL), a family owned, closely held, Public Limited Company, located at Pune to act as the Statutory Auditors of the Company and audit the books of accounts of the Company for the financial year 2022-23. The Audit firm's Senior Partner, CA. Sriman Narayan, has allocated the client to Mr. X to conduct the audit. 4

Before the commencement of the audit, Mr. X reviewed the Company's audited accounts of the previous year. He noticed that the Auditors Report was qualified due to non-compliance with a mandatory accounting standard with respect to valuation of a high valued property that the Company owns. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with the accounting standard. At this point, he made a telephonic conversation with the previous auditor informing them about his firm's appointment as auditor and also discussed the qualification in the previous audit report.

With reference to the case study, comment on whether communication made with the previous auditor is in line with relevant clause of Schedule to the Chartered Accountants Act, 1949 and Code of Ethics.

Q.3 Mr. 'K', a practicing Chartered Accountant is the proprietor of M/s K & Co. since 1995. He went abroad in the month of December 2023. He delegated the authority to Mr. 'Y' a Chartered Accountant, his employee for taking care of the important matters of his office. 4

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.

Q.4 Mr. X, a Chartered Accountant in Practice filed his income tax return for the Assessment Year 2023-24 u/s 44ADA of the Income-tax Act, 1961, declaring his income on presumptive basis. In a disciplinary proceeding alleged against him for an alleged misuse of funds of his clients, it was asked that he should submit his books of account for the financial year ended on 31.3.2023. Mr. X refused to submit books of account on the ground that he had not maintained any books and even for income tax purposes, he submitted his Return of Income on a presumptive basis. Is he right in putting such a defence? Analyse the issue in the lights of Professional Code, if any. 4



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