

This compiler helps you to glance through the module questions quickly.

Source: **ICAI MODULE MAY'21 (NEW SYLLABUS) FINAL CA AUDIT**

This is the second compiler for Part IV of the syllabus- 'Other Chapters'

This compiler contains topics of Audit of PSU and Peer Review and Quality Review.

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Audit of Public Sector Undertaking		
QN	Question	Answer in short/hints
1	The objectives of audit in connection with a State Electricity Distribution Company were to ascertain whether the: (i) total cost of providing electricity is being recovered by timely submissions to the State Electricity Regulatory Commission; (ii) tariff orders, sales circulars and sales instructions were issued timely, without any ambiguity. They were implemented in time; (iii) metering, billing and collection was managed efficiently and effectively; (iv) monitoring and internal controls were efficient. What kind of audit is this? Prepare two sample observations which could be part of the audit report.	This is a performance audit. Sample observations: a) Non replacement of defective/ burnt meters: Large number of meters, much in excess of the permitted limit of 1% of the total meters were defective and their replacement was not completed within the stipulated time of 1 month b) Under charging of meter rent: As per Schedule of Charges, the Company is required to charge meter rent of `30 per month for a single phase meter and `40 per month for three phase meter. It was observed that the Company had short charged meter rent of `60 lakh from 3 lakh consumers in 5 lakh bills during the period.
2	What are the principles involved regarding "Propriety audit" in the case of Public Sector Undertaking?	4 principles. (i) Expenditure should not be more than occasion demands. (ii) Power of sanctioning expenditure should not be used for own advantage (iii) funds are not utilised for the benefit of a particular person (iv) Apart from agreed remuneration, no other source of income.
3	Write a short explanatory note on Areas of propriety audit under Section 143(1) of the Companies Act, 2013.	Refer Section 143(1) of Companies Act, 2013- Duty to inquire upon certain matters. 6 matters. Clause a-f
4	Write a short explanatory note on Role of C&AG in the Audit of a Government company.	Section 143(5) (6) & (7) of Companies At, 2013 should be explained. Power of CAG to appoint and direct the auditor. Right to order supplementary audit and comment upon auditor's report. Right to order test audit.
5	ABG & Co., a Chartered Accountant firm has been appointed by C & AG for performance audit of a Sugar Industry. What factors should be considered by ABG & Co., while planning a performance audit of Sugar Industry?	9 points: i) Understanding the entity/programme ii) Defining the objectives and the scope of audit iii) Determining audit criteria (benchmark) iv) Deciding audit approach v) Developing audit questions vi) Assessing audit team skills and whether outside expertise required vii) Preparing Audit Design Matrix (audit programme) viii) Establishing time table and resources ix) Intimation of Audit programme to audit entities

6	<p>Sunlight Limited is a public sector undertaking engaged in production of electricity from solar power. It had commissioned a new project near Goa with a new technology for a cost of ` 5,750 crore. The project had seen delay in commencement and cost overrun. State the matters that a Comprehensive Audit by C&AG may cover in reporting on the performance and efficiency of this project.</p>	<p>Comprehensive Audit= Financial audit + Propriety audit + Performance audit (including audit of economy, efficiency and effectiveness). Examples of issues examined in comprehensive audit: a) Overall capital cost vs approved planned cost? b) planned production achieved? c) planned rate of return achieved? d) systems of project formulation? e) Purchase policies adequate? f) Poor or insufficient project planning?</p>
7	<p>Ceta Ltd. is a company in which 54% of the paid up share capital is held by Rajasthan Government. The company is engaged in the business of providing consultancy services in relation to construction projects. The audit of the financial statements of Ceta Ltd. for the financial year ended 31 March 2020 got completed with lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&AG on the audit report of the auditors. Ceta Ltd is seeking advice to go against C&AG so that they can avoid unnecessary interference of C&AG. You are required to advise Ceta Ltd. with respect to role of C&AG in the audit of a Government company</p>	<p>Refer Section 143(5) (6) and (7) of Companies Act, 2013.</p>
8	<p>“A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.” Briefly discuss the issues addressed by Performance Audits conducted in accordance with the guidelines issued by C&AG</p>	<p>According to the guidelines issued by the C&AG, Performance Audits usually address the issues of: a) Economy: Cost optimization. b) Efficiency: Improving Input and Output ratio. c) Effectiveness: Intended Impact vs Actual Impact. Write 2-3 points for each of the above aspect.</p>
9	<p>BT Ltd , a company wholly owned by central government was disinvested during the previous year, resulting in 40% of the shares being held by public. The shares were also listed on the BSE. Since the shares were listed, all the listing requirements were applicable, including publication of quarterly results, submission of information to the BSE etc. Sam, the FM of the company is of the opinion that now the company is subject to stringent control by BSE and the markets, therefore the auditing requirements of a limited company in private sector under the Companies Act 2013 would be applicable to the company and the C&AG will not have any role to play. Comment</p>	<p>Section 2(45) of the Companies Act, 2013, defines a “Government Company” as a company in which not less than 51% of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company. The auditors of these government companies are firms of Chartered Accountants, appointed by the Comptroller & Auditor General, who gives the auditor directions on the manner in which the audit should be conducted by them. The listing of company’s shares on a stock</p>

		exchange is irrelevant for this purpose and hence Sam's opinion is not correct.
10	You have been appointed as auditor of a AKY Ltd. After having determined the audit objectives, now you have been requested to draft audit criteria. What are the sources that you will use while doing the task?	<p>Performance Audit- Planning.</p> <p>Sources to be used for drafting audit criteria (benchmark)</p> <ul style="list-style-type: none"> (i) procedure manuals of the entity. (ii) policies, standards, directives and guidelines. (iii) criteria used by the same entity or other entities in similar activities or programmes (iv) independent expert opinion and know how. (v) new or established scientific knowledge and other reliable information (vi) general management and subject matter literature and research papers
Peer Review and Quality Review		
1	Anand, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas Anand should review in the assessment of independence of the practicing unit?	<p>PR is expected to review firm's controls over 5 areas- I M OSO → Independence, Maintenance of skills, Outside Consultation, Staff supervision, Office Administration.</p> <p>Reviewing Controls over Independence:</p> <ul style="list-style-type: none"> a) Does the PU have policy to ensure independence? b) Does the PU communicate this policy to its partners, staff? c) Does the PU monitor compliance with this policy? d) Does the PU review its association with the clients? e) How does PU deal with threats to independence?
2	What are the areas excluded from the scope of peer reviewer?	<p>Non-Assurance Engagements.</p> <ul style="list-style-type: none"> i) Management Consultancy ii) Tax Representation iii) Preparation of accounts, returns etc. iv) Advisory assignments, due diligence etc. and so on...
3	Write short notes on the following: (a) Scope of Peer Review. (b) Technical, ethical and professional standards as per Statement on Peer Review.	<ul style="list-style-type: none"> a) Scope of Peer Review: <ul style="list-style-type: none"> i) Assurance engagement records are selected for review ii) Review shall cover: Compliance with PET (Prof, Ethical and technical standards), quality of firm's reporting, systems and procedures for carrying out assurance services, compliance with council guidelines etc. b) Technical Ethical and professional standards- AS, IND AS by the ICAI and NFRA, SA, SRE, SAE, SQC, Statements, Guidance notes and applicable laws and regulations.
4	The elements of skill, experience and independence of reviewers are ensured before initiating them in Peer Review process. In the above light, state few eligibility criteria fixed for a person to be empaneled and also for being appointed as a Peer Reviewer.	<p>Eligibility to become a peer reviewer:</p> <ul style="list-style-type: none"> a) Member with atleast <ul style="list-style-type: none"> (i) 10 years of experience for Level I entities and (ii) 7 years of experience for Level II entities b) In case a member has moved from industry to practice and is currently in practice he should have

		<p>(i) at least 15 years of experience in industry and at least 5 years' experience in practice for Level I entities</p> <p>(ii) an experience of at least 10 years in industry and at least 3 years' experience in practice, for Level II entities</p> <p>c) training and test for peer review as prescribed by the peer review board</p> <p>d) should have conducted</p> <p>(i) audit of Level I Entities for at least 7 years or</p> <p>(ii) got his entity audited for at least 7 years which should be a Level I entity</p> <p>to be eligible for conducting Peer Review of Level I Entities.</p> <p>Note: A member shall not be eligible for being appointed as a reviewer if any disciplinary action/proceeding is pending against him.</p> <p>Note: A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment.</p>
5	What are the inherent limitations of Peer Review?	<p>a) The review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of assurance services since it would be based on selective tests</p> <p>b) As there are inherent limitations in the effectiveness of any system of quality control which happens to be subject-matter of review, departure from the system may occur and may not be detected</p>
6	What are the objectives of the Quality review?	<p>Objectives: In carrying out assurance services, whether Practice Units (PU):</p> <p>a) Comply with PET Standards (Prof, ethical and technical)</p> <p>b) have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services</p>
7	What are the reporting responsibilities of the technical reviewer while carrying out a Quality review assignment?	<p>a) TR expresses an opinion on <u>'whether the system of quality control for the attestation services of the firm under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with the applicable Technical standards and maintenance of the quality of attestation service work they perform'</u></p> <p>b) TR's review may not necessarily disclose all weaknesses.</p> <p>c) There are inherent limitations in conducting a review and also there are limitations of firm's system of quality control and hence all departures may not be detected.</p> <p>d) The TR's opinion is subject to risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of</p>

		compliance with the policies and procedures may deteriorate
8	Give examples of areas on which the reviewer may qualify the report?	<p>a reviewer may qualify the report due to one or more of the following:</p> <ul style="list-style-type: none"> i) non-compliance with technical standards and other relevant guidance ii) non-compliance with relevant laws and regulations as required under applicable auditing standard iii) quality control system design deficiency iv) non-compliance with quality control policies and procedures.
9	What are the consequences if the Quality review board notices major non-compliances with the requirements of the Standards on quality control or standards on auditing or accounting standards?	<p>The actions that the Board may take, based upon consideration of recommendations of the QRG (quality review group), include one or more of the following:-</p> <ul style="list-style-type: none"> a) Make recommendation to the Council under CA Act, 1949 to refer the case to disciplinary directorate. b) Issue advisory and guidance to the AFUR (audit firm under review) c) Inform the details of the non-compliance to the relevant regulatory bod(y)/ies d) Intimate the AFUR as to the findings of the Report as well as action initiated e) In case of review arising out of a reference received from a regulatory body, inform the results of review and the details of action taken to the concerned regulatory body f) Consider the matter complete and inform the AFUR accordingly.
10	Briefly discuss the various stages involved in the conduct of the quality review assignments.	<ul style="list-style-type: none"> a) QRB selects Audit Firm, audit file to review and identifies the TR to conduct quality review. b) QRB sends Offer Letter of Engagement to TR c) TR conveys his acceptance along with necessary declarations of eligibility d) QRB intimates AFUR about the proposed Quality Review e) TR sends the specified Quality Review Questionnaire to the AFUR f) TR & his team carry out the Quality Review g) On completion of on-site review, TR to send the preliminary report to AFUR (Copy to QRB) h) AFUR to submit representation on the preliminary report to the TR (copy to QRB) i) TR to submit final report along with a copy of Annual report of the entity for the year under review, to the QRB (copy to AFUR with a request to send replies to QRB on the observations) j) AFUR to submit to QRB their reply on the final report (Copy to TR) k) Upon receipt of the final reply from the AFUR, TR shall submit to QRB within next 7 days a summary of his findings

		<p>l) QRG to consider the report of the TR and responses of AFUR and make recommendations to QRB</p> <p>m) QRB to consider report and recommendations of QRG and decide further course of action</p>
11	<p>What are the important areas for evaluation while conducting quality reviews in terms of SQC -1 Standard on Quality Control?</p>	<p>Examples of important areas for evaluation as per SQC-1:</p> <p>a) Whether the audit firm establishes and implements policies and procedure on all the element of system of quality control</p> <p>b) Whether the engagement quality control reviewer review at an appropriate time</p> <p>c) Whether the audit firm assigns as the person responsible for the monitoring of the system of quality control a person</p> <p>d) Whether the audit firm obtain, at least annually, a confirmation letter concerning compliance with policies and procedure for the maintenance of independence from all person required to maintain independence</p> <p>e) Whether the audit firm perform the independence confirmation procedure set forth in its internal rules before acceptance and continuance of an audit engagement</p> <p>f) Whether the audit firm develop and provides education/ training program</p>
12	<p>Evaluating the professional judgment exercised by the auditor is one of the important aspects under Quality review, please explain the situation with reference to applicable SA</p>	<p>There is no answer to this question given under quality review topic and hence if this question is asked students are expected to write the point of 'Professional Judgment' as given in SA 200 along with the examples of areas where professional judgment is required.</p>