

CA FINAL

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**CODE OF ETHICS, COMPANY AUDIT
&
STANDARDS ON AUDITING**



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CA FINAL AUDIT

**CODE OF ETHICS,
COMPANY AUDIT**

&

**STANDARDS ON
AUDITING**



SJ's Question Bank with Audio PoD

- We here at FAST always working hard to make Audit Easy, Attractive and Concise and this book is a step to towards the same.
- India's most comprehensive question bank for CA Final Audit. This book Covers **269 Questions on Professional Ethics**, **297 Questions on Company Audit** and **315 Questions on Standards on Auditing**.
- **Answer given** are as per ICAI material & suggested answers, however **key words and important phrases** are marked in bold and bulleted for efficient & effective learning. Similar but repetitive questions have been clubbed.
- This question bank covers questions of **SM 2022, Previous exams including RTPs, MTPs of Dec 2021 Exams** of ICAI relevant for CA Final New Course.
- Truly one of the most comprehensive questions bank which makes us feel confident to say

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Author
CA. Sarthak Niraj Jain



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Covering ICAI Questions & Amendments for 2022


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Professional Ethics

(Updated till 2022)



QUESTION BANK

With SJ Audio  PoD
(Covers SM 2022, RTPs & MTPs,
Past Exam Questions till
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(1) Introduction (The IESBA Code)

1.

What are the fundamental principles as per code of ethics of ICAI? What are the threats involved while complying with the fundamental principles? **(Nov-2016)**

Ans.



AQCAA153

Fundamental Principles:

1. **Integrity:** A professional accountant should be **straightforward and honest** in all professional and business relationships.
2. **Objectivity:** A professional accountant should not allow **bias, conflict of interest or undue influence of others** to override professional judgments.
3. **Professional Competence and Due Care:** A professional accountant has a continuing duty to maintain **professional knowledge and skill** at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques.
4. **Confidentiality:** A professional accountant should respect the **confidentiality of information** acquired as a result of professional and employment relationships and **should not disclose any such information to third parties** without proper and specific authority unless there is a legal or professional right or duty to disclose.
5. **Professional Behavior:** A professional accountant should comply with **relevant laws and regulations** and should avoid any action that discredits the profession.

Threats involves in compliance:

1. **Self-interest threats:** It may occur as a result of the financial or other interests of a professional accountant or of a relative
2. **Self-review threats:** It may occur when a previous judgment needs to be re- evaluated by the professional accountant responsible for that judgment.
3. **Advocacy threats:** It may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised.
4. **Familiarity threats:** It may occur when, because of a relationship, a professional accountant becomes too sympathetic to the interests of others.
5. **Intimidation threats:** It may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

2.

Distinguish: Self- interest threat from self – review threat in an assurance engagement. **(May-2018-New)**

OR

What is self-review threat? List the circumstances that may create self-review threats.

Ans.



AQCAA154

Self Interest Threat: Self-interest threat may occur as a result of the financial or other interests of a professional accountant or of a relative. Various circumstances in which self-interest threats may arise are:

- (i) A **financial interest** in a client or jointly holding a financial interest with a client.
- (ii) **Undue dependence** on total fees from a client.
- (iii) Having a **close business relationship** with a client.
- (iv) Concern about the **possibility of losing** a client.
- (v) **Potential employment** with a client
- (f) **Contingent fees** relating to an **assurance engagement**.

Self-review Threats: As per **Section 100** of Code of Ethics, self-review threats occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment. Circumstances that may create self-review threats are:

1. The discovery of a **significant error during a re-evaluation** of the work of the professional accountant in public practice.

2. Reporting on the **operation of financial systems** after being involved in their design or implementation.
3. Having prepared the **original data** used to generate records that are the subject matter of the engagement.
4. A member of the **assurance team** being, or having recently been, a **director or officer**
5. Performing a service for a client that **directly affects** the subject matter of the assurance engagement.

3.

A professional accountant in public practice is always subject to various threats in compliance with fundamental principles of his profession and you, as a professional accountant, is worried about engagement specific threat in your audit assignment of M/s Soft Ltd. and want to implement some measures to eliminate and reduce the same. Enumerate some engagement specific safeguards which you may introduce in your work environment to ward off such threats. **(May-2019-New)**

Ans.



AQCAA155

Engagement-specific safeguards in the work environment may include:

- (i) **Involving an additional professional accountant** to review the work done or otherwise advise as necessary.
- (ii) **Consulting an independent third party**, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- (iii) **Discussing ethical issues** with those charged with governance of the client.
- (iv) **Disclosing to TCWG** of the client the nature of services provided and extent of fees charged.
- (v) **Involving another firm** to perform or re-perform part of the engagement.
- (vi) **Rotating senior assurance team personnel.**

(2) Important Provisions of Chartered Accountant, 1949

Section-2(2) -Members Deemed to be in Practice

4.

Mr. A, a practicing Chartered Accountant agreed to select and recruit personnel, conduct training programmes for and on behalf of a client. Is this a professional misconduct?

(Nov-2007, May-2015, SM-2022)

OR

CA SG a practicing CA agreed to select and recruit personnel, conduct training program for and on behalf of the client. Is this a professional misconduct?




Ans.



AQCAB156

Providing Management Consultancy and Other Services:

- (i) **Provision:-** As per **Section 2(2)(iv) of the Chartered Accountants Act, 1949**, a member of the Institute shall be **deemed "to be in practice"**:
 - When **individually or in partnership** with Chartered Accountants in practice,
 - He, in consideration of **remuneration received or to be received**
 - **Renders such other services as**, in the opinion of the Council, are or **may be rendered by a Chartered Accountant in practice.**
 - **Pursuant to Section 2(2)(iv) above**, the Council has passed a resolution **permitting a Chartered Accountant in practice** to render entire range of **"Management Consultancy and other Services"**.
- (ii) **Definition- Management Consultancy and other Services:-** The definition of the expression "Management Consultancy and other Services" **includes Personnel recruitment and selection.** Personnel Recruitment and selection includes, **development of human resources including** designing and conduct of training programmes, work study, job description, job evaluation and evaluations of workloads.
- (iii) **Conclusion:-** There is **no misconduct on part of Mr. A**, as personnel recruitment and selection is covered under management consultancy and other services.

| | |
|--|---|
| <p>5.</p>  <p>AQCAB157</p> | <p>P, a Chartered Accountant in practice provides management consultancy and other services to his clients. During 2015, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients.</p> <p style="text-align: right;">(SM-2022, May-2006)</p> |
| <p>Ans.</p> | <p><u>See 6 below</u></p> |
| <p>6.</p> | <p>Mr. Sam, a Chartered Accountant in practice, provides guidance on post -issue activities to his clients e.g. follow up steps which include listing of instruments, dispatch of certificates and refunds etc. with the various agencies connected with the work. During the year 2014-15, looking to the growing needs of his clients to invest in the stock markets, he also started advising them on Portfolio Management Services whereby he managed portfolios of some of his clients.</p> <p style="text-align: center;">OR</p> <p>Mr. S, a practicing Chartered Accountant agreed to provide “Portfolio management Services” to his client M/s. D Limited. Comment with reference to the Chartered Accountants Act, 1949.</p> <p style="text-align: right;">(Nov-2015)</p> |
| <p>Ans.</p>  <p>AQCAB158</p> | <p>Advising on Portfolio Management Services:</p> <p>(i) Provision:- The Council of the Institute of Chartered Accountants of India (ICAI) pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 has passed a resolution permitting “Management Consultancy and other Services” by a Chartered Accountant in practice.</p> <p>(ii) A clause of the aforesaid resolution passed by council allows Chartered Accountants in practice:</p> <ul style="list-style-type: none"> • To act as advisor or consultant to an issue of securities including • Such matters as:- Drafting of prospectus, filing of documents with SEBI, preparation of publicity budgets, advice regarding selection of brokers, etc. • It is, however, specifically stated that Chartered Accountants in practice are not permitted to undertake the activities of broking, underwriting and portfolio management services. Thus, a chartered accountant in practice is not permitted to manage portfolios of his clients. <p>(iii) In the given case:- Mr. Sam has started advising his clients on portfolio management along with other management consultancy services related to an issue.</p> <p>(iv) Conclusion:- Therefore, Mr. Sam would be guilty of misconduct under the Chartered Accountants Act, 1949 as a chartered accountant in practice is not permitted to manage portfolios of his clients.</p> |
| <p>7.</p> | <p>CA Natraj, in practice, accepted an assignment as advisor and consultant to the public issue of shares by his client M/s Super Ltd. Besides helping the company as an advisor, he also underwrote the public issue of the company to the extent of 25% at a commission of 1%. Remaining shares were underwritten by banks and other financial institutions at the same rate of commission. He contends that above assignments are part of management consultancy work permitted by the council of the Institute. Do you agree with the view of CA Natraj? Decide in the light of applicable code of conduct.</p> <p style="text-align: right;">(May-2019-New)</p> |
| <p>Ans.</p>  <p>AQCAB159</p> | <p>Assignment as Advisor and Consultant:</p> <p>(i) As per Council guidelines:-</p> <ul style="list-style-type: none"> • The Council of the Institute of Chartered Accountants of India (ICAI) pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 has passed a resolution permitting “Management Consultancy and other Services” by a Chartered Accountant in practice. • A clause of the aforesaid resolution allows Chartered Accountants in practice to act as advisor or consultant to an issue of securities including such matters as drafting of prospectus, filing of documents with SEBI, preparation of publicity budgets, advice regarding selection of brokers, etc. |

- It is, however, specifically stated that Chartered Accountants in practice are not **permitted to undertake the activities of broking, underwriting and portfolio management services.**

(ii) **In the instant case:-** CA Natraj accepted an assignment as advisor and consultant to the public issue of shares by his client M/s Super Ltd. In addition, he also under wrote the public issue of the company to the extent of 25% at a commission of 1%. Contention of CA. Natraj that advisor, consultant and underwriting work is part of management consultancy work and permitted by the council is not correct as Chartered Accountants in practice are not permitted to undertake the activities of broking, underwriting and portfolio management services.

(iii) **Conclusion:-** In view of this, **CA. Natraj would be guilty of misconduct** under the Chartered Accountants Act, 1949.

Section-6 - Certificate of Practice

8.

A Chartered Accountant in practice has been suspended from practice for a period of 6 months. During the said period, though he did not undertake the audit assignment since he had surrendered certificate of practice, he had appeared before Income Tax authorities in his capacity as a Chartered Accountant.

(Nov-2002, Nov-2011, SM-2022)

Ans.



AQCAB160

Undertaking Tax Representation Work:

(i) **Provision:- Section 6 of CA Act, 1949,** requires that no member of the Institute shall be **entitled to practice** unless he has obtained from **the Council a certificate of practice.**

(ii) **In the present case:-** A chartered accountant not holding certificate of practice cannot take up any other work because it would amount to violation of the relevant provisions of the Chartered Accountants Act, 1949.

- **In case a member is suspended and is not holding Certificate of Practice, he cannot in any other capacity take up any practice** separable from his capacity to practices as a member of the Institute.
- This is because **once a member becomes a member of the Institute;** he is bound by the provisions of the **Chartered Accountants Act, 1949 and its Regulations.** If he appears before the income tax authorities, he is only **doing so in his capacity as a chartered accountant** and a member of the Institute.

(iii) **Conclusion:-** Thus in the instant case, **a chartered accountant would not be allowed to represent before the income tax authorities for the period he remains suspended.**

9.

Mr. Dice, a practicing Chartered Accountant was ordered to surrender his Certificate of Practice and he was suspended for one year on certain professional misconduct against him. During the period of suspension, Mr. Dice, designating himself as GST Consultant, did the work of filing GST returns and made appearance as a consultant before various related authorities. He contended that there is nothing wrong in it as he, like any other GST consultant, could take such work and his engagement as such in no way violates the order of suspension inflicted on him. Is he right in his contention? (May-2018-New)

Ans.



AQCAB161

Filing of GST Returns and Appearance as GST Consultant:

(i) **Provision:- Section 6 of CA Act, 1949,** requires that no member of the Institute shall be **entitled to practice** unless he has obtained from **the Council a certificate of practice.**

- **In case a member is suspended and is not holding Certificate of Practice, he cannot in any other capacity take up any practice** separable from his capacity to practices as a member of the Institute.
- However, if a member of ICAI is doing so in any **other capacity such as GST Consultant** wherein **his capacity is not chartered accountant in practice;** he will **not be held guilty** for misconduct.

(ii) **In the present case:- Mr. Dice was a practicing chartered accountant and he was ordered to surrender his certificate of practice and was suspended for one year.** Mr. Dice is doing the work of filing GST returns and has appeared as a consultant before various related authorities **as GST Consultant which is not in capacity of a practicing chartered accountant rather in capacity of authorized representative.** Any person who has been authorized to act as a GST Practitioner on behalf of the concerned registered person can become authorized representative.

(iii) **Conclusion:-** Thus, filing GST return and appearing as GST Consultant by **Mr. Dice is not professional misconduct.** Therefore, **Mr. Dice will not be held guilty for misconduct.** [*Answer is debatable*]

Section-8 - Disabilities to Become a Member

10.

Write a short note: Disabilities to become a member of institute [*Self Reading*]

Ans.



AQCAB162

A person shall not be entitled to have his name entered in or borne on the Register if he:

- (i) **Age - 21 :-** has **not attained the age of 21 years** at the time of his application for the entry of his name in the Register; or
- (ii) **Unsound mind:-** is of unsound mind and **stands so adjudged by a competent Court;** or
- (iii) **Insolvent:-** is an **un-discharged** insolvent; or
- (iv) **Discharged Insolvent** being a discharged insolvent, has **not obtained from the Court a certificate** stating that his insolvency was **caused by misfortune** without any misconduct on his part; or Convict
- (v) **Moral Turpitude:-** has been **convicted by a competent Court** whether within or without India, of an offence involving **moral turpitude** and **punishable with transportation or imprisonment** or of an offence, **not of a technical nature**, committed by him in his professional capacity unless in respect of the offence committed he has **either been granted a pardon** or, on an application made by him in this behalf, the Central Government has, by an order in writing, **removed the disability;** or
- (vi) **Others:-** has been **removed from membership** of the Institute on being found on inquiry to have been **guilty of professional or other misconduct:**

Section-21 - Disciplinary Action: *Other Misconduct* [To be discussed after schedule I]

11.

Mr. R, a Chartered Accountant in practice has been elected as the treasurer of a Regional Council of the Institute. The Regional Council had organized an international tour through a tour operator during the year for its members. During the audit of the Regional Council, it was found that Mr. R had received a personal benefit of ₹ 50,000 from the tour operator.

OR

Mr. Chintamani, a Chartered Accountant in practice has been elected as the treasurer the Regional Council of the ICAI. The Regional Council had organized an international tour through a tour operator during the year for its members. During the audit of the Regional Council, it was found that Mr. Chintamani had received a personal benefit of ₹ 40,000 from the tour operator. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(MTP-Nov-2020)**

Ans.



AQCAB163

Embezzlement of Funds:

- (i) **As per Clause:- Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949,**
A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct,
 - If he in the **opinion of the Council, brings disrepute**
 - To the **profession or the Institute** as a result of his action
 - **Whether or not related to his professional work.**
 - Accordingly, a Chartered Accountant is also expected to **maintain the highest standards and integrity even in his personal affairs** and any deviation from these standards calls for disciplinary action.



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