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QUESTION BOOK

CA FINAL AUDIT

CA MAHESH LAMKANE

PAPER 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS (100 Marks)

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QUESTION BOOK

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1.	BSS & Associates is a partnership firm of CA which was established five years back. The firm was offering only advisory services at the beginning, however, after audit rotation and advent of GST, firm sees lot of potential in these areas also and started looking for opportunities in these areas also. These services being assurance in nature, the firm required some internal restructuring and set up some policies and procedures for compliance year on year. The firm started getting new clients for these new services and is now looking to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it has been setting up a process to document how the issues were resolved. The firm is now looking to work with only select clients which are in line with the policies of the firm. The firm understands that the extent of knowledge it will have regarding the integrity of a client will grow within the context of an ongoing relationship with that client. With regard to the integrity of a client, you are required to give some examples of the matters to be considered by the firm as per the requirements of SQC 1. <i>(RTP May 19) (PP Nov 19)</i>
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The firm should **obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client**, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved. **With regard to the integrity of a client, matters that the firm considers include:**

*Write from SQC 1 point no. -> 1.3 Acceptance & continuance of client relationship -> **Considering integrity of clients.***

2.	J.A.C.K. & Co., CA firm was appointed as the statutory auditor of Falcon Ltd. after ensuring the compliance with relevant provisions of the Companies Act, 2013. Mr. Jay was the engagement partner for the aforesaid audit and prior to commencement of the audit, Mr. Jay had called for a meeting of the engagement team in order to direct them and assign them their responsibilities. At the end of meeting, Mr. Jay assigned review responsibilities to two of the engagement team members who were the most experienced amongst all, for reviewing the work performed by the less experienced team members. While reviewing the work performed by the less experienced members of the engagement team, what shall be the considerations of the reviewers? <i>(MTP May 21)</i>
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As per SQC 1, review responsibilities are determined on the basis that more experienced team members, including the EP, review work performed by less experienced team members. In the given situation, Mr. Jay, EP assigned review responsibilities to two of the ET members who were the most experienced team members.

While reviewing the work performed by less experienced members of the engagement team, both the more experienced Reviewers should consider whether:

*Write from SQC 1 point no. -> 1.5 Engagement Performance -> **A) Audit Review Responsibility.***

3. HK & Co. have been auditors of SAT Ltd (a **listed entity**) for the last 8 financial years. CA. H, partner of the firm, has been handling the audit assignment very well since the appointment. The **audit work of CA. H and her team is reviewed by a senior partner CA. K** to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. **CA. K was out of India** for some personal reasons, so this year **CA. G has been asked to review the audit work.**

In your opinion, what areas CA. G should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not.

(PP July 21) (MTP Nov 22)

Compliance with SQC on review of audit work -

As per SQC 1, an engagement quality control review for audits of FS of listed entities includes considering following:

Write from SQC 1 point no. -> 1.5 Engagement Performance -> **A) Audit Review Responsibility.**

Author's Opinion:

Points of **EQCR for audit of FS of listed entities** (under 1.5 -> I. EQCR) are less relevant even if in given case it is listed entity. Because if you read it carefully underlined portion in question, you will notice that it is about review of audit work by senior.

The firm should establish policies and procedures:

- (i) **Setting out criteria for determining the need for safeguards to reduce the familiarity threat** to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
- (ii) **For all audits of FS of listed entities, requiring rotation of EP** after a specified period in compliance with Code.

The familiarity threat is particularly relevant in the context of FS audits of listed entities. For these audits, the EP should be **rotated after a pre- defined period, normally not more than seven years**. From the facts given in the question and from the above stated paras of SQC 1, **it can be concluded that firm is not complying with SQC 1 as EP H is continuing for more than 7 years.**

4. PQR & Associates, Chartered Accountants, is a partnership firm having 3 partners CA P, CA Q and CA R. PQR & Associates are appointed as Statutory Auditors of ABC Limited, a **listed entity** for the financial year 2021-22 and **CA P is appointed as Engagement Partner** for the audit of ABC Limited. Before issuing the Audit Report of ABC Limited, **CA P asked CA R to perform Engagement Quality Control Review and is of the view that his responsibility will be reduced after review by CA R.**

Whether the contention of CA P is correct? What are the aspects that need to be considered by CA R while performing Engagement Quality Control Review for audit of financial statements of ABC Limited?

(PP May 22)

As per **SQC 1**, the **review does not reduce the responsibilities** of the engagement partner. Hence, **contention of CA. P that after engagement quality control review by CA. R, his responsibility will be reduced, is not correct.**

However, CA. R needs to consider the **following aspect** while performing Engagement Quality Control Review for audit of financial statements of a **listed entity** ABC Ltd.:

Write from SQC 1 point no. -> 1.5 Engagement Performance -> **I) EQCR -> Consideration in EQCR for audits of FS of listed entities**

5. During the audit of Mahaveer Ltd, a listed company, EP completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The **engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence** assessment documentation.

Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.

(RTP May 22) (RTP May 19) (MTP May 19)

As per SA 220, **Engagement Partner shall form a conclusion on compliance with independence requirements** that apply to the audit engagement. In doing so, the Engagement Partner shall:

- (i) **Obtain relevant information from the firm and, where applicable, network firms**, to identify and evaluate circumstances and relationships that create threats to independence;
- (ii) **Evaluate information on identified breaches**, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- (iii) **Take appropriate action to eliminate such threats or reduce them to an acceptable level** by applying safeguards, or, if considered appropriate, **to withdraw from audit engagement**, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

Engagement Partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.

As per SA 220, for audits of FS of listed entities, EQCRR, on performing an EQCR, shall also **consider the engagement team's evaluation of the firm's independence in relation to the audit engagement.**

In the given case, the **Engagement Partner is not right**. The **independence assessment documentation should also be given to Engagement Quality Control Reviewer for his review.**

6.	NEMI Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2021. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. NEMI Limited approached another manufacturing unit Rathnemi Limited for purchase of the unit. Rathnemi Limited was interested in the sale of unit, so the deal went through, and NEMI Limited acquired ninety five percent shares of Rathnemi Limited. The new mgmt of Rathnemi Limited proposed and appointed Mani Associates (already auditors of NEMI Limited) as new auditors of Rathnemi Limited. Mani Associates <u>accepted the assignment without considering information</u> whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. <u>Comment with respect to appropriate SAs what type of information assists the engagements partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not?</u> (MTP Nov 22)
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SA 220 & SQC 1, requires the **firm to obtain information** considered necessary in the circumstances **before accepting an engagement** with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- (i) The **integrity of the principal owners, key management and TCWG** of the entity.
- (ii) **Whether the engagement team is competent** to perform the audit engagement and has the necessary capabilities, including time and resources.
- (iii) **Whether the firm and the engagement team can comply with relevant ethical requirements**; and
- (iv) **Significant matters that have arisen during the current or previous audit engagement**, and their implications for continuing the relationship.

7. CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCRR) for the audit of the financial year 2022-23 of XPM Limited, a **listed company** operating from a small town. She is also based in the same town and **was not engaged previously to conduct an audit of a listed entity**. She accepts the appointment to act as ECQRR.

She performs the review by ticking a Yes/No checklist and signing on some of the working papers prepared by the engagement team. The audit file does not contain any material misstatement which shows that the work of EQCRR is separate from the work of the engagement team. Do you agree with the approach adopted by EQCRR? By commenting on issues involved in the above situation, discuss **whether she can be held guilty of professional misconduct**.

(MTP Nov 23)

As per **SQC 1** EQCRR can be a **partner, other person in the firm** (member of ICAI), **suitably qualified external person**, or a **team made up of such individuals**, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments ET made and the conclusions they reached in formulating the report.

It also states that the **EQCRR for an audit of the FS of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of FS of listed entities**.

In addition, the **work of EQCRR involves objective evaluation of the significant judgments made by the ET and ensuring that the conclusions reached by the team in formulating audit report are appropriate**. It is necessary for **EQCRR to have the requisite technical expertise and experience** to enable her to perform the assigned role of evaluating the work of ET so that any possible misstatement can be avoided. **Without ensuring the appropriate technical expertise and experience, the whole purpose of EQCRR is defeated**.

Therefore, it was not appropriate for her to accept appointment as ECQRR for listed entity.

Further, **SA 220** states that the **EQCRR shall document, for the audit engagement reviewed, that the procedures required by the firm's policies on engagement quality control review have been performed**. It also states that it shall also be **documented that the reviewer is not aware of any unresolved matters** that would cause the reviewer to believe that the **significant judgments the ET made and the conclusions they reached were not appropriate**.

In the given situation, CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer for the audit of the financial year 2022-23 of XPM Limited, a listed company operating from a small town. She has accepted the appointment and performed the review by ticking a Yes / No checklist and signing on some of the working papers prepared by the engagement team.

In the instant case, **there are no working papers** to show that evaluation has been done by EQCRR on conclusions reached by ET. **Mere ticking of a Yes/No checklist and signing on some working papers of ET shows that no such evaluation and review of work performed by ET has been made by EQCRR**.

Therefore, **her approach was not proper in performing work of EQCRR**.

Under **Clause 8**, a CA is **held guilty of professional misconduct in case of failure to obtain sufficient information** which is necessary for the expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.

Clause 9 is applicable in case of **failure to invite attention to any material departure** from the generally accepted procedure of audit applicable to the circumstances. Therefore, she is **guilty of professional misconduct**, as discussed above.

As CA Ragini has allowed the issuance of an audit report of the company without carrying out due procedures as discussed above, she is **guilty of professional misconduct under clauses 8 and 9 of Part I of the Second Schedule to Chartered Accountants Act, 1949**.

8.	SS Ltd. is a company listed in India. The Company has appointed M/s Z & Co. as auditors. Mr. Q, a CA has recently joined the firm and has been appointed as the engagement partner for the first time. He understands that it is necessary to ensure the compliance of independence for the audit team as per standard audit practices. But he could not find as such, any policies and procedures available with the firm in documented form. Why do you think that the firm should have policies and procedures to ensure the independence of the firm in every assignment? How does an engagement partner ensure the compliance of independence? Discuss with reference to relevant SAs. (PP Nov 23)
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As per **SQC 1**, the firm should establish P&P designed to provide it with RA that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code.

Such P&P should enable the firm to:

- (i) **Communicate its independence requirements to its personnel** &, where applicable, to others subject to them;
- (ii) Identify and evaluate **circumstances and relationships that create threats to independence**, and to take **appropriate action** to eliminate those threats or **reduce them to an acceptable level** by applying safeguards, or, if considered appropriate, to **withdraw from the engagement**.

Further, as per **SA 220**, "Quality Control for an Audit of Financial Statements", the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement.

In doing so, EP shall:

- (i) **Obtain relevant information from the firm** and, where applicable, network firms, to **identify and evaluate circumstances and relationships that create threats to independence**;
- (ii) **Evaluate information on identified breaches**, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- (iii) **Take appropriate action to eliminate such threats** or **reduce** them to an acceptable level by applying safeguards, or, if considered appropriate, to **withdraw** from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

9.	OP & Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company and started its operations 5 years back. The field work during the audit of FS of the company for the year ended March 31, 2018 got completed on May 1, 2018. The auditor's report was dated May 12, 2018. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2018. Engagement partner had completed his reviews in entirety by May 10, 2018. Comment. (MTP Nov 18) (MTP May 19) (MTP May 24)
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Review by Engagement Partner: As per SA 220, the **engagement partner shall take responsibility for reviews** being performed in accordance with the firm's review policies and procedures. For audits of FS of listed entities, the engagement partner shall:

- **Determine that an engagement quality control reviewer has been appointed;**
- **Discuss significant matters arising during the audit engagement**, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- **Not date the auditor's report until the completion of the engagement quality control review.**

SA 700 requires the **auditor's report to be dated no earlier than the date on which the auditor has obtained SAAE** on which to base the auditor's opinion on FS. **In cases of an audit of FS of listed entities** where the engagement meets the criteria for an engagement quality control review, such a **review assists the auditor in determining whether SAAE has been obtained**.

Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement **allows significant matters to be promptly resolved** to the engagement quality control reviewer's satisfaction **on or before the date of the auditor's report**.

In the instant case, OP & Associates are the statutory auditors of a listed company BB Ltd. Which started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2018 got completed on May 1, 2018. The auditor's report was dated May 12, 2018. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2018.

Thus, in the given case, **signing of auditor's report i.e. on May 12, 2018 which is before the completion of review engagement quality control review i.e. May 15, 2018, is not in order.**

10.	TPX & Co., is a large audit firm. It maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by engagement team. How do you view above situation from point of view of quality control system in audit firm? Analyse. <i>(MTP May 24)</i>
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In accordance with SQC 1, the **firm should establish policies and procedures designed to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.**

In the given situation, the physical files are neither scanned and incorporated in the electronic files nor cross-referenced to the electronic files. **Inability to do so shows that firm has not established policies and procedures to maintain integrity of engagement documentation.** Lack of ensuring the same makes it difficult to demonstrate completeness of audit files and whether these were assembled within 60 days timeframe stipulated in SQC 1.

Where engmt documentation is in paper, electronic, or other media, the **integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge,** or if it could be permanently lost or damaged. **One of the reasons for designing and implementing appropriate controls for engagement documentation in this regard is the protection of the integrity of information at all stages of engagement.**

For the practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:

- Generate scanned copies that reflect the entire content of the original paper documentation,** including manual signatures, cross-references and annotations;
- Integrate the scanned copies into the engagement files,** including indexing and signing off on the scanned copies as necessary; and
- Enable the scanned copies to be retrieved and printed as necessary.**

It has also been stated that there are many instances where audit **working papers do not contain details as to whether information was obtained from the client or prepared by the engagement team. It is important to identify the source of the document and the information used as audit evidence to ensure its reliability.** It could have potential risks of non-compliance with SAs.

11.	ABC & Asso., (CA) has a policy to accept clients wherein the risk evaluation is conducted with respect to Company and the promoter. XYZ Ltd. approached ABC & Asso. Promoter of XYZ Ltd. is a close associate and family friend of Mr. A, Managing Partner of ABC & Asso. XYZ Ltd. is in news in the previous year for certain inquiries from the regulatory authorities in relation to certain matters. The existing auditor of XYZ Ltd. has resigned and has created a casual vacancy. XYZ Ltd. is ready to offer 25% more than the existing fees and has approached ABC & Asso. for appointment as Auditor. Mr. A has strong recommendation to the Firm to accept the audit. What is your understanding of the functioning of the tone at the top of the Firm ABC & Asso.? What are the considerations one should exercise to uphold Quality within firm? <i>(SM)</i>
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The given situation indicates that proposed client is a new one whose **promoter is close associate and family friend of managing partner** of M/s ABC & Associates. However, **previous auditor of proposed client has resigned** and company is **offering hike in audit fees** in comparison to audit fees paid to previous auditor. Besides, there are also

regulatory inquires against the company. In spite of all this, managing partner of firm Mr. A has recommended for acceptance of offered audit of the company.

It reflects poorly regarding functioning at top of the firm as regards to quality control. SQC 1 requires that firm should establish a QCS designed to provide it with reasonable assurance that firm and its personnel comply with PRL. It further requires that firm's **business strategy is subject to overriding requirement of firm to achieve quality in all engagements**. However, **in the given situation, commercial considerations seem to be overriding factor**.

The **managing partner of firm is close associate and family friend of promoter**. The **matter should have been brought to knowledge of firm** in accordance with requirements of SQC 1 as it involves **issue of independence** of managing partner of the firm with respect to proposed audit engagement. Further, matters of **inquiries from regulators and resignation of previous auditor** raise question about **integrity of the proposed client**. SQC 1 further requires firm to consider before acceptance of an engagement that client does not lack integrity. All these factors need to be taken into consideration before accepting engagement.

Overall, such a **situation reflects lack of proper establishment of quality control framework at top of the firm**. Following considerations should be taken into account while upholding quality of firm: -

- (i) Firm assigns its **mgmt responsibilities** so that **commercial considerations do not override quality of work**.
- (ii) Firm's **P&P in relation to its personnel are designed to demonstrate its overriding commitment to quality**.
- (iii) Firm **devotes sufficient resources for development and documentation of its QCPP**.
- (iv) A firm **before accepting an egmt should acquire vital information** about the client. Such an information should help firm to decide about integrity of Client, promoters and key managerial personnel, competence (including capabilities, time and resources) to perform engagement and compliance with ethical requirements.

1.	CA. Dev, a recently qualified practicing Chartered Accountant got his first internal audit assignment of a large manufacturing concern Growth Limited. As an internal auditor for Growth Limited, CA. Dev is required to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.
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(RTP May 21)

Internal Audit Programme in connection with Plant & Machinery and Tools & dies may be on the following lines:

- (i) **Internal Control Aspects:** Following may be incorporated in audit programme to check internal control aspects-
- Maintaining **separate register for hired assets, leased asset** and jointly owned assets.
 - Maintaining **register of fixed asset & reconciling to physical inspection of fixed asset** & to nominal ledger.
 - All movements of assets are accurately recorded.**
 - Authorization** be obtained for –
 - a declaring a fixed asset **scrapped**.
 - selling** a fixed asset.
 - Check whether **additions to fixed asset register are verified** and checked by authorised person.
 - Proper recording of all additions and disposal.**
 - Examining procedure for the purchase of new fixed assets** and other relevant evidence.
 - Regular **review of adequate security** arrangements.
 - Periodic inspection** of assets is done or not.
 - Regular **review of insurance cover requirements** over fixed assets.
- (ii) **Assets Register:** To review the registers and records of plant, machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.
- (iii) **Cost Report and Journal Register:** To review the cost relating to each plant and machinery and to verify items which have been capitalized.
- (iv) **Code Register:** To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.
- (v) **Physical Verification:** To see physical verification has been conducted at frequent intervals.
- (vi) **Movement Register:** To verify (a) whether Movement Register for movable equipment's and (b) log books in case of vehicles, etc. are being maintained properly.
- (vii) **Assets Disposal Register:** To review whether assets have been disposed off after proper technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorization, sales memos or other appropriate documents.
- (viii) **Spare Parts Register:** To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.
- (ix) **Review of Maintenance:** To scrutinize the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilisation of maintenance department services.
- (x) **Review of Obsolescence:** To scrutinize whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.
- (xi) **Review of R&D:** To review R&D activity and ascertain the extent of its relevance to the operations of the organisation, maintenance of machinery efficiency and prevention of early obsolescence.

2.	xLoud, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe shops, pubs etc. located in complex. Its 'other income' includes advertisements exhibited within/outside premises such as hoarding, banners, slides, short films etc. Facility for parking of vehicles is also provided in basement of premises. xLoud appointed your firm as the auditor of the entity. Being the head of the audit team, you are therefore required to draw an audit programme initially in respect of its revenue and expenditure considering the above-mentioned facts along with other relevant points related to a complex.
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(RTP May 18) (PP Nov 19) (MTP May 22) (MTP May 21)

Audit Programme of a Complex:

- Peruse the **Memorandum of Association and Articles of Association** of the entity.
- Ensure the **object clause permits** the entity to engage in this type of business.

- (iii) In the case of **income from sale of tickets**:
 - (1) Verify control system as to how it is ensured that the collections on sale of tickets of various shows are **properly accounted**.
 - (2) Verify the system of relating to **online booking** of various shows and the system of **realization of money**.
 - (3) Check that there is overall system of **reconciliation** of collections with the **number of seats available** for different shows on a day.
- (iv) Verify the **internal control system and its effectiveness** relating to the **income from cafe shops, pubs** etc., located within the multiplex.
- (v) Verify the **system of control exercised relating to the income receivable from advertisements** exhibited within the premises and inside the hall such as hoarding, banners, slides, short films etc.
- (vi) Verify the system of **collection** from the **parking areas** in respect of the vehicles parked by the customers.
- (vii) In the case of **payment to the distributors** verify the system of payment which may be either through out right payment or percentage of collection or a combination of both. Ensure at the time of settlement any payment of advance made to the distributor is also adjusted against the amount due.
- (viii) Verify the system of **payment of salaries and other benefits** to the employees and ensure that statutory requirements are complied with.
- (ix) Verify the payments effected in respect of the **maintenance of the building** and ensure the same is in order.

3. Darshan Ltd. is a **manufacturing company**, provided following details of **wastages of raw materials** in percentage, for various months. You have been asked to enquire into causes of **abnormal wastage** of raw materials. **Draw out an audit plan**.

Wastage percentage are

July 2021 -> 1.3%

Aug 2021 -> 1.6%

Sep 2021 -> 1.5%

Oct 2021 -> 3.9%

(MTP May 22)

Audit Plan to locate the Abnormal Wastage of Raw Material: To locate the reasons for the abnormal wastage, the auditor of Darshan Ltd. should first assess the **general requirements** as under:

- (i) **Procure a list of raw materials**, showing the names and detailed characteristics of each raw material.
- (ii) **Obtain the standard consumption figures**, and ascertain the basis according to which normal wastage figures have been worked out. **Examine the break-up of a normal wastage** into that in process, storage and handling stages. Also **obtain control reports**, if any, in respect of mfg. costs with reference to predetermined standards.
- (iii) **Examine various records** maintained for recording separately the various lots purchased and identification of each lot with actual material consumption and for ascertaining actual wastage figures therein.
- (iv) **Obtain reports of Preventive Maintenance Programme of machinery** to ensure that the quality of goods manufacture is not of sub-standard nature or leads to high scrappage work.
- (v) Assess whether **personnel employed are properly trained** and working efficiently.
- (vi) See whether **quality control techniques have been consistent** or have undergone any change.
- (vii) **Examine inventory plans and procedures in report of transportation storage efficiency, deterioration, pilferage** and whether the same are audited regularly.
- (viii) Examine whether the **basis adopted for calculating wastage** for September is the same as was adopted for the other three months.
- (ix) **Obtain a statement showing break up of wastage figures** in storage, handling and process for the four months under reference and compare the results of the analysis for each of the four months.

In addition, some **specific reasons** for abnormal wastage in process may be considered by the auditor are as under:

- (i) **Examine laboratory reports and inspection reports** to find out if raw materials purchased were of a poor quality or were of sub-standard quality. This will be most useful if it is possible to identify the wastage out of each lot that has been purchased.
- (ii) **Machine breakdown, power failure**, etc. may also result into loss of materials in process. Check the machine utilisation statements.

- (iii) A **high rate of rejections in the finished lots** may also be responsible for abnormal wastage; therefore, **examine the inspectors' reports** in respect of inspection carried out on the completion of each stage of work or process.
- (iv) It is possible that the wastage **may have occurred because the particular lot** out of which issues were made was **lying in the store for a long time, leading to deterioration in quality** or because of a change in the weather which may have led to the deterioration. Compare the wastage figures.
- (v) Abnormal wastage in storage and handling may arise due to the following reasons:
 - (1) **Write offs on account of reconciliation** of physical and book inventories: In case of periodical physical inventory taking, such write offs will be reflected only in the month such reconciliation takes place.
 - (2) **Accidental, theft or fire losses in storage**: auditor should examine possibility of these for the purpose.
- (vi) Examine **whether any new production line was taken up during the month** in respect of which standard input-output ratio is yet to be set-up.

4.	As an auditor of garment manufacturing company for the last five years you have observed that new venture of online shopping has been added by the company during current year. As an auditor what factors would be considered by you in formulating the audit strategy of the company?
<i>(May 15)</i>	

While **formulating the audit strategy** for a company, following factors may be considered -

General Factors:

- (i) The **engagement objectives**.
- (ii) The **results of the business review**, including major developments in the client's business and industry, significant operating results and financial arrangements.
- (iii) **Preliminary judgements** as to materiality.
- (iv) **Identified inherent risks**. The team should also consider the risk of fraud and, in particular, any evidence of a high level of risk to the firm. They should take into account the results of procedures for the acceptance and continuation of clients.
- (v) The **degree to which the team should carry out further assessment of controls** as a means of reducing substantive tests.
- (vi) The **broad nature, extent and timing of substantive tests**, or changes to the previous year's strategy for substantive testing.
- (vii) **Main points relating to planning and controlling the audit** or comments on the adequacy of the existing arrangements.

Specific Factors for Online Shopping:

The auditor shall also obtain an understanding of the information system, including the related business processes due to new venture of online shopping, including the following areas:

- (i) The **classes of transactions** in the entity's operations that are significant to the financial statements;
- (ii) The **procedures, within both information technology (IT) and manual systems**, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in FS;
- (iii) The **related accounting records, supporting information** and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
- (iv) **How the information system captures events & conditions**, other than transactions, that are significant to FS;
- (v) **Controls surrounding journal entries**, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

5.	Good Bank Ltd. intends to advance to a customer, based on the stocks and receivables. It appoints you to conduct a periodical review of status of stocks and receivables of that borrower. Please draft a suitable program of verification.
<i>(May 14)</i>	

Program of verifications for status of Stock and Receivables: As an auditor for conducting the periodical review of stock and receivables, suitable program of verification will include:

(A) Verification Program for Stock:

- (i) **Observe Physical Inventory-** Inspect the premises to ensure the arrangement of inventory is such that an accurate count is possible.
- (ii) **Determine whether scrap, obsolete, damaged goods and sold inventory** are adequately identified and segregated.
- (iii) **Examine issues transactions and supporting documentation** for a period before the balance sheet date and determine that goods issued before the balance sheet date have been excluded from raw materials inventory.
- (iv) **Test the costing of the detailed priced inventory listings** to obtain a moderate to low level of assurance that accuracy is achieved by tracing unit costs of inventory items to and from suppliers' invoices.
- (v) **Inspect the authentication of all the documents** related to the insurance coverage of the inventory.

(B) Verification Program for Receivables:

- (i) **Trace totals to the comparative summary** of accounts receivable balances.
- (ii) **Assess the adequacy of allowance for doubtful accounts** by reviewing and testing the process used by management to **develop their estimate of collectability**. Consider the reasonableness of bad debt expense compared with prior years.
- (iii) **Select sales and credit memoranda** to obtain a moderate to low level of assurance that cutoff is achieved by reviewing the cutoff at the time of inventory taking and at year-end.
- (iv) By doing **aging analysis** of receivables.
- (v) Ensure if any **litigations or dispute** is going on in respect of receivables.

SA 520

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| 1. | The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, what are the relevant criteria which determine whether the data is reliable for the purposes of designing substantive analytical procedures? |
|----|---|

(Nov 15)

Relevant Criteria for Determining Reliability of Data: SA 520 on 'Analytical Procedures' provides that the reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Following are relevant criteria when determining whether data is reliable for purposes of designing SAP-

- (i) **Source of the information available.** For example, information may be more reliable when it is obtained from independent sources outside the entity;
- (ii) **Comparability of the information available.** For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (iii) **Nature and relevance of the information available.** For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (iv) **Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity.** For example, controls over the preparation, review and maintenance of budgets.

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| 2. | In the audit of Hotel Great Stay Ltd. its auditor wants to use the analytical procedure as substantive procedure in respect of room rental income as well as payroll costs . Guide him as to how it can be done. |
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(Nov 13)

As per SA 520 on "Analytical Procedures", in some cases, even an **unsophisticated predictive model** may be effective as an analytical procedure.

In case of **Payroll cost** - Where an entity has a **known number of employees at fixed rates of pay** throughout the period, it may be possible for the auditor to **use this data to estimate the total payroll costs** for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the FS and **reducing the need to perform tests of details** on the payroll.

In case of **Room Rental Income** of Hotel- Different types of analytical procedures provide different levels of assurance. Analytical procedures involving the **prediction of total rental income** in case of Hotel taking the **room tariff rates**, the **number of rooms** and **vacancy rates** into consideration, can provide persuasive evidence and **may eliminate the need for further verification by means of tests of details**, provided the elements are appropriately verified.

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| 3. | <p>In audit of DEF Limited, the Auditor had made use of certain analytical procedures with regard to certain key data in P&L. The results obtained showed inconsistencies with other relevant information.
 State the course of action that the Auditor should take to ensure that ROMM would be contained to a low level fixed as per materiality level.</p> <p style="text-align: right;"><i>(PP Nov 18)</i></p> |
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Investigating Results of Analytical Procedures: As per SA 520, "Analytical Procedures", if analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant info. or that differ from expected values by a significant amount, auditor shall investigate such differences by:

- (i) **Inquiring of mgmt and obtaining appropriate audit evidence relevant to mgmt's responses;** and
- (ii) **Performing other audit procedures** as necessary in the circumstances.

Audit evidence relevant to mgmt's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

The need to perform other audit procedures may arise when, for e.g., mgmt is unable to provide an explanation, or explanation, together with the audit evidence obtained relevant to mgmt's response, is not considered adequate.

SA 540

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| 1. | <p>M/s. Abhinandan & Co. was appointed as an auditor of Nandan Limited, a company operating its business in telecom sector. As per spectrum allocation agreement with govt., Nandan Limited is required to pay certain percentage of its annual revenue as license fee. Nandan Limited paid the license fee on its core business for last two years. At the end of third year, the communication was received from govt. that it needs to pay agreed percentage on its total revenues and not only on core business revenues. Matter was disputed and went to court of law.</p> <p>On prudence basis, Nandan Limited made a provision on estimated business in its books of accounts of agreed percentage on non-core business receipts also. The amount of provision was of such huge amount that the Nandan Limited's P&L for that quarter reflected loss due to that provision.</p> <p>How you as an auditor can evaluate this accounting estimate which involves significant risk and what if Mgmt has not addressed the effects of estimation uncertainty on provision made?</p> <p style="text-align: right;"><i>(MTP May 23) (MTP May 22) (PP Jan 21)</i></p> |
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Write IV. ESTIMATION UNCERTAINTY -> 3. Further Substantive Procedures to Respond to Significant Risks -> A) Estimation Uncertainty

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| 2. | <p>BETA Ltd is engaged in the Construction business since year 2001. The auditor understands that a thorough construction estimate is vital to the viability of any construction business and requested the information related to financing and operating estimated costs from the management to review the outcome of accounting estimates included in the prior period FS and their subsequent re-estimation for the purpose of current period.</p> <p>The mgmt refused to provide the info. to the auditor as it believed that the judgments and estimates made in the prior periods were based on the information available at that time, and the review of the prior period information should not be done by the auditor in the current FY.</p> <p>With reference to the relevant SA, comment on whether the contention of management is correct or not.</p> <p style="text-align: right;"><i>(PP May 23) (RTP May 19) (MTP Dec 21) (MTP May 24)</i></p> |
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Write III. Auditor's Responsibility -> 1.RAP -> Related to point (c) (v) above -> Reviewing Prior Period Estimates.
 In the given case, the **management is not correct** in refusing the relevant information to the auditor.

3. Statutory auditor of O Ltd requested the mgmt for WR in respect of obsolescence of inventory and warranty obligations recognized by the company in its FS. **The mgmt denied the representation on the ground that during the course of audit, all the required procedures were performed by the auditor and after obtaining SAAE, auditor has issued a clean report. Please comment.**

(OR)

Mr. L while conducting the audit of ABC Ltd., observed that a substantial amount is recognized in respect of obsolescence of inventory and warranty obligation in the FS. **Mr. L wants to obtain WR from the mgmt to determine whether the assumptions and estimates used are reasonable.**

Guide Mr. L with reference to the relevant SAs.

(MTP May 19) (PP Nov 19)

Write V. Disclosure, WR & Documentation -> 2. WR then ->

Further as per SA 580, if mgmt does not provide one or more of the requested WRs, the auditor shall

- (a) **Discuss the matter with mgmt;**
- (b) **Re-evaluate the integrity of mgmt;** and
- (c) **Take appropriate actions**, including opinion in the auditor's report in accordance with SA 705.

1. **Compute the overall Audit Risk** if looking to the nature of business there are **chances that 40% bills of services provided would be defalcated**, inquiring on the same matter management has assured that **internal control can prevent such defalcation to 75%**. On his part the **Auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%**. **Analyse the Risk of Material Misstatement and find out the overall Audit Risk.**
(MTP Nov 20) (MTP May 19)

According to SA-200, the Audit Risk is a risk that Auditor will issue an inappropriate opinion while FS are materially misstated. Audit Risk has two components namely: Risk of material Misstatement and Detection Risk. The relationship can be defined as follows.

Audit Risk = Risk of material Misstatement x Detection Risk

Risk of material Misstatement: - Risk of Material Misstatement is anticipated risk that a material Misstatement may exist in Financial Statement before start of the Audit. It has two components namely Inherent risk and Control risk.

The relationship can be defined as

Risk of material Misstatement = Inherent risk X control risk

Inherent risk: it is a susceptibility of an assertion about account balance; class of transaction, disclosure towards misstatements which may be either individually or collectively with other Misstatement becomes material before considering any related internal control which is **40%** in the given case.

Control risk: it is a risk that there may be chances of material Misstatement even if there is a control applied by the management and it has prevented defalcation to 75%.

Hence, control risk is **25%** (100%-75%)

Risk of material Misstatement: Inherent risk X control risk i.e. 40% X 25 % = **10%**

Chances of material Misstatement are reduced to 10% by the internal control applied by management.

Detection risk: It is a risk that a material Misstatement remained undetected even if all Audit procedures were applied, Detection Risk is 100-60=**40%**

In the given case, overall Audit Risk can be reduced up to 4% as follows:

Audit Risk: Risk of Material Misstatement X Detection Risk = 10X 40% = **4%**

2. Prabhu Ltd., a manufacturing concern wants to develop ICS. You are an expert in developing the ICS, hereby called to brief about the same. **In view of above, you are required to brief about ICS and inherent limitations of the internal control?**
(RTP May 18)

ICS and its Inherent Limitations: As per Guidance Note on Audit of IFC-FR, internal controls are a system consisting of specific policies and procedures designed to provide mgmt with reasonable assurance that the goals and objectives it believes important to the entity will be met.

"Internal Control System" means all the **policies and procedures (internal controls) adopted by the mgmt of an entity to assist in achieving mgmt's objective** of ensuring, as far as practicable, the orderly and efficient conduct of its business, including **adherence to mgmt policies**, the **safeguarding of assets**, the **prevention and detection of fraud and error**, the **accuracy and completeness of the accounting records**, and the **timely preparation of reliable financial information**.

To state whether a set of FS presents a true and fair view, it is essential to benchmark and check FS for compliance with the framework. AS specified under the Companies Act, 1956 is one of the criteria constituting FRF on which companies prepare and present their FS under the Act and against which the auditors evaluate if FS present a true and fair view of the state of affairs and the results of operations of the company in an audit of FS carried out under the Act.

The fundamental therefore is that effective internal control is a process effected by people that supports the organization in several ways, enabling it to provide reasonable assurance regarding risk and to assist in the achievement of objectives.

Fundamental to ICS is that it is integral to the activities of the company, and not something practiced in isolation.

An **internal control system**:

- Facilitates the **effectiveness and efficiency of operations**.
- Helps ensure the **reliability of internal and external financial reporting**.
- Assists **compliance with laws and regulations**.
- Helps **safeguarding the assets** of the entity.

Limitations of Internal Control –

Write From Ch. 3(B) -> Point no. 1.5 Inherent limitations of IC

- | | |
|----|--|
| 3. | One of the objectives of Internal control relating to accounting system is that all transactions are promptly recorded in an appropriate manner to permit the preparation of financial information and to maintain accountability of assets. To achieve this objective, certain matters should be ensured by accounting controls.
List down matters to be ensured by accounting controls. |
|----|--|

(PP July 21) (MTP Nov 23)

Matters to be ensured by accounting controls -

Basic Accounting Control Objectives: The basic accounting control objectives which are sought to be achieved by any accounting control system are -

- (i) **Transactions** should be **recorded in a manner so as to facilitate preparation of FS** in accordance with applicable FRF; & recording of transactions should **facilitate maintaining accountability for assets**;
- (ii) **Transactions** are executed in accordance with **management's general or specific authorization**;
- (iii) **Assets** and records are required to be **protected from unauthorized access, use or disposition**;
- (iv) Records of **assets**, such as sufficient description of the assets (to facilitate identification, its location should also be maintained, so that the assets could be **physically verified periodically**.
- (v) Transactions and other events are **real & promptly/timely recorded** at correct amounts;
- (vi) Transactions are **properly posted**.
- (vii) Transactions should be **classified in appropriate accounts** and in the appropriate period to which it relates;
- (viii) Transactions are **properly disclosed**.
- (ix) Transactions are **properly summarized**.

- | | |
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| 4. | Explain the concept of Integrated framework issued by Committee of the Sponsoring Organisations of the Treadway Commission (COSO Framework) duly mentioning its four out of five components and discuss the three category of objectives that can be achieved as per COSO framework. |
|----|--|

(PP Jan 21)

COSO's Internal Control – Integrated Framework was introduced in 1992 as guidance on how to establish better controls so companies can achieve their objectives. COSO categorizes entity-level objectives into operations, financial reporting, and compliance. The framework includes basic principles representing the fundamental concepts associated with its five components: control environment, risk assessment, control activities, information and communication, and monitoring. Some of the principles include key elements for compliance, such as integrity and ethical values, authorities and responsibilities, policies and procedures, and reporting deficiencies.

Five Components of COSO are as follows:

(i) Control Environment	(ii) Risk Assessment	(iii) Control Activities	(iv) Information and Communication	(v) Monitoring
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The COSO Framework is designed to be used by organizations to assess effectiveness of ICS to achieve objectives as determined by management. The Framework lists three categories of objectives as below:

1. Operations Objectives – related to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

2. Reporting Objectives – related to internal and external financial and non-financial reporting to stakeholders, which would encompass reliability, timeliness, transparency, or other terms as established by regulators, standard setters, or the entity's policies.

3. Compliance objectives – In the Framework, the compliance objective was described as "relating to the entity's compliance with applicable laws and regulations." The Framework considers the increased demands and complexities in laws, regulations, and accounting standards.

5.	SA 315 requires the auditor to document key elements of understanding obtained regarding each of its internal control components, sources of information from which such understanding was obtained and risk assessment procedures performed. While conducting statutory audit of MPT Limited, a listed company, CA Z has understood various IT controls relating to data centre and network operations, system software acquisition, change and maintenance, program change, access security and application system acquisition, development and maintenance operating in the company. Besides, he has also gained knowledge of application controls designed to ensure the integrity of accounting records. Which one of the internal control components of the company is referred to in the above description? Besides activities gathered from the above description, give examples of any other two activities relevant for an audit included in the above identified "component of internal control" of the company. (MTP Nov 23)
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CA Z has gained an understanding of various IT controls operating in the company including General IT controls and application controls. **Such activities form part of "control activities"**, which is one of the components of internal control of an organization.

Control activities are the policies and procedures that help ensure management directives are carried out. Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. **Examples of specific control activities include those relating to the following:**

Performance reviews

These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data – operating or financial – to one another, together with analyses of the relationships and investigative and corrective actions; comparing internal data with external sources of information; and review of functional or activity performance.

Physical controls

Controls that encompass:

- The physical security of assets, including adequate safeguards such as secured facilities over access to assets and records.
- The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).

SA 320 & SA 450

1.	Suneel was appointed as the auditor of PCM Ltd. for the FY 2022-23. During the course of planning for the audit, CA. Suneel intends to apply the concept of materiality for the FS as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose. What benchmark should be adopted by CA. Suneel, if PCM Ltd. is engaged in: (i) the manufacture and sale of air conditioners and is having regular profits. (ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic. (MTP May 24)
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Write SA 320 -> point no. 1 -> Use of Benchmark in determining materiality for FS as a whole.

Then continue with below answer ->

Determining a **percentage to be applied to a chosen benchmark involves the exercise of professional judgment.** There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

In case if PCM Ltd. is engaged in manufacture and sale of air conditioner, and is **having regular profits**: CA. Suneel, the auditor **may consider profit before tax /Earnings**.

In case if PCM Ltd. is engaged in the construction of large infrastructure projects and **incurred losses in the previous two FYs**, due to pandemic: CA. Suneel, the auditor **may consider Revenue or Gross Profit as benchmarking**.

2.	While assessing the impact of uncorrected misstatements in the audit of Manhattan Constructions Private Limited, Mr. Sushil encountered a significant issue related to the calculation of materiality on Sales. The initial materiality calculation was based on estimated figures provided by mgmt. Notably, during the estimation of full-year sales, the mgmt extrapolated from actual amount of 11 months to derive 12 months of sales. However, given the nature of Manhattan Constructions as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged. The actual sales for the last month deviated significantly from the estimated sales due to an unforeseen increase in stamp duty rates imposed by the govt. in that region. As a result, the last month's actual sales represented only 25% of the estimated sales. Now, Mr. Sushil is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Sushil in light of relevant SAs. (RTP May 24)
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As per **SA 450**, the auditor is required to **reassess materiality, in accordance with SA 320, before evaluating the impact of uncorrected misstatements.** This reassessment is crucial to confirm the ongoing appropriateness of materiality in light of the entity's actual financial results.

The **determination of materiality under SA 320 often relies on estimates** of the entity's financial results, given that the actual results may not be known during the early stages of the audit. Therefore, before the auditor proceeds to assess the effect of uncorrected misstatements, **it becomes necessary to adjust the materiality calculated under SA 320 based on the now available actual financial results.**

SA 320 outlines that, as the audit progresses, materiality may be revised for FS as a whole or for specific classes of transactions, account balances, or disclosures. This **revision is prompted by the auditor's awareness of information that would have led to a different initial determination.** Typically, significant revisions occur before the evaluation of uncorrected misstatements.

However, if **the reassessment of materiality under SA 320 results in a lower amount**, the auditor must reconsider **performance materiality** and the appropriateness of NTE of FAP.

In the present case involving Manhattan Constructions Private Limited, it has been identified that the materiality calculated at the beginning of the audit for Sales was based on estimates provided by mgmt. The mgmt extrapolated sales for the full year using the actual amount of 11 months, but since the company experiences significant monthly variations in sales, the actual sales for the last month were only 25% of the estimated figure. This discrepancy arose due to an unexpected increase in stamp duty rates by the govt. in that region.

In this audit scenario, Mr. Sushil, the auditor, **must review and re-assess the materiality initially determined under SA 320 to ensure its continued validity** in light of the actual financial results. If the **re-assessed materiality is lower** than the previously calculated amount, Mr. Sushil must **reconsider performance materiality and appropriateness of NTE of FAP**. This meticulous approach is essential to gather SAAE, enabling Mr. Sushil to form an independent and objective opinion on FS of Manhattan Constructions Pvt. Ltd.

SA 315 & 330

1. While conducting a statutory audit of "Hope Solutions Limited", CA Y has assessed ROMM to be low at FS level and at the assertion level due to a stable, established and relatively **less risky business and extremely satisfactory internal controls** operating in the company. However, **despite the low assessed ROMM, he chooses to send external confirmation requests to third parties for confirmation** of certain material contracts entered into with them by the company.
By doing so, he intends to obtain evidence regarding certain assertions contained in FS of the company. Do you think his approach is in accordance with SAs? Justify your answer with reasons.

(MTP Nov 23)

SA 330 states that **irrespective of assessed ROMM**, the auditor shall **design and perform substantive procedures** for each material class of transactions, account balance and disclosure. In the given situation, the auditor has assessed the ROMM to be low. However, despite such assessment, substantive procedures have to be performed.

SA 330 further states that the auditor shall **consider whether external confirmation procedures are to be performed as substantive audit procedures**. **External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements but need not be restricted to these items**. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties.

Despite the low assessed ROMM, substantive procedures have to be performed due to the following reasons: -

- (i) **The auditor's assessment of risk is judgmental and so may not identify all ROMM and**
- (ii) **there are inherent limitations to internal control, including management override.**

It is also in accordance with the spirit of professional skepticism. Therefore, as discussed above, approach of CA Y is in accordance with SAs.

2. While commencing the statutory audit of ABC Company Ltd., the auditor undertook the risk assessment and found that the **detection risk** relating to certain class of transactions **cannot be reduced to acceptance level**. **Explain.**

(May 17)

SA 315 and SA 330, establishes standards on the procedures to be followed to **obtain an understanding of the accounting and ICS and on audit risk and its components**: inherent risk, control risk and detection risk.

SA 315 and SA 330 require that the auditor should **use professional judgement to assess audit risk and to design audit procedures** to ensure that it is reduced to an acceptably low level.

"Detection risk" is the risk that an **auditor's substantive procedures will not detect a misstatement** that exists in an account balance or class of transactions that could be material. **Higher the assessment of inherent and control risks, the more audit evidence the auditor should obtain from the performance of substantive procedures.**

When both inherent and control risks are assessed as high, the auditor needs to consider whether substantive procedures can provide SAAE to reduce detection risk, and therefore audit risk, to an acceptably low level.

The auditor **should use his professional judgement to assess audit risk and to design audit procedures** to ensure that it is reduced to an acceptably low level. **If it cannot be reduced to an acceptable level**, the auditor should express a **qualified** opinion or a **disclaimer** of opinion as may be appropriate.

SA 265

- During the course of the audit of Tirthankara Limited, CA. Shreyansh Manager in the audit team identified that there is **significant risk in lease transactions due to complex cross -border sale and lease back arrangements**. This **significant risk or ROMM was not identified in management's RAP**. Upon various inquiries with Mgmt regarding their RAP, it was identified and concluded by the audit team that the **management's RAP is not effective** to identify all the significant risks.

CA. Shreyansh decided that this in combination with other potential deficiencies in IC **constitutes significant deficiencies in IC** and hence, is **required to be communicated to TCWG**. However, the engagement partner had a different view regarding the audit of Tirthankara Ltd. According to him, the only matter that is identified and poses significant deficiencies due to their magnitude is only required to be communicated. Matters of potential misstatements that are not actual misstatements cannot be termed as significant deficiencies.

You are required to guide CA. Shreyansh with respect to examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency.

(MTP Nov 22)

As per SA 265, **significant deficiency** in internal control is defined as a deficiency or combination of deficiencies in IC that, in the auditor's professional judgment, is of **sufficient importance to merit the attention of TCWG**.

Also, the **significance** of a deficiency or a combination of deficiencies in internal control **depends not only on whether a misstatement has actually occurred but also on the likelihood that a misstatement could occur and the potential magnitude of the misstatement**. Significant deficiencies may therefore exist even though the auditor has not identified misstatements during the audit.

Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

- The **likelihood of the deficiencies leading to material misstatements** in the FS in the future.
- The **susceptibility to loss or fraud of the related asset or liability**.
- The **subjectivity and complexity of determining estimated amounts**, such as fair value accounting estimates.
- The **FS amounts exposed to the deficiencies**.
- The **volume of activity that has occurred or could occur** in the account balance or class of transactions **exposed to the deficiency or deficiencies**.

SA 240 - THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FS

1. Aditya Ltd. was engaged in the business of owning and managing hotels and resorts, selling tourism packages and performing airline bookings for corporate and individuals. It appointed Sanjay & Co. as its statutory auditor for the financial year 2022-23. While planning the audit, the audit team decided that the risk of improper revenue recognition from hotel business should not be treated as a fraud risk. This conclusion was based on the assessment of earlier years, wherein no fraud was identified in revenue recorded from such business.

While testing the internal financial controls over the process of revenue recognition, it was identified that the controls are not properly designed to mitigate the risk of fraud and risk of improper revenue recognition. As a result, the audit team decided to perform additional substantive testing. However, the audit team still were to the conclusion that there is no risk of fraud in revenue recognition.

During the course of substantive testing, it was identified that the management did not account for revenue received from corporate hotel bookings amounting to ₹ 43 crore. These amounts were partially received in the company's bank accounts and partially received in the CFO's personal account. The amounts received in the bank account of the company were disclosed as advances received against the future bookings.

In the light of above scenario, kindly guide the statutory auditors with respect to their responsibility relating to fraud in an audit of a financial statement.

(MTP May 24) (RTP Nov 22)

As per **SA 240**, "The Auditor's Responsibilities Relating to Fraud in an Audit of FS" and **SA 315**, "Identifying and Assessing the ROMM Through Understanding the Entity and Its Environment", the auditor shall identify and assess **ROMM due to fraud** at FS level, and at assertion level for classes of transactions, account balances and disclosures. When identifying and assessing the ROMM due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, **evaluate which types of revenue, revenue transactions or assertions give rise to such risks**.

In accordance with **SA 240**, "The Auditor's Responsibilities Relating to Fraud in an Audit of FS" and **SA 330**, "The Auditor's Responses to Assessed Risks" the auditor shall **determine overall responses to address the assessed risks of material misstatement due to fraud** at the FS level and assertion level.

The presumption that there are risks of fraud in revenue recognition may be rebutted (*denied*). For example, the auditor may conclude that there is no ROMM due to fraud relating to revenue recognition in the case where there is a **single type of simple revenue transaction**, for example, leasehold revenue from a single unit rental property. However, **when there is a complex revenue structure or when there is lack of controls** on revenue recognition, then there is a **high probability of fraud risk** in revenue recognition.

Obtaining an **understanding of the entity** and its environment, including the entity's internal control (referred to hereafter as an "understanding of the entity"), is a **continuous, dynamic process of gathering, updating and analysing information throughout the audit**.

In the current scenario, the company was earning revenue from multiple streams. Also, it was identified that the controls are not properly designed to mitigate the risk of fraud and risk of improper revenue recognition. During the year it was identified that the management did not account for revenue from corporate hotel bookings amounting to ₹ 43 crore. These amounts were partially received in the company's bank accounts and partially received in the CFO's personal account. The amounts received in the bank account of the company were disclosed as advances received against future bookings.

Therefore, the **auditor while performing the risk assessment procedures should consider the complexity and nature of the revenue for determining the fraud risks in revenue recognition**. Also, there were no adequate controls addressing the risk of improper revenue recognition or fraud risk, the audit team rebutted the fraud risk.

Moreover, the **audit team should have recognised fraud risk by identifying the deficiencies of internal control over the revenue recognition process and should have treated the risk of improper revenue recognition as a significant risk**.

Also, as per **Section 143(12)**, the auditor is required to **report all the frauds** identified during the course of the audit involving amounts **above ₹ 1 crore** within the prescribed time frame to the **Central Government**.

SA 250 - CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FS

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| 1. | While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour . On questioning the management , the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws.
<i>(RTP May 18) (Nov 12) (MTP May 20) (MTP May 23)</i> |
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Compliance with Other Laws: As per **SA 250**, “Consideration of Laws and Regulations in an Audit of Financial Statements”, the auditor **shall obtain sufficient appropriate audit evidence** regarding compliance with the provisions of those laws and regulations generally recognised to have a **direct effect** on the determination of material amounts and disclosures in the financial statements including tax and labour laws.

Further, **non-compliance with other laws and regulations may result in fines, litigation or other consequences** for entity, the **costs of which may need to be provided for in FS**, but are not considered to have a direct effect on FS.

In the instant case, major portion of the labour employed in the company was child labour. While questioning by auditor, reply of the management that it was **outside his scope of financial audit** to look into the compliance with other laws **is not acceptable** as it **may have a material effect on FS**.

Thus, auditor should **ensure the disclosure of above fact and provision for the cost of fines**, litigation or other consequences for the entity. In case **if auditor concludes that non-compliance has a material effect on FS and has not been adequately reflected in FS**, the auditor shall **express a qualified or adverse opinion** on FS as per SA 705.

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| 2. | Big and small Ltd. received a show cause notice December 2013 from the Central Excise department intending to levy a sum of ₹ 25 lakhs . The Company replied to the above notice in January, 2014 contending that it is not liable for the proposed levy.
No further action was initiated by the Central Excise department up to the finalization of the audit for the year ended on 31st March, 2014. As the Auditor of the Company, how would you deal with this matter in your report?
<i>(Nov 14)</i> |
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Compliance of Laws and Regulations: As per **SA 250** “Consideration of Laws and Regulations in an Audit of Financial Statement”, the auditor **shall obtain sufficient appropriate audit evidence** regarding compliance with the provisions of those laws and regulations generally recognised to have a **direct effect** on the determination of material amounts and disclosures in the financial statements including tax and labour laws.

During the audit, the auditor **shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance** or suspected non-compliance with laws and regulations **to the auditor’s attention**.

Then auditor **shall discuss the matter with management and**, where appropriate, **those charged with governance**.

If management or, as appropriate, those charged with governance **do not provide sufficient information that supports that the entity is in compliance** with laws and regulations **and, in the auditor's judgment, the effect of the suspected non-compliance may be material** to the financial statements, the auditor shall consider the need to obtain legal advice.

In case, **if the auditor concludes that the non-compliance has a material effect** on the financial statements, and has **not been adequately reflected** in the financial statements, the auditor **shall express a qualified or adverse opinion** on the financial statements.

Further, as per **AS 29** "Provisions, Contingent liabilities and Contingent Assets", future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that the event will occur.

In the present case of Big and Small Ltd., **issuance of show cause notice by Excise Department does not tantamount to demand payable by the Company**. In so far as the Company has replied to the notice and no further correspondence was received from the Department. This show cause notice may be an alert or indication of non-compliance for the auditor.

So, **auditor need to discuss with management and apply additional procedure**. If the auditor concludes that there is non-compliance then provision for the same should be made as per **AS 29**. If the management does not accept the request the auditor should qualify the audit report accordingly or vice versa.

SA 260 - COMMUNICATION WITH TCWG

SA 299 - JOINT AUDIT OF FINANCIAL STATEMENT

1.	Dice Ltd. appointed two CA firms MN & Associates and PQ & Co. as joint auditors for conducting audit for the year ended 31st March, 2019. In the course of audit, it has been observed that there is a major understatement in the value of inventory . The inventory valuation work was looked after by MN & Associates but there was no documentation for the division of the work between the joint auditors . Comment on the above situation with regard to responsibilities among joint auditors. (PP May 19)
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Responsibility and Co-ordination among Joint Auditors: As per **SA 299**, "Joint Audit of Financial Statements", where joint auditors are appointed, **they should, by mutual discussion, divide the audit work among themselves**. The division of the work would **usually be in terms of audit identifiable units or specified area**. In some cases, due to the nature of the business entity under audit, such a **division of the work may not be possible**. In such situations, the division of the work may be with **reference to items of assets or liabilities or income or expenditure or with reference to period of time**. The **division of the work** among joint auditors as well as the areas of work to be covered by all of them **should be adequately documented and preferably communicated to the entity**.

In respect of the audit **work divided** among the joint auditors, **each joint auditor is responsible only for the work allocated to him**, whether or not he has prepared a separate audit of the work performed by him. On the other-hand all the **joint auditors are jointly and severally responsible** –

- (i) The audit **work which is not divided** among the joint auditors and is **carried out by all joint auditors**;
- (ii) **Decisions taken by all the joint auditors** under audit planning phase concerning the nature, timing and extent of the audit procedure to be performed by each of the auditor;
- (iii) **Matters** which are brought to the notice of the joint auditors by any one of them and on which there is an **agreement among the joint auditors**;
- (iv) Examining that the **financial statements of the entity comply with the requirements** of the relevant statute;
- (v) **Presentation and disclosure of financial statements** as required by applicable financial reporting framework;
- (vi) Ensuring that the **audit report complies with the requirements** of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI;

The **joint auditors shall also discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit** to be performed by each of the joint auditors and the **same shall be communicated** to those charged with governance. After identification and allocation of work among the joint auditors, the **work allocation document shall be signed by all the joint auditors** and same shall be **communicated** to those charged with governance of the entity.

Hence, in respect of audit **work divided** among the joint auditors, **each joint auditor shall be responsible only for the work allocated to such joint auditor** including proper execution of the audit procedures.

In the instant case, Dice Ltd. appointed two CA Firms MN & Associates and PQ & Co. as joint auditor for conducting audit. As observed during the course of audit that there is a major understatement in the value of inventory and the **inventory valuation work was looked after by MN & Associates**.

In view of SA 299 **MN & Associate will be held responsible for the same** as inventory valuation work was looked after by MN & Associates only. Further, there is violation of SA 299 as the division of work has not been documented.

2.	NMN & Co LLP and ABC & Associates LLP are the joint statutory auditors of BHS Ltd. BHS Ltd. is a listed company and has been in existence for the last 50 years. Since beginning this company was audited by MQS & Associates but due to audit rotation, the company had to bring in new auditors. Considering the size of the company, two auditors were appointed as joint auditors. Since the company is new to these auditors and the concept of joint auditors to whom audit work has been divided, management had a discussion and understood that each joint auditor is responsible only for work allocated to him, whether or not he has prepared a separate report on work performed by him. Advise. <i>(MTP May 19) (Nov 15)</i>
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SA 299 "Joint Audit of Financial Statements" deals with the professional responsibilities which the auditors undertake in accepting appointments as joint auditors. The **joint auditors are required to issue common audit report**, however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.

A **joint auditor is not bound by the views of the majority** of the joint auditors regarding the opinion or matters to be covered in the audit report and **shall express opinion formed by the said joint auditor in separate audit report in case of disagreement**.

In such circumstances, the **audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s)**. Further, **separate audit report shall also make reference to audit report issued by other joint auditors**. Such reference shall be made under heading "**Other Matter Paragraph**" as per SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

Each joint auditor is entitled to assume that:

- The **other joint auditors have carried out their part of the audit work** and the **work has actually been performed in accordance with the Standards on Auditing** issued by the ICAI. It is **not necessary for a joint auditor to review the work** performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.
- The **other joint auditors have brought to said joint auditor's notice any departure from applicable financial reporting framework or significant observations that are relevant to their responsibilities** noticed in the course of the audit.

Where financial statements of a **division/branch are audited by one of the joint auditors**, the **other joint auditors are entitled to proceed on the basis that such financial statements comply with all the legal and regulatory requirements** and present a true and fair view of the state of affairs and of the results of operations of the division/branch concerned.

Before finalizing their audit report, the **joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report**.

SA 500 – Audit Evidence

1.	Mr. Shreyansh, while performing the audit of Red Rock & Silver Sand Limited which was involved in phosphorus mining, decided to appoint an auditor's expert for the valuation of environmental liabilities and site clean-up costs. Red Rock & Silver Sand Limited re-appointed Mr. Sheetal as an independent expert for this engagement. For the last five years, management has been re-appointing Mr. Sheetal. Mr. Sheetal calculated the environmental liabilities pertaining to completed mining sites and the sites which will be discarded in the near future and a provision for clean-up costs. This provision was accepted by management. Mr. Shreyansh, after performing the inquiries with management, was of the opinion that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. Hence, there is no need to raise a question on the objectivity of Mr. Sheetal or on his work performed for the company. However, the audit partner was of the opinion that the audit team needs to evaluate the objectivity of an expert engaged by the entity, irrespective of the fact that he was appointed as an independent expert. <u>Kindly guide the audit partner and Mr. Shreyansh with respect to requirements pertaining to evaluating the objectivity of the management expert.</u> <i>(RTP Nov 23)</i>
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As per SA 500 "Audit Evidence", when information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, have regard to the significance of that expert's work for the auditor's purposes evaluate the competence, capabilities and objectivity of that expert.

A broad range of circumstances may threaten objectivity, for example, **self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats** and may be created either by external structures (for example, the management's expert's profession, legislation or regulation), or by the management's expert's work environment (for example, quality control policies and procedures).

Although **safeguards cannot eliminate all threats** to a management expert's objectivity, threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater.

When evaluating the objectivity of an expert engaged by the entity, it may be relevant to **discuss with management** and that expert any **interests and relationships** that may create threats to the expert's objectivity and any applicable **safeguards, including any professional requirements that apply to the expert**; and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

In the current case, Red Rock & Silver Sand Limited re-appointed Mr. Sheetal for this engagement as an independent expert. The audit team was of the view that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. However, the audit partner had a contrary view.

Hence, the **audit team should evaluate the objectivity** of an expert engaged by the entity as **threat to objectivity, created by being an employee of the entity, will always be present.** An **expert appointed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees** of the entity. As a result, audit partner is correct in his view.

SA 620

1. HAM Ltd. is engaged in the business of mfg. of medicines. The mfg. process requires raw materials such as hydrochloric acid, caustic soda and other chemicals for the mfg. of various drugs. The Company has maintained large stock of raw materials of all types of chemicals being used. The nature of raw material is such that its physical verification requires the involvement of an expert. **Mgmt hired their expert for the stock taking and auditors also involved their expert for the same purpose.**

The auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.

Based on above, the auditor knows that it would be right to express a modified opinion in the auditor's report because he has not obtained SAAE. But he was reluctant in doing so and issued a clean audit report and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment.

(PP May 23) (MTP May 19)

As per **SA 620**, if the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to **express a modified opinion** in the auditor's report in accordance with **SA 705** because the auditor has not obtained SAAE.

In addition, the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an **unmodified opinion** unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a **modification** to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. In such circumstances, the auditor may need the permission of the auditor's expert before making such a reference.

In the given case, the auditor cannot reduce his responsibility by referring the name of auditor's expert and thereby issuing a clean report. The auditor should have issued a modified report and could have given reference to the work of an auditor's expert in that report if such reference was relevant to understanding of a modification to the auditor's opinion but even in that case the auditor should have indicated in his report that such reference of an auditor's expert does not reduce his responsibility for that opinion.

SA 501 – Audit Evidence (Specific Considerations for selected items)

1. While conducting the statutory audit of Tasty Foods Limited, CA. Careful has planned attendance at physical inventory count of the company from 29th March to 31st March 2024. The company is engaged in business of extracting rice from paddy grains and caters to domestic as well as international market particularly in Gulf region. It has its plant spread in area of about 20 acres located in National Capital Region (NCR). **Paddy contained in jute bags** of nearly standard sizes is purchased from dealers/agents. It is **stored in heaps on pallets** (kind of wooden structures) **in open area** covered by protective sheets **and in steel silos** (silos are huge steel containers with measuring strain gauges) in company's premises.

The company mainly produces three rice brands viz. "Raja" and "Shehzada" (both for the domestic market) and "Badshah" (for the international market). The process of obtaining rice from paddy consists of various steps like cleaning of paddy, removing outer husk layer from paddy grains to obtain brown rice, whitening, polishing, grading and sorting, packaging which is accomplished by means of various types of machineries installed in plant.

The company's management has prepared a set of instructions and procedures to be followed for recording and controlling results of company's physical inventory counting which are listed as under: -

- The **physical inventory count process** is to be supervised by a **responsible officer of company responsible for storage functions**.
- There should be **no disturbance to the routine process** of receiving goods and dispatch.
- **Counting process** is to be undertaken by constituting different teams of 3 members each for counting/verifying raw material, work in progress and finished goods.
- **Paddy** in steel silos is to be estimated using their capacity.
- Quantity of **work in progress** is to be estimated considering plant capacity as whole.
- The **responsible officer** should ensure that stocks have been counted/verified in all areas.

Before proceeding to attend physical inventory count process of company, evaluate management's instructions and procedures sent to CA. Careful as stated above. You may suggest modification, addition or removal of such instructions to ensure effective count process.

(MTP May 24)

The set of instructions and **procedures given in the case scenario are incomplete and not properly followed**, which are discussed as under:

- The physical inventory count process should be supervised by a **responsible officer of the company**, preferably from finance department. The **supervision of the count process should not be done by person responsible for storage function**. However, **storage in-charge of each area should be present during inventory count process for co-ordination and facilitation**.
- During inventory count process, **inward and outward movement of goods should not be allowed** as allowing such movement may distort the results or make it difficult to arrive at proper results.
- **The instruction relating to the constitution of teams for counting process does not specify that counting shall be undertaken by members drawn from departments not connected with storage function**. For example, these members may be from the finance department. Further, within each team, duties should be fixed separately for counting and recording on serially numbered count sheets. It is nowhere stated that once counting in an area is complete, certain distinctive marks or tags are required to be put.
- **Count sheets should contain description of products** in accordance with inventory records of company.
- The **management's instructions are silent about how team members would proceed with their work**. Team members should be provided with **lay out plans for different sections/ storage areas** so that all areas are covered.
- The management's instructions are **silent on how paddy lying in open is to be counted and verified**. Paddy in jute bags lying in open in heaps should be **verified by counting number of bags** in one heap. As each bag is of nearly standard size, the quantity of paddy can be determined by counting number of bags in a heap and correlating it with the weight of standard bag.
- **Paddy in steel silos** should be determined using **measuring strain gauges on silos**. Determining quantity in silos based on silo capacity may lead to wrong results as paddy may have been used from such silos.
- **Quantities of work in progress should be estimated at each stage of production and not for the plant as a whole**. Estimating WIP inventories for plant as a whole would give inaccurate picture of WIP inventories.
- **Finished goods inventories need to be counted category wise**. Rice bags should be verified by checking the name of brand.
- There is **no instruction regarding damaged or obsolete stock items** particularly in the case of finished goods i.e. rice. Damaged/obsolete inventories should be counted and shifted to a separate area for assessment of their condition and to prevent mix- up with other standard inventories.
- **Count sheets need to be signed by each team member**.
- The responsible officer should ensure that stocks have been counted/verified in all areas and **distinctive marks are put to confirm completion of counting**.

SA 505 – External Confirmations

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| 1. | <p>During the audit of Star Ltd. a company engaged in the production of paper, the auditor received certain confirmation for the balances of trade payables outstanding in the balance sheet through external confirmation by "Negative Confirmation Request". In the list of trade payables, there are number of small balances except one which is an old outstanding of ₹ 20 lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation.</p> <p style="text-align: right;"><i>(PP Nov 22) (RTP May 18) (May 14)</i></p> |
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External Confirmation: As per SA 505, "External Confirmation", negative confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

The **failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.**

Accordingly, a failure of a confirming party to respond to a negative confirmation request **provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise.**

In the instant case, the auditor sent the negative confirmation requesting the trade payables having outstanding balances in the balance sheet while doing audit of Star Limited. One of the old outstanding of ₹ 20 lakh has not sent the confirmation on the credit balance.

In case of **non-response**, the auditor may examine subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes. Further **non-response** for negative confirmation request **does not means that there is some misstatement** as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

But, if the auditor identifies factors that give rise to **doubts about the reliability** of the response to the confirmation request, he shall **obtain further audit evidence** to resolve those doubts.

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| 2. | <p>Mr. Rishabh, in the course of audit of PQ Limited, wants to perform external confirmation procedures to obtain audit evidence. Guide Mr. Rishabh, listing out the factors that may assist him in determining whether external confirmation procedures are to be performed as substantive audit procedures.</p> <p style="text-align: right;"><i>(MTP Nov 23) (PP Dec 21)</i></p> |
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Factors that may assist Mr. Rishabh, the auditor in **determining whether external confirmation procedures are to be performed as substantive audit procedures** include:

- (i) The **confirming party's knowledge of the subject matter** – responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
- (ii) The **objectivity of the intended confirming party** – if the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.
- (iii) The **ability or willingness of the intended confirming party to respond** – for example, the confirming party:
 - May **not accept responsibility** for responding to a confirmation request;
 - May consider responding **too costly or time consuming**;
 - May have concerns about the **potential legal liability** resulting from responding;
 - May account for **transactions in different currencies**; or
 - May operate in an environment where, responding to confirmation requests is **not a significant aspect of day-to-day operations**.

In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.

SA 510 – Initial Audit Engagements (Opening Balances)

1.	(I) In an initial audit engagement, the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow in cases (i) when the financial statements are audited for the preceding period by another auditor; and (ii) when financial statements are audited for the first time. (II) If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances'; what approach you will adopt in drafting your audit report in two situations mentioned in (I) above? (RTP May 21)
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(I) (i) FS Audited by another Auditor – Audit Procedure: If the prior period's FS were audited by a predecessor auditor, the auditor may be able to obtain SAAE regarding the opening balances by perusing the copies of the audited FS including the other relevant documents relating to the prior period FS such as supporting schedules to the audited FS. Ordinarily, the current auditor can place reliance on the closing balances contained in FS for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

(ii) Audit of FS for the First Time – Audit Procedure: When the audit of FS is being conducted for the first time, the auditor has to perform auditing procedures to obtain SAAE. Since opening balances represent effect of transaction and events of the preceding period and accounting policies applied in the preceding period, the auditor need to obtain evidence having regard to nature of opening balances, materiality of the opening balances and accounting policies. Since it will not be possible for auditor to perform certain procedures, e.g., observing physical verification of inventories, etc. the auditor may obtain confirmation, etc. and perform suitable procedures in respect of fixed assets, investments, etc. The auditor can also obtain management representation with regards to the opening balances.

(II) Drafting Audit Report: If the auditor is unable to obtain SAAE regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate. Further, If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's FS, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion.

SA 530 – Audit Sampling

SA 550 – Related Parties

1.	While formulating the audit plan and responding to ROMM identified and assessed in RPT and relationships, Ms. K the engagement manager of the audit team of ABC Ltd., decided to rely upon the internal controls placed for identification and disclosure of RP relationships and RPTs in accordance with the applicable FRF. You are requested to guide Ms. K regarding the necessity to TOC to obtain SAAE. Also guide, whether Ms. K can use the audit evidence obtained, regarding operative effectiveness of control on identification and disclosure of RP relationships and RPTs, in the interim period. (RTP Nov 21)
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As per SA 550, "Related Parties", according to para on "Responses to the ROMM associated with RP relationships and transactions", the auditor should design and performs FAP to obtain SAAE about the assessed ROMM associated with RP relationships and transactions.

Further, as per SA 330, "The Auditor's Responses to Assessed Risks", the **auditor shall design and perform TOC to obtain SAAE as to the operating effectiveness of relevant controls when:**

- (a) **Auditor's assessment of ROMM at the assertion level includes an expectation that the controls are operating effectively** (i.e., the auditor intends to rely on the operating effectiveness of controls in determining NTE of substantive procedures); or
- (b) **Substantive procedures alone cannot provide SAAE** at the assertion level.

In designing and performing TOC, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control. Moreover, the auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls, subject to when the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, and the timing of test of controls over significant risks, in order to provide an appropriate basis for the auditor's intended reliance.

When the auditor **obtains audit evidence** about the operating effectiveness of controls **during an interim period**, the auditor shall:

- (a) Obtain audit evidence **about significant changes to those controls subsequent to the interim period**; and
- (b) Determine the **additional audit evidence to be obtained for the remaining period**.

In the current case, Ms. K shall **design and perform TOC to obtain SAAE** as to the operating effectiveness of relevant controls as she intends to rely on the operating effectiveness of controls in determining the NTE of substantive procedures.

Further, she is also required to **obtain the audit evidence about significant changes to those controls subsequent to the interim period** along with the **additional audit evidence to be obtained for the remaining period** in accordance with the requirements of SAs as discussed above.

2.	Whilst the Audit team has identified few matters, they need your advice to conclude on the same. Engagement Partner have asked them to review the Board minutes and other secretarial/ regulatory records based on which the following additional matters were brought to attention of the Partner: - (i) The long term borrowings from the parent company has no written terms and neither the interest nor the principal has been repaid so far. (ii) Certain computers were received from the parent company free of cost, the value of which is ₹ 0.23 lac and no accounting or disclosure of the same has been made in the notes to accounts. (iii) An amount of ₹ 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹0.25 Lakhs per month. Whilst the transaction was accounted in FS based on the amounts' paid, no separate disclosure of this RPT has been made in the notes to accounts forming part of FS highlighting the same as a 'related party' transaction. Audit Manager has reported that she had asked certain information relating to another 'related party' transaction (amounting to approx. ₹ 47 lac) but the CFO refused to provide the same since the same is perceived to be confidential and cannot be shared with the Auditors. You are required to advise about items to be reported to TCWG, where applicable, based on your audit findings in the given situation. (MTP Nov 20)
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As per SA 550, Related Parties, communicating significant matters arising during the audit in connection with the entity's related parties helps the auditor to establish a common understanding with TCWG of the nature and resolution of these matters.

Examples of significant RP matters include, **non-disclosure (whether intentional or not) by mgmt to auditor**, which **may alert TCWG** to significant RP relationships and transactions of which they may not have been previously aware;

The identification of significant **RPTs that have not been appropriately authorised** and approved, which **may give rise to suspected fraud**; etc.

It may be noted that **unless all of TCWG are involved in managing the entity, auditor shall communicate with TCWG significant matters** arising during the audit in connection with the entity's related parties. The auditor is **also required to ensure the compliance of Ind AS 24 / AS 18** Related Party Disclosures.

In view of above in the given scenario, the auditor is required to prepare a brief summary of following items to be reported to TCWG in accordance with SA 260:

- (i) One of RPT amounting 3.25 lac per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.25 lac per month is **exceeds the arm's length price has not been disclosed** highlighting the same as related party transactions as per Ind- AS 24 / AS 18 Related Party Disclosures.
- (ii) Receipt of free of cost Computers and long-term borrowing (on no agreed terms and repayment of interest and principal) from the Parent Company **need separate disclosure in FS** as per Ind AS 24 / AS 18.
- (iii) **Refusal by CFO of the company to provide the details of RPT** amounting to rupees 47 lac on the ground that same is perceived to be confidential and cannot be shared with auditors, is not in order, as denying for the related part details of ₹ 47 lac is imposing limitation of scope of auditor in view of SA 705.

Further, in case of **all the above cases**, the auditor would also need to assess his reporting requirements under the **clauses (xiii) of Paragraph 3 of CARO 2020** with respect to RPT that whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in FS etc., as required by the applicable AS.

3.	Related Party Disclosure as per AS 18.	(MTP Nov 18)
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According to **AS-18**, in case of RPTs, the reporting enterprise should disclose the following:

- (i) the **name** of the transacting RP;
- (ii) a **description of the relationship** between the parties;
- (iii) a **description of the nature of transactions**;
- (iv) **volume** of the transactions either as an amount or as an appropriate proportion;
- (v) any **other elements** of the RPT necessary for an understanding of the FS;
- (vi) the amounts or appropriate proportions of **outstanding items pertaining to RPs at BS date** and **provisions for doubtful debts** due from such parties at that date; and
- (vii) **amounts written off or written back** in the period in respect of debts due from or to related parties.

4.	Related Party Disclosure as per IND AS 24.	(Nov 18)
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As per **Ind AS 24**, a reporting entity is **exempt from disclosure requirements** in relation to RPT and o/s balances, including commitments, **with**

- (i) **govt. that has control or joint control of, or significant influence** over, reporting entity; and
- (ii) **another entity that is RP because same govt.** has control or joint control of, or significant influence over, both the reporting entity and the other entity.

If a reporting entity **applies the above exemption**, it shall **disclose the following**:

- (2) **name of govt.** and the **nature of its relationship** with the reporting entity;
- (3) following info. in sufficient detail to enable users to understand the effect of RPT on its FS:
 - (i) for **individually significant transaction** -> **nature & amount**; and
 - (ii) **others that are collectively significant** -> **qualitative or quantitative indication** of their extent.

SA 560 – Subsequent Events

1.	A Co. Ltd. has not included in the Balance Sheet as on 31-03-2017 a sum of ₹ 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2017. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2017 . The auditor came to know the result of the negotiations on 15-05-2017 . Advise.
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(MTP May 18)

Subsequent Events: This case requires attention to **SA 560 “Subsequent Events”, AS 4 “Contingencies and Events occurring after the Balance Sheet Date” and AS 29 “Provisions, Contingent liabilities and Contingent Assets”.**

As per **AS 4, adjustments to assets and liabilities are required for events occurring after BS date** that provide additional information materially affecting the determination of amounts relating to **conditions existing at BS date**. Similarly, as per **AS 29**, future events that may affect the amount required to settle an **obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur**.

In the instant case, the amount of ₹1.50 crores is a material amount and it is the result of an event, which has occurred after the Balance Sheet date. The **facts have become known to the auditor before the date of issue of the Audit Report and FS**.

The auditor has to **perform the procedure to obtain SAAE covering the period from the date of FS. i.e. 31-3-2017 to the date of Auditors Report i.e. 31-05-2017**. It will be observed that as a result of long pending negotiations a sum of ₹ 1.50 cores representing arrears of salaries of the year 2015-16 and 2016-17 have not been included in FS. It is quite **clear that the obligation requires provision** for outstanding expenses as per AS 4 and AS 29.

As per SA 560 “Subsequent Events”, the **auditor should assure that all events occurring subsequent to the date of FS and for which the applicable FRF requires adjustment or disclosure have been adjusted or disclosed**.

So, the **auditor should request the mgmt to adjust the sum of ₹ 1.50 crores by making provision for expenses**. If the **mgmt does not accept** the request the auditor should **qualify** the audit report.

2.	You are the auditor of PQR Ltd. which is in the business of supplying food products to various airline companies operating aircrafts in domestic circle only. As per terms of agreement with airlines, the company needs to stock various non-perishable food items for coming one month (average holding of inventory to the tune of INR 75 Crores). Also, the payment terms have been settled and the company receives payment in 45 days after the supply of goods. Everything was going-on well till the end of March 2020 when pandemic Covid hit the world and everything came to a standstill. Aviation sector was hit hard and there were no flights from April 2020 onwards. Consequently, the business of PQR Ltd. also got severely affected and the scheduled supplies of goods to airlines also were not made. Also, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of PQR Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31.03.2020 represent true and fair view?
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(PP Nov 20)

As per SA 560 “Subsequent Events”, the auditor shall **perform audit procedures designed to obtain SAAE that all events occurring between the date of FS and the date of the auditor’s report that require adjustment of, or disclosure in, FS have been identified**. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

The auditor shall perform the procedures required in above paragraph so that they cover the period from the date of FS to the date of the auditor’s report, or as near as practicable thereto.

Being the auditor of PQR Ltd, to **ensure that all subsequent events are considered** so that FS for the year ending 31.03.2020 represent true and fair view, the auditor shall **take into account the auditor's risk assessment** in determining the nature and extent of such audit procedures, which shall include the following:

- (a) **Obtaining an understanding of any procedures mgmt has established to ensure that subsequent events are identified.**
- (b) **Inquiring of M&T** as to whether **any subsequent events have occurred** which might affect the FS.
- (c) **Reading minutes**, if any, of the meetings, of the entity's owners, M&T, that have been held after the date of FS and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- (d) **Reading the entity's latest subsequent interim FS**, if any.

When, as a result of the procedures performed as required above, the auditor identifies events that require adjustment of, or disclosure in, FS, auditor shall determine whether each such event is appropriately reflected in those FS.

3.	Amudhan & Co., are the Auditors of XYZ Company Ltd., for the year ended on 31/03/2018. The Audit Report for that year was signed by the Auditors on 04/05/2018. The AGM was decided to be held during the month of August 2018. On 06/05/2018, the Company had received a communication from CG that an amount of ₹ 5800 crore kept pending on account of incentives pertaining to FY 2017-18 had been approved and the amount would be paid to the Company before the end of May 2018. To a query to CFO of Company by Board, it was informed that this amount had not been recognised in the Audited FS in view of the same not being released before the close of FY and due to uncertainty of receipt. Now, having received the amount, BOD wished to include this amount in FS of the Company for FY ended on 31/03/2018. On 08/05/2018, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report on FS for the year ended on 31/03/2018. Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of BOD. <i>(PP Nov 18)</i>
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Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the FS are Issued: As per SA 560, "Subsequent Events", the auditor has **no obligation to perform any audit procedures** regarding FS after the date of the auditor's report. **However**, when, after the date of the auditor's report but before the date FS are issued, a **fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:**

- a. **Discuss the matter with M&T.**
- b. **Determine whether FS need amendment** and, if so,
- c. **Inquire how mgmt intends to address the matter in FS.**

If mgmt amends FS, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, the auditor shall **extend the audit procedures and provide a new auditor's report on the amended FS**. However, the new auditor's report **shall not be dated earlier than the date of approval of the amended FS**.

In the instant case, XYZ Company Ltd. received an amount of rupees 5800 crore on account of incentives pertaining to year 2017-18 in the month of May 2018 i.e. after finalization of FS and signing of audit report. BOD of XYZ Ltd. amended the accounts, approved the same and requested the Amudhan & Co. (auditor) to consider this event and issue a fresh audit report on the FS for the year ended on 31.03.2018.

After applying the conditions given in SA 560, Amudhan & Co. **can issue new audit report subject to date of audit report which should not be earlier than the date of approval of the amended FS.**

4.	M/s Krishna Associates, Chartered Accountants, while conducting the audit of Love Kush Ltd want to conduct an inquiry of M&T as to whether any subsequent events have occurred which might affect FS. Guide M/s Krishna Associates with matters where specific inquiries may be conducted to evaluate subsequent events. (MTP May 22)
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As per SA 560, "Subsequent Events", in inquiring of M&T, as to whether any subsequent events have occurred that might affect FS, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- (i) Whether **new commitments, borrowings or guarantees** have been entered into.
- (ii) Whether **sales or acquisitions of assets** have occurred or are planned.
- (iii) Whether there have been **increases in capital or issuance of debt instruments**, such as issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- (iv) Whether any **assets have been appropriated by govt. or destroyed**, for example, by fire or flood.
- (v) Whether there have been any **developments regarding contingencies**.
- (vi) Whether any **unusual accounting adjustments** have been made or are contemplated.
- (vii) Whether any **events** have occurred or are likely to occur **that will bring into question the appropriateness of accounting policies used in FS**, as would be the case (*Going Concern*).
- (viii) Whether any **events** that are **relevant to the measurement of estimates or provisions** made in FS.
- (ix) Whether any **events** have occurred that are **relevant to the recoverability of assets**.

5.	The audit report of Kolsi (P) Ltd. for F.Y. 2020-21 was issued by Bishnoi & Co. on 25th July, 2021. However, a case was filed against Kolsi (P) Ltd. on 4th August, 2021, with the Civil Court, with respect to an incident caused in its factory on 17th January, 2021, the outcome of which may result in paying heavy penalty by Kolsi (P) Ltd. Mr. Raj Bishnoi, the partner of Bishnoi & Co., discussed the said matter with the management and it was determined to amend the FS for F.Y. 2020 -21. Further, Mr. Raj inquired how the management intended to address the said matter in FS to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures. The management told Mr. Raj that such disclosure was enough as he would further going a description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report. In the context of aforesaid case scenario, please answer the following questions: - (a) Whether Mr. Raj on behalf of Bishnoi & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Kolsi (P) Ltd.? (b) Whether the contention of management of Kolsi (P) Ltd. is valid with respect to the disclosure of the court case in FS? (RTP Nov 21)
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(a) As per SA 560, 'Subsequent Events', the **auditor has no obligation to perform any audit procedures regarding FS after the date of the auditor's report**. However, when, after the date of the auditor's report but before the date FS are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, **may have caused the auditor to amend the auditor's report, the auditor shall:**

- a. **Discuss the matter with M&T.**
- b. **Determine whether FS need amendment** and, if so,
- c. **Inquire how mgmt intends to address the matter** in FS.

In the given case, on becoming aware of the court case filed against Kolsi (P) Ltd., Mr. Raj discussed the said matter with the mgmt and it was **determined to amend the FS**. Also, he **inquired how the mgmt intended to address the said matter in FS**. Thus, it can be said that Mr. Raj has properly adhered to his responsibility as per SA 560.

However, ~~if mgmt does not take the necessary steps to ensure that anyone in receipt of the previously issued FS is informed of the situation and does not amend the FS~~ in circumstances where Mr. Raj (hereinafter referred as 'the auditor') believes they need to be amended, the ~~auditor shall notify M&T~~ (unless all of TCWG are involved in managing the entity), that the ~~auditor will seek to prevent future reliance on the auditor's report.~~

~~If despite such notification the M&T do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report~~ in accordance with SA 560.

(b) As per SA 706, an **Emphasis of Matter paragraph is not a substitute for:**

- (a) A **modified opinion** in accordance with SA 705 when required by the circumstances of a specific audit egmt;
- (b) **Disclosures in FS that the applicable FRF requires** mgmt to make, or that are otherwise necessary to achieve fair presentation; or
- (c) **Reporting in accordance with SA 570** when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

In the given case, the mgmt of Kolsi (P) Ltd. has **presumed that as the auditor was going to provide a description of the said court case and its outcome in the 'EOM' paragraph in his amended audit report, there was no further need for it to provide additional disclosures about the court case in the FS.**

The said **contention of mgmt** of Kolsi (P) Ltd. **is not valid as 'Emphasis of Matter' paragraph cannot be used as a substitute for disclosures** required to be made in FS as per the applicable FRF or that is otherwise necessary to achieve fair presentation, which is the responsibility of the management.

SA 570 – Going Concern

1.	Joy Ltd. is an entertainment company which runs a circus and travels around the country to entertain the masses. The circus began losing its popularity over the past few years and attendance has reportedly dropped by as much as 75% in the current FY. Animal rights activists continuously targeted the circus for its use of animal creatures like elephants in the show. The CEO noted that the audience seemed to be abandoning the circus due to their expanding entertainment options. The high cost of moving the show from city to city eventually made the business model untenable. As a result, many KMP of company left the company, there were delays in the payment of wages and salaries, and the bank from whom the company had taken funds also decided not to extend further finance or to fund further working capital requirements of the company. When discussed with the mgmt, the statutory auditor understood that the company had no action plan to mitigate such circumstances (Use of going concern assumption is inappropriate). Further, all such circumstances were not reflected in FS of Joy Ltd. What course of action should statutory auditor of company take in the auditor's report in such situation? <i>(PP May 23)</i>
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SA 570, "Going Concern", deals with the auditor's responsibilities in the audit of FS relating to going concern and the implications for the auditor's report.

The **auditor's responsibilities are to obtain SAAE** regarding, and **conclude on, the appropriateness of mgmt's use of the going concern basis** of accounting in preparation of FS, and to **conclude, based on the audit evidence obtained, whether a material uncertainty exists** about the entity's ability to continue as a going concern.

When the use of going concern basis of accounting is inappropriate i.e., if FS have been prepared using the going concern basis of accounting but in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of FS is inappropriate, the **auditor shall express an adverse opinion.**

Also, when adequate disclosure of a material uncertainty is not made in FS the auditor shall express a **qualified opinion or adverse opinion**, as appropriate, in accordance with SA 705; and in the **Basis for Qualified (Adverse)**

Opinion section of the auditor's report, **state that a material uncertainty exists** that may cast significant doubt on the entity's ability to continue as a going concern and that FS do not adequately disclose this matter.

In the present case, the following circumstances indicate the inability of Joy Ltd. to continue as a going concern:

- **Losing popularity** over the past few years.
- **Animal Rights activists continuously targeting the circus.**
- Audience abandoning the circus due to their **expanding entertainment options.**
- **High Cost of moving the show** from city to city making the business model untenable.
- **KMP leaving the Company.**
- **Banks decided not to extend further finance** and not to fund working capital requirements.
- **Non availability of sound action plan** to mitigate such circumstances.

Therefore, considering the above factors it is **clear that the going concern basis is inappropriate** for the Company. Further, such circumstances are **not reflected in FS of the Company.**

As such, the statutory auditor of Joy Ltd. should:

- (1) **Express an adverse opinion in accordance with SA 705** and
- (2) In the **Basis of Adverse Opinion** paragraph of the auditor's report, the statutory auditor should state that a **material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern** and that the financial statements do not adequately disclose this matter.

The auditor is also required to report as per **clause (xix) of CARO 2020** that on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying FS, the auditor's knowledge of BOD & mgmt plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of audit report that company is capable of meeting its liabilities existing at the date of BS as and when they fall due within a period of one year from the BS date.

2.	Sudarshan Ltd. is a company engaged in the business of manufacture of spare parts. Prakash & Associates are the statutory auditors of the company for the FY 2022-23. During the course of audit, CA Prakash noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of Sudarshan Ltd. ended for an unforeseeable time period. When discussed with the mgmt, CA Prakash was told that the company is in the process of identifying new customers for their products. CA Prakash understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly reflected in FS of Sudarshan Ltd. for the FY 2022-23. How should CA Prakash deal with this matter in the auditor's report for the FY 2022-23? (MTP May 23) (MTP Dec 21)
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As per SA 570, "Going Concern", loss of a major market or a key customer is one of the operating indicators that may cast significant doubt on the company's ability to continue as a going concern.

In the present case, Sudarshan Ltd. has a key customer in South Korea from which the demand for its products has ended on account of outbreak of war, subsequent destruction and government ban on import and export in South Korea. Further, the company has not yet identified new customers and is in the process of doing the same. As such, the identification of new customer is a material uncertainty that cast a significant doubt on the company's ability to continue as a going concern.

However, this matter is duly **disclosed by the management** of Sudarshan Ltd. in FS for the year ended 31.03.2023.

As such, considering that the going concern assumption is appropriate but a material uncertainty exists with respect to identification of new customer, CA Prakash should:

- (1) Express an **unmodified opinion** and

- (2) Include in his audit report, a separate section under the heading “Material Uncertainty Related to Going Concern” to:
- Draw attention to the note in FS** that discloses the matters and
 - State that these events or conditions indicate that a material uncertainty exists** that may cast significant doubt on the entity’s ability to continue as a going concern and that the **auditor’s opinion is not modified** in respect of the matter.

Thus, CA Prakash should deal with this matter in his auditor’s report in the above-mentioned manner.

3.	In FY 2020-21, Shreyansh Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company’s ability to continue as going concern. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The FS and notes to FS of the company do not disclose this fact. What kind of opinion should the statutory auditor of Shreyansh Ltd. issue in such circumstances and why? Also, draft the opinion and basis for opinion para for the same. (MTP May 22)
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In the present case, there **exists a material uncertainty** that cast a significant doubt on the company’s ability to continue as going concern and the **same is not disclosed in FS** of Shreyansh Ltd.

As such, FS of Shreyansh Ltd. for the FY 2020-21 are materially misstated and the **effect of the misstatement is so material and pervasive** on FS that giving only a **qualified opinion will be insufficient** and therefore the statutory auditor of Shreyansh Ltd. **should issue an adverse opinion**.

The relevant **extract of the Adverse Opinion Paragraph and Basis for Adverse Opinion paragraph** is as under:

Adverse Opinion

In our opinion, **because of the omission of the information mentioned in the Basis for Adverse Opinion section** of our report, the accompanying financial statements **do not present fairly, the financial position of Shreyansh Ltd.** as at March 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

Shreyansh Ltd. has faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statement and notes to the financial statements of the company do not disclose this fact.

4.	Choti Limited had definite plan of its business being closed within a short period from the close of the accounting year ended on 31st March, 2019. FS for the year ended 31/03/2019 had been prepared on the same basis as it had been in earlier periods with an additional note that the business of the Company shall cease in near future and the assets shall be disposed off in accordance with a plan of disposal as decided by the Mgmt. The Statutory Auditors of the Company indicated this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, thereto to be made at the time of cessation only. Comment on the reporting by the Statutory Auditor as above. (MTP May 20) (MTP May 19) (PP May 18)
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As per **SA 570 “Going Concern”**, **management intentions to liquidate** the entity or to cease operations **is one of the event or condition** that may cast significant doubt on the entity’s ability to continue as going concern.

As per SA 570, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor **concludes that no material uncertainty exists**, the auditor shall evaluate whether, in view of requirements of applicable FRF, the FS provide **adequate disclosures about these events or conditions** that may cast significant doubt on the entity's ability to continue as a going concern.

Further, as per **SA 701**, explains that a **material uncertainty** related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a **key audit matter**.

As per the facts given in the case, intention of the Choti Limited had definite plan of its business being closed down within short period from 31st March, 2019. However, FS for year ended 31.03.2019 had been prepared on the same basis as it had been in earlier periods with an additional note.

Thus, **management intentions to liquidate** the entity or to cease operations is one of the event or condition that may cast significant doubt on the entity's ability to continue as going concern **is a key audit matter**.

Therefore, the auditor is required to **Communicate the Key Audit Matters** in accordance with SA 570. **Simple reference as to a possible cessation of business and making of adjustments, if any, he made at the time of cessation only by the auditor in his report is not sufficient.**

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| 5. | <p>MZE Ltd. is engaged in the mfg. and export of ready-made garments. The company has lost overseas buyers to Asian competitors with lower raw materials and labour costs. As a result, MZE Ltd. has lost out on a significant chunk of export orders, and the trend has become more pronounced in the year 2022-23. Further, the US economic recession caused delays in the company's overseas payments, leading to the company being unable to keep its loan repayment commitments with bankers. Further, the company has not been able to pay its creditors on time. Even statutory dues payable by the company are either not paid or being paid after a gap of 5-6 months, leading to extra costs. Due to declining revenue, the company cannot cover its fixed costs and has begun laying off employees.</p> |
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Considering all these circumstances, CA P **doubts the company's ability to continue as a going concern** while conducting the statutory audit for the year 2022-23. **He is studying management's assessment of the company's ability to continue as a going concern by studying projected profitability statements for the next two years containing turnover, expenses and profits estimates.** Comment on the above situation with specific reference to audit procedures being performed by CA P in context of relevant SAs. (MTP Nov 23)

The indicated events or conditions in MZE Ltd. may cast significant doubt on ability of company to continue as going concern. SA 570 requires that **if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, auditor shall obtain SAAE to determine whether or not a material uncertainty exists** related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors.

In the given situation, the auditor is studying management's assessment of the company's ability to continue as going concern, including its future plan of action containing projected profitability statements for the next two years containing estimates of turnover, expenses and profits. However, as required in SA 570, **auditor's procedures should focus on cash flow forecast and not on future profit projections. It is quite possible that a company may continue to carry on as a going concern so long as it can meet its liabilities.** Therefore, **analysing the projected profitability statements alone is insufficient to support conclusion on going concern assumption.**

Therefore, **auditor should require mgmt to prepare a cash flow forecast** in the given circumstances. The auditor should then **analyse the cash flow forecast in the evaluation of management's future plan of action**. It includes: -

- (i) Evaluating the **reliability of the underlying data** generated to prepare the forecast and
- (ii) Determining whether there is **adequate support for the assumptions** underlying the forecast

Further, some major overseas payments of the company are stuck up. **It is quite possible that the timing of cash inflows on account of these payments may affect the situation.** The auditor would have to evaluate the reliability of data for preparation for such a forecast and its underlying assumptions. He should perform procedures to **obtain evidence regarding assumptions and timing of cash inflows and outflows like any restructuring undertaken by bankers providing relief to the company, future sales and consequent cash realization** in downturn conditions, willingness of creditors to provide credit in such a situation, incurring of expenditures to keep the company afloat. **All these assumptions underlying such cash flow forecasts need to be challenged and examined.**

6. Star Ltd. is a power generating company which uses coal as raw material for its power generating plant. The **Company has been allotted coal blocks** in the state of Jharkhand and Odisha. During the FY 2020-21, a **scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks** to various companies including Star Ltd. This happened in the month of December 2020 and as such entire power generation process of Star Ltd, came to a halt(*pause*) in that month. As a result of such ban, and the resultant stoppage of the production process, **many KMP of the company left** the Company. There were **delays in the of payment of wages and salaries** and the **banks** from whom the Company had taken funds for project financing also **decided not to extend further finance** or to fund further working capital requirements of the Company.

Further, when discussed with the mgmt, the statutory auditor understood that the **Company had no action plan to mitigate such circumstances.** Further, all such circumstances **were not reflected the FS** of Star Ltd. **What course of action should the statutory auditor of the Company consider in such situation?**

(RTP May 21)

The **auditor's responsibilities are to obtain SAAE** regarding, and **conclude on, the appropriateness of mgmt's use of the going concern basis** of accounting in the preparation of the FS, and to **conclude, based on the audit evidence obtained, whether a material uncertainty exists** about the entity's ability to continue as a going concern.

When the use of going concern basis of accounting is inappropriate i.e., if the FS have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of FS is inappropriate, the **auditor shall express an adverse opinion.**

Also, **when adequate disclosure of a material uncertainty is not made in the FS** the auditor shall **express a qualified opinion or adverse opinion**, as appropriate, in accordance with SA 705; **and in the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that FS do not adequately disclose this matter.**

In the present case, the following circumstances indicate the inability of Star Ltd. to continue as a going concern:

- Ban on the allotment of coal blocks
- Halt in power generation
- Key Managerial Personnel leaving the Company.
- Banks decided not to extend further finance and not to fund the working capital requirements of the Company.
- Non availability of sound action plan to mitigate such circumstances.

Therefore, **considering the above factors it is clear that the going concern basis is inappropriate for the Company.**

Further, such circumstances are **not reflected in FS of Company.** As such, the statutory auditor of Star Ltd. should:

- (1) Express an **adverse opinion** in accordance with SA 705 (Revised) and
- (2) In the **Basis of Opinion paragraph** of the auditor's report, the statutory auditor should **state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the FS do not adequately disclose this matter.**

7.	AQP Limited is one of the prominent players in the chemicals industry. The company is a public company domiciled in India and listed on BSE and NSE. The Company was facing extreme liquidity constraints and there were multiple indicators that casted doubt over the company's ability to continue as a going concern. The Company was led into insolvency proceedings by consortium of banks led by PNB and the NCLT ordered the commencement of corporate insolvency process against the Company on 31ST August 2017. The company invited prospective lenders, investors and others to submit their resolution plans to the Resolution Professional latest by 1 January 2018. The Resolution professional reviewed the resolution plans and ensured conformity with Insolvency and Bankruptcy Code 2016. The compliant plans were presented to Committee on Creditors on 2 February 2018 and the resolution plan submitted by PQR Ltd. was evaluated as highest evaluated Compliant Resolution Plan. CoC of AQP Ltd approved the Resolution Plan submitted by PQR Ltd. on 2 March 2018. The approval of NCLT was finally obtained on 4 May 2018. PQR Ltd submitted detailed plans and commitments as part of the resolution plan including clearance of all outstanding debts which were leading to negative cash flows. Please suggest how would you deal with this situation as the auditors of AQP Ltd. (MTP May 19) (RTP Nov 19) (Nov 16)
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As per SA 570 Going Concern, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the **auditor shall obtain SAAE to determine whether or not a material uncertainty exists** related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern **through performing additional audit procedures**, including consideration of mitigating factors. These procedures shall include:

Write **Additional audit procedures when conditions or events are identified** point from notes.

The auditor shall **evaluate whether SAAE has been obtained regarding**, and **shall conclude on, the appropriateness of mgmt's use of the going concern basis** of accounting in the preparation of FS.

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that **no material uncertainty exists**, the auditor shall **evaluate whether, in view of the requirements of the applicable FRF, FS provide adequate disclosures about these events or conditions**.

In the instant case, the **approval of the resolution plan is a significant mitigating factor to counter the going concern issues** of AQP Ltd. PQR Ltd has submitted a detailed plan and commitments that has been given as part of the resolution plan which includes clearance of all outstanding debts which were leading to negative cash flows.

Therefore, **it can be said that the company that the events and conditions are mitigated effectively and there is no material uncertainty** in relation to the ability of the company to continue as a going concern.

SA 580 – Written Representation

1. PRSH & Co is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2000 crores and profits are INR 190 crores. During the planning meeting of mgmt and the auditors, it was discussed that the mgmt needs to provide WR letter to the auditors for the preparation of FS and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of WR letter.

Mgmt argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain WR in accordance with the requirements of SA 580. However, still some **confusion remains regarding the date and period covered by WR.**

You are required to advise about the date of and period covered by WR in view of SA 580.

(RTP May 19) (MTP May 21)

As per SA 580, as WR are **necessary audit evidence**, the auditor's **opinion cannot be expressed**, and the **auditor's report cannot be dated, before the date of WR**. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in FS, the **WR are dated as near as practicable to, but not after, the date of the auditor's report on FS.**

In some circumstances it may be appropriate for the auditor to obtain a WR about a specific assertion in the FS during the course of the audit. Where this is the case, it may be necessary to request an updated WR. The **WR are for all periods referred to in the auditor's report** because mgmt needs to reaffirm that the WR it previously made with respect to the prior periods remain appropriate.

The auditor and mgmt may agree to a form of WR that updates **WR relating to the prior periods** by addressing whether there are any **changes to such WR** and, if so, what they are. **Situations may arise where current mgmt were not present during all periods** referred to in the auditor's report. Such persons may assert that **they are not in a position to provide some or all of the WRs** because they were not in place during the period. **This fact, however, does not diminish such persons' responsibilities for FS as a whole. Accordingly, the requirement or the auditor to request from them WR that cover the whole of the relevant period(s) still applies.**

SA 700, 705 & 706

1. XYZ Ltd. involved in the hospitality business, appointed Charan & Karan Associates as their statutory auditor for FY 2022-23. Management of XYZ Ltd., while drawing up FS for the said period, decided to add the following statement after the **Statement of Cash Flow as supplementary information** to be presented with FS. No specific mentions or labels were added to this statement to present that this is supplementary information.

	(INR)
Total Bookings during FY	
- FY 2021-22	36500
- FY 2022-23	39000
Average Revenue per Booking	
- FY 2021-22 (Refer Note 28 Revenue from Operations)	3500
- FY 2022-23 (Refer Note 28 Revenue from Operations)	4200
Bookings Ratio (Organic source by Inorganic source)	
- FY 2021-22	1:2
- FY 2022-23	1:1.65

Kindly guide the audit team regarding the requirement of SA 700 with respect to the Supplementary Information Presented with the FS.

(RTP Nov 23)

Write from SA 700 -> Point 1.5) Supplementary Information presented with FS ->

If the mgmt of XYZ Ltd. refuses to do so, the auditor shall identify the unaudited SI, i.e., Statement of ARPB and Comparative and explain in the auditor's report that such SI has not been audited.

2. (a) CA Bahubali is the statutory auditor of Bharat Ltd. for the FY 2021-22. During the course of audit CA Bahubali noticed the following:
- (i) With respect to the **debtors amounting to ₹ 240 crore, no balance confirmation was received** by the audit team. Further, there have been **defaults on the payment obligations by debtors** on the due dates during the year under audit.
- The **Company has created a provision for doubtful debts to the tune of ₹40 crore** during the year under audit. The Company has stated that the provision is **based on receivables which are older than 39 months**, which according to the audit team is inadequate and as such the **audit team is unable to ascertain the carrying value of trade receivables**.
- (ii) In respect of **Inventories (which constitutes 38% of the total assets of company)**, during the reporting period, **mgmt has not undertaken physical verification** of inventories at periodic intervals. Also, the **Company has not maintained adequate inventory records** at the factory. The **audit team was unable to undertake the physical inventory count** as such the **value of inventory could not be verified**.
- Under the above circumstances **what kind of opinion should CA Bahubali give? Write the opinion paragraph and basis of opinion paragraph** to be included in the Independent Auditor's Report.
- (b) **How should auditor give description of auditor's responsibilities for the audit of the FS when the auditor disclaims an opinion on the FS?**

(RTP Nov 22)

(a) In the present case, CA Bahubali is unable to obtain SAAE with respect to the following:

- (i) The **balance confirmation with respect to debtors amounting to ₹ 240 crore is not available**. Further there has been default in payment by the debtors and the provision so made is not adequate. The audit team is also unable ascertain the carrying value of trade receivables.

- (ii) With respect to 38% of the company's inventory, **neither the physical verification has been done by the management nor are adequate inventory records maintained**. The audit team is also unable to undertake the physical inventory count as such the value of inventory could not be verified.

In the above two circumstances the **auditor is unable to obtain SAAE** on which to base the opinion, and the **possible effects on the FS of undetected misstatements, if any, could be both material and pervasive**.

Thus, CA Bahubali should give a **Disclaimer of Opinion**.

The relevant extract of Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We do not express an opinion on the accompanying FS of Bharat Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, **we have not been able to obtain sufficient appropriate audit evidence** to provide a basis for an audit opinion on these FS.

Basis for Disclaimer of Opinion

We are unable to obtain balance confirmation with respect to the debtors amounting to ₹ 240 crore. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The Company has created a provision for doubtful debts to the tune of ₹ 40 crore during the year under audit which is inadequate in the circumstances of the company. The **carrying value of trade receivables could not be ascertained**.

Further, in respect of Inventories (which constitutes 38% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the Company has not maintained adequate inventory records at the factory. **We were unable to undertake the physical inventory count and as such the value of inventory could not be verified**.

(b) When the auditor disclaims an opinion on the FS due to an inability to obtain SAAE, the **auditor shall amend the description of the auditor's responsibilities required by SA 700, to include only the following:**

- (i) A statement that the **auditor's responsibility is to conduct an audit of the entity's FS in accordance with Standards on Auditing and to issue an auditor's report;**
- (ii) A statement that, **however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FS;** and
- (iii) The statement about **auditor independence and other ethical responsibilities required in SA 700.**

3. (a) You have been appointed as an auditor of Dharmnath & Sons for FY 2020-21, as entity other than a company incorporated under Companies Act, 2013, **using a fair presentation framework**. Appointment had been made in month of April, 2021. The FS have been prepared by mgmt in accordance with AS.

The mgmt had introduced the new computerized accounts receivable system from November 2020 and still in the implementation phase and thus **mgmt is in the process of rectifying system deficiencies and correcting the errors**. At the time of implementation of a new system, the earlier system of accounting of receivables had been discarded. The **auditor was unable to obtain SAAE about the entity's accounts receivable and inventories**. The possible effects of the inability to obtain SAAE are deemed to be both **material and pervasive** to the FS.

Write opinion paragraph and basis of opinion paragraph to be included in Auditor's Report.

- (b) What is the **auditor's responsibility to report a KAM** for which there are no relevant disclosures in FS?

- (c) **Where should the placement of KAM section be in the auditor's report?**

(RTP May 22)

Disclaimer of Opinion

We were engaged to audit the FS of Dharmnath & Sons ("the entity"), which comprise the balance sheet as at March 31, 2021, the statement of Profit and Loss, (the statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the FS, including a summary of significant accounting policies.

We do not express an opinion on the accompanying FS of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these FS.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after March 31, 2021, and thus did not observe the counting of physical inventories at the beginning and end of the year. **We were unable to satisfy ourselves by alternative means concerning the inventory quantities** held at March 31, 2020, and 2021, which are stated in the Balance Sheets at ₹ xxx and ₹ xxx, respectively.

In addition, the introduction of a new computerized accounts receivable system in November 2020 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. **We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet** at a total amount of ₹ xxx as at March 31, 2021. As a result of these matters, **we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable**, and the elements making up the statement of Profit and Loss (and statement of cash flows).

(b) When communicating KAM, the fact that there are no disclosures in the FS related to a matter determined to be a KAM does not relieve the auditor from the requirement to communicate it. **An auditor may determine a KAM related to the audit for which relevant disclosure requirements do not exist in the applicable FRF.**

e.g., implementation of a new IT system during the period may be an area of significant auditor attention, in particular, if such a change had a significant effect on auditor's overall audit strategy or related to significant risk.

Also, **if an auditor determines that it is necessary to include information about the entity in order to effectively describe KAM that has not been disclosed by mgmt and mgmt does not agree to disclose that information, the auditor should reconsider the adequacy of the disclosures in accordance with applicable FRF.** The auditor should communicate matter as KAM unless law or regulation precludes public disclosure about the matter or in **extremely rare circumstances**, the auditor determines that the matter should not be communicated in the auditor's report **because the adverse consequences of doing so would reasonably be expected to outweigh public interest benefits of such communication.**

(c) Generally, **KAM section is required to be placed after Basis for Opinion paragraph and before the Mgmt's Responsibility paragraph.** In case, 'Material uncertainty relating to going concern' section is required as per SA 570, then **KAM section is placed after that section.** Further, regarding placement of KAM section, SA 706, provides as under:

When KAM section is presented in the auditor's report, EOM paragraph may be presented either directly before or after KAM section, based on the auditor's judgment as to the relative significance of the information included in EOM paragraph. The auditor may also **add further context to heading such as "Emphasis of Matter – Subsequent Event", to differentiate EOM paragraph from the individual matters described in the KAM section.**

- | | |
|----|---|
| 4. | <p>"When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section." As an expert you are required to brief the special considerations required for expressing:</p> <p>(i) Qualified Opinion; (ii) Adverse Opinion and (iii) Disclaimer of Opinion.</p> |
|----|---|

(RTP May 20) (RTP Nov 18)

Write From SA 705 -> Point 2.6 -> A) Modification of Opinion

5. The **audit report** of Rare (P) Ltd for F.Y. 2022-23 was **issued by SRM & Co. on 23rd July, 2023**. However, a **case was filed against Rare (P) Ltd on 9th August, 2023**, with the Civil Court, with respect to an **incident caused in its factory on 24th January, 2023**, the **future outcome of which may result into paying heavy penalty by Rare (P) Ltd**, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

Mr. Rishabh **discussed the said matter with the mgmt**, and it was **determined to amend the FS** for F.Y. 2022-23. Further, Mr. Rishabh **inquired how the mgmt intended to address** the said matter in the FS to which he was told that the **said matter was going to be disclosed as a "Contingent Liability for a Court case"** to the **foot note in the balance sheet with no additional disclosures**.

The **mgmt told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'EOM' paragraph in his amended audit report**.

In the context of aforesaid case-scenario, please answer to the following questions: -

- (i) **Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?**
- (ii) **Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the FS?**

(MTP May 24)

(i) As per **SA 560**, 'Subsequent Events', the **auditor has no obligation to perform any audit procedures regarding the FS after the date of the auditor's report**. However, when, after the date of the auditor's report but before the date the FS are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (1) **Discuss the matter with M&T**
- (2) **Determine whether the FS need amendment** and, if so,
- (3) **Inquire how management intends to address the matter in the FS.**

In the given case, on becoming aware of the court case filed against Rare (P) Ltd., Mr. Rishabh **discussed the said matter with the mgmt**, and was **determined to amend the FS**. Also, he **inquired how the mgmt intended to address the said matter in the FS**.

Thus, **it can be said that Mr. Rishabh has properly adhered to his responsibilities** in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd.

(ii) As per SA 706, an **Emphasis of Matter paragraph is not a substitute for:**

- (a) A **modified opinion** in accordance with SA 705 when required by circumstances of a specific audit engagement;
- (b) **Disclosures in the FS** that the applicable FRF requires management to make, or that are otherwise necessary to achieve fair presentation; or
- (c) **Reporting in accordance with SA 570** when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

In the given case, the mgmt of Rare (P) Ltd. has presumed that as the auditor was going to provide a description of the said court case and its outcome in the 'EOM' paragraph in his amended audit report, there was no further need for it to provide additional disclosures about the court case in the FS.

The said **contention of mgmt of Rare (P) Ltd. is not valid as 'Emphasis of Matter' paragraph cannot be used as a substitute for disclosures required to be made in the FS** as per the applicable FRF or that is otherwise necessary to achieve fair presentation, which is the responsibility of the management.

6. **"What constitutes a 'true and fair view' is the matter of an auditor's judgement in particular circumstances of a case." Do you agree?**
Enlist the requirements you as an auditor will observe to ensure true and fair view.

(MTP Nov 22)

SA 700, requires auditor to form an opinion on the FS based on an evaluation of the conclusions drawn from the audit evidence obtained; and express clearly that opinion through a written report that also describes the basis for the opinion. The auditor is required to **express his opinion on the FS that it gives a true and fair view in conformity with the accounting principles generally accepted in India**

- (a) in the case of the Balance Sheet, of the **state of affairs** of the Company as at March 31, 20XX;
- (b) in the case of the Statement of Profit and Loss, of the **profit/ loss** for the year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the **cash flows** for the year ended on that date.

In the context of audit, the accounts of a **company shall be deemed as not disclosing a true and fair view, if they do not disclose any matters which are required to be disclosed by virtue of provisions of Schedule III** to that Act, or by virtue of a **notification or an order of the CG** modifying the disclosure requirements. Therefore, the auditor will have to see that the accounts are **drawn up in conformity with the provisions of Schedule III** of the Companies Act, 2013 and whether they contain all the matters required to be disclosed therein. **In case of companies which are governed by special Acts**, the auditor should see whether the **disclosure requirements of the governing Act** are complied with.

It must be noted that the **disclosure requirements laid down by the law are the minimum requirements**. If certain information is vital for presenting a true and fair view, the accounts should disclose it even though there may not be a specific legal provision to do so. **Thus, what constitutes a 'true and fair' view is the matter of an auditor's judgment in the particular circumstances of a case.** In more specific terms, to ensure true and fair view, an auditor has to see:

- (i) that the **assets are neither undervalued or overvalued**, according to the applicable accounting principles,
- (ii) **no material asset is omitted**;
- (iii) the **charge, if any, on assets are disclosed**;
- (iv) **material liabilities should not be omitted**;
- (v) the **P&L discloses all the matters required to be disclosed** by Part II of Schedule III
- (vi) the **BS has been prepared in accordance with Part I of Schedule III**;
- (vii) **accounting policies have been followed consistently**; and
- (viii) **all unusual, exceptional or non-recurring items have been disclosed separately**.

7.	ABC Ltd. has been dealing in tyres since 1995. The Company envisaged to expand its business and wanted to manufacture the tyres besides trading. Accordingly, the machinery was imported, installed and manufacturing operations commenced. The Government also gave certain incentives like power subsidy, land acquisition subsidy, etc. After 2 years of operations, Company received a notice from the Income Tax authorities to pay tax on incentive received in the form of power subsidy. The demand notice was served for ₹ 150.00 Lakhs. The Company, however, filed an appeal with higher tax authorities against the demand and the matter is undecided as on 31.03.2021. Legal team of the Company anticipated that tax liability might mature. The Company has not made a provision of anticipated tax liability. Considering the provisions of Companies Act, 2013, how an auditor of ABC Ltd. should see this matter and report in audit report, if required? <i>(MTP Nov 22) (PP July 21)</i>
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Audit report - Legal team anticipated tax liability but the company did not make any provision for that -

Council of the ICAI has taken note of the fact that there is a practice prevalent **whereby companies do not make provision for tax even when such a liability is anticipated**. It has expressed the view that on an overall consideration of relevant provisions of law, non-provision for tax (where a liability is anticipated) **would amount to contravention of the provisions of Sections 128 and 129 of the Companies Act, 2013.**

Accordingly, **it is necessary for the auditor to qualify his report** and such qualification should bring out the manner in which the accounts **do not disclose a "true and fair" view** of the state of affairs of the company and the profit or loss of the company. Applying the above to the facts given in the question, auditor should qualify his report.

An example of the manner in which the report on the BS and the P&L may be qualified in this respect is given below:

“The company has not provided for taxation in respect of its profits and the estimated aggregate amount of taxation not so provided for is Rs.....including.....for the Year ended on To the extent of such non-provision for the year, the profits of the Company for FY under report have been overstated and to the extent of such aggregate non-provision, the reserves of the company appearing in the said balance sheet have been over-stated and the current liabilities and provisions appearing in the said balance sheet have been understated”.

8.	BREW Ltd., FMCG Company having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in Sri Lanka and Kenya. M/s PM & Associates are the statutory auditors of the company for FY 2021-22. During the course of audit, the audit team was unable to obtain SAAE about a single element of the CFS being Joint venture investment in Dharma Ltd. representing over 91% of the group's net assets having both material and pervasive possible effect to the CFS. The group's investment in Dharma Ltd. is carried at ₹ 115 crore in the group's consolidated balance sheet. Draft the opinion paragraph and basis of opinion paragraph to be included in the Auditor's report. <i>(MTP Nov 22)</i>
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M/s PM & Associates are unable to obtain SAAE about the financial information of a joint venture investment that represents over 91% of the group's net assets. The possible effects of this inability to obtain SAAE are both material and pervasive to the CFS. Therefore, the statutory auditor should issue a **disclaimer of opinion**.

Relevant extract of Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We were engaged to audit the accompanying consolidated FS of BREW Ltd., (hereinafter referred to as the “Holding Company”) and its subsidiaries (the Holding Company and its subsidiaries together referred to as “the Group”), which comprise the consolidated balance sheet as at March 31, 2022, the consolidated statement of Profit and Loss, (consolidated statement of changes in equity) and consolidated statement of cash flows for the year then ended, and notes to the consolidated FS, including a summary of significant accounting policies (hereinafter referred to as the “Consolidated FS”).

We do not express an opinion on the accompanying consolidated FS of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, **we have not been able to obtain sufficient appropriate audit evidence** to provide a basis for an audit opinion on these consolidated FS.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Dharma Ltd. Company is carried at ₹ 115 crore on the Group's consolidated balance sheet, which represents over 91% of the Group's net assets as at March 31, 2022. **We were not allowed access to the management and the auditors of Dharma Ltd.,** including Dharma Ltd.'s auditors' audit documentation. As a result, **we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share** of Dharma Ltd.'s assets that it controls jointly, its proportional share of Dharma Ltd.'s liabilities for which it is jointly responsible, its proportional share of Dharma Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

9.	ADKS & Co LLP are the newly appointed statutory auditors of PKK Ltd. During the course of audit, the statutory auditors have come across certain significant observations which they believe could lead to material misstatement of FS. Mgmt has a different view and does not concur with the view of the statutory auditors. Considering this the statutory auditors are determining as to how to address these observations in terms of their reporting requirement. Please advise. <i>(MTP May 19)</i>
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As per SA 705, if

- (a) **Auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from MM**; or
 (b) **Auditor is unable to obtain SAAE** to conclude that the FS as a whole are free from material misstatement.
 the auditor shall **modify** the opinion in his report.

The auditor in such a case needs to determine the modification as follows:

- (i) **Qualified Opinion**: The auditor shall express a qualified opinion when:
- (a) The auditor, having **obtained SAAE**, concludes that misstatements, individually or in the aggregate, are **material, but not pervasive**, to the FS; or
 - (b) The auditor is **unable to obtain SAAE** on which to base the opinion, but the auditor concludes that the **possible effects** on the FS of undetected misstatements, if any, could be **material but not pervasive**.
- (ii) **Adverse Opinion**: The auditor shall express an adverse opinion when the auditor, **having obtained SAAE**, concludes that misstatements, individually or in the aggregate, are **both material and pervasive** to the FS
- (iii) **Disclaimer of Opinion**: The auditor shall disclaim an opinion when the auditor is **unable to obtain SAAE** on which to base the opinion, and the auditor concludes that the **possible effects** on the FS of undetected misstatements, if any, could be **both material and pervasive**.

The auditor shall disclaim an opinion when, in extremely rare circumstances **involving multiple uncertainties**, the auditor concludes that, notwithstanding having obtained SAAE regarding each of the individual uncertainties, it is **not possible to form an opinion on the FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS**.

If, after accepting the engagement, the auditor becomes aware that **mgmt has imposed a limitation on the scope** of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the FS, the auditor shall **request that mgmt remove the limitation**.

If mgmt **refuses to remove** the limitation, the auditor shall **communicate the matter to TCWG**, unless all of TCWG are involved in managing the entity, and **determine whether it is possible to perform alternative procedures to obtain SAAE**.

10.	Difficult Books Ltd. is engaged in manufacturing of active pharmaceutical ingredients. Due to change in laws and regulations, every company engaged in manufacturing in active pharmaceutical ingredients would now require production capacity license which will restrict the production of companies. Mgmt of the company assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in FS. Audit Team of the company evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding FS the audit team decided to disclose the same in Other Matter Paragraph. You as an EP are required to guide Audit Team with respect to reporting of the said matter in Audit Report. (MTP Nov 22)
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As per SA 706, if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the FS that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the FS, the auditor shall include an **EOM paragraph** in the auditor's report provided:

- (i) Auditor would **not be required to modify** the opinion in accordance with SA 705 as a result of the matter; and
- (ii) When SA 701 applies, the **matter has not been determined to be a KAM** to be communicated in the auditor's report.

In the instant case, -> **Repeat the question.**

The said matter is already disclosed and presented appropriately in FS and is of such importance that is fundamental to the users understanding of FS and hence, it required to be disclosed under EOM paragraph.

Therefore, decision of audit team to disclose the same in Other Matter Paragraph is not in order, it should be disclosed in EOM Paragraph.

11.	• Audit of a complete set of FS of Company other than a listed company using a fair presentation framework. The audit is not a group audit (i.e., SA 600, does not apply). • The FS are prepared by mgmt of the entity in accordance with AS prescribed under section 133 of the Companies Act, 2013 (a general-purpose framework). • Terms of the audit engagement reflect the description of mgmt's responsibility for the FS in SA 210. • A departure from the applicable FRF resulted in a qualified opinion. • The relevant ethical requirements that apply to the audit are the ICAI's Code of Ethics and the provisions of the Companies Act, 2013. • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. • Between date of FS and date of auditor's report, there was a fire in the entity's production facilities, which was disclosed by as a subsequent event. In auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of FS. The matter did not require significant auditor attention in the audit of the FS in the current period. • Auditor is not required & has otherwise not decided, to communicate KAM in accordance with SA 701. • Those responsible for oversight of the FS differ from those responsible for the preparation of the FS. • In addition to audit of FS, auditor has other reporting responsibilities required under Co. Act, 2013. As an auditor of ABC Ltd., in view of given circumstances, you are required to draft qualified opinion and basis for qualified opinion due to the departure from the applicable FRF. (OR) As an auditor of ABC Ltd., in view of given circumstances, you are required to draft disclaimer of opinion and basis for disclaimer of opinion due to the Auditor's Inability to Obtain SAAE about Multiple Elements of the FS. (MTP Nov 18)
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Qualified Opinion

We have audited the **standalone FS of ABC Ltd.** ("the Company"), which **comprise the balance sheet** as at March 31, 20X1, and the **statement of Profit and Loss**, (statement of changes in equity) and the **statement of cash flows** for the year then ended, and **notes to the FS**, including a **summary of significant accounting policies** and **other explanatory information** (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches))2.

In our opinion and to the best of our information and according to the explanations given to us, **except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid FS present fairly, in all material respects, or give a true and fair view** in conformity with the accounting principles generally accepted in India of the state of affairs of the Company as at March 31st, 2XXX and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Qualified Opinion

The Company's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a **departure from the Accounting Standards** prescribed in section 133 of the Companies Act, 2013. The Company's records indicate that had management marked the marketable securities to market, the **Company would have recognized an unrealized loss of Rs. xxx** in the statement of comprehensive income for the year. The **carrying amount of the securities in the statement of financial position would have been reduced by the same amount at March 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively.**

We conducted our audit in accordance with SAs. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the FS section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the FS under the provisions of the Companies Act, 2013, and **we have fulfilled our other ethical responsibilities** in accordance with these requirements and the ICAI's Code of Ethics. **We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.**

(OR)

Disclaimer of Opinion

We were engaged to audit the FS of ABC & Associates ("the entity"), which comprise the balance sheet as at March 31, 20XX, the statement of Profit and Loss, (the statement of changes in equity)(where applicable) and statement of cash flows for the year then ended, and notes to the FS, including a summary of significant accounting policies.

We do not express an opinion on the accompanying FS of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these FS.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after March 31, 20X1 and thus **did not observe the counting of physical inventories at the beginning and end of the year.** We were **unable to satisfy ourselves by alternative means concerning the inventory quantities** held at March 31, 20X0 and 20X1, which are stated in the Balance Sheets at ₹ xxx and ₹ xxx, respectively.

In addition, the **introduction of a new computerized accounts receivable system** in September 20X1 **resulted in numerous errors in accounts receivable.** As of the date of our report, **mgmt was still in the process of rectifying the system deficiencies and correcting the errors.** We were **unable to confirm or verify by alternative means accounts receivable** included in the Balance Sheet at a total amount of ₹ xxx as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss (and statement of cash flows) (Where applicable).

12. While conducting audit of CGX Ltd., a **listed company**, for year 2022-23, CA. Srishti notices that **company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income".** The details in this respect are as under: -

S. No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	₹ 3.50 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	₹ 2.00 crores

The mgmt is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on FS would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstandings were written back after stopping dealing with such creditors.

She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability. She is contemplating inclusion of above matters under "KAM" in audit report. Analyse the situation threadbare.

(MTP May 24)

A liability is a present obligation of the entity to transfer an economic resource as a result of past events. Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, **entities sometimes decide to**, for example: -

- (a) **settle the obligation by negotiating** a release from the obligation;

- (b) **transfer the obligation to a third party;** or
- (c) **replace that obligation to transfer an economic resource with another obligation by entering into a new trsn.**

In the above situations, an **entity has the obligation to transfer an economic resource until it has settled, transferred or replaced that obligation.**

In the given situation, the **company has written back liabilities due to creditors unilaterally.** The **company has not settled the obligation** by negotiating a release from the obligation from respective creditors. **Such an accounting treatment by management is questionable and against the conceptual framework for financial reporting under Ind AS.**

CA. Srishti wanted to send external confirmations in accordance with SA 505, but management informed her that sending such requests may be used by creditors as proof of existence of liability. In fact, **she should display professional skepticism and be alert to the possibility of misstatements in FS, if restrained by management from obtaining external confirmations.** The **reasons advanced by management do not appear to be valid and reasonable.** In accordance with SA 505, she should reassess risks and perform alternative audit procedures to mitigate such risks. Besides, she should **consider implications of same for her audit opinion.**

Further, SA 705, requires that the **auditor shall modify the opinion** in the auditor's report when: -

- (a) **Auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from MM;** or
- (b) **Auditor is unable to obtain SAAE** to conclude that the FS as a whole are free from material misstatement.

SA 705 also **states that misstatements in FS arise when selected accounting policies are not in accordance with an applicable FRF.** It also **states that examples of an inability to obtain SAAE arise from a limitation on the scope of audit imposed by mgmt when mgmt prevents the auditor from requesting external confirmation** of specific account balances. Therefore, **she needs to issue a modified opinion.**

Keeping in view above, her contemplation of including above matters under **"KAM" is not proper** and is **not in accordance with SA 701.** It states that the **auditor shall not communicate a matter in the KAM section** of the auditor's report when the auditor would be required to **modify** the opinion in accordance with SA 705 as a result of the matter. Communicating KAM in the auditor's report is **not a substitute for the auditor expressing a modified opinion** when required by the circumstances of a specific audit engagement in accordance with SA 705.

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| 13. | <p>CA. Navya is the statutory auditor of Lakshay Ltd. for FY 2022-23. In respect of loans and advances of ₹ 75 Lakh given to Hariharan Pvt. Ltd., the Company has not furnished any agreement to CA. Navya and in the absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.</p> <p>Justify the type of opinion which CA. Navya should give in such a situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph.</p> |
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(MTP May 24) (PP Dec 21)

In the present case, with respect to the loans and advances of ₹ 75 Lacs given to Hariharan Pvt. Ltd., the Company has not furnished any agreement to CA. Navya. In the absence of such an agreement, CA. Navya is unable to verify the terms of repayment, chargeability of interest and other terms. For an auditor, while verifying any loans and advances, one of the most important audit evidence is the loan agreement.

Therefore, the absence of such a document in the present case, **tantamount to a material misstatement** in the FS of the company. However, the **inability of CA. Navya to obtain such audit evidence is though material but not pervasive** so as to require him to give a disclaimer of opinion.

Thus, in the present case, CA. Navya should give a **qualified opinion.**

The relevant extract of the Qualified Opinion Paragraph and Basis for Qualified Opinion paragraph is as under:

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, **except for the effects of the matter described in the Basis for Qualified Opinion section** of our report, the FS of Lakshay Ltd. give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as on 31.03.2023 and profit/ loss for the year ended on that date.

Basis for Qualified Opinion

The Company is **unable to furnish the loan agreement** with respect to loans and advances of ₹ 75 Lacs given to Hariharan Pvt. Ltd. Consequently, in the absence of such an agreement, we are unable to verify the terms of repayment, chargeability of interest and other terms.

14.	BPMR and Associates, a renowned audit firm in the field of CA practice for the past three decades, was appointed to conduct the statutory audit of Rexlon Ltd., an unlisted company engaged in the business of paper manufacturing. The firm decided to commence the audit for the recently concluded FY. After making significant progress in the audit, the auditors made the following observations: Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material. Observation 2: Due to the flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material. You are required to advise whether BPMR and Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported? <i>(MTP May 24) (RTP Nov 20)</i>
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Observation 1 -

As per SA 706, an **EOM Paragraph** refers to matter appropriately disclosed in the financials, that in the auditor's judgement is of such importance that it is fundamental to users' understanding of the financials. Hence, in this case, the auditor shall report about the consequences of the flood which affected the company's warehouse under EOM Paragraph.

Observation 2 -

As per SA 705, **where the auditor is unable to obtain SAAE and where such matter is material but not pervasive, the auditor shall issue a Qualified opinion.** Thus, in the given situation, on account of flood few records pertaining to particular transactions were completely destroyed and in the absence of duplicate records, the auditor was unable to obtain SAAE and those details were material but not pervasive. Therefore, in accordance with SA 705, the auditor is required to issue **Qualified opinion**.

15.	While conducting audit of RAC Ltd., CA R has discovered a misstatement in the FS of a company due to non-write off of a huge trade receivable with an outstanding amount of ₹ 2 crores. The party in question has fled from India and is now absconding. After reviewing the audit evidence, it was concluded by the auditor that there is no possibility of recovering the outstanding debt. Despite the matter being brought to the attention of the mgmt, they have refused to correct the misstatement. As a result, the FS of the company show a profit before tax of ₹ 1 crore, which is incorrect due to the mgmt's refusal to correct the aforementioned misstatement. Materiality has been determined for FS @ 5% of profit before tax. Comment as regards to type of opinion to be given by CA R in above situation on the basis of provided information. <i>(MTP Nov 23)</i>
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SA 705 states that the auditor shall modify the opinion in the auditor's report when:

(a) Auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from MM; or

(b) Auditor is unable to obtain SAAE to conclude that the FS as a whole are free from material misstatement.

In the given situation, **auditor has obtained evidence** in relation to non-recoverability of o/s trade receivable.

SA 705 further states that the auditor shall **express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS.**

In this scenario, the uncorrected misstatement stands at 200% of the profit before tax, while the materiality has been determined at 5% of the profit before tax. Hence, this misstatement should be considered as material. Additionally, if such a substantial amount is written off, it would significantly impact the financial position of the company. As a result, losses would have to be reported instead of profits. **Taking the above factors into consideration, this misstatement should be classified as both material and pervasive.**

Therefore, **adverse opinion needs to be expressed** in accordance with the requirements of SA 705.

16.	CA Subhadra is statutory auditor of SATI Ltd. for FY 2021-22. In respect of loans and advances of 95 lakh given to Shripal Pvt. Ltd., the Company has not furnished any agreement to CA Subhadra and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. Justify the type of opinion which CA Subhadra should give in such situation. Also, Draft an appropriate Opinion paragraph and Basis of Opinion paragraph.
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(MTP May 23)

In the present case, with respect to loans and advances of 95 Lacs given to Shripal Pvt. Ltd., the Company has not furnished any agreement to CA Subhadra. In the absence of such an agreement, CA Subhadra is unable to verify the terms of repayment, chargeability of interest and other terms, for an auditor, while verifying any loans and advances, one of the most important audit evidence is the loan agreement.

Therefore, the **absence of such document in the present case, tantamount to a material misstatement** in the FS of the company. However, the inability of CA Subhadra to obtain such audit evidence is though **material but not pervasive** so as to require him to give a disclaimer of opinion. Thus, in the present case, CA Subhadra **should give a qualified opinion.**

The relevant extract of the Qualified Opinion Paragraph and Basis for Qualified Opinion paragraph is as under:

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, **except for the effects of the matter described in the Basis for Qualified Opinion section** of Our report, the FS of SATI Ltd. give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as on 31.03.2022 and profit/ loss for the year ended on that date.

Basis for Qualified Opinion

The Company is unable to furnish the loan agreement with respect to loans and advances of 95 Lacs given to Shripal Pvt. Ltd. Consequently, in the absence of such an agreement, we are unable to verify the terms of repayment, chargeability of interest and other terms.

17.	CA. Uma is the Statutory Auditor of RJ Ltd. for FY 2021-22. The company is engaged in the production of electronic products. During the course of audit, CA. Uma obtained certain audit evidence of incorrect disclosure of related party transactions and structured finance deals which was not considered with the affirmation leading to misstatement in the FS. Discuss how CA Uma should deal with the situation in the auditor's report and the different options which can be considered?
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(PP Nov 22)

SA 705, deals with auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with **SA 700**, the auditor concludes that a modification to the auditor's opinion on the FS is necessary.

The decision regarding which type of modified opinion is appropriate depends upon:

- The **nature of the matter giving rise to the modification**, that is, **whether the FS are materially misstated or**, in the case of an **inability to obtain SAAE**, may be materially misstated; and
- The **auditor's judgement about the pervasiveness of the effects or possible effects of the matter** on the FS.

Further, the auditor shall **modify the opinion** in the auditor's report when the auditor concludes that based on the audit evidence obtained, that the **FS as a whole are not free from material misstatement**:

In the present case, CA Uma **obtained certain audit evidence which was not consistent with the affirmation made in FS**. Therefore, CA Uma should **modify** his report in accordance with SA 705.

Conclusion:

Since CA Uma has obtained audit evidence which is inconsistent with the affirmations made in the FS. CA Uma should modify his opinion as per the circumstances of the case.

- CA Uma shall **express Qualified opinion** when, having **obtained SAAE**, he concludes that misstatements, individually or in the aggregate, are **material, but not pervasive**, to the FS.
- CA Uma shall **express an Adverse opinion**, where the auditor, having **obtained SAAE**, concludes that misstatements, individually, or in the aggregate, are **both material and pervasive** to the FS.

18.	MN & Associates, have been appointed as statutory Auditors of Cotton Ltd. for the FY 2020-21. Company is into the business of yarn mfg. For this purpose, cotton ginning is also done within the factory premises. Raw cotton is purchased from local market and processed in-house. The Company received a notice from the State Govt. to deposit market development fee for the last 5 years to the tune of ₹ 10.00 crores. Company and all other organizations in the same business have not deposited the market development fee, taking shelter of an old circular issued by the Govt. Trade association met with govt. officials to resolve the matter and agreed to deposit the same prospectively. However, the matter relating to payment of development fee for the last 5 years is pending before the Govt. as at the end of FY. Company, however, disclosed the same in notes to accounts, as contingent liability, without quantifying the effect and proper explanation. If the liability is provided in the books of accounts, entire reserves will be wiped off. Auditor seeks your guidance as to how this disclosure affects them while forming an opinion on FS. (PP July 21)
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Forming an opinion and reporting on FS –

As per **Ind AS 37**, “Provisions, Contingent Liabilities and Contingent Assets”, an entity should **disclose for each class of contingent liability** at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable.

- an **estimate of its financial effect**, measured in the standard;
- an **indication of the uncertainties** relating to the **amount or timing of any outflow**; and
- the **possibility of any reimbursement**.

As per SA 700:

The auditor shall evaluate whether in view of the requirements of the applicable FRF –

- The **FS adequately disclose the significant accounting policies selected and applied**;
- The accounting policies selected and applied are **consistent with the applicable FRF** and are appropriate;
- The **accounting estimates made by the mgmt are reasonable**;
- The **information presented in the FS is relevant, reliable, comparable and understandable**;
- The **FS provide adequate disclosures to enable the intended users to understand the effect of material transactions and events** on the information conveyed in the FS.

If FS prepared in accordance with the requirements of a **fair presentation framework do not achieve fair presentation**, the auditor shall **discuss the matter with mgmt** and, depending on the requirements of the applicable FRF and **how the matter is resolved**, shall determine **whether it is necessary to modify the opinion** in the auditor's report in accordance with SA 705.

In the present case, **auditor may consider modifying his opinion considering the financial effect of liability not disclosed properly**.

19.	In FY 2022-23, MOKSH Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. FS and notes to the FS of the company do not disclose this fact. What kind of opinion should the statutory auditor of MOKSH Ltd. issue in such circumstances? (RTP Nov 23) (MTP May 23)
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In the present case, there **exists a material uncertainty** that cast a significant doubt on the company's ability to continue as going concern and the **same is not disclosed in the FS** of MOKSH Ltd.

As such, the FS of MOKSH Ltd. for the FY 2022-23 are materially misstated and the effect of the misstatement is so **material and pervasive** on the FS that giving **only a qualified opinion will be insufficient** and therefore the statutory auditor of MOKSH Ltd. **should issue an adverse opinion**.

The relevant extract of the Adverse Opinion Paragraph and Basis for Adverse Opinion paragraph is as under:

Adverse Opinion

In our opinion, **because of the omission of the information mentioned in the Basis for Adverse Opinion section** of our report, the **accompanying FS do not present fairly**, the financial position of MOKSH Ltd. as at March 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

MOKSH Ltd. has faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. FS and notes to the FS of the company do not disclose this fact.

SA 701 - COMMUNICATING KEY AUDIT MATTERS (KAM) IN THE INDEPENDENT AUDITOR'S REPORT

1.	AKY Ltd. is a listed company engaged in the business of software and is one of the largest companies operating in this sector in India. The company's annual turnover is Rs. 40,000 crores with profits of Rs. 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. The company's contracts with its various customers are quite complicated and different. During the course of the audit, the audit team spends significant time on audit of revenue – be it planning, execution or conclusion. This matter was also discussed with mgmt at various stages of audit. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner. After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the mgmt wherein they also communicated to mgmt that he plans to include revenue recognition as KAM in his audit report. The mgmt did not agree with revenue recognition to be shown as KAM in the audit report. Comment. (MTP Nov 19)
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Write from SA 701 -> Point 4.3) Determining KAM -> then continue with ->

In the instant case, -> **Write question summary ->**

In view of SA 701, the **assessment of the auditor is valid as above matter qualifies to be a KAM** in the opinion of auditor. Hence, it should be reported accordingly by the auditor in his audit report.

2.	Mr. Hemant Ramsey was appointed as the engagement partner for conducting the audit of Kshetra Lap Ltd. for F.Y. 2020-21, on behalf of Ramsey & Associates. Mr. Vishay Tyagi was appointed as the engagement quality control reviewer by the firm for the said audit. During F.Y. 2020-21, there was an implementation of ERP system in a phased manner, in Kshetra Lap Ltd. due to which some of its business processes got automated. As a result of the implementation of such a system, there was a significant effect on the auditor's overall audit strategy. Mr. Hemant discussed the implementation of such a system with Mr. Vishay and also told him that such a matter may be a KAM to be reported in the audit report. Mr. Vishay considered the significance of such matter but however he was of the opinion that such a matter did not appear to link with the matters disclosed in the FS and so there was no need to disclose such matter as a KAM. Whether the contention of Mr. Vishay is proper with respect to the matters to be communicated as KAM? (RTP Nov 21)
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Write from SA 701 -> Point 4.3) Determining KAM -> then continue with ->

These aforesaid considerations **focus on the nature of matters communicated with TCWG**. Such matters are often **linked to matters disclosed in the FS** and are intended to reflect areas of the audit of the FS that may be of particular interest to intended users.

The fact that these considerations are required is not intended to imply that matters related to them are always KAM; rather, matters related to such specific considerations are **KAM only if they are determined to be of most significance in the audit**.

In addition to matters that relate to the specific required considerations, **there may be other matters communicated with TCWG that required significant auditor attention and that therefore may be determined to be KAM**. Such matters may include, **matters relevant to the audit that was performed that may not be required to be disclosed in the FS**. For e.g., the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

In the given case, there was implementation of ERP system in the company due to which some of its business processes got automated and which had a significant effect on the auditor's overall audit strategy during the period.

3.	While auditing the complete set of consolidated FS of Moksh Ltd., a listed company, using a fair presentation framework, XYZ & Co., CA firm, discovered that the CFS are materially misstated due to the non-consolidation of one of the subsidiaries. The material misstatement is deemed to be pervasive to CFS. The effects of the misstatement on the CFS could not be determined because it was not practicable to do so. Thus, XYZ & Co. decided to provide an adverse opinion for the same and further determined that, there are no KAM other than the matter to be described in the Basis for Adverse Opinion section. Comment whether XYZ & Co. needs to report under SA 701? (MTP Nov 22)
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SA 700 establishes requirements and provides guidance on forming an opinion on the FS. **Communicating KAM is not a substitute for disclosures in the FS** that the applicable FRF requires mgmt to make, or that are otherwise necessary to achieve fair presentation. SA 705, addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the FS.

When the auditor **expresses a qualified or adverse opinion** in accordance with SA 705, **presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur.**

Separating the communication of this matter from other KAMs described in the KAM section, therefore, gives it the appropriate prominence in the auditor's report.

Further, when the auditor **expresses a qualified or adverse opinion, communicating other KAMs would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine KAMs apply.** However, **as an adverse opinion is expressed** in circumstances when the **auditor has concluded** that misstatements, individually or in the aggregate, are **both material and pervasive** to the FS depending on the significance of the matter(s) giving rise to an adverse opinion, the **auditor may determine that no other matters are key audit matters.**

In the given situation Moksh Ltd., a listed company, has not consolidated one of its subsidiaries. Further, CFS of Moksh Ltd. Are materially misstated due to such non-consolidation. The material misstatement is also deemed to be material and pervasive and effect of the failure to consolidate have not been determined. In the given situation it is appropriate to give Adverse Opinion by XYZ & Co.

Since, in given case, Adverse Opinion is being expressed, XYZ & Co. can communicate KAM in given below manner:
Key Audit Matters: Except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.

4.	How does the inclusion of EOM paragraphs in Auditor's Report differ from the disclosure of KAM? (RTP Nov 23) (MTP May 23)
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Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report:

Key Audit matters -	Emphasis of Matter paragraph -
Those matters that, in the auditor's professional judgment, were of most significance in the audit of the FS of the current period. Key audit matters are selected from matters communicated with TCWG . [SA 701]	A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the FS that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the FS . [SA 706]
Matters that are determined to be KAM in accordance with SA 701 may also be, in the auditor's judgment, fundamental to users' understanding of the FS . In such cases, in communicating the matter as a KAM in accordance with SA 701, the auditor may wish to highlight or draw further attention to its relative importance.	A widespread use of EOM paragraphs may diminish the effectiveness of the auditor's communication about such matters. Use of EOM paragraphs is not a substitute for a description of individual KAM where SA 701 is applicable.
Communicating KAM: • Provides users with additional information to understand the audit's most significant aspects. • Helps users grasp the entity and areas where mgmt judgment plays a critical role in FS. • Forms a basis for users to engage further with mgmt and TCWG about specific matters related to the entity, FS, or the audit itself.	There may be a matter that is not determined to be a KAM, but which, in the auditor's judgment, is fundamental to users' understanding of the FS (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an EOM para. The auditor may do so by presenting the matter more prominently than other matters in KAM section (e.g., as the first matter) or by including additional information in the description of the KAM to indicate importance of matter to users' understanding of FS.

SA 710 - REPORTING REQUIREMENTS IN CASE OF COMPARATIVE INFORMATION

SA 720 - THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

1.	LMP Associates conducting the audit of PQR Ltd., a listed Company for the year ended 31st March 2019 is concerned with the auditor's responsibilities relating to OI, both financial and non-financial, included in the Company's annual report. While reading OI, LMP Associates considers whether there is a material inconsistency between OI and FS. As a basis for the consideration the auditor shall evaluate their consistency, compare selected amounts or other items in the OI with such amounts or other items in the FS. Guide LMP Associates with examples of "Amounts" or "other items" that may be included in the "other information" with reference to SA 720. (PP Nov 19)
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As per SA 720 following are examples of amounts and other items that may be included in OI. This list is not intended to be exhaustive.

Amounts	Other Items
(i) Financial results: Net income, earnings per share, dividends, sales, expenses. (ii) Operating data: Income by operating area, sales by segment or product line. (iii) Special items: Asset dispositions, litigation, impairments, tax adjustments, restructuring expenses. (iv) Liquidity and capital resources: Cash, debt, capital leases. (v) Capital expenditures. (vi) Off-balance sheet arrangements: Financial instruments or obligations not reflected on the balance sheet. (vii) Contingencies: Guarantees, legal claims, environmental liabilities. (viii) Financial ratios: Gross margin, return on equity, current ratio, debt ratio.	Explanation or description of: (i) Accounting estimates and assumptions. (ii) RPT. (iii) Risk management policies: Commodity, foreign exchange, interest rate risks. (iv) Off-balance sheet arrangements. (v) Contingencies: Guarantees, indemnifications, contractual obligations, litigation, etc. (vi) Legal and regulatory changes: Material impact on the entity's future financial prospects. (vii) Impact of new accounting standards: Management's qualitative assessments. (viii) Business environment and outlook. (ix) Overview of Strategy. (x) Market trends. (xi) Geographic factors. (xii) Segment profitability factors.

2.	Mangal & Co., have been appointed Statutory Auditors of Mani Ltd. for FY 2021-22. The audit team has completed the audit and is in the process of preparing audit report. Mgmt of the company has also prepared draft annual report. Audit in-charge was going through the draft annual report and observed that the company has included an item in its Annual Report indicating downward trend in market prices of key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in FS has gone in the reverse direction. Audit Manager discussed this issue with partner of the firm who in reply said that auditors are not covered with such disclosures made by the mgmt in its annual report, it being the responsibility of the mgmt. Do you think that the partner is correct in his approach on this issue. Discuss with reference to relevant SAs the Auditor's duties with regard to reporting. (RTP May 23) (PP Nov 20) (MTP Dec 21) (MTP May 24) (MTP May 23) (MTP Nov 23)
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As per SA 720, **descriptions of trends in market prices of key commodities or raw materials are an example of amounts or other Items that may be Included in the other information.**

The auditor's discussion with mgmt about a material inconsistency (or OI that appears to be materially misstated) may include **requesting mgmt to provide support for the basis of mgmt's statements in OI**. Based on mgmt's further information or explanations, the **auditor may be satisfied that the OI is not materially misstated**. For e.g., mgmt explanations may indicate **reasonable and sufficient grounds for valid differences of judgment**.

Auditor's duties with regard to reporting in the given case are given hereunder:

As per SA 720, **if the auditor concludes that a material misstatement of OI exists, the auditor shall request management to correct OI. If mgmt:**

- (i) **Agrees to make the correction**, the auditor shall **determine that the correction has been made**; or
- (ii) **Refuses to make the correction**, the auditor shall **communicate the matter with TCWG and request that the correction be made**.

Contention of the partner of the firm that auditors are not concerned with such disclosures made by the management in its annual report, **is incorrect**.

MISC.

1.	Compare and explain the following: Reporting to Shareholders vs. Reporting to those Charged with Governance (RTP May 18) (Nov 14)
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Reporting to shareholders	Reporting to TCWG
Section 143 of the Companies Act, 2013 deals with the provisions relating to reporting to Shareholders. Thus, it is a Statutory Audit Report which is addressed to the members. Statutory Audit Report is on true and fair view and as per prescribed Format. Statutory Audit Reports are in public domain.	SA 260 deals with the provisions relating to reporting to TCWG. - It is a reporting on matters TCWG like scope of audit, audit procedures, audit modifications, etc. Reporting to TCWG is an internal document i.e. private report.

2.	"There are numerous situations where regulatory authorities like SEBI, ROC, Income Tax, Central Board of Excise and Customs (CBEC), RBI etc. requires a professional accounting firm or the statutory auditor of the organization to provide opinion on certain specific matters which are provided by the organisation as part of statutory requirements." In view of above give few examples of various types of Certificates produced before such regulating authorities. (RTP Nov 18)
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Examples of Various types of Certificates

<u>1. Reserve Bank of India</u>	<u>2. Companies Act, 2013</u>	<u>3. Income Tax Act, 1961</u>	<u>4. SEBI</u>	<u>5. Others</u>
- Certificate of unhedged foreign currency exposure as at year end - Certificate for adherence to guidelines as per RBI circular - Annual activity certificate for branch office, Liaison office, Project office etc. - Certificate of probable exposure	Certificate of accounting treatment prescribed under the Scheme of Arrangement pursuant to proviso to Section 230(7) of the Companies Act, 2013.	- Reporting on Expenditure incurred on R&D Centre approved under Section 35(2AB) - Eligible Minimum Alternative tax under Section 115JB of Income tax Act, 1961	Certificate for accounting treatment in case of a merger of two entities or reorganization.	- Certificate for net worth - Certificate for value of fixed assets - Certificate of service tax refund or VAT refund

3.	Auditor's inability to obtain SAAE (also referred to as a limitation on the scope of the audit) may arise from: (i) Circumstances beyond the control of the entity; (ii) Circumstances relating to the nature or timing of the auditor's work; or (iii) Limitations imposed by management. Explain with the help of examples.
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(RTP May 20)

Write down the question first, then ->

An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain SAAE by performing alternative procedures. Limitations imposed by mgmt may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of egmt continuance.

Examples of circumstances beyond the control of the entity include when:

- The **entity's accounting records have been destroyed**.
- The accounting records of a significant component have been **seized indefinitely by govt. authorities**.

Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to **use the equity method of accounting for an associated entity**, and the auditor is **unable to obtain SAAE about** the latter's financial information to evaluate **whether the equity method has been appropriately applied**.
- The **timing of the auditor's appointment** is such that the auditor is **unable to observe the counting of the physical inventories**.
- The **auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective**.

Examples of inability to obtain SAAE arising from limitation on the scope of audit imposed by mgmt include when:

- **Mgmt prevents** the auditor from **observing the counting of the physical inventory**.
- **Mgmt prevents** the auditor from **requesting external confirmation** of specific account balances.

CARO, 2020

1.	CA. F has been appointed as the Statutory Auditor of XYZ Ltd. for FY 2022-23. XYZ Ltd. has one subsidiary, namely AT Pvt. Ltd., whose statutory auditor is CA. B for the same FY i.e., 2022-23. CA. B issued a qualification in CARO 2020 for AT Pvt. Ltd., stating that short-term funds raised were utilised for long-term purposes. When consolidating the FS, CA. F decided to include the aforementioned qualification in the audit report of CFS for FY 2022-23. The mgmt of XYZ Ltd. argued that CA. F is not obligated to take into account and report the qualification given by CA. B in the audit report of subsidiary company in the consolidated FS for FY 2022-23. Discuss reporting requirement as per CARO, 2020.
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(RTP Nov 23)

XYZ Ltd. is the parent company, and it has a subsidiary named AT Pvt. Ltd. CA F is the appointed statutory auditor for XYZ Ltd. for FY 2022 -23. Another auditor, CA B, has conducted the statutory audit for AT Pvt. Ltd. and issued a CARO 2020 report, which includes a qualification regarding the short -term funds raised and utilised for long-term purposes.

Provision of Paragraph 2 of CARO 2020: Paragraph 2 of CARO 2020 specifies that the **CARO provisions do not apply to the auditor's report on consolidated FS except for clause (xxi) of Paragraph 3.**

Clause (xxi) of Paragraph 3 of CARO 2020: Clause (xxi) of Paragraph 3 of CARO 2020 **mandates the auditor to comment on whether there are any qualifications or adverse remarks in the CARO reports of companies included in the consolidated FS.** If such qualifications or adverse remarks exist, the auditor is **required to provide details of the companies and the paragraph numbers of CARO report containing those qualifications or adverse remarks.**

CA F's Responsibility: Considering the provisions stated above, CA F, as the auditor of XYZ Ltd.'s consolidated FS, is required to follow these steps:

- a. **Report under Clause (xxi):** CA F must include a comment in CFS's audit report regarding whether there are any qualifications or adverse remarks in the CARO reports of companies included in CFS.
- b. **Incorporate Qualification by CA B:** CA F should incorporate the qualification made by CA B (regarding short-term funds raised and utilized for long-term purposes in AT Pvt. Ltd.) into the auditor's report for XYZ Ltd.'s CFS.
- c. **Mention Paragraph Number:** CA F must also provide the paragraph number of CA B's CARO report where the qualification is stated.

Management's Contention: The **management of XYZ Ltd.'s contention** that CA F is not required to consider and report CA B's qualification in the subsidiary's CARO report for the CFS is **not valid**. As per the provisions, CA F is indeed required to report such qualifications as specified in Clause (xxi) of Paragraph 3 of CARO 2020.

In conclusion, based on the information provided and the provisions of CARO 2020, **CA F is obligated to incorporate the qualification** from CA B's CARO report for AT Pvt. Ltd. into the auditor's report for XYZ Ltd.'s CFS for FY 2022-23, as well as provide the necessary details as per the requirements of Clause (xxi) of Paragraph 3 of CARO 2020.

2.	LIU Pvt. Ltd. is a company based out of Mumbai. The company had an authorised capital of ₹ 200 lakh and paid-up capital plus reserves of ₹ 95 lakh as of 31st March. During the audit for the year ended 31st March 202X, the auditor M/s Y&S Associates noted the following points: (i) On 15th December, the company had total bank borrowings of ₹ 75 lakh. On the said date, the company received a new loan of ₹ 30 lakh for a new project that was to be developed. However, the project was shelved on 17th December due to technical reasons, and the whole loan was paid on the same date. (ii) During FY, a new proceeding was initiated against the company for holding a benami property worth ₹ 2.5 crore. However, the company's legal team had advised that the case would not withstand the law and would be dismissed during the hearing in April of next FY. (iii) The company had incurred a cash loss of ₹ 39 lakh during FY compared to a cash profit of ₹ 15 lakh in the previous FY. The total turnover of the company for FY was ₹ 45 Crore. During the year, the Y&S Associates had offered to resign from acting as the company's auditors. However, they later decided to postpone their resignation to the following year. At the conclusion of the audit, there was a difference of opinion between two articled assistants (Jack & Jill), who were assigned to the engagement, concerning disclosing the points mentioned above in CARO 2020. Jack was of the opinion that the proceeding initiated under Benami Property Act need not be disclosed since the expert legal team had informed them that the case would not withstand the law. However, he insisted that the cash loss shall be disclosed along with the amount. Jill was of the opinion that CARO is not at all applicable to the company, hence nothing needs to be reported. They both approached the firm's partners (Mr. Y & Mr. S) to resolve their argument. Mr. Y supported Jack's viewpoint & Mr. S supported Jill's viewpoint. Now, both partners approached their Senior Partner to get clarification on the same. As a Senior Partner, kindly clarify the correct disclosure requirement. (RTP May 23)
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Write -> para 1 applicability of CARO, 2020 & exception.

In the given case, though LIU is a private company, and its **paid-up capital is less than ₹ 1 crore** as on the BS date, it is to be noted that **for the period 15th December to 17th December, the total borrowings of the company had exceeded ₹ 1 crore** (75 lakh + 30 lakh). The borrowings are less than ₹ 1 crore as of the BS date and the authorised capital is ₹ 200 lakh, are irrelevant to the current scenario. Also, the **turnover of the company was greater than ₹ 40 crore**. Hence, **CARO 2020 is applicable to LIU Pvt. Ltd.**

- (i) As per **clause (i) (e) of para 3 of CARO 2020**, the auditor shall include a **statement on: whether any proceedings have been initiated** or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its FS.

In the given situation, a new proceeding was initiated against the company for holding a benami property worth ₹ 2.5 crores during FY. However, the company's legal team had advised that the case would not withstand the law and would be dismissed during the hearing, which would be held in April of the next FY. Therefore, the above **observation of a new proceeding initiated against the company for holding a benami property worth ₹ 2.5 crores need to be disclosed as per clause (i) (e) of para 3 of CARO 2020.**

- (ii) As per **clause (xvii) of para 3 of CARO 2020**, the auditor shall include a **statement on whether the company has incurred cash losses in FY and in the immediately preceding FY**, if so, state the amount of cash losses. In the given situation, the company incurred a cash loss of ₹ 39 lakh during FY. Hence, a **cash loss of ₹ 39 lakh during FY needs to be reported as per clause (xvii) of para 3 of CARO 2020.**
- (iii) As per **clause (xviii) of para 3 of CARO 2020**, the auditor shall include a **statement on whether there has been any resignation of the statutory auditors during the year**, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors. In the instant case, **there has been no resignation made by the statutory auditors during FY.** The mere fact that **Y&S Associates were thinking of resigning does not matter in the current scenario, and hence this clause shall not be applicable in the given situation.**

3.	Gautam Ltd. had borrowed ₹ 1000 crore from XYZ Bank, the principal of which was repayable after 5 years and interest was payable at the end of each year. For 4 years, Gautam Ltd. paid the interest amount on time. Gautam Ltd. defaulted the 5th instalment of interest payment and principal which was due on June 30, 2021. On March 31, 2021, Gautam Ltd. approached XYZ bank and MNO bank to restructure the existing liability. As a result, the existing principal and outstanding and overdue interest was restructured into a new loan amounting to ₹ 1,100 crore. The mgmt did not provide any disclosure for the default on the loan on the belief that the old loan ceased to exist and the new loan has maturity after 5 years. During the statutory audit for FY 2021-22, KP & Co. identified this transaction and obtained the relevant documents and understanding. Based on the underlying documents, it was identified that the said restructuring agreement was approved and signed on April 8, 2022, by both of the banks. As a result, on March 31, 2022, the restructuring was still not approved. In the light of the above scenario, kindly guide the statutory auditors in the reporting of this transaction. (RTP Nov 22)
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As per **Clause 3 (ix) of CARO 2020**, auditor is required to report whether the **company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default** to be reported as per the format below.

Nature of borrowing, including debt Securities	Name of Lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if Any

*Lender wise details to be provided in case of defaults to banks, financial institutions and Government.

In the given case, the company Gautam Ltd. defaulted in payment of the principal amount of the loan due of ₹ 1000 crore on 30 June 2021 and the interest instalment of ₹ 100 crore. The said default continued till the end of the year and on 8 April 2022, a restructuring agreement was signed by the banks and company for re-structuring the outstanding loan. Moreover, no disclosure was provided by the company with respect to the said matter.

Hence the **auditor is required to report the same matter under Clause (ix) of Para 3 of CARO 2020**, i.e., whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, then provide the details of the period and the amount of default.

Also, the auditor needs to consider the impact of such non-disclosure and the non-compliance with FRF and accordingly the auditor needs to either issue a qualified opinion or an adverse opinion as per SA 705.

4.	Mr. Arjun was appointed as EP on behalf of Bhism & Co., CA Firm, for conducting statutory audit assignment of Sinwar Ltd., unlisted public company. Mr. Brijesh, one of the senior ET members, was given responsibility to audit the matters as per requirements of CARO, 2020 and in that connection, he made the following observations, that may be relevant for reporting as per the said Order: - Observations (a) One of the Plant and Equipment taken on a lease ('right of use' asset) by Sinwar Ltd. was revalued based on the valuation by a registered valuer and the net carrying value of Plant and Equipment in aggregate was changed from ₹ 4 crore to ₹ 4.45 crore. (b) During the year under consideration, cash credit limit of ₹ 5.5 crore was sanctioned to Sinwar Ltd. by DMC Bank based on the security of current assets which was reduced to ₹ 4.5 crore after 6 months. In this connection, quarterly returns have been filed by the company with the DMC bank which are in agreement with Books of Accounts. You are required to examine the contention of Mr. Brijesh regarding reporting of the above observations in accordance with CARO 2020. <i>(RTP May 22)</i>
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Matters to be reported by Mr. Brijesh as per CARO, 2020 are as follows: -

(a) According to **Clause (i) (d) of Para 3 of CARO 2020**,

The auditor is **required to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both** during the year and, if so, **whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;**

In the given situation, Sinwar Ltd. has revalued one of the Plant and Equipment taken on a lease ('right of use' asset) based on the **valuation by a registered valuer**. The amount of change in the value of such Plant and Equipment is ₹ 45 lakh. As the net carrying value of Plant and Equipment in aggregate was changed from ₹ 4 crore to ₹ 4.45 crore i.e. **change was 10% or more**. Thus, the **auditor is required to report the amount of change of ₹ 45 lakh in accordance with Clause (i) (d) of Para 3 of CARO 2020.**

(b) As per **Clause (ii) (b) of Para 3 of CARO 2020**,

The auditor is required to report **whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees**, in aggregate, from banks or financial institutions on the basis of security of current assets; **whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company**, if not, give details;

In the instant case, Sinwar Ltd. has been **sanctioned a cash credit limit of ₹ 5.5 crore** by DMC Bank during the year under consideration, which is **exceeding the prescribed limit of ₹ 5 crore** based on the security of current assets. Further, **quarterly returns have also been filed by the company with the DMC bank in this connection which is in agreement with Books of Accounts**. In view of the above, the **auditor is required to report the same in accordance with Clause (ii) (b) of Para 3 of CARO 2020.**

5. Jam Pvt. Ltd. was engaged in business of manufacture of Cycles. CA Roy was appointed as a Statutory Auditor of the Company for FY 2021-22. During the year under audit, Jam Pvt. Ltd. **obtained working capital facilities from ABC Bank Ltd. for ₹ 10 crore hypothecating the Stock of goods as primary security.** On inquiry CA Roy was informed by management that stock statements are furnished periodically to ABC Bank Ltd. and the details of **submission of quarterly stock statement are as follows:**

Period Quarter	of Stock Value as per Books of Account as at the end of the quarter (₹ in crores)	Stock Value as per quarterly statement submitted to ABC Bank Limited as at the end of quarter (₹ in crore)
Q1-2021-22	11.50	14.00
Q2-2021-22	14.75	17.00
Q3-2021-22	11.50	14.00
Q4-2021-22	15.25	15.25

The mgmt of Jam Pvt. Ltd. did not disclose the above variations in notes to accounts forming part FS of the Company for FY 2021 -22. **The mgmt replied that there are no variations as on the BS date and further they are of the view that stock statement furnished to bank is only a formality and computed arbitrarily only for the purpose of securing higher drawing power and hence statutory auditors need not be bothered. Is the contention of the mgmt valid? As a Statutory Auditor how CA Roy should deal and discuss the disclosure/reporting requirements if any, as per the Companies Act, 2013 and CARO, 2020.**

(MTP May 23) (PP May 22)

As per para 3(ii) (b) of CARO 2020, the auditor is required to report whether during any point of time of the year, the company has been **sanctioned working capital limits in excess of five crore rupees**, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the **quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books** of account of the Company, if not, give details.

The above clause requires CA Roy to comment on whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ₹ 5 crores in aggregate. Jam (P) Ltd. has been **sanctioned working capital facilities/limit of ₹ 10 crores which is apparently in excess of ₹ 5 crores.** Secondly, whether the quarterly returns filed by the Jam (P) Ltd. company with ABC Bank Ltd. are in agreement with the book of accounts of the company.

According to the data given in the instant situation, it is clear that **there are variations in Quarter 1, Quarter 2 & Quarter 3 requiring reporting under this clause because of difference in stock value as per Book of Accounts & Stock Value as per Quarterly returns submitted to ABC Bank Ltd.**

Therefore, Contention of the **management is not valid.**

CA. Roy should **report the differences as per the Companies Act, 2013 and CARO 2020 as follows:**

	Stock value as per Book Accounts (₹ in Crore)	Stock value as per quarterly statement Submitted to ABC Bank Ltd. (₹ in Crore)	Variation
Q - 1	11.50	14.00	Excess reporting of stock to Bank by 2.50 crore
Q - 2	14.75	17.00	Excess reporting of stock to Bank by 2.25 Crore
Q - 3	11.50	14.00	Excess reporting of stock to bank by 2.50 crore

6. ABC & Associates are conducting audit of CFS of "Crazy Paints Ltd." for FY 2022-23. The CFS consist of FS of parent company and its five subsidiaries (audited by component auditors). **While drafting audit report in respect of CFS under Companies Act, 2013, how firm should proceed to deal with issue of reporting under CARO, 2020?**

(MTP Nov 23)

CARO, 2020 specifically provides that it shall not apply to the auditor's report on CFS except clause (xxi) of paragraph 3. This means that the auditor will need to give a CARO report on the CFS with respect to clause 3(xxi) of the Order only. Thus, the auditor is not required to report on rest of the clauses of paragraph 3.

Clause 3(xxi) of CARO 2020 requires the auditor to **state whether there have been any qualifications or adverse remarks by the respective auditors in CARO reports of the companies included in CFS. If yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.**

Therefore, it requires the **auditor to provide details of the companies and the paragraph numbers of the respective CARO report containing the qualifications or adverse remarks only.** Reporting under this is only required for those entities included in the CFS to whom CARO 2020 is applicable.

7.	You are appointed as auditor of XMP Pvt. Ltd. for FY 2021-22 after the resignation of RS & Co., as statutory auditor of the company. RS & Co., had certain concerns on the accounting matters of the company, leading to change of auditors. All the compliances under Sections 139 and 140 are made by the company with regard to resignation and appointment. During the course of audit, it came to your notice that a survey has been conducted on December 7, 2021 by the Income Tax Dept. and dept. has unearthed unrecorded sales of ₹ 5 lakhs which had been made in cash on different dates during the year 2020-21. XMP Pvt. Ltd. has purchased gold from such collections and these transactions are not recorded. Company surrendered and disclosed these transactions before the assessing officer and paid taxes thereon. However, company has not recorded those transactions in books of account even after surrender before Income Tax authorities. You want to report the above matters in CARO, but the management requested you not to report them. Comment with respect to auditor's response to the management and his reporting requirements to the shareholders. <i>(PP Nov 22)</i>
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Clause (xviii) of Paragraph 3 of CARO, 2020:

In the given situation of XMP Pvt Ltd, the auditors RS & Co. resigned due to concerns on the accounting matters of the company. However, all the compliances regarding resignation and appointments discussed in section 139 and 140 of the Companies Act, 2013 are also being complied with. The auditor would be required to report the same in CARO, 2020 as per Clause (xviii) of Paragraph 3 of CARO, 2020 given hereunder:

Clause (xviii) of Paragraph 3 of CARO, 2020 requires the auditor to report whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.

Clause (viii) of Paragraph 3 of CARO, 2020:

Further, the auditors noticed that a survey was conducted by the Income Tax Department and unrecorded sales of Rs 5 Lakhs were unearthed which had been made in cash on different dates during the year. XMP Pvt Ltd. has also purchased gold and the transactions remained unrecorded. Though Company surrendered and disclosed these transactions before the Assessing Officer and paid taxes thereon. The auditor would be required to report in CARO as per Clause (viii) of Paragraph 3 of CARO, 2020.

Clause (viii) of Paragraph 3 of CARO, 2020 requires the auditor to report -whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.

Since it is a statutory obligation on the part of the auditor to report in terms of CARO, 2020 as given above and consequently management's request to the auditor that not to report the above transactions is not tenable.

8.	Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO 2020: - (a) The Company is in the process of selling its office along with the freehold land available at Chandigarh and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2008, the current market value is ₹ 250 Lakhs. This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under Fixed Assets though no disclosure of non-registration is made in the notes forming part of the accounts. (b) An amount of ₹ 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹ 0.25 Lakhs per month. Whilst the transaction was accounted in the FS based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a 'related party' transaction. (c) The Internal Auditor of the Company has identified a fraud in the recruitment of employees by the HR department wherein certain sums were alleged to have been taken as kick-back from the employees for taking them on board with the Company. After due investigation, the concerned HR Manager was sacked. The amount of such kickbacks is expected to be in the range of ₹12 Lakhs. (RTP May 19)
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(a) Write as per clause (i) (c) of para 3 of CARO 2020.

(b) Write as per clause (xiii) of para 3 of CARO 2020.

(c) Write as per clause (xi) of para 3 of CARO 2020

9.	You have been appointed statutory auditor of a company for FY ended 31st March, 2017 in place of the retiring auditor. During the course of audit, you observe that a fraud had been committed by a general manager who retired in March 2017. While going into further details, it was found that the fraud was going on since last 2 -3 years and the total amount misappropriated was likely to exceed ₹ 100 lakhs. As statutory auditor, what would be your reporting responsibilities to the government? (Nov 15) (Nov 16) (Nov 17)
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Obligation of Statutory Auditor to report frauds to CG during the audit carried out under Companies Act, 2013:

As per **section 143(12)** of Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor, **has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees 1 crore or above**, is being or has been **committed against the company** by its officers or employees, the **auditor shall report the matter to the CG**.

In the instant case, a fraud had been committed by a general manager and the amount involved for such **misappropriation is exceeding 100 Lakh rupees i.e. 1 crore**. Therefore, reporting of fraud should be done to CG in accordance with section 143(12) of the Act.

The manner of reporting the matter to the CG is as follows:

Write -> 1.5 Duty to report on fraud -> Point A. Reporting to CG

SA 800 - AUDITS OF FS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

1. CA Lakshmi has prepared a draft audit report for financial statements of X Ltd. prepared in accordance with financial reporting provisions of a contract with Y Ltd. She has **drafted an unmodified opinion** to be given in audit report. Besides, she has also drawn attention in draft audit report to Note "A" to the financial statements which describes the basis of accounting (under the heading "Basis of accounting"). **How she should ensure that report would not be misused? Draft a suitable para** to be included in the report for this purpose.

(SM)

She may consider it appropriate to indicate that the **auditor's report is intended solely for specific users**. Depending on the law or regulation applicable, this may be achieved by **restricting the distribution or use** of the auditor's report. In these circumstances, the paragraph alerting the readers may be **expanded to include these other matters and the heading modified accordingly**. The draft para should read as under: -

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note A to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the company to comply with the financial reporting provisions of the contract referred to above. As a result, the **financial statements may not be suitable for another purpose. Our report is intended solely for X Ltd. and Y Ltd. and should not be distributed to or used by parties other than X Ltd. and Y Ltd.**

SA 805 - AUDITS OF SINGLE FS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FS

2. CA M. Surya is **auditor for FS of an entity** prepared in accordance with financial reporting provisions of a contract. He is also **offered audit of trade receivables** appearing in above financial statements. **Can he accept such engagement? Discuss brief outline of his audit approach in such a situation.**

(SM)

The single financial statement or the specific element, account or item of a FS may be prepared in accordance with a **general or special purpose framework**. If prepared in accordance with a **special purpose framework**, SA 800 also applies to the audit.

In the given case, financial statements of the entity are prepared in accordance with financial reporting provisions of a contract. It is a special purpose framework. The auditor of **financial statements** prepared in accordance with **special purpose framework** is also offered audit of **trade receivables** appearing in above financial statements which relates to **audit of element of financial statements prepared in accordance with special purpose framework**.

Hence, his audit approach should include **considering requirements of both SA 800 and SA 805**.

3. **CA G** is offered appointment for **audit of trade payables** of financial statements of a company. However, **financial statements** prepared under Companies Act, 2013 are **audited by CA Jignesh**. **Discuss why it would be practically difficult for CA G to perform such an audit.**

(SM)

Compliance with the requirements of SAs relevant to the audit of a single FS or of a specific element of a financial statement **may not be practicable when the auditor is not also engaged to audit the entity's complete set** of financial statements. In such cases, the auditor often **does not have the same understanding** of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. Accordingly, the auditor **may need further evidence to corroborate audit evidence** acquired from the accounting records.

In the case of an audit of a specific element of a financial statement, **certain SAs require audit work that may be disproportionate to the element being audited**. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs **may not be practicable, the auditor may discuss with mgmt whether another type of engagement might be more practicable**.

SA 810 - ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

4. CA Madhur is auditor of a company and has **issued audit report dated 15th June** of a particular year. The **audit report on summary financial statements derived from such audited financial statements is dated 15th July** of that particular year. **Discuss whether there exists any additional reporting responsibility for auditor in such a situation in respect of audit report on summary financial statements.**

Consider that the audit report on financial statements issued by CA Madhur for above said company contains **qualified opinion**. **Can he issue an unmodified opinion on summary FS derived from audited financial statements? Discuss.**

(SM)

The audit report on summary financial statements derived from audited FS is dated 15th July of that particular year. However, the audit report on audited financial statements is dated 15th June of that year.

In the above situation, the **auditor's report on summary financial statements should state that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements.**

If the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, he can issue an unmodified opinion.

However, when auditor's report on audited financial statements contains a qualified opinion, the auditor's report on the summary financial statements shall, also contain following:

- (a) **State that the auditor's report on the audited financial statements contains a qualified opinion.**
- (b) Describe:
 - (i) The **basis for the qualified opinion on the audited financial statements**, and that qualified opinion in the auditor's report on the audited financial statements; and
 - (ii) The **effect thereof on the summary financial statements**, if any.

Hence, above points should be included by CA Madhur.

SRS 4400 ENGAGEMENTS TO PERFORM AUP REGARDING FI

1. Brown Enterprises Limited has huge funds locked up in its trade receivables standing at around ₹ 100 crores as on 31st December, 2023. The management of the company wants **to evaluate validity of the trade receivables** to ensure reliability of financial reporting at the year end. The accounts department has provided a list of trade receivables to the management containing about 1000 names, their balances and contact/communication details spread in different parts of the country. The company's management has requested CA. Karuna to take up this assignment and prepare a report for management in accordance with professional standards. **Despite not being statutory auditor of the company, she decides to accept above engagement.**

- (a) By **explaining nature of engagement** described above, discuss **whether it was proper for her to accept such engagement.**
- (b) **While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope?**

(RTP May 24)

- a) The above **situation involves an engagement to perform agreed-upon procedures.** In such an engagement, the **auditor is engaged by the client to issue a report of factual findings** based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.

The management has requested CA. Karuna to take up the assignment and prepare report for management in accordance with professional standards. Such type of engagement and its reporting **falls in purview of SRS 4400.** The **reference to auditor in SRS 4400 does not imply that a person performing related services need necessarily be the auditor of entity's financial statements.**

Hence, a person performing related services need not necessarily be auditor of entity's financial statements. Therefore, it was proper for CA. Karuna **to accept above engagement.**

- b) While reporting, she should take following precautions so that readers of report do not misunderstand its scope: *[Write point (i), (j), (k) & (l) from points no. 1.5 Reporting of SRS 4400]*

2. CA P is the auditor of Master Data Ltd. for the year 2021-22. The company requests the auditor to undertake an exercise involving only **verification of trade receivables for half year** ending 30th September 2021. The company wants to be satisfied that trade receivables are **properly confirmed and reconciled.**

In this regard, CA P has to verify the arithmetical accuracy of trade receivables, obtain confirmation of trade receivables and ensure verification of proper reconciliations with confirmations.

He is in a dilemma as to **whether he can give a report providing assurance** to the company in this respect. **Guide CA P with reasoning.** Assume that above exercise can be undertaken and there is no legal bar.

(RTP May 23)

In the given case situation, auditor has to verify trade receivables for half year ending 30th September, 2021. Such a process/exercise is **only a fact finding and reporting exercise.** The auditor has to **report the facts** as these are. Like, he would have to state whether confirmation from a particular debtor has been received or not.

The auditor can issue an assurance report in case of audit and review engagements. By providing assurance, the auditor provides comfort to users of financial statements. Assurance in the above context refers to the auditor's satisfaction as to the reliability of an assertion made by one party for use by another. To provide such assurance, the auditor assesses the evidence collected as a result of procedures conducted and expresses a conclusion. The degree of satisfaction achieved and, therefore, the level of assurance which may be provided is determined by the procedures performed and their results.

However, the **types of services described in the given situation falls in the related services domain**. These are, in the nature, of **agreed-upon procedures** to be carried out by the auditor. The **auditor cannot issue an assurance report while providing such kind of services**. He can **only issue a report stating facts** as they are **without providing any sort of assurance**. He can report only facts.

Therefore, auditor **cannot give a report providing assurance** for such type of services. He **can only issue a factual report**.

SRS 4410 COMPILATION ENGAGEMENTS

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| 3. | While compiling the accounts of Hope Ltd., you observed that a few accounting standards have not been followed and there have been omission of some information which was required to be followed in the current situation. How would you deal with this? |
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(Nov 15)

Non-Compliance with AS (FRF): As per SRS 4410, "Engagements to Compile Financial Informations", in the case of a company, the **FS compiled must comply with the relevant provisions** of the Companies Act, including the **Accounting Standards** and, accordingly, give a true and fair view. However, without carrying out the procedures necessary for an audit, the accountant cannot form any opinion on whether the accounts give a true and fair view, even though he has compiled these financial statements.

The compilation is based on the information supplied to the accountant by the client and does not include any verification thereof. However, if the **accountant becomes aware of material non-compliance with any applicable Accounting Standard(s)**, the same should be **brought to the attention of the management and request additional or corrected information**. **If the practitioner is unable to complete the engagement because mgmt has failed to provide necessary information as requested, the practitioner shall withdraw from the engagement and inform mgmt & TCWG of the reason for withdrawing.**

Thus, for not following and omission of some information which was required to be followed in the current situation for Hope Ltd., we should be **bring this matter to the attention of the management and request additional or corrected information**.

Author's Opinion:

Given answer is modified by author as per ICAI module & auditing pronouncement. Students to take their own call. However, original suggested answer is as follows:

*we should **bring this matter to the attention of the management for rectification and, if the same is not rectified by the management, we should include the same in the Notes to the Accounts and the compilation report of the accountant.***

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| 4. | You are appointed to ~~compile financial statements~~ of Z & Company (a partnership firm) ~~for tax purposes~~ . During the course of work, you learn that the ~~inventory is grossly understated~~ . On pointing out the same, the partners of Z & Co., tell you that it is ~~outside your scope since you are not conducting an audit~~ and the said figures duly certified by the firm should be accepted. Comment. |
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(Nov 14)

As per SRS 4410 "Engagements to Compile Financial Information", if the ~~accountant becomes aware of material misstatements~~, the accountant should persuade(*convince*) the ~~management to carry out necessary amendments~~ in the financial statements or other compiled financial information. ~~If such amendments are not made~~ and the financial statements are still considered to be misleading, the accountant should ~~withdraw from the engagement~~.

As per guidance note on Tax Audit under section 44AB of the Income Tax Act, 1961, the ~~stock auditor should study the procedure followed by the assessee in taking the inventory of closing stock~~ at the end of the year and the ~~valuation thereof~~. The tax auditor should also ~~examine the basis adopted for ascertaining the cost~~ and this ~~basis should be consistently followed~~. It is very necessary for an auditor to ~~ensure that the method followed for~~

valuation of stock results in disclosure of correct profit and gains. In the instant case, appointment was made to compile financial statements for tax audit purpose of Z & Co., a partnership firm. ~~It is our duty to ensure that method followed for valuation of stock results in disclosure of correct profit and gains.~~

In this case, the stock valuation was grossly understated. Consequently, ~~disclosure of profit is also not correct.~~ Hence, ~~contention of the Z & Co.,~~ that you are not conducting an audit, the said figures duly certified by the firm should be accepted ~~is not correct.~~

Author's Opinion:

Since tax audit is not in audit syllabus anymore, students might not be expected to write middle para. However, it is advisable to remember last line of middle para.

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| 5. | During the course of performing a compilation engagement in accordance with SRS 4410, it becomes known to you that client had suffered a theft loss of ₹ 100 lacs of its inventories over a period of time at a storage location visited infrequently. A claim was lodged by the client with insurance company which was repudiated due to certain technical reasons relating to coverage of policy. The client has not preferred a complaint or an appeal against said repudiation. The amount is reflected under the head "current assets" in trial balance of the client. Discuss, how you should proceed to deal with the matter? |
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(SM)

In this instant case, amount of ₹ 100 lacs is reflected under the head "current assets" in trial balance. Since client's claim has been repudiated and no appeal has been preferred, it is a loss for the client and should be dealt accordingly. Therefore, **amendments are required for the financial information not to be materially misstated.**

If the practitioner becomes aware during the course of the engagement that amendments to the compiled financial information are required for the financial information not to be materially misstated or the compiled financial information is otherwise misleading, the **practitioner shall propose the appropriate amendments to management.**

If management **declines, or does not permit the practitioner to make the proposed amendments** to the compiled financial information, the practitioner shall **withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.**

If **withdrawal from the engagement is not possible**, the practitioner shall **determine the professional and legal responsibilities** applicable in the circumstances.

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| 6. | Objectives of compilation engagement. |
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(Nov 16)

Objective of a Compilation Engagement: As per SRS 4410 "Engagements to Compile Financial Information", the objective of a compilation engagement is **for an accountant to use accounting expertise**, as opposed to **auditing expertise, to collect, classify and summarise financial information.** This ordinarily entails reducing detailed data to a manageable and **understandable form without the requirement to test the assertions** underlying that information. The **procedures employed are not designed and do not enable the accountant to express any assurance** on the financial information. However, **users of the compiled financial information derive some benefit** as a result of the accountant's involvement **because the service has been performed with professional competence and due care.**

A compilation engagement would **ordinarily include the preparation of FS** (which may or may not be a complete set of FS) but may also include the collection, classification and summarization of other financial information, for example, **preparation of quarterly financial results, restatement of FS** in accordance with a financial reporting framework other than in accordance with which the FS to be restated are already prepared and presented.

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| 1. | A Review Report of an Auditor is negative in form in expression of conclusion- Explain. |
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(PP Nov 18)

Negative Review Report in expression of conclusion: According to Standards on Review Engagement (SREs) review report is a **limited assurance engagement**. The practitioner provides a written report containing a conclusion that conveys the assurance obtained about the subject matter information. SAs, SREs and SAEs establish basic elements for assurance reports. In addition, the practitioner considers other reporting responsibilities, including communicating with those charged with.

In a reasonable assurance engagement, the practitioner expresses the conclusion in the positive form, this form of expression conveys “reasonable assurance”. However, in a **limited assurance engagement, the practitioner expresses the conclusion in the negative form**, for example, “based on our work described in this report, **nothing has come to our attention that causes us to believe that internal control is not effective**, in all material respects, based on XYZ criteria”. This form of expression **conveys a level of “limited assurance”** that is proportional to the level of the practitioner’s evidence-gathering procedures given the characteristics of the subject matter and other engagement circumstances described in the assurance report.

The format of Review report in SRE in conclusion caption of the report provides as follows- "**nothing has come to our attention that causes to believe that these FS do not give a true and fair view of (Or presents fairly in all material respects) the financial position of the company and of its financial performance and cash flows for the period then ended** in accordance with the Accounting standards referred to in Companies Act 2013 and other accounting principles generally accepted in India".

Thus, **in view of above it is clear that in a review report instead of positive form, the negative form of expression is being used**. Also, it is to be noted that the **Review report contains caption -conclusion and not opinion**.

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| 2. | In a review engagement performed under SRE 2400, practitioner relies mainly on certain procedures. Naming such procedures, discuss importance of these procedures in a review engagement. |
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Practitioner’s report containing outcome of review engagement in form of “conclusion” also **contains a description of a review of financial statements and its limitations. Which statements in this respect are to be included in practitioner’s report in accordance with SRE 2400?**

(MTP May 24)

In a review engagement performed under SRE 2400, the practitioner **performs primarily inquiry and analytical procedures** to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole expressed in accordance with the requirements of SRE 2400.

In a review engagement, **evidence obtained through inquiry is often the principal source of evidence about management intent**. Application of **professional skepticism** in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matters that would cause the practitioner to believe that the financial statements may be materially misstated. Performing inquiry procedures also assists the practitioner in **obtaining or updating the practitioner’s understanding** of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

In a review of financial statements, **performing analytical procedures assists** the practitioner in: -

- **Obtaining or updating the practitioner’s understanding of the entity** and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- **Identifying inconsistencies or variances from expected trends**, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- **Providing corroborative evidence in relation to other inquiry** or analytical procedures already performed.

- **Serving as additional procedures** when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements.

In a review engagement, **practitioner's report contains a description of a review of financial statements and its limitations, and the following statements in this respect:** -

- A review engagement under this SRE is a **limited assurance engagement**.
- The practitioner **performs procedures, primarily consisting of making inquiries of management** and others within the entity, as appropriate, and **applying analytical procedures**, and evaluates evidence obtained and
- The **procedures performed in a review are substantially less than those performed in an audit** conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner **does not express an audit opinion on the financial statements**.

3.	Roma Limited has entered into a contract with Dorma Limited. There is a condition in the contract by virtue of which Roma Limited is required to get its financial statements reviewed for a year on a quarterly basis in accordance with the financial reporting provisions of the contract. Can Roma Limited get its financial statements reviewed from a professional accountant in practice?
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Above financial statements are prepared in accordance with **special purpose framework** in accordance with requirements of a contract. FS prepared in accordance with special purpose framework **can also be reviewed by a professional accountant in practice** and **review report may be issued in accordance with SRE 2400**.

4.	During review of quarterly results of a company of which you are auditor, it is gathered on inquiries made that there has been a major fire in fabric processing plant of the company during the quarter. It has resulted in massive disruption in operations of the company . Worse still, machinery and inventories of plant were uninsured due to carelessness of concerned staff leading to substantial losses. The matter has been disclosed in interim financial information appropriately. Discuss, how you would proceed to deal with the same in review report?
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Uninsured assets in a disaster are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. As a result of fire, there is massive disruption in operations of the company. Besides, the company would have to bear losses as its damaged assets are uninsured.

In accordance with **SRE 2410**, if, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and **adequate disclosure is made in the interim financial information**, the **auditor modifies review report by adding an emphasis of matter paragraph**.

Therefore, **Emphasis of matter paragraph** should be added in review report.

5.	CA. Seerat is conducting review of the quarterly financial information of a company of which she is also auditor. She believes that it is necessary to make a material adjustment to the quarterly financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. She has communicated the matter to CFO and audit committee . However, no response was received even after waiting for a reasonable time . What are the options available to her?
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In such a case, options available to her in accordance with SRE 2410 are: -

- Whether to **modify** the report or
- The **possibility of withdrawing** from the engagement and
- The **possibility of resigning** from the appointment to audit the annual financial statements.

SAE 3400 & SAE 3420

1. A company has approached CA. Hemant for an **assurance report in respect of prospective financial information of a project**. On going through the project details, it is noticed that **depreciation** reflected on proposed fixed assets to be acquired in prospective financial information has been **calculated in accordance with provisions of the Income Tax Act**. **No disclosure is made in this respect too**. **How the matter should be proceeded with?**

(SM)

In such types of engagements, it is the duty of a professional accountant to see that prospective financial information is based on a **consistent basis with historical financial statements using appropriate accounting principles**.

In the case of a **company, historical financial statements** are prepared considering the requirements of the **Companies Act**, and **depreciation is calculated accordingly**. However, in the given situation, depreciation has been calculated in accordance with **Income Tax Act which is not consistent with historical financial statements**. Therefore, it is **not proper**.

The **fact that the projection has not been prepared on a consistent basis with the historical financial statements, using appropriate accounting principles needs to be stated**.

Further, when **presentation and disclosure are not adequate**, a **qualified or adverse opinion should be given or withdrawal from engagement** should be made as appropriate.

SA 402 & SAE 3402

2. STAR Limited has **outsourced its payroll processing functions** to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.

The auditors of STAR Limited **want to be sure about description, design and operating effectiveness** of controls at Little Solutions throughout the year. In this regard, **they require an assurance report** from auditors of Little Solutions Private Limited.

- (a) **Why the auditors of STAR Limited require an assurance report from the auditors of Little Solutions Private Limited? Which engagement and quality control standard casts such kind of responsibility upon the auditor?**
- (b) **Which type of report should be provided by the auditors of Little Solutions? Justify with reasons.**
- (c) **State matters on which opinion is to be provided by the auditors of Little Solutions.**

(RTP May 24)

- (a) When the user entity uses the services of a service organisation, **objectives of auditor of user entity** are:
 - i. To **obtain an understanding of the nature and significance of the services** provided by the service organisation and their **effect on the user entity's internal control** relevant to the audit, sufficient to identify and assess the risks of material misstatement and
 - ii. To **design and perform audit procedures** responsive to those risks.

Therefore, it is **in line with above requirements, that auditors of STAR Limited require an assurance report** from auditors of Little Solutions Private Limited. **SA 402 casts such responsibility on user auditors**.

- (b) In accordance with requirements of SAE 3402, auditors of Little Solutions Private Limited **should provide a type 2 report** to auditors of STAR Limited. As auditors of STAR Limited **want to be sure about description, design and operating effectiveness** of controls at Little Solutions Pvt. Ltd. throughout the year and type 2 report deals with such matters, type 2 report should be provided by the auditors of the Little Solutions Pvt. Ltd. Type 2 report is a report on the description, design and operating effectiveness of controls at a service organization whereas type 1 report is a report on the description and design of controls at a service organization.
- (c) The opinion of auditors of Little Solutions Pvt. Ltd. would state whether, in all material respects, based on suitable criteria: -
- The description **fairly presents** the service organization's system that had been designed and implemented throughout the specified period;
 - The controls related to the control objectives stated in the service organization's description of its system were **suitably designed** throughout the specified period and
 - The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, **operated effectively** throughout the specified period.

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| 3. | Ayurda Ltd. is a fast-growing and award-winning SaaS software company which is headquartered in Mumbai. It also has offices in the UK and provides cloud-based professional services automation (PSA) software solutions to professional services organizations around the world. They want to engage you to provide an assurance report for one of its major clients over the controls it operates as a service organisation. Can you provide such an assurance report? |
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(SM)

Assurance report can be provided under SAE 3402. Refer from notes Para 2. SAE 3402 ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANIZATION (SO)

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| 4. | When a sub-service organization performs services for a service organization, there are two alternative methods of presenting the description of controls . The service organization determines which method will be used. As a user auditor what information would you obtain about controls at a sub-service organization? |
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(May 15)

Controls at a Sub-Service Organisation: In accordance with SA 402 "Audit Considerations relating to an Entity Using a Service Organisation", a **user entity may use a service organisation that in turn uses a sub-service organisation** to provide some of the services provided to a user entity that are part of the user entity's information system relevant to financial reporting. The sub-service organisation may be a separate entity from the service organisation or may be related to the service organisation.

A user auditor may need to consider controls at the sub-service organisation. In situations where one or more sub-service organisations are used, the interaction between the activities of the user entity and those of the service organisation is **expanded to include the interaction between the user entity, the service organisation and the sub-service organisations**. The **degree of this interaction**, as well as the **nature and materiality of the transactions** processed by the service organisation and the sub-service organisations are the most important factors for the user auditor to consider in determining the **significance of the service organisation's and sub-service organisation's controls** to the user entity's controls.

Further, the user auditor shall determine whether a **sufficient understanding of the nature and significance of the services provided** by the service organisation and their effect on the **user entity's internal control** relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement.

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding by application of the following two methods of presenting description of internal controls i.e.

- (i) Type 1 report; or (ii) Type 2 report.

If a **service organisation uses a subservice organisation**, the **service auditor's report may either include or exclude the subservice organisation's relevant control** objectives and related controls in the service organisation's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the **inclusive method and the carve-out method, respectively**.

In **either method**, the service organisation **includes** in its description of controls a **description of the functions and nature of the processing** performed by the sub-service organisation.

If the **Type 1 or Type 2 report excludes the control at a subservice organization** and the services provided by the subservice organization are relevant to the audit of the user entity's financial statements, the **user auditor is required to apply the requirements of the SA 402 in respect of the subservice organization**.

The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organization depend on the nature and significance of those services to the user entity and relevance of those services to the audit.

CA Mahesh Lamkane

1.	Subahu Limited is an Investment Company preparing its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need to consolidate accounts of any such investee companies with those of Subahu Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your views. (RTP Nov 23) (PP Nov 18)
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Consolidated Financial Statements: According to **Section 129(3)** of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements **prepare a consolidated financial statement** of the company and of all the subsidiaries in the **same form and manner as that of its own.**

Further, as per Companies (Accounts) Rules, 2014, the consolidation of financial statements of the company shall be made in accordance with the **provisions of Schedule III** to the Act and the **applicable accounting standards**. However, a company which is **not required to prepare CFS under the Accounting Standards**, it shall be sufficient if the company **complies with** provisions on CFS provided in **Schedule III** of the Act.

However, an **investment entity need not present consolidated financial statements** if it is required, in accordance with Ind AS 110 'Consolidated Financial Statements', to **measure all of its subsidiaries at fair value through profit or loss.**

A parent shall determine whether it is an investment entity.

(An investment entity is an entity that (a) obtains funds from one or more investors for the purpose of providing those investor(s) with **investment management services**; (b) commits to its investor(s) that its business purpose is to **invest funds solely for returns from capital appreciation, investment income, or both**; and (c) measures and evaluates the performance of substantially all of its investments on a **fair value basis**.)

In the given case, Subahu Limited is an **investment company preparing its FS in accordance with Ind AS** and the company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the investee companies. In view of provisions discussed in **Ind AS 110**, the Company is **not required to prepare CFS** however, for the compliance of **Companies (Accounts) Rules, 2014**, it shall be sufficient if the company **complies with provisions on CFS provided in Schedule III** of the Act.

Thus, it can be concluded that **ultimate authority on consolidation is AS / Ind AS as prescribed by law** and if they give some exemption, it should be followed. **If out of exemption some subsidiaries are not consolidated, then list should be disclosed in notes to accounts with reason.**

2.	Moon Ltd. acquired 51% shares of Star Ltd. during the year ending 31 -3-2017. During the financial year 2017-18 the 20% shares of Star Ltd. were sold by Moon Ltd. Moon Ltd. while preparing the financial statements for the year ending 31-3-2017 and 31-3-2018 did not consider the financial statements of Star Ltd. for consolidation. As a statutory auditor how would you deal with it? (RTP Nov 18) (MTP Nov 18) (MTP May 18) (May 17) (May 15)
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Accounting Standard 21 "Consolidated Financial Statements", states that a **subsidiary should be excluded from consolidation when control is intended to be temporary** because the shares are acquired and held exclusively with a view to its subsequent disposal in the near future.

Where an enterprise **owns majority of voting power by virtue of ownership of the shares** of another enterprise and all the **shares are acquired & held exclusively with a view to their subsequent disposal in the near future**, the

control by the first mentioned enterprise would be considered temporary and the **investments in such subsidiaries should be accounted for in accordance with AS 13 “Accounting for Investments”**.

In the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary is temporary, the **auditor should verify that the intention of the parent, to dispose the subsidiary, in the near future, existed at the time of acquisition of the subsidiary**. The auditor should also **verify that the reasons for exclusion are given in the consolidated financial statements**.

As per **Ind AS 110**, there is **no such exemption** for ‘temporary control’, or “for operation under severe long-term funds transfer restrictions” and **consolidation is mandatory** for Ind AS compliant financial statement in this case.

However, as per **section 129(3)** of the Companies Act, 2013 where a company having subsidiary, which is **not required to prepare CFS under the applicable Accounting Standards**, it **shall be sufficient if the company complies with the provisions on CFS provided in Schedule III** to the Act.

Conclusion: In the given case, Moon Ltd. has acquired 51% shares of Star Ltd. during the year ending 31.03.2017 and sold 20% shares during the year 2017-18. Moon Ltd. did not consolidate the financial statements of Star Ltd. for the year ending 31.03.2017 and 31.03.2018.

The **intention of Moon Ltd. is quite clear that the control in Star Ltd. is temporary** as the former company disposed off the acquired shares in the next year of its purchase.

Therefore, Moon Ltd. is **not required to prepare consolidated financial statement as per AS 21** however, for the compliance of provisions related to consolidation of financial statements given under section 129(3) of the Companies Act, 2013, Moon Ltd. is **required to made disclosures in the financial statements as per the provisions provided in Schedule III** to the Companies Act’ 2013.

However, if the Moon Ltd. is **required to prepare its financial statements under Ind AS**, it shall have to **prepare Consolidated Financial Statements** in accordance with Ind AS 110 as exemption for ‘temporary control’, or “for operation under severe long-term funds transfer restrictions” is not available under Ind AS 110. Paragraph 20 of Ind AS 110 states that **“Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee”**.

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| 3. | JRS Limited holds the majority ownership of R Ltd. & K Ltd. S Ltd. is an intermediate subsidiary of JRS Limited in Surat. The JRS Limited presents the consolidated financial statements for audit purposes to MMT & Co. As a statutory auditor MMT & Co. obtain a listing of all the components and verify that all the components included in financial statements unless any component meet criterion for exclusion. Explain any two reasons which are considered by MMT & Co. for exclusion of components from the consolidated financial statements and reporting of reasons of exclusion thereof. |
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(PP Jan 21)

Where a **component is excluded** from the CFS, the **auditor should examine the reasons for exclusion** and whether such **exclusion is in conformity with the applicable financial reporting framework**.

(i) Under **Companies (Accounting Standards) Rules, 2006**, there could be **two reasons** for exclusion of subsidiary, associate or jointly controlled entity- one, that the relationship of parent with the subsidiary, associate or jointly **controlled entity is intended to be temporary** or the subsidiary, associate or joint venture operates under **severe long-term restrictions which significantly impair its ability to transfer funds to the parent**.

(ii) Similarly, under the **Companies Act, 2013**, **intermediate subsidiary in India is not required to present consolidated financial statements**.

Ind AS 110 also prescribes certain criteria where consolidated financial statements are not required.

In such cases, the **auditor should satisfy himself that the exclusion made by the management falls within these categories.**

(iii) The **auditor should also verify that the reasons for exclusion** are given in the consolidated financial statements. If an entity is excluded from the consolidated financial statements for **reasons other than those allowed by the applicable financial reporting framework**, auditor should **consider its effect on the auditor's report** to be issued.

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| 4. | H Co. Ltd., is a holding company with two subsidiaries R Co. Ltd., and S Co. Ltd. The H Co. Ltd., adopts straight line method of depreciation for its assets whereas S Co. Ltd., follows written down value or diminishing value method. Though R Co. Ltd., follows straight line method of depreciation, it does not give effect to component accounting of depreciation in respect of high value assets. While consolidating the financials of the R Co. Ltd., and S Co. Ltd., with those of H Co. Ltd., determine the possible issues that you have to ensure for compliance in the light of above facts. |
|----|---|

(PP May 18)

When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework is Different than that of the Parent:

A component may alternatively prepare FS on the basis of the **parent's accounting policies**, as outlined in the **group accounting manual**, to facilitate the preparation of the group's CFS. The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the FRF under which the group's CFS are prepared.

Thus, using group accounting policies as the FRF for components to report under, the **principal auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent's financial statements.**

It may be noted that **change in the selection of the method of depreciation is an accounting estimate and not an accounting policy** as per Ind-AS 8. Accordingly, the entity should **select the method that most closely reflects the expected pattern of consumption of the future economic benefits** embodied in the asset. That **method should be applied consistently** from period to period unless there is a change in the expected pattern of consumption of those future economic benefits in separate FS as well as CFS.

Therefore, there **can be different methods** for calculation of depreciation for its assets, **if their expected pattern of consumption is different.** The **method once selected in the standalone FS of the subsidiary should not be changed while preparing the CFS.**

In the given case, assets of R Co. Ltd. (subsidiary company) is depreciated using straight line method, assets of S Co. Ltd. (subsidiary company) are depreciated using written down value method and assets of parent company (H Co. Ltd.) are depreciated using straight line method, is in order. **However, each part of an item of Property Plant and Equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately under Component Method of Depreciation as per AS 10 on Property, Plant and Equipment.**

Thus, R Co. Ltd., though adopting straight line method but does not giving effect to component accounting of depreciation in respect of high value assets, is not in compliance with Ind AS 16/ AS 10 Property Plan and Equipment.

SA 600 - USING THE WORK OF ANOTHER AUDITOR

5. B is the Principal Auditor of ABC Co. Ltd., with 8 branches audited by 8 Branch Auditors. B wanted to ensure that the works of Branch Auditors were adequate for the purpose of his audit. Hence, he insisted on Branch Auditors to get familiar with a **check list he prepared** for branches and, besides, **required them to share the working papers compiled by them for his review and return**. Is Principal Auditor within his right in asking for such sharing of working papers?

(PP May 18)

When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role and also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of ICAI has dealt with these issues in SA 600, "Using the Work of another Auditor".

It makes clear that in certain situations, the **statute governing the entity may confer a right on the principal auditor to visit a component and examine the books** of said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would **normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books** of account and other records of the said component.

Further, it requires that the principal auditor should **perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes**, in the context of the specific assignment. When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

(1) advise the other auditor of the **use that is to be made of the other auditor's work and report** and **make sufficient arrangements for co-ordination of their efforts at the planning stage** of the audit. The principal auditor would **inform the other auditor of matters** such as **areas requiring special consideration, procedures for the identification of inter-component transactions** that may require disclosure and the **time-table for completion of audit**; and

(2) advise the other auditor of the **significant accounting, auditing and reporting requirements and obtain representation as to compliance with them**.

The principal auditor **might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings** which may be in the form of a completed questionnaire or check-list. The principal auditor **may also wish to visit the other auditor**. The nature, timing and extent of procedures will depend on the **circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor**. This knowledge may have been enhanced from the **review of the previous audit work of the other auditor**.

Further, SA 230 **audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel."**

In the light of aforesaid, **principal auditor was not within his right for asking for such sharing of working papers**. It depends upon the discretion of auditor.

6. Naveen Ltd. is a chair manufacturing company having its corporate office in Maharashtra. The company is in the process of expansion and has acquired five companies during the year. Soni & Co. is the principal auditor of the company while the audit of all the companies acquired during the year is being conducted by Rahul K & Associates.

During the course of audit, CA. Soni, the engagement partner asked the management of Naveen Ltd. at the corporate office that in order to conduct the audit of the consolidated financial statements, his audit firm is required to conduct audit of the financial statements of all the components also (Companies acquired during the year). To this, the **management asked CA. Soni to consider the audit reports of the component auditor already provided to his audit team** and to communicate with the component auditor for any discussion they wish to have. **CA. Soni contended that for the purpose of audit of consolidated financial statements either his firm is required to conduct an audit of all the component's financial statements, or he needs the working papers of the component auditors. Is the contention of CA. Soni correct?**

(MTP May 24)

As per **SA 600**, "Using the work of Another auditor", the principal auditor is **normally entitled to rely upon the work of component auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books** of account and other records of the said component. The principal auditor might **discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings** which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor.

The principal auditor should **consider the significant findings of the other auditor**.

The principal auditor may consider it appropriate to **discuss with the other auditor and the management of the component, the audit findings** or other matters affecting the financial information of the components. He may also decide that **supplemental tests of the records** or the financial statements of the component are necessary. Such tests may, depending upon the circumstances, be performed by the principal auditor or the other auditor.

Accordingly, **CA. Soni, can perform the above-mentioned audit procedures. However, the audit of the component's FS by the principal auditor is not required.**

So, the **contention of CA. Soni** that for the purpose of audit of consolidated financial statements he is required to conduct an audit of the components financial statements is **not correct**.

Further, SA 230 issued by ICAI on Audit Documentation, and "Standard on Quality Control (SQC) 1, provides that, unless otherwise specified by law or regulation, **audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.**

Accordingly, it is the **discretion of the component auditor as the working papers with respect to the components examined by the component auditor are the property of the component auditor. So, the contention of CA. Soni is not correct.**

1.	Comptroller & Auditor General appointed Verma & Associates, a chartered accountant firm, to conduct Performance audit of MAP Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by audit firm was rejected by C&AG. Give your opinion on the action of C&AG. (RTP May 24) (RTP Nov 22) (MTP May 23)
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In the given scenario, C&AG appointed Verma & Associates, a chartered accountant firm, to conduct Performance Audit of MAP Ltd., a PSU of Government of India. The firm conducted audit with a view to **check all the expenses of the unit are in conformity to the public interest** and publicly accepted customs which is **not Performance Audit**.

A performance audit is an **objective & 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.

Performance audit in PSUs is conducted by the **C&AG (Supreme Audit Institutions)** through various **subordinate offices of Indian Audit and Accounts Department (IAAD)**. In conducting performance audit, the subordinate offices are guided by **manual and auditing standards** prescribed by C&AG.

Therefore, the **objectives of performance auditing** are **evaluation of economy, efficiency, and effectiveness** of policy, programmes, organization and management. It also **promotes accountability** by assisting those charged with governance and oversight responsibilities to improve performance; and **transparency by affording taxpayers**, those targeted by government policies and other stakeholders an insight into the management and outcomes of different government activities.

Performance auditing **focuses on areas** in which it can **add value** which have the greatest potential for development. It **provides constructive incentives** for the responsible parties to take appropriate action.

Regulations on Audit and Accounts issued by C&AG lay down that the **responsibility for the development of measurable objectives and performance indicators** as also the systems of measurement rests with the **Government departments or Heads of entities**. They are also required to **define intermediate and final outputs** and outcomes in **measurable and monitorable terms**, **standardize the unit cost of delivery** and **benchmark quality of outputs** and outcomes.

Thus, **rejection of audit report** (submitted by audit firm) by C&AG is **in order** as audit with a view to mere check all the expenses of the unit are in conformity to the public interest and publicly accepted customs done by audit firm is **not performance audit in all aspects**.

2.	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 referred in the above scenario? Also briefly discuss the steps suggested to the auditors for planning such an audit. (RTP May 22)
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In the given scenario, **performance audit is being referred**. **Steps for planning performance audit** > refer notes.

3.	Direct Benefit Transfer (DBT) is a major reform initiative of the Government of India to ensure better and timely delivery of benefits from Government to people. It marks a paradigm shift in the process of delivering benefits like wage payments, fuel subsidies, food grain subsidies, etc. directly into the bank accounts of the beneficiaries removing leakages and enhancing financial inclusion. The office of C & AG of India is likely to undertake a performance audit for a block of years in a state of some selected social security pension schemes and scholarship schemes under DBT. What are likely to be objectives of such performance audit? Explaining meaning of “audit criteria”, discuss how these can be determined in above case. <i>(MTP May 24)</i>
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The likely **objectives of performance audit** to be conducted by office of C & AG of India of some selected social security pension schemes and scholarship schemes in a state could be: -

- Whether proper **planning and process were in place** to capture data of beneficiaries under above schemes
- Whether **necessary steps were taken for implementation of DBT** like preventing delay in payments to the intended beneficiaries and pilferage and duplication
- Whether the **infrastructure, organization and management of DBT were adequate and effective.**

“Audit criteria” are **standards used to determine whether a programme meets or exceeds expectations.** It provides a context for understanding the results of the audit. **Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness** of programmes and activities can be assessed.

In the above situation, **various documents issued by Government** of India and state government like circulars, instructions, Standard operating procedure manuals, guidelines of schemes on identification and authentication of beneficiaries etc., general management and subject matter literature **can be used to determine “audit criteria”.**

4.	During the course of an audit of a state government department, the Office of the Comptroller & Auditor General of India (CAG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises: • Dwelling units exceeding a threshold limit • Buildings with a total area surpassing a threshold limit However, it was noted during the audit that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges. Identify type and nature of audit being performed by Office of Comptroller & Auditor General of India. To whom report of such audit was likely to have been submitted. <i>(MTP May 24)</i>
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In the given case, it is a **“Compliance Audit”** performed by Office of Comptroller & Auditor General of India. Compliance audit is the **independent assessment of whether a given subject matter is in compliance with the applicable criteria.**

This audit is carried out by assessing whether activities, financial trsns & information comply in all material respects with the regulatory and other rules which govern the audited entity. Compliance auditing is concerned with: -

- Regularity - adherence of the subject matter to the formal criteria** emanating from relevant laws, regulations, and agreements applicable to the entity.
- Propriety - observance of the general principles governing sound financial management and the ethical conduct** of public officials.

While regularity is emphasized in compliance auditing, propriety is equally pertinent in the public sector context, in which there are certain expectations concerning financial management and the conduct of officials.

Under **Article 151**, audit reports of the **C&AG** relating to the accounts of the **Central/ State Government** should be submitted to the **President/Governor of the State** who shall cause them to be laid before **Parliament/State Legislative Assemblies**.

In the given situation, the **report relates to the State Department**. Therefore, report was likely to have been submitted to **Governor of state** to be laid before **State legislative assembly**.

5.	Siddha 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. Mahavir, 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. <i>(RTP May 23) (MTP May 21)</i>
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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 audit should be conducted by them.

In the given situation, Siddha Ltd is 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. **The listing of company's shares on a stock exchange is irrelevant for this purpose and hence, Mahavir's opinion is not correct.**

1. ABC Pvt Ltd was involved in the business of manufacturing pipes and holdings. For financial year 2020-21 the company had the following turnover from its various segments and product:

Segment Name	Turnover	Profit
Steel / Iron Pipe Manufacturing	140 Crore	10 Crore
Holdings and Civil Structure Accessories	25 Crore	50 Lakh
PVC / Yellow Pipe Manufacturing	65 Crore	8 Crore

During Financial Year 2021-22, the company's performance was considerably lower compared to FY 2020-21 due to competition and high prices. Turnover and Profit of the company for FY 2021-22 is given hereunder:

Segment Name	Turnover	Profit
Steel / Iron Pipe Manufacturing	60 Crore	2 Crore
Holdings and Civil Structure Accessories	15 Crore	35 Lakh
PVC / Yellow Pipe Manufacturing	35 Crore	3 Crore

The company was fully financed through its own capital during both years. Kindly assess whether the company was required to appoint internal auditor as per section 138 read with Rule 13 of the Companies (Accounts) Rules, 2014 for FY 2021-22.

(MTP Nov 22)

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely: -

(A) every listed company;

(B) every unlisted public company having-

- (1) paid up share capital of fifty crore rupees or more during the preceding financial year; or
- (2) turnover of two hundred crore rupees or more during the preceding financial year; or
- (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
- (4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and

(C) every private company having-

- (1) turnover of two hundred crore rupees or more during the preceding financial year; or
- (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the current scenario, the company is a **private limited company** with having **turnover of ₹ 230 Crore** in FY 2020-21 and ₹ 110 Crore in FY 2021-22. As per Rule 13, every private company with a turnover of **two hundred crore rupees or more during the preceding financial year** must appoint an internal auditor who may be either an individual, a partnership firm or a body corporate.

Hence, ABC Pvt Ltd is **required to appoint Internal Audit** for FY 2021-22.

2. One of the independent directors sought information regarding the appointment of internal auditors for following Group Companies in accordance with the Companies Act, 2013 of which certain Financial Information are given below:
Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposits
AADI Ltd.	Listed	100	190	50	24
AJIT Ltd.	Unlisted Public	60	190	50	24
NEMI Ltd.	Unlisted Private	60	190	50	-

You are required to evaluate the requirements of the Companies Act, 2013 regarding the appointment of internal Auditors for the Group Companies. Discuss.

(RTP May 22)

Applicability of Provisions of Internal Audit: Same as in above que.

In the given case, **AADI Ltd. is a listed company**. Thus, AADI Ltd. is **required to appoint an internal auditor**.

Further, **AJIT Ltd. is unlisted public company**. The company is **having ₹ 60 crore as equity share capital** which is exceeding the prescribed limit of rupees fifty crore. Thus, AJIT Ltd. is **required to appoint** an internal auditor.

NEMI Ltd. is **private company** and having ₹ 60 crore as equity share capital, **₹ 190 crore as turnover & ₹ 50 crore loan from Bank and PFI**. All the limits are below the prescribed limit for a private company. Therefore, NEMI Ltd. is **not required to appoint** an internal auditor.

It can be concluded that **AADI Ltd. and AJIT Ltd. is required to appoint** the internal auditor whereas **NEMI Ltd. is not required** to do the same.

3. Dreams Pvt. Ltd. is a travel management company which provides its customers with customized packages of domestic and international tours. During the period of COVID-19 and a year after that, company suffered losses due to which it went under cost cutting regime. As a part of the process, the company has adopted various courses of actions one of which is appointment of internal auditor. The internal auditor observed that the company has given a **huge hall for providing a gym facility to its employees**. The internal auditor observed that the gym is being used only 1-2 days week on an average basis by the employees. There is a **huge balance lying in the company's bank account**, but the management could not take a decision regarding investing the same, due to fluctuating market situations. The company has taken a hall on rent for the purpose of sitting cum waiting lounge for its customer. Besides, everyday there is **downtime of one hour during the working hours for computers** and other machines. **The internal auditor of the company wants to cover these matters and report them, but Mr. X the manager of the company, is of the opinion that these matters are not related to internal audit** and therefore, should not be commented upon. Express your opinion in this regard and suggest appropriate course of action.

(PP Nov 23)

The scope of the internal auditor's work should include a review of the Utilization of Resources.

Review of Utilization of Resources –

- The internal auditor should check whether **proper operating standards and norms have been established** for measuring the economical and efficient use of resources.
- They should be detailed enough to be **identifiable with specific operating responsibilities** and should be **capable of being used by operating personnel for monitoring** and evaluating their performance.
- The internal auditor should review the **methods of establishing operating standards and norms**. He should carefully examine the assumptions made while setting the standards to ensure that they are appropriate and necessary.
- Where there is a **wide divergence between actual performance and the corresponding standards, reasons may be considered**. As a part of evaluating resources utilisation, identifying the facilities which are under-utilized is an important function of the internal auditor.

In the given situation, the following observations have been noted by the Internal Audit Team that:

- The company has provided a **huge hall as a gym facility to employees**, which is operating only 1-2 days a week. The rest of the days, it remains unutilized. Moreover, the company has taken a sitting cum waiting lounge for the customers.
- There is a **huge amount lying in bank accounts** on which the management is not able to make decisions regarding investing. This results in a loss of interest.
- There is a **downtime of one hour for resources and computers** in the company.

Moreover, Mr. X, the Manager, has denied the internal auditors from reporting the said observations.

All the above-mentioned issues fall under the purview of the Internal Audit function, i.e., Review of Utilization of Resources. The auditor must highlight the weaknesses observed and give suggestions for improvement of the same. Accordingly, opinion of Mr. X, the manager of the company Dreams Pvt. Ltd. that above matters are not related to internal audit and therefore, should not be commented upon, is not tenable.

4.	The Managing Director of X Ltd is concerned about high employee attrition rate in his company. As the internal auditor of the company he requests you to analyze the causes for the same. What factors would you consider in such analysis?
<i>(May 13)</i>	

The factors responsible for high employee attrition rate are as under:

- (i) Job Stress & work life imbalance
- (ii) Wrong policies of the Management
- (iii) Unbearable behaviour of Senior Staff
- (iv) Safety factors
- (v) Limited opportunities for promotion
- (vi) Low monetary benefits
- (vii) Lack of labour welfare schemes
- (viii) Whether org. has properly qualified & experienced personnel for the various levels of works?
- (ix) Is the number of people employed are excessive or inadequate?
- (x) Does the organization provide facilities for staff training?

5.	Mr. Anand is appointed as statutory auditor of XYZ Ltd. XYZ Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Bhola as its internal auditor. The external auditor Mr. Anand asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.
(a) Discuss whether Mr. Anand, statutory auditor, can ask direct assistance from Mr. Bhola, internal auditor as stated above in view of Standards on Auditing. <i>(RTP May 20) (RTP May 18)</i> (b) Will your answer be different, if Mr. Anand ask direct assistance from Mr. Bhola, internal auditor with respect to external confirmation requests and evaluation of the results of external confirmation procedures? <i>(RTP May 20)</i>	

(a) Direct Assistance from Internal Auditor: As per SA 610 “Using the Work of Internal Auditor”, the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit.

Since the **external auditor has sole responsibility for the audit opinion expressed**, the external auditor needs to make the significant judgments in the audit engagement.

Significant judgments include the following:

- **Assessing the risks of material misstatement;**
- **Evaluating the sufficiency of tests performed;**
- **Evaluating the appropriateness of management’s use of the going concern assumption;**
- **Evaluating significant accounting estimates; and**
- **Evaluating the adequacy of disclosures in FS, and other matters affecting the auditor’s report.**

In view of above, Mr. Anand **cannot ask direct assistance** from internal auditors regarding **evaluating significant accounting estimates and assessing the risk of material misstatements**.

(b) Direct Assistance from Internal Auditor in case of External Confirmation Procedures: SA 610 "Using the Work of Internal Auditor", provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors.

In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned.

Further, in accordance with SA 505, "External Confirmation" the **external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors**. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

6. STU & Associates have been the statutory auditors of the listed company "First and Last Ltd.," operating in the petrochemical industry, for the past three years. CA. K, the **engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements** for the year under audit. **These particular assertions were not examined by him in previous years due to materiality or risk considerations.**

Mr. X leads the internal audit department of the company and reports to the company's audit committee. During the course of audit, a **senior member of the engagement team decides to engage Mr. X for providing direct assistance in performing the above substantive procedures.**

Comment with respect to the relevant Standards on Auditing. Also, indicate the **activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance.**

(MTP May 24)

SA 610, "Using the Work of Internal Auditor" states that in determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. **Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the discussion of fraud risks, determination of unannounced audit procedures as addressed in SA 240 etc.**

In the above case, engagement partner had designed certain substantive procedures on some selected assertions in response to assessed risk of material misstatements in year under audit. Such assertions were not tested by him in the previous years due to materiality or risk considerations. **It is being done now for incorporating an element of unpredictability in audit procedures to be performed > as individuals within the company who are familiar with the audit procedures normally performed on engagements > may be more able to conceal fraudulent financial reporting.**

Therefore, in such matters, **using an internal auditor** to provide direct assistance could prove to be counter-productive and **defeat the very purpose of designing such substantive procedures**. Hence, **decision of senior engagement team member** to use Mr. X to provide direct assistance on above said matters is **not in accordance with SA 610 and is not proper**.

Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall: -

- (a) **Obtain written agreement from an authorized representative of the entity** that the internal auditors will be allowed to follow the external auditor's instructions, and that the **entity will not intervene in the work** the internal auditor performs for the external auditor; and
- (b) **Obtain written agreement from the internal auditors** that they will **keep confidential specific matters** as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

1. Sudarshan Ltd. is a company registered under the Companies Act, 2013. 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, 2022 following are some extracts from the financial statements:

(i)	Paid-up share capital	₹ 40.53 Cr.
(ii)	Non-Current Assets - Loans & Advances	₹ 75.50 Cr.
(iii)	Current Assets - Loans and advances	₹ 294.33 Cr.
(iv)	Total assets of the company	₹ 618.55 Cr.
(v)	Intangible assets	₹ 6.35 Cr.
(vi)	Profit for the Year	₹ 8.15 Cr.
(vii)	Income from interest and dividends	₹ 62.31 Cr.
(viii)	Gross income	₹ 111.23 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.

(RTP Nov 22) (PP Dec 21)

In order to identify a particular company as Non-Banking Financial Company (NBFC), it will consider both assets and income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. The company will be treated as NBFC when a company's:

- Financial assets** constitute **more than 50 per cent of the total assets (netted off by intangible assets)** and
- Income from financial assets** constitute **more than 50 per cent of the gross income**.

Company which fulfils both these criteria shall qualify as NBFC and would require to be registered as NBFC by RBI.

In the given case, **applying the Criteria (i)** Financial assets constitute more than 50 per cent of the total assets (netted off by intangible assets),

A. Financial Assets of Sudarshan Ltd. are =

Non-Current Assets - Loans & Advances	₹ 75.50 Cr.
Add: Current Assets - Loans and advances	₹ 294.33 Cr.
Total Financial Assets	₹ 369.83 Cr.

B. Total Assets (netted off by intangible assets) of Sudarshan Ltd. are =

Total assets of the company	₹ 618.55 Cr.
Less: Intangible assets	₹ 6.35 Cr.
Total Assets (netted off by intangible assets)	₹ 612.20 Cr.

In view of above, Financial assets of Sudarshan Ltd. constitute more than 50 per cent of the total assets (netted off by intangible assets).

Applying the Criteria (ii) Income from financial assets constitute more than 50 per cent of the gross income.

Income from financial assets = ₹ 62.31 Cr

Gross Income = ₹ 111.23 Cr

From the above, it is clear that Sudarshan Ltd.'s financial assets constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets constitutes more than 50 per cent of the gross income. Hence, Sudarshan Ltd. fulfils both these criteria to qualify as an NBFC.

Thus Sudarshan Ltd. can apply for registration under Section 45-IA of Reserve Bank of India (Amendment) Act, 1997 in prescribed form along with the necessary documents.

2. Super Non-Bank Limited, a “Systemically Important Non-Deposit Taking Non-Banking Financial Company”, was operating appropriately till the start of COVID-19 Pandemic. Due to unforeseen conditions during the Pandemic and after that, the operating revenue of the NBFC started decreasing. Following were the position of Net Owned Funds of the company during the last 4 financial years:

Financial Year	Net Owned Funds
FY19-20	₹ 15 Crore
FY20-21	₹ 6 Crore
FY21-22	₹ 4 Crore
FY22-23	₹ 1.5 Crore

Super Non-Bank Limited appointed Mr Shyam as their statutory auditor for the FY 22-23. Mr Shyam identified that the Net Owned Funds of the company have been less than ₹ 2 Crore since June 2022. Kindly guide Mr Shyam with respect to his reporting requirements as per relevant NBFC provisions.

(MTP Nov 23)

RBI specifies **two hundred lakh rupees** as the **Net Owned Fund (NOF) required** for NBFC to commence or carry on the business of non-banking financial institution, except wherever otherwise a specific requirement is prescribed.

NOF of which currently falls below ₹200 lakh, to submit a statutory auditor's certificate certifying compliance with the **prescribed levels by the end of the period** as given above.

NBFCs **failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the CoR** as NBFCs. Every NBFC shall submit a **certificate from its Statutory Auditor** that it is engaged in the business of a non-banking financial institution requiring it to hold a CoR under Section 45-IA of the RBI Act and is eligible to hold it. A **certificate from the Statutory Auditor** in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the **Regional Office of the Department of Non-Banking Supervision** under whose jurisdiction the NBFC is registered, within **one month from the date of finalization of the balance sheet** and in any case **not later than December 30th of that year**.

Hence, in the current case, it is the responsibility of the Statutory Auditor, i.e., **Mr. Shyam, to report where NOF has fallen below ₹ 200 Lakhs.**

3. Suhana, a CA final student, is part of engagement team conducting audit of CMM Finance Limited, a listed NBFC. While going through THE audit programme, she notices that it contains instructions for verification of following matters among other things in relation to disclosure requirements of Schedule III of Companies Act, 2013:

- Verification regarding disclosure of any of item of income or expenditure which exceeds 1% of revenue from operations or ₹10 lakhs whichever is higher.
- Verification of disclosure regarding Return on Capital Employed Ratio, return on Equity Ratio and net profit ratio.

Discuss whether above instructions for similar matters need revision by engagement partner in this situation. If so, elaborate on revision required along with reasons.

(MTP Nov 23)

The **above instructions are not proper** and **these do not pertain to Division III** of Schedule III applicable to NBFCs. Rather, such requirements are **applicable for companies** for which Division II of Schedule III is applicable. Hence, these should be **revised in accordance with similar requirements applicable to listed NBFCs for whom Division III of Schedule III is applicable**.

The similar disclosure requirements for a listed NBFC under Division III of Schedule III are as follows: -

- Any item of other income or other expenditure which exceeds 1% of total income**
- Disclosure of the following ratios: -

- Capital to risks-weighted assets ratio (CRAR)**
- Tier I CRAR**
- Tier II CRAR**
- Liquidity coverage ratio**

1.	PDSJ & Associates are Statutory Auditors of a scheduled Commercial Bank for the year 2023-24. While evaluating internal control over advances, it came to their notice that classification of term loan borrower accounts into SMA as well as NPA is done in the system on the following lines: - In case full dues are not received on a particular due date, a borrower account is immediately considered as overdue on the very next day. For example, if due date of loan account is 31st March, 2023 and dues are not received on 31st March, it shall be considered as overdue on 1st April, 2023. - If it continues to remain overdue, then account is tagged as SMA-1 on 1st May, 2023. - If it continues to remain overdue further, then account is tagged as SMA-2 on 31st May, 2023. - Continues to remain overdue even after tagged as SMA-2, it is classified as NPA on 30th June, 2023. Evaluate above control designed by bank in the system for the purpose of exercising control over such advances in compliance to regulatory guidelines. (RTP May 24)
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The design of above control instituted by bank in its system is **not in accordance with the regulatory guidelines**. Any amount due to the bank under any credit facility is 'overdue' if it is **not paid on the due date** which is fixed by the bank, the borrower accounts are **flagged as overdue** by the banks as part of their **day-end processes** for the due date.

Classification of borrower accounts as **SMA** as well as **NPA is done as part of day-end process for the relevant date**. SMA or NPA classification date is the calendar date for which the day end process is run. In other words, the date of SMA/NPA reflects the asset classification status of an account at the day-end of that calendar date.

In the given situation, due date of a loan account is March 31, 2023, and full dues are not received by the bank before it runs the day-end process for this date, **date of overdue shall be March 31, 2023 and not 1st April, 2023**. If it continues to remain overdue, then this account shall get tagged as **SMA-1** upon running day-end process on **April 30, 2023**.

Similarly, if the account continues to remain overdue, it shall get tagged as **SMA-2** upon running day-end process on **May 30, 2023** and if continues to remain overdue further, it shall get classified as **NPA** upon running day-end process on **June 29, 2023**.

2.

PQS & Associates are one of the joint auditors of **KNO Bank** for the year 2022-23. While auditing KNO Bank, they are analysing industry data relating to NPAs in select public sector banks as part of risk assessment procedures: -

<i>Name of Bank</i>	<i>Gross NPAs (in ₹ crore)</i>	<i>Net NPAs (in ₹ crore)</i>	<i>Ratio of Net NPAs to Net advances</i>
BBJ Bank	55,000	13,000	1.72%
DAB Bank	45,000	10,000	2.34%
CNI Bank	55,000	18,000	2.65%
KNO Bank	28,000	6,500	3.97%
BRB Bank	35,000	8,800	2.27%

In the above context, **what do you understand by “Gross NPAs” and “Net NPAs” as on reporting date in the context of financial statements of a Bank? As an auditor of KNO Bank, what inference would you draw by comparing the “Ratio of net NPAs to net advances” with other public sector banks?**

(RTP Nov 23) (MTP May 24)

Gross NPAs represent opening balances of NPAs as increased by fresh NPAs during the year and reduced by upgradations, recoveries and write-offs during the year.

Net NPAs are arrived at **after deducting amounts on account of the total provision held against NPAs/ balance in the interest suspense account to park accrued interest on NPAs and certain other adjustments**.

The **Net NPAs to Net advances ratio** is higher in the case of KNO Bank as compared to other public sector banks. It shows that **there is a risk that the bank could not have made the required provisions** in accordance with RBI guidelines. **A higher net NPAs to Net advances ratio indicates the probability and risk of under-provisioning.** Keeping in view the above, **audit procedures have to be tailored towards the examination and verification of this crucial area.**

3.

NRF Bank Ltd. is suffering from huge number of NPAs. During the month of April 2023, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale:

Name	NPA since F.Y.	Amount (₹ In Lakh)
Fin Pvt. Ltd.	2019-20	36.55
Dairy Works	2021-22	55.24
Book Store	2018-19	29.85
Fancy Corp.	2017-18	61.42
RSM and Associates	2020-21	19.25

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered.

(MTP May 24) (PP Nov 23)

In case of Sale of NPA by Bank, the auditor should examine that:

- The **policy laid down by the Board of Directors** in this regard relating to procedures, valuation and delegation of powers including non- performing financial assets that may be sold, norms or such sale, valuation procedure and accounting policy.
- **Only** such NPA has been sold which has **remained NPA in the books of the bank for at least 2 years.**
- The assets have been sold **“without recourse”** only i.e., the entire credit risk associated with the non-performing asset should be transferred to the purchasing bank.
- **Subsequent to the sale of the NPA, the bank does not assume any legal, operational or any other type of risk** relating to the sold NPAs.
- The NPA has been sold at **cash basis only**. Under no circumstances, NPA can be sold to another bank at a contingent price. The entire sale consideration has to be received on upfront basis.
- The bank has **not purchased an NPA which it had originally sold.**
- On the sale of the NPA, the same has been **removed from the books of the account** of selling bank on transfer;
- If the sale is at a price below the net book value (NBV) (i.e., book value less provisions held), the **shortfall should be debited to the profit and loss account of that year.**
- If the sale is for a value higher than the NBV, the **excess provision shall not be reversed** but will be utilised to meet the shortfall/ loss on account of sale of other non-performing financial assets.

In the given situation, management of NRF Bank Ltd. is considering to sell following NPAs, during the month of April, 2023:

Name	NPA since F.Y.	Amount (₹ in lakh)
Fin Pvt. Ltd.	2019-20	36.55
Dairy Works	2021-22	55.24
Book Store	2018-19	29.85
Fancy Corp.	2017-18	61.42
RSM and Associates	2020-21	19.25

In view of above-mentioned conditions, the auditor is required to ensure that **only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.**

Considering the facts given in the question **all the NPAs, except for Dairy Works, are prior to April 2021 i.e., 2 years prior to April 2023.** In view of the above provisions, management of NRF Bank Ltd. **can sell all the NPAs except for NPA of 55.24 lakh rupees of Dairy Works** as it has remained NPA in the books of the banks less than 2-year duration.

4. CA. Sundaram is an engagement partner conducting a statutory audit of a nationalised bank. The bank operates on the CBS platform, and the identification of NPAs is system based in accordance with RBI guidelines on asset classification. He wants to be assured of satisfactory operation of internal control in this respect. He wants to be sure that there exists an internal control system in the bank which not only prevents and reduces the risk of loan assets becoming non-performing at the initial stages but also sends out timely signals to the bank subsequently. He is putting considerable importance on effective credit appraisals due to their role in preventing NPA slippages.

While carrying out a walk-through of **internal control over advances of banks especially in areas of “credit appraisals” and “credit monitoring”**, identify any **four specific controls which you may be looking for**.

(RTP Nov 23)

The following controls may be considered by auditor in areas of credit appraisals and credit monitoring for ensuring that internal control over advances is effective and the system is capable of not only preventing and reducing the risk of NPAs at the sanction stage itself but also sending out timely signals to the bank subsequently.

- (i) **Use of third-party data sources** in the bank for comprehensive due diligence at the sanction stage itself to mitigate risk on account of misrepresentation and fraud.
- (ii) **Classification of accounts as special mentioned accounts (SMA)** for early recognition of signs of incipient stress resulting in default in timely servicing of debt obligations. It can enable banks to initiate timely remedial actions to prevent potential slippages into NPAs.
- (iii) Institution of comprehensive, **automated Early Warning Systems (EWS) in banks** with EWS triggers to detect stress and reduce slippage into NPAs
- (iv) **Reporting of repayment behaviour of borrowers in their loan accounts** to credit information companies and inclusion of this information in the credit appraisal and decision-making process for further sanctioning of loans to borrowers.

5. CA Prachi was conducting statutory audit of branch of a nationalized bank for the year 2021-22. While reviewing operations and documents/papers of a **borrower enjoying overdraft credit facilities of ₹ 50 crore** (availed against security of stocks and book debts), following observations were jotted down by her: -

- (i) The balance in overdraft credit facility as on 31st March, 2022 was ₹ 55.65 crore. The **balance in account exceeded sanctioned limit during the whole month of March 2022**.
- (ii) As per terms of sanction letter, **stock/book debt statements** were required to be **submitted monthly**. Latest available stock/book debt statement for the month of **February, 2022 showed drawing power of ₹ 48.50 crore only**. However, **stock/book debt statements of previous months showed adequate drawing power**.
- (iii) Stock audit of borrower was also conducted during the year by one of empanelled stock auditors of the bank. **Stock audit report** dated 31st December, 2021 placed on the record **showed adequate drawing power in the account**. However, it has **commented adversely on the declining turnover** of borrower in year 2021-22 (till the date of stock audit report) as compared to proportionate turnover in preceding year.
- (iv) The **renewal of overdraft facilities was due on 20th October, 2021**. The **account was short renewed** by competent authority **for a period of 3 months** pending submission of complete papers.

However, **borrower has not submitted complete renewal papers** till 31st March, 2022. There is a request letter from borrower on record stating that valuation report of a property located at a faraway location was taking time.

The **branch has classified the account as ‘Standard Asset’**. Considering above, **CA Prachi is in dilemma relating to proper classification of above advance**. Guide her.

(RTP Nov 22)

The borrower was enjoying overdraft credit facilities of ₹ 50 crore against security of stocks and debts. Further, though latest available **stock statement** for the month of **February, 2022 showed inadequate drawing power**, there was **adequate drawing power available throughout the year**. **Stock audit report** dated 31.12.2021 also reflected

adequate drawing power. Hence, **it shows that borrower had adequate drawing power** during the year. Further, comment on declining sales is of general informative value to management for making credit decisions.

The **fact of over drawings** in account during the month of March, 2022 and **inadequate drawing power** in a month **are in nature of temporary deficiencies** and **do not require account to be classified as NPA** in accordance with asset classification and provisioning norms of RBI.

RBI instructions lay down that **ordinarily credit limits need to be reviewed not later than three months from the due date.** As per Guidance note on Audit of Banks, in case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is underway and would be completed soon. In any case, **delay beyond six months is not considered desirable** as a general discipline. Hence, an **account where the credit limits have not been reviewed/ renewed within 180 days from the due date will be treated as NPA.**

It would be pertinent to note that the **counting of 180 days would be required to be done from the date of original due date for renewal and not from the date of expiry of short reviews / technical reviews.** In the instant case, the **original date of renewal was 20th October, 2021 and period of 180 days has still not expired as on balance sheet date.**

Keeping in view all above factors, **CA Prachi should accept classification of account as 'Standard Asset'** made by branch.

6.	BOT Limited is enjoying cash credit facility sanctioned from Nariman Point, Mumbai branch of KNB Bank for ₹250 crore. However, for practical considerations, various sub-limits have been fixed for the borrower company for operation at Solapur, Pune and Nashik branches of the same bank. The manager of the Solapur branch notices that there are no credit transactions in sub - limit account being operated at the Solapur branch for more than 90 days as on 31st March, 2022. Discuss the approach of CA. Muni, statutory branch auditor of Nariman Point branch, Mumbai of KNB Bank, in the matter of asset classification of the above borrower account. Also discuss considerations for classifying said account at the Solapur branch. <i>(RTP May 23)</i>
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Sometimes, a customer is sanctioned a cash credit limit at one branch but is authorised to utilise such overall limit at several other branches also, for each of which a sub -limit is fixed.

In such a case, the determination of **status of the account as NPA** or otherwise should be **determined** at the limit-sanctioning branch **with reference to the overall sanctioned limit/drawing power and not by each of the other branches where a sub-limit has been fixed.**

The auditor of the limit-sanctioning branch should **examine whether it receives particulars of all transactions in the account at sub-limit branches and whether status of the account has been determined considering the total position of operation of the account at all concerned branches.** The standalone matter of no credit transactions for more than 90 days as on 31st March, 2022 at Solapur branch is irrelevant.

Hence, keeping in view above, **CA. Muni should consider asset classification considering the total position of operation of the account at all concerned branches.** Regarding sub-limit at branches, the classification adopted by the limit-sanctioning branch should be followed. Hence, the Solapur branch has to follow asset classification made by the limit-sanctioning branch.

7.	Gupta & Co. has been appointed as a statutory auditor of TCB Bank Ltd., a private sector bank, registered with RBI. Mr. Kaival Gupta, the engagement partner, while performing the audit as per the checklist, noted down the following points, which would be part of the audit queries, as tabulated below: Queries 1. Interest on State Government Guaranteed advance has been taken to income even though such advance has remained overdue for more than 90 days. 2. There is an account for which an ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction and such account has been treated as a performing asset in the books. 3. One of the NPAs was sold for a value higher than the net book value. Profit was not recognized but the excess provision in respect of the same has been reversed. 4. In case of one of the accounts, an additional temporary limit has been sanctioned for 25% of the existing limit and for 120 days tenure. 5. On verification of outstanding forward exchange contracts, the 'net position' in respect of one of the foreign currencies was not squared and was uncovered by a substantial amount. You are required to provide the reasons due to which such queries would have been raised by Mr. Kaival and describe the actions that may be taken by the person responsible on behalf of TCB Bank Ltd. for solving such queries. (RTP Nov 21)
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S/N	Reason for such Query	Action that may be taken in response to query
1	A State Govt. Guaranteed advance has to be treated as NPA even if it remains overdue for more than 90 days and in case of NPA, for the purpose of income recognition, interest on such advance should not be taken to income unless interest is realized.	Interest income recognized on such advance would be reversed and would be taken to income only when it is realized.
2	Accounts for which an ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction, should be considered as NPA.	It's treatment in the books would be changed from performing asset to a non-performing asset from the date when such change in the treatment was required.
3	In case of sale of NPA , where the sale is for a value higher than the NPV , auditor is required to ensure that no profit is recognized , and the excess provision has not been reversed but retained to meet the shortfall/ loss that may arise because of the sale of other non- performing financial assets.	The entry for reversal of the excess provision would be cancelled in the books and such excess provision would be retained to meet the shortfall/ loss that may arise because of the sale of other non-performing financial assets.
4	Additional temporary limit may be sanctioned , for a maximum of 20% of the existing limit and 90 days maximum tenure.	Terms of additional temporary limit in case of such account would be revised to 20% of the existing limit & for 90 days maximum tenure.
5	Net position in respect of each of the foreign currencies should be generally squared and should not be uncovered by a substantial amount.	The net "position" of the branch in relation to each foreign currency should be squared off and get covered by a substantial amount.

8.	You are auditing a small bank branch with staff strength of the manager, cashier and three other staff Peter, Prem and Pran. Among allocation of work for other areas, Peter who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. Prem has possession of all bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. Give your comments. (RTP May 21) (MTP Dec 21)
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Banks are required to implement and maintain a system of internal controls for mitigating risks, maintain good governance and to meet the regulatory requirements.

Given below are examples of internal controls that are violated in the given situation:

In the instant case, Peter who is a peon opens all the mail and forwards it to the concerned person. Further, he does not have a signature book so as to check the signatures on important communications is **not in accordance with implementation and maintenance of general internal control**. As the **mail should be opened by a responsible officer**. Signatures on all the letters and advices received from other branches of the bank or its **correspondence should be checked by an officer with the signature book**.

All bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.) should be **kept in the possession of an officer, and another responsible officer should verify the issuance and stock of such stationery**. In the given case, Prem has possession of all bank forms (e.g. cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which were also verified on test check basis.

Further, **contention of bank that being a small branch with shortage of manpower they are not able to check the work and records on regular basis, is not tenable** as such lapses in internal control pose risk of fraud.

The **auditor should report the same in his report accordingly**.

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| 9. | <p>ABN Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2019-20. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not maintained separate record for PMS transactions from the Bank's own investments. As a statutory auditor what methodology will be adopted by you for verification of PMS transactions?</p> |
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(RTP Nov 20)

Separation of Investment Functions: The auditor needs to **examine whether the bank, as required by the RBI, is maintaining separate accounts for the investments made by it on their own Investment Account, PMS clients' account, and on behalf of other Constituents** (including brokers). As per the RBI guidelines, **banks are required to get their investments under PMS separately audited by external auditors**.

Thus, in the instant case, ABN Bank is **required to prepare separate records for PMS** and as per RBI guidelines PMS investments **need to be audited separately by the external auditors** and the **auditors are required to give a certificate separately for the same**. So, in the above case the **auditor should not verify the PMS transactions** and **advise the bank to segregate the PMS transactions from its own investments** and **provide the certificate of external auditor** as described above. In case **ABN Bank does not provide the same the auditor may report accordingly**.

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| 10. | <p>In course of audit of Good Samaritan Bank as at 31st March, 2019 you observed the following:</p> <p>(1) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government?</p> <p>(2) The bank's advance portfolio comprised of significant loans against Life Insurance Policies. Write suitable audit program to verify these advances.</p> |
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(RTP May 20) (RTP Nov 19) (May 13) (MTP May 21)

(1) **Government Guaranteed Advance:** If a govt. guaranteed advance becomes **NPA**, then for the purpose of income recognition, interest on such advance should **not be taken to income unless interest is realized**. However, **for purpose of asset classification, credit facility backed by CG Guarantee**, though overdue, can be **treated as NPA only when the CG repudiates its guarantee, when invoked**.

Since the **bank has not revoked the guarantee**, the **question of repudiation does not arise**. Hence the **bank is correct to the extent of not applying the NPA norms** for provisioning purpose. But **this exemption is not available in respect of income recognition norms**. Hence the **income to the extent not recovered should be reversed**.

The **situation would be different if the advance is guaranteed by SG** because this **exception is not applicable** for SG Guaranteed advances, where **advance is to be considered NPA if it remains overdue for more than 90 days**.

In case the **bank has not invoked the CG Guarantee though the amount is overdue for long**, the **reasoning for the same should be taken and duly reported in LFAR**.

(2) The **Audit Programme to Verify Advances against Life Insurance Policies** is as under-

- (i) The auditor should **inspect the policies** and see whether they are assigned to the bank and whether such assignment has been registered with the insurer.
- (ii) Auditor should also examine whether **premium has been paid on the policies** and whether they are in force.
- (iii) **Certificate regarding surrender value** obtained from the insurer should be examined.
- (iv) The auditor should particularly see that if such **surrender value is subject to payment of certain premium**, the amount of such premium has been deducted from the surrender value.

11.	Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. State your views on the following issues which were brought to your notice by your Audit Manager: (a) The bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year. (b) The bank is a consortium member of Cash Credit Facilities of ₹ 50 crores to X Ltd. Bank's own share is ₹ 10 crores only. During the last two quarters against a debit of ₹ 1.75 crores towards interest the credits in X Ltd's account are to the tune of ₹ 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing. <i>(RTP Nov 18) (MTP May 22) (MTP Nov 18) (MTP May 18)</i>
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(a) It is not a prudent practice to treat dividend on shares of corporate bodies and units of mutual funds as income unless these are actually received. Accordingly, **income from dividend on shares of corporate bodies and units of mutual funds should be booked on cash basis**. In respect of **income from government securities and bonds and debentures of corporate bodies**, where interest rates on these instruments are pre-determined, income could be booked on **accrual basis**, provided interest is serviced regularly and as such is **not in arrears**. It was further, however, clarified that banks may book income on accrual basis on securities of corporate bodies/PSUs in respect of which the payment of interest and repayment of principal have been guaranteed by CG or SG.

Banks may book income from **dividend** on shares of corporate bodies on **accrual basis**, provided dividend on the shares has been **declared by the corporate body in its AGM** and **owner's right to receive payment is established**.

This is also in accordance with AS 9 as well. In the instant case, therefore, the **recognition of income by the bank on accrual basis is not in order**.

(b) The bank is a consortium member of cash credit facilities of ₹ 50 crores to X Ltd. Bank's own share is ₹ 10 crores only. During the last two quarters against a debit of ₹ 1.75 crores towards interest, the credits in X Ltd's account are to the tune of ₹ 1.25 crores only. Sometimes, several banks form a group (the 'consortium') under the leadership of a 'lead bank' to make advance to a large customer on same conditions and security with proportionate rights.

In such cases, **each bank may classify the advance given by it according to its own experience of recovery** and other factors. Since in the last two quarters, the **amount remains outstanding** and, thus, **interest amount should be reversed**. This is despite the certificate of lead bank to classify that the account as performing. Accordingly, the amount **should be shown as non-performing asset**.

12.	You are part of engagement team conducting statutory audit of a branch of nationalized bank. During the course of audit, it has come to your notice that there are large number of cash credit accounts in the branch. Many of the cash credit accounts are only partially utilized during substantial part of year. However, in the month of March, the accounts are fully utilized. On further scrutiny, it is observed that these account holders have made fixed deposits from these utilized amounts at the end of year. These deposits have been liquidated in first week of April of next financial year. Comment upon how this situation would be dealt by you as a statutory branch auditor? (MTP Nov 22)
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This is an example of window dressing. The branch is resorting to window dressing by artificially boosting its advances and deposits. Utilization of advances and placing of fixed deposits at end of year in branch and again liquidation of deposits early next year indicate that branch is resorting to **window dressing to inflate its advances as well as deposits artificially.**

The auditor has to **verify whether the unavailed portion of the credit facilities** (overdraft, cash credit) are used to boost the loans and deposits which might tantamount to window dressing. The **relevant regulatory guidelines also prohibit such type of practices and these might involve penal action in terms of Banking Regulation Act, 1949.**

The same **needs to be suitably reported in audit report and commented in LFAR** also. In appropriate cases, making a **suitable qualification in the main audit report has also to be considered.**

13.	M/s. S Ltd. is a MSME unit. The company does multiple banking. The company is availing cash credit limit from U Bank of Rs. 25 crores. The limit availed remained less than Rs. 5 crores during all the days of F.Y. 2017-18. The company has not done any credit in cash credit account during the year as it is operating current account in newly opened another bank branch adjoining to company premises. The company is having sufficient security of stocks and debtors and DP of Rs. 25 crores remains all over the year. The company is availing term loans from other bank branches. Now the Bank Manager is insisting to route the sale proceeds through U Bank, otherwise cash credit limit and term loan accounts with other banks will be treated as Non-Performing Accounts. Now company seeks your opinion. (MTP Nov 18)
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Classification of Account as NPA in case of Multiple Banking: If the **account remains overdue for more than 90 days, the account becomes NPA.** The account will **also be called as overdue, if there are not sufficient credits in the cash credit account** which even could not serve the interest charged. In this case, there are no credits in accounts, it means **interest has not been served in the account.** Thus, **accounts become overdue after 90 days** for non-credit of amounts which could even serve the interest amount. Thus, **cash credits will become as NPA if no credits/sale proceeds are deposited in that account.**

However, in multiple banking system, **each bank is independent for classification of account as NPA.** If U Bank declares the account as NPA due to non-serving of interest amount, other bank will be free and will not classify the term loan accounts as NPA, if they are regular.

14.	Shy & Co. had been allotted the branch audit of a nationalized bank for the year ended 31st March, 2014. In the audit planning, the partner of Shy & Co. observed that the allotted branches are predominantly based in rural areas and major portion of the advances were for agricultural purpose. He needs your assistance in incorporating the criteria prescribed for determination of NPA norms in respect of agricultural advance, in audit plan. (May 14)
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NPA Norms in respect of Agricultural Advance: A loan granted for **short duration crops** will be treated as NPA, if the instalment of principal or interest thereon remains **overdue for two crop seasons** and, a **loan granted for long duration crops** will be treated as NPA, if the instalment of principal or interest thereon remains **overdue for one crop season.**

As per the guidelines, “**long duration**” crops would be crops with **crop season longer than one year** and crops, which are not “long duration” crops would be treated as “short duration” crops. The **crop season** for each crop, which means the **period up to harvesting** of the crops raised, would be as **determined by the State Level Bankers’ Committee in each State**. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him.

The above norms should be made **applicable to all direct agricultural advances** as listed in the Master Circular on Lending to Priority Sectors. In respect of **all other agricultural loans, identification of NPAs would be done on the same basis as non-agricultural advances, which, at present, is the 90 days delinquency norm.**

If natural calamities impair the repaying capacity of agricultural borrowers, **banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan** or re-schedule of the repayment period; and the **sanctioning of fresh short-term loan, subject to guidelines issued by RBI.**

15.	CA X is conducting concurrent audit of a branch of MNB Bank (a nationalised bank) in industrial hub of Pune. It is a CBS branch, and its advances are to the tune of about ₹ 500 crores. The branch has borrowers / customers with cash credit, term loans, and export credit facilities, including pre-shipment and post-shipment credits. Some customers in the branch are importers who regularly get letters of credit issued to foreign suppliers. During tenure of Mr. X as concurrent auditor, fresh credit facilities under aforesaid segments are being sanctioned every month to new customers. The branch is also considering requests of its existing customers for enhancements / fresh requirements in line with established norms. As a result of the above, the staff of the advances department in the branch is always on its toes. The previous regular inspection of the branch (not pertaining to CA X’s tenure) had pointed out huge revenue leakage in advances of the branch, raising alarm bells in the Zonal Office and Inspection Department. Keeping in view the above situation, CA X is taking steps to ensure that there is no revenue leakage in advances of the branch and recoveries are made on the spot in case such leakages are detected. Discuss any five areas in this regard where concurrent auditor’s audit procedures should be focused. <i>(MTP Nov 23)</i>
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The major areas to plug revenue leakage where concurrent auditor should focus audit procedures include: -

- (i) **Verifying rates of interest as per terms of sanction in sanction letter** vis-à-vis those fed in CBS as well as the calculation of interest through product rate sheets generated by CBS to satisfy that interest has been charged on all the performing accounts and interest rates charged are in accordance with the bank’s internal regulations, directives of the RBI and agreements with the respective borrowers.
- (ii) **Verification of renewal charges in respect of existing customers enjoying cash credit and export credit facilities.** Similarly, for fresh borrowers, proposal processing charges, including upfront fees for term loan, needs to be verified in accordance with Bank’s circulars to ensure that all charges are debited at time of release of facilities to new customers. These charges also need to be levied proportionately in respect of customers whose credit facilities have been enhanced.
- (iii) **Verification of penal charges for non-submission of stock statements** on due dates in case borrowers availing cash credit and export credit facilities consisting of pre-shipment credit facilities.
- (iv) **Verification of commission /charges in case of letter of credit** has been issued to importers in accordance with the Bank’s circulars.
- (v) As the branch has also granted export credit facilities in the nature of post -shipment credit facilities, **verification of commission/charges on export bills purchased** is required.

16.	You are auditing a small bank branch with staff strength of the manager, cashier and three other staff S1, S2 and S3. Among allocation of work for other areas, S1 who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. S2 has possession of all bank forms (e.g. cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. Give your comments. <i>(MTP May 23)</i>
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Banks are required to implement and maintain ICS for mitigating risks, maintain good governance and to meet the regulatory requirements. Given below are examples of IC that are violated in the given situation:

In the instant case, **S1** who is a peon opens all the mail and forwards it to the concerned person. Further, he does not have a signature book so as to check the signatures on important communications **is not in accordance with implementation and maintenance of general internal control. As the mail should be opened by a responsible officer. Signatures on all the letters and advices received from other branches of the bank or its correspondence should be checked by an officer with the signature book.**

All bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.) **should be kept in the possession of an officer, and another responsible officer should verify the issuance and stock of such stationery.** In the given case, **S2** has possession of all bank forms (e.g. cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which were also verified on test check basis.

Further, **contention of bank** that being a small branch with shortage of manpower they are not able to check the work and records on regular basis, **is not tenable as such lapses in internal control pose risk of fraud. The auditor should report the same in his report accordingly.**

DUE DILIGENCE

1. Mr. Q is the proprietor of a very profitable business dealing in speciality chemicals. Due to his old age, Mr. Q wants to sell his business and has approached XYZ Pvt. Ltd., a competitor, for the same. As an advisor to XYZ Pvt. Ltd., you are appointed to do a 'Due Diligence' of the business. Enumerate the points which you would look into as part of the Due diligence exercise.

(Nov 17)

DD audit with a view to acquiring the business shall involve following steps: *(Refer notes 3. DD of Business)*

In addition to the above steps, the following further points have to be seen:

- (i) **Reason for sale of business** and effect on t/o & profits due to present proprietor.
- (ii) The **length of the lease**.
- (iii) The **unexpired period of patents**.
- (iv) For **managerial staff** – age, prospects of their continuing in service in new environment, effect on staff learning and financial liability to pay terminal benefits, etc.
- (v) If **bulk sales are to a few limited customers**, the profitability should be discounted greatly.
- (vi) A company with a **sound financial structure**. A **low debt-equity ratio** would indicate an ability to grow through debt financing without raising equity.
- (vii) **Cash generated from operations** is major factors in determining growth potential.
- (viii) Basis for **valuation of goodwill**.

Author's Comment: Above points are covered in Investigation chapter refer point number -> 6. Type of Investigation -> D) Investigation on behalf of proprietorship or firm.

INVESTIGATION

2. CA. Kushal has been appointed as an Investigator by M/s. XYZ and Associates. While undertaking this assignment of investigation, the subordinate staff of CA. Kushal inquired about the following issues:
 - (i) Whether an investigator is required to undertake the cent per cent verification approach or whether he can adopt selective verification?
 - (ii) Whether an investigator necessarily requires assistance of expert?
 - (iii) Whether an investigator can retain working papers or not?
 Guide CA. Kushal in solving the queries raised by his sub-ordinate staff.

(RTP Nov 23)

Investigations broadly range between two extremes; on the one hand there are those in respect of which complete accounts, documents, records and other information are available, and on the other, those in respect of which little information, besides published accounts and statistical data, is available. Then again, investigation may cover the whole of accounting or may relate to only a part or parts of accounting as may be specified. Some more issues often arise in investigation. They are stated below:

(a) Whether an investigator is required to undertake a cent per cent verification approach or whether he can adopt selective verification - The answer to this question depends on the exact circumstances of the case under investigation. If the investigator has to establish the amount of **cash defalcated by the cashier**, he has probably no option but to carefully **examine all the cash vouchers** and related records. On the other hand, if he is to arrive at the **profitability of a concern**, he may **verify constituent transactions on a selective basis** taking extreme care to see that no material transaction that affects profit has remained concealed from his eyes. In investigation, it is **always safer to go by statistically recognised sampling methods than to depend on the so-called "test checks"** where circumstances permit selective verification.

(b) Whether an investigator necessarily requires assistance of expert - Often an investigator may feel the necessity of obtaining views and opinions of experts in various fields to properly conduct the investigation. It would be therefore, proper for the investigator to **get the written general consent of his client**, to refer special matters for views of different experts at the beginning of investigation and he should settle the question of costs for obtaining the views and other related implications.

(c) Whether to retain working papers or not - Another important precaution is that the **investigating accountant should retain in his files full notes of the work** carried out, copies of schedules and **all working papers**, annexures, facts, figures, record of conversations and the like. Also, the **working papers should link up the figures** as shown by the books of business with the final figures produced by the investigating accountant. Wherever required the investigator should **take representation letter** from the appointing authority. **In the absence thereof, he would not be able to explain the figures when he is called upon to give evidence in a court of law** to support his figures; for quite often the conclusions of the accountant are challenged by parties whose interest is adversely affected by his findings, for example, when the value of shares of a company taken over by the Govt. has been determined by him. This will also be of immense help to the investigator in correlating facts and events and later in drafting the report.

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| 3. | MF. Ltd., engaged in the manufacturing of various products in its factory, is concerned with shortage in production and there arose suspicion of inventory fraud. You are appointed by MF Ltd. To evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory? |
|----|---|

(PP Nov 19) (MTP May 24)

Inventory frauds - Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.

- (i) Employees may simply **remove goods from the premises**.
- (ii) Theft of goods may be concealed by **writing them off as damaged goods**, etc.
- (iii) **Inventory records may be manipulated** by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.

Verification Procedure for Defalcation of inventory - Such thefts usually are **possible through collusion** among a number of persons. Therefore, for their detection, the **entire system of receipts, storage and dispatch of all goods, etc. should be reviewed** to localize the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of:

- (a) a system of inventory control, and existence of detailed record of the movement of inventory, or
- (b) availability of sufficient data from which such a record can be constructed.

The step in such an investigation is to establish the different items of inventory defalcated and their quantities by **checking physically the quantities** in inventory held and those shown by the Inventory Book.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are **covered up by inflating quantities issued for production**. For detecting such shortages, the investigating accountant should **take assistance of an engineer**. For that he will be more conversant with factors which are responsible for shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated.

In this regard, **guidance can also be taken from past records** showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent.

The **per hour capacity of the machine** and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

FORENSIC ACCOUNTING

4. CA. Puranjay is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under terms of a contractual agreement with the company.
- The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, **team has failed to take care of aspects such as keeping record of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications it may have on forensic accounting engagement as such?**

(MTP May 24)

In a forensic accounting engagement, professional **undertakes a scrutiny** and detailed examination of all transactions and balances relevant to the mandate **so that evidence gathered is suitable in a Court of Law** i.e. in compliance with legal requirements where it **can be challenged through cross-examination by the defending party**.

It is important that team is skilled in collecting evidence that can be used in a court case keeping a clear chain of custody till evidence is presented in court. **If there are gaps in chain of custody, then the evidence may be challenged in court or even become inadmissible.**

In the given case, **team has failed to keep record of matters** such as persons gathering relevant evidence, date and time of collection and storage of evidence. **Therefore, team has failed to maintain the chain of custody.**

It can, therefore, defeat the objective of forensic accounting engagement as evidence may be challenged in Court of law by defending parties and may become inadmissible.

1.	(a) Comment on the following with reference to the provisions of the Chartered Accountant Act 1949: (1) CA. Pankaj accepted professional work of acting as valuer under direct taxes. He charges fees on a percentage of the property valued. (2) CA. Anita joined as an audit executive in a CA firm on April 1, 2023. Despite receiving multiple reminders from ICAI, she has failed to respond with her appointment date and submit her membership certificate. (b) Mr. Johny, a chartered accountant, was invited to a seminar on bank audits to give a presentation on the process of conducting such audits. During his presentation, he provided examples from his clients' experiences and shared the significant information about clients with the intention of aid in understanding of audience on the topic. Does above situation have implications in relation to the professional ethics? (Nov 14) (MTP May 22) (May 18) (RTP May 24)
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(a) (1) **Restriction on fees based on a Percentage:** According to **Clause (10) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

However, **Regulation 192 exempts** Chartered Accountants in practice to charge fees based on a percentage of profits or contingent upon findings or results for professional work for **certain professional services**.

Regulation 192 specifically states that in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.

Conclusion: Consequently, CA. Pankaj shall **not be deemed to be guilty** of professional misconduct, as he is within the permissible scope of charging fees based on a percentage of the property valued.

(2) **Failed to Supply Information Called For:** In accordance with **Clause (2) of Part III of the First Schedule** to the Chartered Accountants Act, 1949, a member, whether in practice or not, is considered to be engaged in professional misconduct if he fails to provide the information requested or does not comply with the requirements set forth by the Institute, Council, or any of its Committees, including the Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board, or the Appellate Authority.

Conclusion: Therefore, in the given scenario, CA. Anita has **neglected to respond to the Institute's letters** seeking confirmation of her appointment date and has **not submitted her membership certificate**. Consequently, she is **deemed to be guilty of professional misconduct** as given in Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949.

(b) **Disclosure of Client's Information:** Confidentiality is one of fundamental principles governing professional ethics. **Clause (1) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949, addresses professional misconduct related to the disclosure of information by a chartered accountant in practice concerning the business of their clients. Such disclosure to any person other than the client, without the client's consent or unless mandated by prevailing law, is considered a breach of conduct. The Code of Ethics emphasizes that this duty continues even after the completion of assignment, except when disclosure is necessary for the performance of professional duties.

In the provided case, CA. Johny **disclosed significant information** about his client's business **without obtaining the client's consent**, believing that it would enhance the audience's understanding of the topic.

Conclusion: Therefore, this action of CA. Johny **constitutes professional misconduct** under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

2.	CA. Tanya, the auditor of KBC Pvt. Ltd. has delegated following works to his articles and staff: - Issue of audit queries during the course of audit. - Issue of memorandum of cash verification and other physical verification. - Letter forwarding draft observations/financial statements. - Issuing acknowledgements for records produced. - Signing financial statements of the company. Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements? (RTP May 24) (RTP May 21) (MTP Dec 21)
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As per **Clause (12) of Part I of the First Schedule** of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

- Issue of audit queries** during the course of audit.
- Asking for information** or issue of questionnaire.
- Letter forwarding draft observations/financial statements.**
- Initiating and stamping of vouchers** and of schedules prepared for the purpose of audit.
- Acknowledging and carrying on **routine correspondence** with clients.
- Issue of memo of cash verification** and other physical verification or recording the results thereof.
- Issuing acknowledgements** for records produced.
- Attending to routine matters in tax practice**, subject to provisions of Section 288 of Income Tax Act.
- Any other matter** incidental to the office administration and routine work involved in practice of accountancy.

In the instant case, CA. Tanya, the auditor of KBC Pvt. Ltd. has delegated certain task to his articles and staff from above mentioned tasks. Therefore, **CA. Tanya is correct in allowing first four tasks** i.e. issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced to his staff and articles.

However, if the person signing FS on his behalf is not a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, **CA. Tanya is wrong in delegating signing of FS to his staff.**

Conclusion: In view of this, CA. Tanya would be **held guilty of professional misconduct for allowing the person signing FS on his behalf** to his articles and staff under Clause 12 of Part 1 of First Schedule of CA Act, 1949.

3.	Mr. S is a practicing chartered accountant based out of Chennai. During the weekends, he involved himself in equity research and used to advise his friends, relatives and other known people who are not his clients. Apart from this, he was also involved as a paper - setter for Accountancy subject in the school in which he studied. He also owned agricultural land and was doing agriculture during his free time. During the year 20X1, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 20X3, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 (especially from the point of section 8: Entry of name in Register of Members) (RTP May 23) (MTP May 24) (MTP May 22) (MTP May 23)
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Given situation can be visualized in following parts:

(A) Mr. S used to involve himself in equity research and used to advise his friends, relatives and other known people: As per the recent decisions taken by the Ethical Standards Board of ICAI, a Chartered Accountant in practice

may be an equity research adviser, but he cannot publish a retail report, as it would amount to other business or occupation.

In the given case, though Mr. S is involved in doing equity research and in advising people, it is clear that **he does not publish any retail report** of his research. Hence, this act of Mr. S shall **not make him guilty of professional misconduct**.

(B) Mr. S is involved in paper-setting for the Accountancy subject in the school where he studied. He also owns agricultural land and does agriculture activities: As per **Clause 11 of Part I of First Schedule** of Chartered Accountants Act and regulation 190A of Chartered Accountants Regulations, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Further, **Regulation 190A** mentions the '**Permissions granted Generally**' to engage in a certain category of occupations, for which **no specific permission of Council is required**. Those cases include:

- Valuation of papers, **acting as paper-setter**, head examiner or a moderator, for any examination.
- **Owning agricultural land and carrying out agricultural activities**.

Therefore, in the given case, the activities of Mr. S as a paper-setter and involvement in agricultural activities **do not make him guilty of professional misconduct**.

(C) Mr. S was discharged insolvent:

Disabilities for the Purpose of Membership: Section 8 of the Chartered Accountants Act, 1949 enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, If he, 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. Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in the Register until the expiry of such period.

In addition, **failure on the part of a person to disclose the fact that he suffers from any one of the aforementioned disabilities would constitute professional misconduct**. The name of the person, who is found to have been subject at any time to any of the disabilities discussed in section 8, can be removed from the Register of Members by the Council.

In the given case, it is clearly stated that Mr. S was **discharged insolvent**, and he has also **obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part**. Hence, Mr. S has **not violated the provisions of Section 8**, and he is **not debarred from having his name entered** in the Register of Members.

4.	Comment on the following with reference to the Chartered Accountants Act, 1949 and Schedules thereto: (a) CA Dev started practice in Punjab in the year 2019. CA Dev issued 'Turnover Certificate' for M/s. ASAUS Traders to be forwarded to the Bank for the purpose of availing cash credit facility and machinery term loan. Brother of CA Dev was proprietor of M/s. ASAUS Traders. (b) Aagam Private Limited requested CA Sheetal, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Rohit, one of the Director of Aagam Private Limited, along with the copy of Resignation Letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Rohit was simply copied and pasted by another Director of Aagam Private Limited. CA Sheetal, without verifying the genuineness of the resignation letter, digitally signed the form and the said form was uploaded on the website of Registrar of Companies. <i>(RTP Nov 22)</i>
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(a) As per **Clause (4) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty if he expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

Further, it is **not permissible** for a member **to undertake the assignment of certification, wherein the client is relative of the member**. The "relative" for this purpose would refer to the definition mentioned in AS - 18.

In the given situation, CA Dev started practice in Punjab in the year 2019. CA Dev issued Turnover certificate for M/s. ASAUS Traders to be forwarded to the Bank for the purpose of obtaining Loan. Brother of CA Dev is proprietor of M/s. ASAUS Traders. Brother is very well covered in the definition of relative mentioned in AS-18.

Hence, CA Dev is **guilty of professional misconduct**.

(b) As per **Clause (7) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty if he does not exercise due diligence or is grossly negligent in the conduct of this professional duties.

In the given case, Aagam Private Limited requested CA Sheetal, a practicing-chartered accountant, to digitally sign the form related to resignation of Mr. Rohit, one of the Director of Aagam Private Limited, along with the copy of Resignation Letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Rohit was simply copied and pasted by another Director of Aagam Private Limited. CA Sheetal, without verifying the genuineness of the Resignation Letter, digitally signed the Form and the said form was uploaded on the website of Registrar of Companies.

Due to forged resignation letter, the resignation of Mr. Rohit from directorship of the Aagam Private Limited had been occurred. It was noted that **CA Sheetal had not taken any step to verify forged signature on resignation letter which anyone would have taken in normal circumstances**.

Consequently, CA. Sheetal would be **held liable for professional misconduct** as per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949

5. Comment on the following scenario with reference to the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto.

(a) Statutory Audit of Arihant Limited for the year 2021-22 was done by CA Acharya. Arihant Limited was in existence since 2010. The relevant extract from books of account of Arihant Limited are as below:

Particulars	As at 31.03.2023 (₹ in lakh) (Unaudited)	As at 31.03.2022 (₹ in lakh) (Audited)
Equity Share Capital	5.00	5.00
Reserve and Surplus	(10.00)	(8.00)
Provision for Audit Fees	For FY 2021-22- 1.00 For FY 2022-23- 1.00	1.00

(Figures in bracket indicates negative values)

CA. Nemi accepted the Statutory Audit of Arihant Limited for the year 2022-23 in spite of the fact that as on date of acceptance by CA Nemi, the audit fees of CA Acharya was unpaid.

(b) CA Sumati is a practicing-chartered accountant having office in Mumbai. CA Sumati is **owner of domain cap.net**. In order to generate additional revenue CA Sumati sold this domain name to XYZ Limited for earning royalty of ₹ 2,25,000. One of the directors of XYZ Limited contended that CA Sumati has violated the Code of Conduct. **CA Sumati responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute.**

(RTP Nov 23)

(a) As per Chapter VII of **Central Council Guidelines 2008**, a member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 2013 or various other statutes has not been paid:

Provided that in the case of **sick unit**, the above prohibition of acceptance shall not apply where a sick unit is defined to mean “where the net worth is negative as at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

As Explanation 1 of the Chapter VII of Central Council Guidelines 2008, for the purpose, the provision for audit fee in accounts signed by both — the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as “**undisputed audit fees**”.

In the instant case, **though the undisputed fees are unpaid, CA Nemi would still not be guilty of professional misconduct since the Arihant Limited is a sick unit** having negative net worth for the year 2022-23.

(b) As per **Clause (11) of Part I of Schedule I** to the Chartered Accountants Act, 1949, a member in practice is deemed to be guilty if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage. Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (not being a managing director or a whole-time director) unless he or any of his partners is interested in such company as an auditor.

As per Regulation 190A, a chartered accountant in practice not to engage in any other business or occupation other than profession of accountancy except with the permission granted in accordance with a resolution of Council.

In the given case, CA Sumati is a practicing chartered accountant having office in Mumbai. CA Sumati is owner of domain cap.net. In order to generate additional revenue, CA Sumati sold this domain name for earning royalty of ₹ 2,50,000 to XYZ Limited. One of the directors of XYZ Limited contended that CA Sumati has violated the Code of Conduct. CA Sumati responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute.

As per Regulation 190A, the **activity of selling domain name for earning Royalty would amount to “other business/occupation” without approval is prohibited.**

Hence, CA Sumati is **guilty of professional misconduct** under Clause 11 of Part I of Schedule I to the Chartered Accountants Act, 1949 for selling domain name for a royalty.

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| 6. | <p>Mr. Avi, a newly qualified Chartered Accountant, started his practice and sought clients through telephone calls from his family and friends, almost all of them employed in one or the other retail trade business. One of his friends Mr. Ravi gave him an idea to start online services and give stock certifications to traders with Cash Credit Limits in Banks. Mr. Avi started a website with colourful catchy designs and shared the website address on his all-social media posts and stories and tagged 40 traders of his local community with the caption “Simple Online Stock Certification Services”. Besides, Mr. Avi entered into an agreement with a Digital Marketer to give him 8% commission on each service procured through him. Discuss if the actions of Mr. Avi are valid in the light of the Professional Ethics and various pronouncements and guidelines issued by ICAI.</p> |
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(RTP May 22) (MTP Nov 23)

As per **Clause (6) of Part I of the First Schedule** of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Mr. **Avi is wrong in seeking clients through family and friends**. Creating a website is not a non-compliance provided it is in line with the guidelines issued by the Institute in this regard. One of the guidelines is that the website should not be in push mode. Further, mentioning of clients’ names is also prohibited as per the guidelines.

In the given situation, Mr. Avi shared the website address on his all-social media posts and stories and tagged 40 traders of his local community with the caption “Simple Online Stock Certification Services” mentioning his current clients as well. This is in **complete contravention of the guidelines on the website** issued by the ICAI.

Thus, CA, Avi would be held **guilty of professional misconduct** under clause 6 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

Author's Opinion:

*The given answer of ICAI does not include the fact of agreement to pay 8% commission. Students may mention in notes of their answer that > In given scenario, Mr. Avi is also **guilty under clause (2) of Part I of First Schedule** (i.e., pay or agrees to pay any share, commission or brokerage)*

7. The Director (Discipline) of the ICAI received information of alleged misconduct against Mr. Jayprakash, the proprietor of JP & Associates, as follows: -

- (i) **Audit of a college was accepted** by JP & Associates in which Mr. **Jayprakash is working as a part-time lecturer** and also, he had **not taken permission of the ICAI** for working as a **part-time lecturer in college**.
- (ii) An event relating to **Corporate Social Responsibility** was sponsored by JP & Associates, whereby in the **sponsorship banner**, name of Mr. Jayprakash as '**CA Jayprakash, Proprietor, JP & Associates**' was mentioned.

On the basis of above information and along with certain evidence against Mr. Jayprakash, **he was found guilty** and so he was **reprimanded and a fine of ₹ 1 lakh was imposed** by an order passed against him dated **12th July, 2020**.

Against the said order, Mr. Jayprakash **preferred an appeal** with the **Appellate Authority on 17th August, 2020** by submitting a statement of appeal along with the application form of appeal. During such appellate proceedings, it was discovered that the said statement of **appeal contained some facts which were false to which Mr. Jayprakash admitted it to be false and apologized for it**.

- (a) Mr. **Jayprakash has violated which of the provisions** of the Chartered Accountants Act, 1949?
- (b) **Before which authority, the matter of Mr. Jayprakash would have been placed and what maximum punishment could have been imposed on him by the said authority** in accordance with the Chartered Accountant Act, 1949?

(RTP Nov 21)

(a) Mr. Jayprakash has violated following provisions of the Chartered Accountants Act, 1949:

(i) As per **Clause (4) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

In this connection, as per the decision of the Council of the ICAI, a Chartered Accountant **should not by himself or in his firm name accept the audit of a college, if he is working as a part-time lecturer in the college**.

Thus, by accepting audit of a college in which he is working as a part-time lecturer, Mr. Jayprakash has **violated the restriction imposed under Clause (4) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949.

(ii) As per **Clause (11) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Members of the Institute in practice may engage in a part-time or full-time tutorship under any educational institution other than the coaching organization of the Institute, **after obtaining the specific and prior approval of the Council** in each case.

Mr. Jayprakash **had not taken permission of the ICAI** for working as a part-time lecturer in the college and so has **violated the restriction imposed under Clause (11) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.

(iii) As per **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

In this connection, members sponsoring activities relating to **Corporate Social Responsibility** may mention their individual name with the prefix “CA”. However, **mentioning a firm’s name or CA Logo is not permitted**.

An event relating to Corporate Social Responsibility was sponsored by JP & Associates, whereby in the sponsorship banner, name of Mr. Jayprakash as ‘CA Jayprakash, Proprietor, JP & Associates’ was mentioned. Thus, **firm’s name was mentioned which is not allowed** and thus, Mr. Jayprakash has **violated the restriction imposed under Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.

(iv) As per **Clause (3) of Part II of the Second Schedule** to the Chartered Accountants Act, 1949, a member of the ICAI shall be deemed to be guilty of professional misconduct, if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority, any particulars knowing them to be false.

Mr. Jayprakash in the statement of appeal submitted with the Appellate Authority mentioned some facts knowing them to be false and thus, he has violated the restriction imposed under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

(b) As Mr. Jayprakash has been alleged of **misconduct falling in First as well as Second Schedule**, **so the matter would be placed before the Disciplinary Committee**. The **maximum punishment** which could have been imposed on him by the said authority would be:-

- (i) **reprimanding** the member.
- (ii) **removing name of the member permanently or for any duration**, it thinks fit.
- (iii) **imposing fine upto ₹ 5,00,000**.

8.	Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto: (a) CA. Srishti and CA. Mishti are two partners of the CA firm ‘Srishti Mishti & Associates’. Being very pious, CA. Srishti organized a religious ceremony at her home for which she instructed her printing agent to add her designation “Chartered Accountant” with her name in the invitation cards. Later on, the invitations were distributed to all the relatives, close friends and clients of both the partners. (b) Ms. Preeto, a CA, had an account with a bank. The normal balance in this account remained at a level below ₹ 5,000. The bank inadvertently credited this account with a cheque of ₹ 2,70,000 belonging to another account holder. When CA. Preeto came to know about this she withdrew the amount of ₹ 2,75,000 and closed the bank account. After 1 year the bank noticed the mistake and claimed ₹ 2,75,000 with interest. CA. Preeto contested this claim. Can the bank approach ICAI for disciplinary action against CA. Preeto? (RTP Nov 20)
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(a) Printing of Designation “Chartered Accountant” on Invitations for Religious Ceremony: As per **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

However, the Council of the ICAI is of the view that the designation “**Chartered Accountant**” as well as the name of the firm **may be used in greeting cards, invitations for marriages, religious ceremonies** and any other specified matters, provided that such greeting cards or invitations etc. **are sent only to clients, relatives and close friends of the members concerned**.

In the given case, CA. Srishti has instructed to write designation “Chartered Accountant” on invitation cards for a religious ceremony and distributed the same to **all the relatives, close friends and clients of both the partners**.

In this context, it may be noted that the Council has allowed using designation “Chartered Accountant” in invitations for religious ceremony, provided these are sent to **clients, relatives and close friends of members concerned only**.

Therefore, CA. Srishti would be held **guilty of professional misconduct** under the said clause for sending such invitations to the relatives, close friends and clients of CA. Mishti as well.

(b) Disrepute to the Profession: As per **Clause 2 of Part IV of First Schedule** of the Chartered Accountant Act, 1949, a Chartered Accountant will 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.

In the instant case, CA. Preeto, a CA, had an account with a bank from which she withdrew the amount of ₹ 2,75,000 and closed the account. This amount of ₹ 2,75,000 was pertaining to ₹ 5,000 minimum balance and ₹ 2,70,000 belonging to other account holder and inadvertently credited to his account by the bank. The said act of CA. Preeto to **withdraw the money which does not belongs to her will bring disrepute to the profession. Hence under this clause the bank can file a suitable complaint under Clause 2 of Part IV of First Schedule** of the Chartered Accountant Act, 1949 with the Institute of Chartered Accountants of India.

9.	Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto: (a) OPAQ & Associates, a firm of Chartered Accountants responded to a tender issued exclusively for Chartered Accountants by an organisation in the area of tax audit. However no minimum fee was prescribed in the tender document. (b) ABZ & Co., a firm of Chartered Accountants, develops a website “abz.com”. The colour chosen for the website was a very bright green and the web-site was to run on a “push” technology where the names of partners of the firm and the major clients were to be displayed on the web-site without any disclosure obligation from any regulator. (c) Mr. P and Mr. Q are running a firm of Chartered Accountants in the name of PQ & Co. On 23.05.2019, they included the name of Mr. R, a practicing Chartered Accountant, without his knowledge, as a partner while submitting an application for empanelment as auditor for branches of a public sector bank, to the Institute. However, they added Mr. R as a partner to their firm offering a share of 25% of the profits, on 25.05.2019. (May 16) (RTP May 20)
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(a) Responding to Tenders: **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949 lays down guidelines for responding to tenders, etc. It states that a member may respond to tenders or enquiries issued by various users of professional services or organizations from time to time and secure professional work as a consequence.

However, a member of the Institute in practice **shall not respond to any tender** issued by an organization or user of professional services **in areas of services which are exclusively reserved for Chartered Accountants**, such as audit and attestation services. Though, **such restriction shall not be applicable where minimum fee of the assignment is prescribed** in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the instant case, OPAQ & Associates **responded to a tender of tax audit which is exclusively reserved for Chartered Accountants even though no minimum fee was prescribed** in the tender document.

Therefore, OPAQ & Associates shall be **held guilty of professional conduct** for responding to such tender in view of above-mentioned guideline.

(b) Posting of Particulars on Website: The Council of the Institute had approved posting of particulars on website by Chartered Accountants in practice under **Clause (6) of Part I of First Schedule** to the Chartered Accountants Act, 1949 subject to the prescribed guidelines. The relevant guidelines in context of website hosted by ABZ & Co. are:

- **No restriction on the colours** used in the website;
- The websites are run on a **“pull” technology and not a “push” technology**
- **Names of clients and fees charged not to be given.**

However, disclosure of **names of clients** and/or fees charged, on the website is **permissible only where it is required by a regulator**, whether or not constituted under a statute, in India or outside India, provided that such disclosure is only to the extent of requirement of the regulator.

Where such disclosure of names of clients and/or fees charged is made on the website, the member/ firm shall ensure that it is mentioned on the website [**in italics**], below such disclosure itself, that **“This disclosure is in terms of the requirement of [name of the regulator] having jurisdiction in [name of the country/area where such regulator has jurisdiction] vide [Rule/ Directive etc. under which the disclosure is required by the Regulator]”**.

In view of the above, ABZ & Co. would have **no restriction on the colours used** in the website **but failed to satisfy the other two guidelines**. Thus, the **firm would be liable for professional misconduct** since it would amount to soliciting work by advertisement.

(c) **Submitting Wrong Information to the Institute:** As per **Clause (3) of Part II of the Second Schedule** to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

In the instant case, Mr. P and Mr. Q, partners of PQ & Co., included the name of Mr. R, another Chartered Accountant, as partner in their firm, without his knowledge, in their application for empanelment as auditor of branches of Public Sector Banks submitted to Institute. However, **such a member was not a partner of the said firm as on the date of application submitted. Here, Mr. P and Mr. Q have submitted wrong information to Institute.**

Therefore, **Mr. P and Mr. Q, both, would be held guilty of professional misconduct under Clause (3) of Part II of the Second Schedule** to the Chartered Accountants Act, 1949.

10.	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. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. (PP Dec 21)
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In the given case, CA Mehta accepted the appointment in place of retiring auditor after obtaining a certificate from the management that the provisions of the Sections 139 and 140 of Companies Act, 2013 have been complied with.

Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013, in respect of such appointment have been duly complied with.

Under this clause it is obligatory on the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.

Under **Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949**, the incoming auditor has to ascertain whether the Company has complied with the provisions of the above sections. The word **“ascertain” means “to find out for certain”**. This would mean that the **incoming auditor should find out for certain as to whether the Company has complied with the provisions of Sections 139 and, 140 of the Companies Act, 2013**. In this respect, **it would not be sufficient for the incoming auditor to accept a certificate from the management of the Company that the provisions of the above sections have been complied with**. It is necessary for the incoming

auditor to **verify the relevant records** of the Company and **ascertain** as to whether the Company has, in fact, complied with the provisions of the above sections. If the **Company is not willing to allow the incoming auditor to verify the relevant records in order to enable him to ascertain as to whether the provisions of the above sections have been complied with, the incoming auditor should not accept the audit assignment.**

Applying the above clause to the given case, the **Company is not willing to allow the incoming auditor to verify** the relevant records in order to enable him to ascertain as to whether the provisions of the above sections have been complied with, the incoming auditor, **CA Mehta should not have accepted the audit assignment.** But on the other hand, **CA Mehta accepted the appointment** in place of retiring auditor after obtaining a certificate from the management which is not enough and hence CA Mehta is deemed to be **guilty** of professional misconduct.

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| 11. | AJ & Associates and PK & Co., chartered accountant firms have joined the Network firm A to Z & Affiliates registered with Institute. AJ & Associates was statutory auditor of B Ltd. for last 10 years. Due to rotation of auditor as per section 139 (2) of Companies Act, 2013, B Ltd. retires AJ & Associates and appoints PK & Co., as auditor for the year 2020-21. Comment as per CA Act, 1949 - Guidelines for Networking. |
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(MTP Nov 22)

As per **Council General Guidelines, 2008, Chapter XV, Guidelines for Networking**, once the relationship of network arises, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time in general and the following requirements in particular in those cases where rotation of firms is prescribed by any regulatory authority, **no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring.**

In the given situation, AJ & Associates was statutory auditor of B Ltd. For last 10 years and due to rotation of auditor as per section 139(2) of the Companies Act, 2013 B Ltd., retires AJ & Associates and appoints PK & Co. as auditor for the year 2020-21.

It may be considered that AJ & Associates and PK & Co., chartered accountant firms have joined the network firm namely A to Z & Affiliates registered with Institute. In view of above **Guidelines for Networking PK & Co., is disqualified for appointment as an auditor of B Ltd.**

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| 12. | WCP & Co LLP are the internal auditors of DEF Ltd. WCP & Co LLP also agreed to undertake GST Audit of DEF Ltd simultaneously. Comment with reference to CA Act. |
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(RTP May 19)

The Council of the Institute, while **considering the issue whether an internal auditor of an entity can also undertake GST Audit** of the same entity as required under the Central Goods and Service Act, 2017, decided, that **internal auditor of an assessee**, whether working with the organization or independently practicing Chartered Accountant being an individual chartered accountant or a firm of chartered accountants, **cannot be appointed as his Tax auditor** (under the Income Tax Act, 1961).

Upon consideration, the Council decided that based on the **conflict in roles as statutory and internal auditor** simultaneously, the **bar on internal auditor of an entity to accept tax audit will also be applicable to GST Audit.** Accordingly, an **Internal Auditor of an entity cannot undertake GST Audit of the same entity.**

In the instant case, WCP & Co LLP are the internal auditors of DEF Ltd. and it also agreed to undertake Goods and Service Tax (GST) Audit of DEF Ltd simultaneously. WCP & Co LLP will be **held guilty for misconduct.**

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| 13. | Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto: CA. Raj is a leading income tax practitioner and consultant for derivative products. He resides in Bangalore near to the XYZ commodity stock exchange and does trading in commodity derivatives. Every day, he invests nearly 50% of his time to settle the commodity transactions , though he has not taken any permission for this. Is CA. Raj liable for professional misconduct? |
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(RTP May 18) (May 17)

Engaging into a Business: As per **clause (11) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has **granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.**

In this case, CA. Raj is engaged in the **occupation of trading in commodity derivatives which is not covered under the general permission.**

Hence, specific permission of the Institute has to be obtained otherwise he will be **deemed to be guilty of professional misconduct** under clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949.

14.	CA R, a Chartered Accountant in practice is specializing in the field of Information Systems Audit. He is considered to be one of the experts of this field because of his command over the subject. HKC Limited, a Company engaged in rendering management consultancy offered him to appoint as its managing director. CA R accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA S informed him that now he cannot retain full time certificate of practice, thus cannot do attest function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. (PP July 21)
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As per **Clause (11) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

The **Council decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager** of a body corporate within the meaning of the Companies Act, 2013 **provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services** permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 **and complies with the conditions** as specified by the Council from time to time in this regard. The name of the **Management Consultancy Company is required to be approved by the Institute and such Company has to be registered with the Institute.**

The **members can retain full time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such Management Consultancy Company.** There will be **no restriction on the quantum of the equity holding** of the members, either individually and/ or along with the relatives, in such Company. Such members shall be regarded as being in full- time practice and therefore **can continue to do attest function** either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.

Thus, the **action of CA R is valid.**

15.	K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in the suburbs of Chennai. Due to increase in the income tax assessment work, he opens another office near the income tax office. For running the new office, he has employed a retired income Tax Commissioner. (Nov 12)
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Maintenance of Branch Office in the same city: As per **section 27** of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a **member can be in charge of two offices** if the second office is located in the **same premises or in the same city**, in which the first office is located; or the **second office is located within a distance of 50 Kms from the municipal limits** of a city, in which the first office is located.

In the given case, Mr. K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in suburbs of Chennai, and due to increase in the work he opened another branch near the income tax office. He also employed the income tax commissioner to run the new office.

Assuming that the second office is situated within a distance of 50 Kms from municipal limits, there will be no misconduct if Mr. K will be in charge of both the offices, however, he will be liable to declare which of the two offices is the main office.

Note: Alternative view is possible on the assumption that distance of both the office is more than 50 Km, Hence, Mr. K will be liable for misconduct under section 27 of the Chartered Accountant Act, 1949.

16.	Vineet & Associates have been offered Statutory Audit of TLP Ltd. As a part of ethical requirements of the Institute of Chartered Accountants, CA V, partner of the firm, communicated with the previous auditor enquiring as to whether any professional reason exists for which he should not accept the audit assignment. Previous auditor informed that he issued a qualified report, so management is changing the auditor. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto as to whether Vineet & Associates can accept the audit.
<i>(PP July 21)</i>	

As per **Clause (8) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

The **professional reasons for not accepting an audit** would be:

- (a) **Non-compliance of the provisions of Sections 139 and 140** of the Companies Act, 2013 as mentioned in Clause (9) of the Part - I of First Schedule to The Chartered Accountants Act, 1949; and
- (b) **Non-payment of undisputed Audit Fees** by auditees other than in case of Sick Units for carrying out the Statutory Audit under the Companies Act, 2013 or various other statutes; and
- (c) **Issuance of a qualified report.**

There is no rule, written or unwritten, which would prevent an auditor from accepting the appointment offered to him under the circumstance of Issuance of qualified report. However, before accepting the audit, he should **ascertain the full facts of the case. For nothing will bring the profession to disrepute** so much as the knowledge amongst the public that **if an auditor is found to be "inconvenient" by the client, he could readily be replaced** by another who would not displease the client and this point cannot be too over-emphasized.

From the above it can be concluded that Vineet & Associates **may accept the audit** of TLP Ltd if CA V is satisfied that the **attitude of the retiring auditor was not proper and justified**. If, on the **other hand**, CA V feels that the retiring auditor had qualified the report for **good and valid reasons**, he should **refuse to accept** the audit of TLP Ltd.

17.	M/s. SR & Associates is one of the three firms shortlisted by ARG Cooperative Bank for assignment of Statutory Audit for the F.Y 2020-2021. Bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations . SR & Associates responded to the bank and submitted their quotation . Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto.
<i>(PP July 21) (MTP Nov 23)</i>	

As per **Clause (6) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting –

- (i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

- (ii) A member from responding to tenders or enquiries issued by various users of professional services or organizations from time to time and securing professional work as a consequence.

However, as per the guideline issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice **shall not respond to any tender** issued by an organization or user of professional services **in areas of services which are exclusively reserved for CAs**, such as audit and attestation services.

However, such **restriction shall not be applicable** where **minimum fee of the assignment is prescribed** in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the given case of ARG Cooperative Bank, Bank mailed the list of branches to the audit firms along with **maximum fees per branch**, in response to which SR & Associates **responded and submitted their quotation**.

Keeping in view the facts, clause 6 and guideline issued by the council, it can be concluded that **SR & Associates is guilty of Professional misconduct**.

18.	CA N was appointed as an auditor of JAL Ltd. The company has branches all over the state of Haryana. CA N, in consultation with management, decided to Visit 6 out of 10 branches. Management decided to pay him advance of ₹ 2.00 Lacs against the estimated expenses of ₹ 2.50 Lacs on visits to be conducted as a part of services rendered. As agreed, ₹ 2.00 Lacs was transferred in his bank account from which he met all the expenses. Comment with reference to Chartered Accountants Act, 1949 whether the action of CA N of receiving the advance money in his saving accounts and not keeping it in separate bank account is valid . (PP Jan 21)
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As per **Clause (10) of Part I of Second Schedule** to the Chartered Accountant Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he fails to keep moneys of his client other than the fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his **duty to deposit them in a separate banking account**, and to **utilize such funds only in accordance with the instructions of the client** or for purposes intended by client.

In this connection the Council has **considered some practical difficulties of the members** and the following suggestion, among other suggestions, has been made to remove these difficulties:

“An advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule”

In the given case, CA N was given an advance of ₹ 2 Lakhs against the estimated expenses of ₹ 2.50 Lakhs on visits to be conducted as a part of services rendered. Applying the above, it can be concluded that **CA N is not guilty** of professional misconduct under Chartered Accountants Act, 1949.

19.	Nam & Co., conducted Stock Audit of DEF Ltd. as per instructions issued by HEG Bank. However instead of visiting the site where the stock was lying, the firm relied on the Management Information Systems report along with inspections reports and photographs of Stock taken by the employees of DEF Ltd. The photographs were also carrying the date and time printed on them. Comment with reference to the Chartered Accountants Act, 1949 and its schedules thereto. (PP Jan 21)
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According to **Clause (7) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he “does not exercise due diligence or is grossly negligent in the conduct of his professional duties”.

It is a vital clause which usually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

In the instant case, CA. Nam & Co. **did not exercise due diligence and is grossly negligent in the conduct of his professional duties** since it **did not visit the site** where the stock was lying and instead the firm **relied on the MIS report** along with inspection reports and photographs of stock taken by employees of DEF Ltd, **which is incorrect**.

To conduct stock audit, **ascertainment of existence and physical condition** of stocks, **cross tallying the stock** with Stock statement submitted by bank borrower, **correct classification of stocks** for valuation purpose etc. **is essential**. Further **submitting stock audit report without physically verifying the stock amounts to gross negligence**.

From the above, it can be concluded that Nam & Co. is **guilty of professional misconduct** under Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

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| 20. | The audit team is preparing to conduct audit for ABC Company for the period ending 31.3.2020 . However, the audit team has not received its audit fees from ABC Company for its audit concluded for the period ended 31.3.2019 . The audit team might be tempted to issue a favorable report so that ABC Company is able to secure a loan to settle the fees outstanding for their 31.3.2019 audit . The audit team is not complying the fundamental principles of auditing hence hindering the Auditor's Independence . Explain the types of threats that may hinder Auditor's Independence while issuing Audit Report. |
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(PP Jan 21)

In the given case of ABC Company, audit team is preparing to conduct its audit for the F.Y ending on 31.03.2020. Audit firm did not receive its fees for the F.Y ending on 31.03.2019. Audit team is tempted to issue a favorable report so that auditee can secure a loan to settle auditor's outstanding fees. The audit team did not comply with fundamental principles of auditing and hence compromising Auditor's Independence.

Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

The Code of Ethics for Professional Accountants prepared by the International Federation of Accountants (IFAC) identifies five types of threats. These are:

1. **Self-interest threats**, which occur when an **auditing firm, its partner or associate could benefit from a financial interest in an audit client**. Examples include (i) direct financial interest or materially significant indirect financial interest in a client, (ii) loan or guarantee to or from the concerned client, (iii) undue dependence on a client's fees and, hence, concerns about losing the engagement, (iv) close business relationship with an audit client, (v) potential employment with the client, and (vi) contingent fees for the audit engagement.
2. **Self-review threats**, which occur when **during a review of any judgement or conclusion reached in a previous audit or non-audit engagement** (Non audit services include any professional services provided to an entity by an auditor, other than audit or review of the financial statements. These include management services, internal audit, investment advisory service, design and implementation of information technology systems etc.), or when a **member of the audit team was previously a director or senior employee of the client**. Instances where such threats come into play are (i) when an auditor is having recently been a director or senior officer of the company, and (ii) when auditors perform services that are themselves subject matters of audit.
3. **Advocacy threats**, which occur when the **auditor promotes**, or is perceived to promote, a **client's opinion to a point where people may believe that objectivity is getting compromised**, and e.g. when an auditor deals with shares or securities of the audited company, or becomes the client's advocate in litigation and third party disputes.
4. **Familiarity threats** are self-evident, and occur when **auditors form relationships with the client where they end up being too sympathetic to the client's interests**. This can occur in many ways: (i) close relative of the audit team working in a senior position in the client company, (ii) former partner of the audit firm being a director or senior employee of the client, (iii) long association between specific auditors and their specific client counterparts, and (iv) acceptance of significant gifts or hospitality from the client company, its directors or employees.

5. **Intimidation threats**, which occur **when auditors are deterred from acting objectively** with an adequate degree of professional skepticism. Basically, these could happen because of threat of replacement over disagreements with application of accounting principles, or pressure to disproportionately reduce work in response to reduced fees.

21.	CA AB, a practicing-chartered accountant, is a promoter director of ABG Pvt. Ltd. and moreover he is also a sleeping partner in his family business of garments manufacturing firm. Is CA. AB liable for professional misconduct as per Chartered Accountant Act 1949?
(PP Jan 21)	

Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949 debars a chartered accountant in practice from engaging in any business or occupation other than the profession of chartered accountancy unless permitted by the Council of the Institute so to engage.

Promoter/Promoter Director - There is **no bar for a member to be a promoter** / signatory to the Memorandum and Articles of Association of any company. There is also **no bar for such a promoter / signatory to be a Director** **Simplicitor** of that company irrespective of whether the object of the company include areas which fall within the scope of the profession of CA. Therefore, members are **not required to obtain specific permission** of the Council.

Sleeping partner in the family business-

Prior Approval - Members of the Institute in practice may engage in the following category, among other points, of business or occupations, **after obtaining the specific and prior approval of the Council** in case of:

Interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken.

In the given case, CA AB is a promoter director of ABG Pvt Ltd and also he is a sleeping partner in his family business of garments manufacturing firm. Applying the above to the given case, it can be concluded that-CA AB:

- As **Promoter Director- Not guilty** of professional misconduct under Chartered Accountants Act, 1949
- As **Sleeping Partner- guilty of professional misconduct** under Chartered Accountants Act, 1949 as he did not obtain prior approval of the Council.

22.	Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto: CA Dice had signed the Balance sheet of QR Ltd. for the year ended 31st March, 2019 which failed to give disclosure of the charge created for ₹ 4.35 crores against the Corporate Guarantee given in favour of a Group Company . The Balance Sheet size of the company filed with the Registrar of Companies was ₹ 26.12 crores.
(PP Nov 20)	

Failure to Disclose Material Facts: As per **Clause (5) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a chartered Accountant in practice will be held liable for misconduct if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement not misleading where he is concerned with that financial statement in a professional capacity.

It may be observed that this **clause refers to failure to disclose a material fact, which is known to him**, in a financial statement reported on by the auditor. It is obvious, that before a member could be held guilty of misconduct, **materiality has to be established**. The determination of materiality has been provided in SA 320, "Materiality in Planning and Performing an Audit".

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain, among other points, that **Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement**, or a combination of both.

In this case, CA Dice has signed a Balance Sheet which **failed to give disclosure of ₹ 4.35 crores (considered material fact applying above SA 320 principle)** against the corporate guarantee given in favour of a Group Company. **Size of Balance Sheet of QR Ltd is ₹ 26.12 crore.**

This material fact has to be disclosed in FS. Keeping in view the above, he is **attracted by the provisions of professional misconduct under Clause (5) of Part I of Second Schedule** to the Chartered Accountants Act, 1949.

23.	Mr. Kushal, a practicing Chartered Accountant has signed the GST Audit Reports, Tax Audit Reports u/s 44AB of the Income tax Act, 1961 for the financial year 2019-20 that are filed online using Digital Signature and without generating UDIN on the ground that there is no field for mentioning UDIN on digitally signed online reports . Is the contention of Mr. Kushal valid? Give your comments with reference to the Chartered Accountants Act, 1949 and schedules thereto.

(PP Nov 20) (MTP Dec 21)

Non Generation of UDIN: Whereas, to curb the malpractice of false/certification/attestation by the unauthorized persons and to eradicate the practice of bogus certificates and to save various regulators, banks, stakeholders etc. from being misled, the Council of the Institute decided to implement an innovative concept to generate Unique Document Identification Number (**UDIN**) **mandatorily for all kinds of the certificates/GST and tax audit reports** and other attest function in phased manner, for which members of the ICAI were notified through the various announcements published on the website of ICAI at the relevant times.

In exercise of the powers conferred on it under **clause 1 of Part II of the Second Schedule** to the Chartered Accountants Act, 1949, the Council of the Institute of Chartered Accountants of India issued the following guidelines for information of public and necessary compliance by members of the Institute-

A member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him which are made mandatory from the following dates through announcements published on the website of the ICAI-

- For **all Certificates** w.e.f. **1st February, 2019.**
- For **all GST and Tax Audit Reports** w.e.f. **1st April, 2019.**
- For **all other Audit, Assurance and Attestation functions**, w.e.f. **1st July, 2019.**

Conclusion: UDIN will be applicable to GST & Tax Audit Reports signed by Mr. Kushal for the financial year 2019-20 that are filed online using Digital Signature. **In case where there is no field for mentioning UDIN on digitally signed online reports, UDIN has to be generated and communicated to "Management" or "Those Charged with Governance" for disseminating it to the stakeholders from their end.**

Hence, he will be **held guilty** under **Clause 1 of Part II of the Second Schedule** to Chartered Accountants Act, 1949.

Alternative Answer

According to **Clause (9) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he **fails to invite attention to any material departure** from the generally accepted procedure of audit applicable to the circumstances.

This clause implies that the audit should be performed in accordance with "**generally accepted procedure of audit applicable to the circumstances**" and if for any reason the auditor has not been able to perform the audit in accordance with such procedure, his report should draw attention to the material departures from such procedures. What constitutes "generally accepted audit procedure" would depend upon the facts and circumstances of each case, but guidance is available in general terms from the various pronouncements of the Institute is issued by way of statements and Guidance Notes and SAs to members.

A member of the Institute in practice shall **generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions** undertaken/signed by him.

In the given case, Mr. Kushal has signed the GST Audit Reports, Tax Audit Reports under section 44AB of the Income Tax Act, 1961 for the F.Y.2019-20 and also has filed online using Digital Signature without generating UDIN on the ground that there is no field for mentioning UDIN on digitally signed online reports. Applying the above clause, UDIN provision etc. to the given case, Mr. Kushal would be **held guilty of professional misconduct**.

24.	Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto: Mr. Vineet, a chartered accountant in practice, created his own website in attractive format and highlighted the contents in purple colour. The website also displayed the nature of assignments handled along with the names of clients without such requirement from any of the regulator. He also circulated the information contained in the website through e-mail to acknowledge public at large about his expertise. However, he did not intimate his website address to the Institute. <i>(PP Nov 20) (RTP May 18)</i>
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Circulating Information Contained in Own Website: As per **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

1. However, the guidelines approved by the Council of ICAI permit creation of own website by a chartered accountant in his or his firm name and **no standard format or restriction on colours** is there. Hence there is **no misconduct as per Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.

2. The chartered accountant or firm, as per the guidelines, **should ensure that none of the information contained in the website be circulated on their own or through E-mail or by any other mode except on a specific "Pull" request**. Mr. Vineet has circulated the information contained in the website through **e-mail** to public at large. Therefore, he is **guilty of professional misconduct under Clause (6) of Part I of the First Schedule** to the said Act.

3. Nature of assignments handled (to be displayable only on specific "pull" request). **Names of clients and fee charged cannot be given without such requirement from any of the regulator**. Mr. Vineet has displayed the nature of assignments handled along with the name of clients without such requirement from the regulator. Therefore, he is **guilty of professional misconduct under Clause (6) of Part I of the First Schedule** to the said Act.

4. **Website address** of member be obtained on annual basis in **annual form** required to be filed by member while paying fee and the **same be taken as entry on record**. Thus, **guilty** of professional misconduct.

Author's Opinion:

The above point no. 4 is suggested answer mentioned in Nov 20. However, in answer of RTP May 18, the following answer given by ICAI. Students are advised to take their own call.

Members are not required to intimate the Website address to the Institute. Members are only required to comply with the Website Guidelines issued by the Institute in this regard.

25.	Mr. 'K', a practicing Chartered Accountant is the proprietor of M/s K & Co. since 1995. He went abroad in the month of December 2018. He delegated the authority to Mr. 'Y' a Chartered Accountant, his employee for taking care of the important matters of his office. During his absence Mr. 'Y' has conducted the undermentioned 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. <i>(PP Nov 19) (RTP Nov 19) (May 14)</i>
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Delegation of Authority to the Employee: As per **Clause (12) of Part I of the First Schedule** of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

In this case CA. 'K' proprietor of M/s K & Co., went abroad and delegated the authority to another Chartered Accountant Mr. Y, his employee, for taking care of the important matters of his office who is not a partner but a member of the Institute of Chartered Accountants of India.

The Council has clarified that the **power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated** and such delegation will not attract provisions of this clause like issue of audit queries during the course of audit, asking for information or issue of questionnaire, attending to routing matters in tax practice, subject to provisions of Section 288 of Income Tax Act etc.

(i) In the given case, Mr. 'Y', a chartered accountant being employee of M/s K & Co. has **issued net worth certificate** for furnishing to a bank. Since the issuance of net worth certificate to a client by Mr. "Y" being an employee of M/s K & Co. (an audit firm), is **not a routine work and it is outside his authorities**. Thus, **CA. 'K' is guilty** of professional misconduct under Clause (12) of Part I of First Schedule of the Chartered Accountants Act, 1949.

(ii) Further, Mr. "Y", CA employee of the audit firm M/s K & Co. has **attended the GST proceedings** for a client as authorized representative before GST Authorities. Since the **council has allowed the delegation of such work**, the chartered accountant employee **can attend to routine matter in tax practice** as decided by the council.

Therefore, there is **no misconduct** in this case as per Clause (12) of Part I of First schedule to the Act.

26.	CA Ravi, a practicing Chartered Accountant, was proprietor of M/s Ravi & Associates. CA Ravi died on 15th September, 2020 due to cardiac arrest. Only family member left behind CA Ravi was his wife, Roohi. On 30th September, 2021, Roohi sold the practice of her husband to CA Balwan for ₹ 25 Lacs along with right to use the firm name i.e., M/s. Ravi & Associates and requested the Institute to consider the effect of such sale. Give your comments on the following issues with reference to the Chartered Accountants Act, 1949 and Schedules thereto: (i) Whether Roohi can sell the practice to CA Balwan? (ii) Can CA Balwan continue to practice as proprietor in name of M/s Ravi & Associates? <i>(May 22) (Nov 12)</i>
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Sale of Goodwill: With reference to **Clause (2) of Part I to the First Schedule to Chartered Accountants' Act, 1949**, the Council of the Institute of Chartered Accountants of India considered whether the goodwill of a proprietary concern of chartered account ant **can be sold** to another member who is otherwise eligible, after the death of the proprietor.

It is being resolved that the **legal heir of the deceased member has to obtain the permission of the Council within a year of the death** of the proprietor concerned.

It further lays down that the **sale is permitted subject to certain conditions** like such a **sale is completed/effectuated in all respects and the Institute's permission to practice in deceased's proprietary firm name is sought within a year of the death** of such proprietor concerned. In respect of these cases, the name of the proprietary firm concerned would be **kept in abeyance** (i.e. not removed on receipt of information about the death of the proprietor as is being done at present) **only upto a period of one year from the death** of proprietor concerned as aforesaid.

In the given case, Mrs. Roohi, widow of Mr. Ravi, proprietor of M/s. Ravi & Associates, has **sold the practice** along with right to use the firm name **after one year of his death** for ₹ 25 lakhs. This sale is in effect the sale of goodwill. From the discussion given above it can be concluded that:

- (i) Mrs. Roohi **cannot sell the practice** of CA. Balwan with right to use the firm name.
- (ii) CA Balwan **cannot continue to practice in the name of the firm M/s. Ravi & Associates** as a proprietor because the name of the firm M/s. Ravi & Associates would be **kept in abeyance only up to a period of one year from the death of the proprietor**.

27.	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. (PP May 19)
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Assignment as Advisor and Consultant: 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.**

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 underwrote 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 mgmt services.**

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

28.	CA Sant, a newly qualified professional with certificate of practice, approached CA Pant, the auditor of his father's company M/s Max Ltd., to allow him to have some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA Pant allowed him to sit in his office for 6 month and allotted a small chamber with other office infrastructure facility. In the course of his association with CA Pant's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT and GST return and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA Pant's office, he did not get any salary or share of profit or commission but only re-imbursement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 3,00,000 by CA Pant for his association out of gratitude. Examine the case in the light of code of professional misconduct. (PP May 19) (MTP May 22) (MTP May 23)
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Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.

The above clause is **intended to safeguard the public against unqualified accountant practicing under the cover of qualified accountants.** It ensures that the **work of the accountant will be carried out by a Chartered Accountant who may be his partner, or his employee** and would work under his control and supervision.

In the instant case, CA Pant allowed CA Sant (who is a newly qualified CA professional with COP) to sit in his office for 6 months, and allowed him to provide tax consultancy independently to his firm's clients, filing of some IT and GST Returns. He also allowed him to appear before various tax authorities on behalf of his firm. CA Sant was only reimbursed with his usual expenses and was not paid any salary or share of profit for the same. However, after the end of agreed period he was given a lump-sums of rupees 3,00,000 for his association out of gratitude.

Thus, in the present case **CA. Pant will be held guilty of professional misconduct as per Clause (1) of Part I of First Schedule** to the Chartered Accountants Act, 1949 **as he allowed CA Sant to practice in his name as Chartered accountant and CA Sant is neither in partnership nor in employment with CA. Pant.**

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| 29. | Mr. X, a Chartered Accountant in Practice filed his income tax return for the Assessment Year 2018-19 under section 44ADA of the Income Tax Act, 1961, declaring his income on presumptive basis. In a disciplinary proceeding against him for an alleged misuse of funds of his clients , it was asked that he should submit his books of accounts for the financial year ended on 31/03/2018. Mr. X refused to submit books of accounts 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 defense? Analyse the issues in the light of Professional Code, if any. |
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(PP Nov 18) (PP Nov 22)

Maintenance of Books of Account: As per the Council General Guidelines 2008, under Chapter 5 on maintenance of books of accounts, it is specified that if a chartered accountant in practice or the firm of Chartered Accountants of which he is a partner fails to maintain and keep in respect of his/its professional practice, proper books of account including the Cash Book and Ledger, he is deemed to be guilty of professional misconduct.

Accordingly, it **does not matter that as per section 44ADA of the Income Tax Act Mr. X declared his income on presumptive basis. Here, it may be noted that though 44ADA of the Income Tax Act exempt the requirement of books and accounts but as per -**

Council General Guidelines a chartered accountant in practice is required to maintain and keep proper books of accounts including cash book and ledger. Hence, **Mr. X is guilty** of professional misconduct.

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| 30. | D, a Chartered Accountant in practice was appointed by Realty Limited to represent its cases before GST Authorities under a duly executed power of representation. In the course of proceedings, he submitted certain statements-written as well as oral-which later found to be false and materially misleading. Comment this in the light of Professional Code. |
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(PP Nov 18)

Submitting Information as Authorized Representative: As per **Clause (5) of Part I of Second Schedule** to the Chartered Accountant Act, 1949, if a member in practice **fails to disclose a material fact known to him** which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading, where he is concerned with that financial statement in a professional capacity, he will be held guilty under Clause (5).

As per **Clause (6) of Part I of Second Schedule** if he **fails to report a material misstatement known to him** to appear in FS with which he is concerned in a professional capacity, he will be held guilty under Clause (6).

In given case, the Chartered Accountant had submitted the statements before the GST authorities. **These statements are based on the data provided by the management** of the company. Although the statements prepared were based on incorrect facts and misleading, the **Chartered Accountant had only submitted them acting on the instructions of his client as his authorized representative.**

Hence **Mr. D would not be held liable for professional misconduct.**

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| 31. | During the opening ceremony of a new branch office of CA. Young, his friend CA. Old introduced to CA. Young, his friend and client Mr. Rich, the owner of an Export House whose accounts had been audited by CA. Old for more than 15 Years. After few days, Mr. Rich approached CA. Young and offered a certification work which hitherto had been done by CA. Old. CA. Young undertook the work for a fee which was not less than fee charged by CA. Old in earlier period. Comment whether CA. Young had done any professional misconduct. |
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(PP Nov 18)

Acceptance of original professional work by a member emanating from the client Introduced to him by another member: As per **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means.

Further, some forms of the soliciting work which the **Council has prohibited include that a member should not accept the original professional work emanating from a client introduced to him by another member. If any professional work of such client comes to him directly, it should be his duty to ask the client that he should come through the other member dealing generally with his original work.**

In the given case, CA Old introduced his friend CA. Young to his friend and client Mr. Rich, the owner of an Export House whose accounts has been audited by CA. Old for more than 15 years. After a few day Mr. Rich approached CA. Young and offered a certification work which hitherto had been done by CA. Old. Fees charged by CA. Young is also not less than fee charged by CA. Old.

In view of above decision **CA Young should ask the client to come through CA Old.** However, CA Young undertook the work without informing CA. Old. Thus, **CA. Young is held guilty** under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

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| 32. | M & Co., a sole proprietary Chartered Accountant firm in practice with an office in a busy belt of a city, had great difficulty in regularly attending to the consultancy needs of his clients who are mostly located in an industrial cluster in a nearby outskirts which is situated at a distance of 26 kms from the office of the firm. To mitigate the difficulty and to have ease of business, a facilitation centre was opened in the industrial cluster. The proprietor managed, both the office and the facilitation centre , by himself. No intimation was made to ICAI. Examine whether there, is any professional misconduct in this respect. |
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(PP May 18)

Maintenance of Branch Office in the Same City: As per **section 27** of the Chartered Accountants Act, 1949 if a chartered accountant in practice has **more than one office in India, each one of these offices should be in the separate charge of a member of the Institute.** However, a member **can be in charge of two offices** if the second office is located in the same premises or in the same city, in which the first office is located; or the **second office is located within a distance of 50 Kilometers from the municipal limits** of a city, in which the first office is located. Further a member having two offices of the type referred to above, shall **have to declare which of the two offices is his main office, which would constitute his professional address.**

In the given case, M & Co., a sole proprietary Chartered Accountant firm in practice with an office in a busy belt of a city and had great difficulty in regularly attending to the consultancy needs of his clients. Therefore, a facilitation centre was opened in the industrial cluster and the proprietor is managing both the office and facilitation centre.

Though distance between his office and facilitation centre i.e. **sort of second office is within prescribed range** i.e. 50 kilometers but M& Co., **will be liable for misconduct as prescribed intimation about facilitation centre and main office should be sent to the Institute of Chartered Accountants of India.**

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| 33. | A film artist who was going abroad for long shooting, deposited a sum of ₹ 20 lakhs with his tax consultant Mr. G, a practicing Chartered Accountant for payment of Goods and Service Tax monthly when they were due, Mr. G duly remitted all but one instalment. He utilised the amount of instalment which he did not pay, to remit his own advance income tax. |
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However, **while filing return of GST** of the film artist, **he duly remitted on her behalf the tax payable with interest due for late payment of GST out of money lying with him.** He also bore for himself the interest due to short fall in remittance of tax of his client. Comment on the above in the light of Code of Conduct.

(PP May 18)

Money of Clients to be Deposited in Separate Bank Account: Clause (10) of Part I of Second Schedule states that a Chartered Accountant shall be deemed to be guilty of professional misconduct if “he fails to keep money of his clients in separate banking account or to use such money for the purpose for which they are intended”.

In the instant case, CA. G received sum of rupees 20 lakh from his client who is a film artist for monthly installment payment of Goods and Service Tax. This money should have been deposited in a separate bank account. CA. G utilized the amount of last installment for his own advance tax payment, though he paid the same along with interest and bore the interest due to short fall in remittance of tax of his client.

As per fact of the case **CA. G has failed to keep the sum of rupees 20 lakh received on behalf of his client in a separate Bank Account and utilized the same for his own advance tax payment amounts to professional misconduct** under Clause (10) of Part I of Second Schedule.

34.	Mr. Raj, a practicing Chartered Accountant was ordered to surrender his certificate of practice and he was suspended for two years for accepting the appointment as an auditor of a company without ascertaining the requirements of section 139 and 140 read with section 141 of Companies Act, 2013. During the period of suspension, Mr. Raj, designating himself as Data Privacy consultant, did the work of filing Data Privacy related returns and made appearance as a consultant before various related authorities in other capacity other than Chartered Accountant in Practice. He contended that there is nothing wrong in it as he, like any other consultant, could take such work and his engagement as such in no way violate the order of suspension inflicted on him. Kindly guide Mr. Raj whether can he appear before various Data Privacy related authorities when he is under period of suspension in light of section 6 of the Chartered Accountants Act, 1949. (MTP Nov 23)
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Section 6 of the Chartered Accountants Act, 1949 provides that: -

- i. **No member of the Institute shall be entitled to practice whether in India or elsewhere unless he has obtained from the Council a certificate of practice:** It may be noted that this provision is not applicable to any person who, immediately before the commencement of this Act, has been in practice as a registered accountant or a holder of a restricted certificate until one month has elapsed from the date of the first meeting of the Council.
- ii. Every such member shall **pay such annual fee for his certificate** as may be determined, by notification, by Council.
- iii. The **certificate of practice obtained under sub-section (1) may be cancelled by the Council under such circumstances** as may be prescribed.

Once the person concerned becomes a member of the Institute, he is bound by the provisions of the Chartered Accountants Act and its Regulations. If and when he appears before the Income-tax Tribunal as an Income-tax representative after having become a member of the Institute, he could so appear only in his capacity as a Chartered Accountant and a member of the Institute. Having, as it were, brought himself within the jurisdiction of the Chartered Accountants Act and its Regulations, **he could not set them at naught by contending that even though he continues to be a member of the Institute and has been punished by suspension from practice as a member, he would be entitled, in substance, to practice in some other capacity.**

In the current case, Mr. Raj, designating himself as Data Privacy consultant, did the work of filing Data Privacy related returns and made appearance as a consultant before various related authorities in other capacity other than Chartered Accountant in Practice. As a result, **he is not appearing in the capacity of Chartered Accountant in Practice and hence he is not violating the suspension order.**

35.	A practicing Chartered Accountant uses a visiting card in which he designates himself, besides as Chartered Accountant, as (i) Tax Consultant (ii) Cost Accountant. Advise on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto. (MTP Nov 18)
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(i) **Tax Consultant:** Section 7 of the Chartered Accountants Act, 1949 read with Clause (7) of Part I of the First Schedule to the said Act prohibits advertising of professional attainments or services of a member. It also restrains a member from using any designation or expression other than that of a chartered accountant in documents through which the professional attainments of the member would come to the notice of the public. Under the clause, use of any **designation or expression other than chartered accountant** for a chartered accountant in practice, on professional documents, visiting cards, etc. **amounts to a misconduct unless it be a degree of a university or a title indicating membership of any other professional body recognised by the Central Government or the Council.** Thus, it is improper to use designation "Tax Consultant" since **neither it is a degree of a university established by law in India or recognised by the Central Government nor it is a recognised professional membership by the Central Government or the Council.**

(ii) **Cost Accountant:** As stated in the preceding paragraph, this would also constitute misconduct under **section 7 of the Act read with Clause (7) of Part I of the First Schedule** to the Chartered Accountants Act, 1949. A chartered accountant in practice cannot use any other designation than that of a chartered accountant. **Nevertheless, a member in practice may use any other letters or descriptions indicating membership of accountancy bodies which have been approved by the Council.** Thus, it is improper for a chartered accountant to state in his documents that he is a "Cost Accountant". However as per the Chartered Accountants Act, 1949, the Council has resolved that the members are permitted to use letters indicating membership of the Institute of Cost and Works Accountants but not the designation "Cost Accountant".

36.	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?
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(PP May 18)

Filing of GST Returns and Appearance as GST Consultant: A chartered accountant not holding certificate of practice cannot take up any other work in the capacity of Chartered Accountant in practice 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.

In case he files GST returns and appears as a consultant before various related authorities in his capacity as a chartered accountant and a member of the Institute, having bound himself by the said Act and its Regulations made thereunder, he cannot then set the Regulations at naught by contending that even though he continues to be a member and has been punished by suspension, he would be entitled to practice in some other capacity. But if he 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.

In the instant 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.**

Thus, Mr. Dice would not be allowed to represent as a Chartered Accountant before various related authorities for the period he remains suspended.

Accordingly, in the **present case he is guilty** of professional misconduct.

37. CA Praful has recently qualified and has obtained certificate of practice. In the initial years, it is taking time to set up his clientele base. He is also conducting **audit of few entities**. Simultaneously, **he plans to provide coaching to CA students online taking advantage of his fresh reservoir of knowledge**. Therefore, he **advertises his classes on various social media platforms**. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(MTP Nov 22)

Regulation 190A of Chartered Accountants Regulations, 1988 provides that a chartered accountant in practice shall not engage in any business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the Council.

The Council has passed a resolution under Regulation 190A granting **general permission for private tutorship and part time tutorship under coaching organization of the Institute**. Such general permission is subject to the condition that **direct teaching hours devoted to such activities taken together should not exceed 25 hours a week** in order to be able to perform attest functions.

However, **Clause 6 of Part I of the First Schedule** to the Chartered Accountants Act, 1949 states that Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means;

Further, an **advertisement of online coaching activities through social media platforms amounts to indirect solicitation as well as solicitation by another means and is, therefore, violative of Clause 6 of Part I of the First Schedule** to Chartered Accountants Act, 1949.

Therefore, although a member in practice can engage in private tutorship subject to Council Guidelines but he **cannot advertise by any means for coaching activities** as it amounts to indirect solicitation of clients and professional work.

In the given case, CA Praful is providing coaching to CA students online and also advertising his classes on various social media platforms. In view of above, CA. Praful is **guilty of professional misconduct** under Clause (6) of Part I of First Schedule for advertising his classes on various social media platforms.

38. CA. Vasu started his practice from August 15, 2021. On 16th August 2021, one female candidate approached him for articleship. **In addition to monthly stipend, CA. Vasu also offered her 2% profits** of his CA firm. She agreed to take both 2% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India **sent a letter to CA. Vasu objecting the payment of 2% profits**.

CA. Vasu replies to the ICAI stating that he is paying % profits of his firm over and above the stipend **to help the articled clerk as the financial position of the articled clerk is very weak. Is CA. Vasu liable to professional misconduct?** Comment with reference to the Chartered Accountants Act, 1949.

(MTP Nov 22) (May 16) (Nov 13)

Sharing Fees with an Articled Clerk: As per **Clause (2) of Part I of First Schedule** to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the **objections of ICAI, as given in the case, are correct and reply of CA. Vasu**, stating that he is paying 2% profits of his firm over and above the stipend to help the articled clerk as the position of the articled clerk is weak, **is not tenable**.

Hence, **CA. Vasu is guilty** of professional misconduct in terms of Clause (2) of Part I of First Schedule.

39.	Mr. R has been appointed as the statutory auditor of Famous Ltd. which is a listed company. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 3 lakh each, and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be done after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 25th, 2023 along with the remaining part of the Audit Fee. Discuss the validity of above fee structure and terms of payment in the light of applicable provisions. (PP Nov 23)
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Audit Fees: As per **Chapter X of Council General Guidelines, 2008** a member of the Institute in practice or a partner of a firm in practice or a firm shall **not accept appointment as auditor of a concern while indebted to the concern** or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in **other cases for amount exceeding ₹ 1,00,000/-**.

Under section 141(3) of the Companies Act, 2013 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a person shall be **disqualified to be appointed as auditor if he or his relative or his partner is indebted in excess of rupees five lakh to the company** or its subsidiary or its holding company or its associate company or a subsidiary of such holding company.

However, the Research Committee of the ICAI has expressed the opinion that where in accordance with the terms of engagement of auditor by a client, the **auditor recovers his fees on a progressive basis as and when a part of the work is done without waiting for the completion of the whole job**, he cannot be said to be indebted to the company at any stage.

Conclusion: In the instant case, Mr. R is appointed to conduct statutory audit of Famous Ltd., a listed entity and it was decided in the terms of acceptance of audit, that the whole audit fee shall be payable in four installments of rupees 3 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting every quarter. He has received the audit fees of ₹ 3,00,000 in respect of two quarters, but for third and fourth quarter the payment of fess was received on March 25th, 2023, for the year ended 31.3.2023 which is on progressive basis.

Therefore, Mr. R will **not be held guilty for misconduct**.

40.	SAM Yarns Limited - a listed Company, having its registered office at Meerut is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside factory, the level of pollution is kept at a level below the prescribed standard. The Company managed to get pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. Amount of ₹ 10.25 Lacs had been incurred for arranging clearance certificate and the amount incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached to those in governance, and the Director-Finance who is a Chartered Accountant came to know of these matters on review of major expenditure incurred during the period. Comment the action/responses expected of Director - Finance (CA Rahul) referring to any applicable requirements of Responses for NOCLAR under Code of Ethics. (PP May 23)
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In the given situation, SAM Yarns Limited, a **listed company**, has installed pollution control equipment for processing the pollutants to keep the level of pollution below the prescribed standard. The company managed to get pollution certificate by unfair means whereas breach of pollution control laws still continues. For arranging clearance certificate amount of 10.25 lakhs had been incurred unlawfully. **CA. Rahul, Director Finance**, came to know about these matters on review of the same during the period.

NOCLAR, under Code of Ethics, is **applicable on professional accountants in service, and in practice**. Among those in practice, it applies to Auditors, as well as professional services other than Audit.

It is **applicable to Senior Professional Accountants in service, being employees of listed entities**. Senior professional accountants in service ("senior professional accountants") **includes directors**.

NOCLAR takes into account **non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms**.

As per NOCLAR, in exceptional circumstances, the **professional accountant might become aware of an imminent breach of a law or regulation** that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the **accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach**. If disclosure is made, that disclosure is permitted.

CA Rahul, Director-Finance is expected of taking the following action/responses:

- Obtaining an Understanding of the Matter.
- Addressing the Matter.
- Determining Whether Further Action Is Needed.
- Seeking Advice.
- Determining Whether to Disclose the Matter to an Appropriate Authority.
- Imminent Breach.
- Documentation.

41.	CA D is serving as Vice-President (finance) of TM Industries, a firm. A huge claim lodged by firm for ₹20 crores with an insurance company was just paid for ₹2 crores. Aggrieved by it, mgmt of TM Industries has decided to go in for arbitration proceedings under Arbitration and Conciliation Act, 1996. Unaware of lawyers dealing in this field, management requests CA D to help them find out a suitable lawyer. Being a smart person, CA D has links with one such lawyer. His understanding with arbitration lawyer was to receive 25% of fees agreed between lawyer and client by way of commission . Comment whether CA D is guilty of professional conduct.
<i>(MTP Nov 23)</i>	

Clause 2 of Part II of First Schedule to Chartered Accountants Act states that a member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such Company, firm or person or agent or customer of such Company, firm or person by way of commission or gratification.

Therefore, **CA D is guilty of professional misconduct** as discussed above.

42.	SR and Associates are the statutory auditor of ABC Ltd. Audit of the company is pending for F.Y 2021-22 and 2022-23 due to a dispute between auditor and company with respect to certain proposed remarks by the auditor in the audit report for F.Y. 2021-22. The company removed the auditor on 02.05.2023 in shareholders meeting complying with all legal formalities . SR and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. ABC Ltd complained to ICAI against SR and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949.
<i>(PP May 23)</i>	

Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he **discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force**.

An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the

performance of his professional duties for which his services have been engaged. The **Code of Ethics** further clarifies that such a duty continues even after completion of the assignment.

In the given situation, **SR & Associates complained to the Registrar of Companies (ROC)** through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. **SR & Associates made voluntary disclosure of the information acquired during the professional engagement without consent of the client and without there being any requirement in law to disclose the same.**

43. Mr. Sirish, a Chartered Accountant in practice, **delivered a speech** in the **national conference** organized by the Ministry of Information Technology. While delivering the speech, he **told the audience that he is a Cybersecurity Expert and his firm provides services of cloud accounting, IT governance, risk compliance and information security at reasonable rates.** He also **requested the audience to approach** his firm of chartered accountants for these services and at the request of the audience he also **distributed his business cards and telephone number** of his firm to those in the audience. Comment in the light of professional Code of Ethics.

OR

Mr. Rival, a Chartered Accountant in practice, delivered a speech in the **national conference** organized by the Ministry of Textiles. While addressing the audience, he informed that he is **a management expert** and his firm provides services of taxation and audit at reasonable rates. He also **requested the audience to approach his firm of chartered accountants for these services and at the request of audience he also distributed his business cards and telephone number of his firm to those in the audience.** Comment.

(PP May 22) (MTP Nov 19) (Nov 13)

Using Designation Other Than a CA and Providing Details of Services Offered: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means. Such a restraint has been put so that the members maintain their independence of judgment and may be able to command respect from their prospective clients.

Section 7 of the Chartered Accountants Act, 1949 read with Clause (7) of Part I of the First Schedule to the said Act prohibits advertising of professional attainments or services of a member. It also restrains a member from using any designation or expression other than that of a chartered accountant in documents through which the professional attainments of the member would come to the notice of the public. Under the clause, use of any designation or expression other than chartered accountant for a chartered accountant in practice, on professional documents, visiting cards, etc. amounts to a misconduct unless it be a degree of a university or a title indicating membership of any other professional body recognised by the Central Government or the Council.

In view of above, it is improper to use designation "**Cybersecurity Expert**" since **neither it is a degree of a University** established by law in India or recognised by the Central Government **nor it is a recognised professional membership** by the Central Government or the Council. Therefore, he is deemed to be **guilty** of professional misconduct under **both Clause (6) and Clause (7)** as he has used the designation "Cybersecurity Expert" in his speech and also he has made **reference to the services provided by his firm of Chartered Accountants at reasonable rates. Distribution of cards to audience is also misconduct in terms of Clause (6).**

44. CA X has issued report in Form 29B under the Income-tax Act, 1961 **wrongly computing "book profits"** of a company for financial year 2021-22. He has signed the said form **hurriedly without ascertaining the required adjustments** to be made for arriving at the "book profits" of the company. Subsequently, the company's ITR was picked up for scrutiny under faceless assessment scheme on 29.6.23, and matter came to light of tax authorities. **Which fundamental principle of professional ethics is violated in this situation?**

(MTP Nov 23)

The **principle of integrity** requires an accountant to be **straightforward and honest** in all professional and business relationships. Integrity implies **fair dealing and truthfulness**. A professional accountant shall **not knowingly be**

associated with reports, returns, communications or other information where the accountant believes that the **information**: -

- Contains a **materially false or misleading statement**.
- Contains statements or information **provided negligently**; or
- **Omits or obscures required information** where such omission or obscurity would be misleading.

45. C.A. Bahubali is **Special Executive Magistrate**. He also took over as the **executive chairman of Software Company** on 1.4.2021. He is also a **leading income tax practitioner** and **consultant for derivative products**. He resides in Chennai near to the ION commodity stock exchange and **does trading in commodity derivatives**. Every day, he invests nearly 38% of his time to settle the commodity transactions. He has **not taken any permission for becoming Special Executive Magistrate**. However, **he has got special permission of Council of ICAI for becoming executive chairman**. Is C.A. Bahubali liable for professional misconduct? Comment with reference to the Chartered Accountants Act.

(MTP Dec 21) (MTP Nov 22) (RTP May 21)

Engaging into a Business: As per **Clause (11) of Part I of First Schedule** of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has **granted general permission to the members to engage in certain specific occupation**. In respect of all other occupations specific permission of the Institute is necessary.

In this case, C.A. Bahubali is Special Executive Magistrate, engaged in the occupation of trading in commodity derivatives and also took over as the Executive Chairman on 01.04.2021.

In this context, it may be noted that the **Special Executive Magistrate which is generally permitted** for Members of the Institute in practice, further **specific permission is required for holding the position of Executive Chairman and getting engaged in the occupation of trading in commodity derivatives**.

In the given situation, C.A. Bahubali is acting as **Special Executive Magistrate which is generally permitted** for Members of the Institute in practice. Further, He is **engaged in the occupation of trading in commodity derivatives which is not covered under the general permission**. He also took over as the **Executive Chairman for which specific permission is required**. CA. Bahubali got the permission for the same from the Council of ICAI.

Conclusion: Hence, CA. Bahubali is **not guilty for acting as Special Executive Magistrate** as it is covered under the general permission. He is also **not guilty for holding the position of Executive Chairman after getting specific permission of the Institute**.

However, he is **guilty of professional misconduct under Clause (11) of Part I of First Schedule** of Chartered Accountants Act, 1949 for **getting engaged in the occupation of trading in commodity derivatives which is not covered under the general permission**.

46. A **letter is sent by Mr. Raja**, a Chartered Accountant in practice, **to the Ministry of Finance** inquiring **whether a panel of auditors is being maintained by the Ministry** and if so to **include his name** in the panel. He also enclosed his CV. Comment on the above with reference to the Chartered Accountants Act, 1949.

(MTP May 21)

Making Roving Inquiries: **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means. Such a restraint has been put so that the members maintain their independence of judgement and may be able to command respect from their prospective clients.

In case of making an application for the empanelment for the allotment of audit and other professional work, the Council has opined that, **“where the existence of such a panel is within the knowledge of the member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the member to make roving inquiries by applying to any such organization for having his name included in any such panel.”**

Accordingly, Mr. Raja is **guilty** of misconduct in terms of the above provision as he has solicited professional work from the Finance Ministry, by inquiring about the maintenance of the panel.

47.	Mr. Z, a newly qualified chartered accountant started his practice in February 2018 by setting up an office in the hill station Kodaikanal. Initially, since he was getting very less assignments, he decided to set up a temporary office in the nearby city Marudai, situated at about 100 kms from the main office. As planned, he took an office space on rent for the months of April, May & June. During these months, his regular office was not closed and Mr. Z was in-charge for both the offices. Mrs. A, another newly qualified chartered accountant who is also in practice in Marudai came to know about the new office of Mr. Z. Thinking that he could be a potential competitor, she informed the institute stating that Mr. Z had violated the provisions of the Chartered Accountant Act. As a member of the Board of Discipline of ICAI, you are requested to analyse this complaint. <i>(MTP May 21)</i>
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As per **section 27** of Chartered Accountants Act 1949, if a Chartered Accountant in practice or a Firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. Failure on the part of a member or a firm to have a member in charge of its branch and a separate member in case of each of the branches, where there is more than one, would constitute professional misconduct. This condition applies to any additional office situated at a place beyond 50 kms from the municipal limits in which any office is situated.

However, **exemption has been given to members in practicing in hill areas** subject to certain conditions such as:

- Such member/ firm be allowed to open temporary offices in a city in the plains for a limited period **not exceeding 3 months in a year**.
- The **regular office need not be closed** during this period and all correspondence can continue to be made at the regular office.
- The **name board of the firm in temporary office should not be displayed at times other than the period such office is permitted to function**.
- The **temporary office should not be mentioned in letter head**, visiting card, any other documents as a place of business of the member/ firm.
- Before commencement of every winter, it shall be **obligatory on the member/firm to inform the Institute** that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to Institute by registered post.

In the given case, Mr. Z has set up his regular office in the hill area of Kodaikanal, he decided to set up a temporary office in the nearby city Marudai, situated at about 100 kms from the main office. As planned, he took an office space on rent for the months of April, May & June. During these months, his regular office was not closed. Further he was in-charge for both the offices. In view of abovementioned criteria's, he is eligible to avail the benefits of the above exemptions.

Also, it is given that the temporary office was open in Madurai for only 3 months and not beyond that. The **fact that Mr. Z is in-charge for both the offices, the temporary office being set-up in the plains which is 100 kms away and the regular office kept open during the 3 months does not constitute any violation** of the provisions of the Chartered Accountant Act. Assuming Mr. Z has informed the Institute regarding such temporary office.

Therefore, in the given case, **no penal action needs to be taken** on the basis of complaint registered by Mrs. A, as **Mr. Z is not guilty of professional misconduct**.

48.	M/s SS limited is a partly owned subsidiary of M/s HH limited. For the upcoming financial year, M/s DD & Co., Chartered Accountants, were appointed as the statutory auditors of SS limited. The CEO of the holding company was impressed with the knowledge and experience of Mr. D, one of the partners of the firm and hence, he offered Mr. D to take up the position of Director (not MD/ whole- time director) of HH limited. At the same time, Mr. D's friend approaches him with an assignment to act as a Recovery Consultant for a bank. Mr. D is now confused whether to accept or reject the offers. He approaches you and seeks your advice on the same. Advise what Mr. D about what he can do with the offers with reference to the Chartered Accountants Act, 1949 and Schedules thereto. <i>(MTP May 21)</i>
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As per **Clause (11) of Part I of First Schedule** of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

Provided nothing contained herein shall disentitle a chartered accountant from being a director of a company (not being MD or whole-time director) unless he or his partners is interested in such company as auditor.

The Ethical Standards Board (ESB) noted that **public conscience is expected to be ahead of law**. Members, therefore, are **expected to interpret the requirement as regards independence much more strictly than what the law requires** and **should not place themselves in positions which would either compromise or jeopardize their independence**. In the view of the above, the Board, via a clarification, decided that the **auditor of a Subsidiary company cannot be a Director of its Holding company, as it will affect the independence of the auditor**.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary. **'acting as Recovery Consultant in the banking sector' is covered under general permission.**

In the given situation, M/s **SS limited** is a partly owned subsidiary of M/s **HH limited**. For the upcoming financial year, M/s **DD & Co.**, Chartered Accountants, were appointed as the statutory auditors of **SS limited**. The CEO of the holding company was impressed with the knowledge and experience of Mr. D, one of the partners of the firm and hence, he offered Mr. D to take up the position of Director (not MD/ whole-time director) of **HH limited**. Further, Mr. D's friend approached him for an assignment for acting as a Recovery Consultant for a bank. Therefore, in view of above in the given case, **Mr. D should not accept the offer to be appointed as director of HH Limited. However, he can accept the assignment offered by his friend and can act as a recovery consultant.**

49.	Mr. Aniket, a Chartered Accountant was the auditor of 'Alpha Limited' for the year 2018-19 and 2019-20. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 11 lac and was the same amount as in the last year 2018-19. Later on, it was found that the company's investments were only for ₹ 45,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949. <i>(MTP Nov 20) (MTP May 24) (MTP Nov 18)</i>
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Gross Negligence in Conduct of Duties: As per Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he,

- **certifies or submits in his name** or in the name of his firm, a **report of an examination of FS unless the examination** of such statements and the related records **has been made** by him or by a partner or an employee in his firm or by another chartered accountant in practice, under **Clause (2)**;
- **does not exercise due diligence**, or is grossly negligent in conduct of his professional duties, under **Clause (7)**; or
- **fails to obtain sufficient information** which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, under **Clause (8)**.

The primary duty of physical verification and valuation of investments is of the management. However, the **auditor's duty is also to verify the physical existence and valuation of investments placed, at least on the last day** of the

accounting year. The auditor should **verify the documentary evidence** for the cost/value and **physical existence** of the investments at the end of the year. He should **not blindly rely upon the Management's representation**.

In the instant case, **such non-verification happened for two years**. It also appears that auditors **failed to confirm the value of investments from any proper source**. In case auditor has simply **relied on the management's representation**, the auditor has failed to perform his duty.

Conclusion: Accordingly, Mr. Aniket, will be **held liable for professional misconduct** under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

50.	Mr. Dhruv, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements . Comment with reference to Chartered Accountants Act, 1949. (MTP Nov 20) (RTP Nov 19) (RTP Nov 18) (May 13)
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Not Exercising Due Diligence: According to **Clause (7) of Part I of Second Schedule** of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

It is a vital clause which unusually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

Where a Chartered Accountant had **not completed his work relating to the audit** of the accounts a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirement in this regard, he would be held guilty of professional misconduct under Clause (7).

Since Mr. Dhruv has not completed his audit work in time and consequently could not submit audit report in due time and consequently, company could not comply with the statutory requirements, therefore, the auditor is **guilty** of professional misconduct under Clause (7) of Part I of the Second Schedule to Chartered Accountants Act, 1949.

51.	CA. Gyan is a Chartered Accountant in practice and also an engineer by qualification . He wants to pursue a registered valuer course and work as a registered valuer for plant and machinery under the Companies Act, 2013. Comment on above with reference to provisions of the Chartered Accountants Act, 1949. (MTP May 24)
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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 the Chartered Accountants in practice or in partnership with members of such other recognised professions as may be prescribed, 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"** which, inter alia, includes rendering services of **valuation of shares and business** and advice regarding amalgamation, merger and acquisition, **acting as Registered Valuer** under the Companies Act, 2013 read with the Companies (Registered Valuers and Valuation) Rules, 2017. In this regard, **such rules qualify Chartered Accountants for valuation of the securities or the financial Assets only and not for the Plant and Machinery**. Therefore, **valuation of plant and machinery does not form part of Management Consultancy and other services permitted by the council**.

Further, in accordance with **resolution passed under Regulation 190A of the Chartered Accountant Regulations, 1988**, members in practice are generally permitted for attending classes and appearing for any examination. **There is no need to take prior permission of ICAI in this regard**. Therefore, it is generally permitted for a member

in practice to attend classes and appear for any examination, and accordingly, **doing the Registered valuer course would be deemed as permissible.**

Hence, keeping in view above and in terms of the provisions of the Chartered Accountants Act, 1949 and Code of Ethics, **it is not permissible for a Chartered Accountant in practice to work as an Engineer/ valuer in plant & machinery simultaneously.**

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| 52. | 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. |
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(MTP Nov 20) (MTP May 23)

Section 21 of the Chartered Accountants Act, 1949 provides that a member is **liable for disciplinary action** if he is guilty of any professional or **“Other Misconduct.”** Other misconduct has been defined in part IV of the First Schedule and part III of the Second Schedule. These provisions empower the Council to inquire into any misconduct of a member even it does not arise out of his professional work. This is considered necessary because a chartered accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action. The Council has also laid down that among other things **“misappropriation by an office-bearer of a Regional Council of the Institute of a large amount and utilization thereof for his personal use” would amount to “other misconduct”.**

In the instant case, receipt of personal benefit of ₹ 40,000 from the tour operator by Mr. Chintamani for organizing an international tour as treasurer of a Regional Council of the Institute would amount to other misconduct as per section 21. Therefore, Mr. Chintamani would be held **guilty** for other misconduct.

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| 53. | Mr. Yuvi , a Chartered Accountant in practice , is the auditor of Prime Ltd. He advised the Managing Director of the company to include ‘orders under negotiation’ in sales, to reflect higher profit and better financial position for obtaining bank loans in future. Mr. Yuvi, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts. Comment. |
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(MTP May 20) (MTP May 23)

Grossly Negligent and Bringing Disrepute to the Institute: Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

Furthermore, **Clause (2) of Part IV of the First Schedule** to the said Act states that 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** as a result of his action whether or not related to his professional work.

In the given case, Mr. Yuvi, a Chartered Accountant in practice, is **grossly negligence in conduct of his professional duties by issuing clean reports on the balance sheet without examining the accounts**. Further, he has also brought **disrepute to the profession by advising unethical practice** to the managing director of the company. Therefore, Mr. Yuvi will be **held guilty for professional and other misconduct** under abovementioned Clauses.

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| 54. | 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. |
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(PP Dec 21)

In the given case, in the course of audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

According to **Clause (7) of Part I of Second Schedule of Chartered Accountants Act, 1949**, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he **“does not exercise due diligence or is grossly negligent in the conduct of his professional duties”**.

As per **SA 240**, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the **auditor did not plan and perform the audit with an attitude of professional skepticism**. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

From the facts given in the case and by applying **Clause (7) and SA 240**, it is clear that the auditor is **guilty** of professional misconduct and the directors can file disciplinary proceedings against the auditor.

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| 55. | The manager of Miskin (P) Ltd. approached CA. Rahul in need of a certificate in respect of a consumption statement of raw material . Without having certificate of practice (CoP) , CA. Rahul issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute. |
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(MTP May 24) (RTP May 19) (RTP May 18)

Issuing Certificate without having Certificate of Practice: As per **Clause (1) of Part II of Second Schedule** to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he **contravenes any of the provisions of this Act or the Regulations** made thereunder or any Guidelines issued by the Council.

This clause requires **every member of the Institute to act within the framework** of the Chartered Accountants Act, 1949 and the Regulations made thereunder. **Any violation either of the Act or the Regulations by a member would amount to misconduct.**

In the given case, CA. Rahul has issued a certificate in respect of a consumption statement of raw material to the manager of Miskin (P) Ltd., as a **Chartered Accountant in practice when he had not even applied for the CoP to the Institute, thereby contravening the provisions of section 6** of the Chartered Accountants Act, 1949.

Therefore, CA. Rahul will be **held guilty of professional misconduct in terms of Clause (1) of Part II of Second Schedule** to the Chartered Accountants Act, 1949 for contravention of provisions of this Act.

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| 56. | CA. T, in practice, was appointed to carry out internal audit of a stock broker, listed with BSE . However, he failed to intimate his appointment to the statutory auditors of the company. The statutory auditor feels this is violation of professional ethics . Comment with reference to the Chartered Accountants Act, 1949. |
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(MTP May 19)

As per **Clause (8) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a chartered accountant in practice is deemed to be guilty of professional misconduct, if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been Issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

This clause is applicable in situation of replacing of one auditor by another auditor. Internal auditor and statutory audition are parallel positions and not replacement positions. The mgmt generally appoints the internal auditor whereas the statutory auditor will be appointed by the shareholders in the AGM. In this situation, **there is no need for communication by one to other.**

In view of above the **contention of the statutory auditor is unacceptable** and there is **no question of communicating** in writing by Mr. T.

57.	In the course of his audit assignment in M/s Bailey Ltd., CA Soft came to know that the company, due to financial crunch and unable to meet employees salary, has taken a loan of Rs. 50 lacs from Employees Gratuity Fund. The said loan was not reflected in the books of account of the company and the auditor ignored this transaction in his report. Comment with reference to the Chartered Accountants Act, 1949. OR Mr. Sheetal, a Chartered Accountant during the course of audit of SS Ltd. came to know that the company has taken a loan of ₹ 12 lakh from Employees Provident Fund. The said loan was not reflected in the books of account. However, the auditor ignored this information in his report. Comment. (MTP May 19) (MTP Dec 21)
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Failure to Disclose Material Facts: As per **Clause (5) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a chartered Accountant in practice will be held liable for misconduct if he fails to disclose a material fact known to him, which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading.

In this case, CA. Soft has come across information that a loan of Rs. 50 lakhs have been taken by the company from Gratuity Fund. This is **contravention of Rules and the said loan has not been reflected in the books of account.**

Further, this **material fact has also to be disclosed in the financial statements.** The very fact that CA. Soft has failed to disclose this fact in his report, he **would be guilty for professional misconduct** under Clause (5) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

58.	A special notice has been issued for a resolution at 2nd annual general meeting of Fiddle Ltd. providing expressly that CA. Smart shall not be re-appointed as an auditor of the company. Consequently, CA. Smart submitted a representation in writing to the company as provided under section 140(4)(iii) of the Companies Act, 2013. In the representation, CA. Smart incorporated his independent working as a professional throughout the term of office and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the Company. Comment. (MTP May 19) (Nov 19 (MTP May 18) (MTP May 24)
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Soliciting Clients: As per **Clause (6) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means except applying or requesting for or inviting or securing professional work from another chartered accountant in practice and responding to tenders.

Further, section 140(4)(iii) of Companies Act, 2013, **provides a right, to the retiring auditor, to make representation** in writing to the company. Retiring auditor has right for his representation to be circulated among the members of the company and to be read out at the meeting. However, **content of letter should be set out in a dignified manner how he has been acting independently and conscientiously through the term** of his office and may, in addition, **indicate, if he so chooses, his willingness to continue as auditor,** if re-appointed by shareholders.

Thus, the incorporation as an independent professional, made by CA. Smart, while submitting representation under section 140(4)(iii) of the Companies Act, 2013 and indication of willingness to continue as an auditor if reappointed by shareholders, **does not leads to solicitation.**

Therefore, CA. Smart will **not be held guilty for professional misconduct** under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949.

59.	CA. Evan has been in practice for two years and runs his proprietorship firm in the name of "Evan & Co." He maintains notes in his mobile where he records the fees received from various clients. Using these records, he prepares and files his income tax return. Comment. (MTP May 24) (RTP May 18)
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Maintenance of Books of Account by a CA in Practice: Chapter V of the Council General Guidelines, 2008 specifies that a member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his professional practice, proper books of accounts including the following-

- (i) a Cash Book
- (ii) a Ledger

Thus, a Chartered Accountant in practice is required to maintain proper books of accounts.

In the instant case, CA. Evan **does not maintain proper books of accounts** and writes the fees received from various clients in notes on his mobile. **Notes maintained by him in mobile cannot be treated as books of accounts.**

Hence, CA. Evan, being a practicing Chartered Accountant **will be held guilty of misconduct** for violation of Council General Guidelines, 2008.

60.	M/s. ABC, a firm of Chartered Accountants received Rs. 2 lakhs in July, 2018 from a client to pay the Advance Tax. However, the firm has used that money for its own purpose and later on adjusted the same with the outstanding fee payable. Comment with reference to the Chartered Accountants Act, 1949. OR M/s Amudhan & Co., a firm of Chartered Accountants, received ₹ 2.8 lakhs in January, 2019 on behalf of one of their clients, who has gone abroad and deposited the amount in their Bank account, so that they can return the money to the client in July, 2019, when he is due to return to India. <i>(MTP May 19) (RTP Nov 19) (Nov 14)</i>
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Money of clients to be deposited in separate bank account: **Clause (10) of Part I of Second Schedule** states that a Chartered Accountant shall be deemed to be guilty of professional misconduct if “he fails to keep money of his clients in separate banking account or to use such money for the purpose for which they are intended”.

M/s. ABC received the money in March, 2015 for payment of the advance tax; hence it **should be deposited in a separate bank account**. Since in this case M/s. ABC have **failed to keep** the sum of Rs. 2 lakhs received on behalf of their client **in a separate Bank Account**, it **amounts to professional misconduct** under Clause (10) of Part I of Second Schedule.

61.	Mr. 'E', a practicing Chartered Accountant, was requested by one of his clients to prepare a projection for next five years and also a report on the same. Mr. 'E' after having prepared the same stated in his report ‘The sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. He also stated that he does not vouch for the accuracy of the forecasts.’ Comment. <i>(May 14)</i>
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Certification of Financial Forecast: As per **Clause (3) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a chartered accountant in practice is deemed to be guilty of professional misconduct if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

Accuracy does not refer to arithmetical accuracy. All forecasts are estimates based on certain assumptions duly evaluated on a consideration of various relevant factors and cannot be ascertained with accuracy. The Guidance Note on Accountants Report on Profit Forecasts and/or financial forecast considered the implications of this clause and made it clear that the chartered accountant **can participate in the preparation of profit or financial forecasts and review them**. But, first of all, he should **clearly indicate in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts** and, secondly, he **should not vouch for the accuracy of the forecasts**.

In the instant case, Mr. E after having prepared the projections for next five years stated in his report, “the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts.” He also stated that he does not vouch for the accuracy of the forecasts. Therefore, there is **no violation** of the Chartered Accountants Act, 1949 and its Regulations.

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| 62. | Lily, a chartered accountant prepares and certifies projected financial statements of his client Amazon Ltd. Amazon Ltd. forwarded the same to their banks to secure some loans and bank, on that basis sanctioned a loan. Comment with reference to the Chartered Accountants Act, 1949. |
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(MTP Nov 18) (May 17)

Certification of Projected Financial Forecast: Under **Clause (3) of Part I of Second Schedule** to the Chartered Accountants Act, 1949, a chartered accountant in practice is deemed to be guilty of professional misconduct if he **permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions** in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

Further, SAE 3400 "The Examination of Prospective Financial Information", provides that the **management is responsible for the preparation and presentation of the prospective financial information**, including the identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions.

The auditor may be asked to **examine and report on the prospective financial information** to enhance its credibility, whether it is intended for use by third parties or for internal purposes. Thus, while making report on projection, the auditor **needs to mention that his responsibility is to examine the evidence supporting the assumptions and other information** in the prospective financial information, his **responsibility does not include verification of the accuracy of the projections, therefore, he does not vouch for the accuracy of the same.**

In the instant case, Mr. Lily, a chartered accountant, has **prepared and certified a projected financial forecast** of his client Amazon Ltd. which was forwarded to the client's bank to secure some loans and based on which the bank sanctioned a loan to the client is **not in order.**

Thus, Mr. Lily will be **held guilty of misconduct** in view of above.

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| 63. | Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto:
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? |
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(PP Dec 21)

As per **Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949**, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a **substantial interest.**

Section 141 of the Companies Act, 2013 specifically prohibits a member from auditing the accounts of a company in which he is an officer or employee. Although the provisions of the aforesaid section are not specifically applicable in the context of audits performed under other statutes, e.g. tax audit, yet the underlying principle of independence of mind is equally applicable in those situations also. Therefore, the Council's views are clarified in the following situations.

As per the **clarifications issued by the Council**, a member **shall not accept the assignment of audit** of a Company for a period of **two years from the date of completion of his tenure as Director**, or resignation as Director of the said Company.

In the instant case, Mr. D, a practicing CA, is appointed as a Director Simplicitor in Pvt. Ltd. Company. Mr. D resigned as the Director and **after 18 months of resignation accepted the Statutory Auditor position of the Company.** In view of above provisions Mr. D cannot accept the Directorship of the company as tenure of **two years after his resignation is yet to be completed.**

Thus, CA, D would be held **guilty** of professional misconduct under clause 4 of Part 1 of Second Schedule of the Chartered Accountants Act, 1949.

64.	Mr. Mohan is a practicing Chartered Accountant. He issued a certificate of consumption which did not reflect the correct factual position of the consumption of raw material by the concerned entity. It is found that the certificate is given on the basis of data appearing in the minutes of meeting of the Board of Directors. Comment on above with reference to the Chartered Accountants Act, 1949. <i>(MTP Nov 18)</i>
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According to **Clause (2) of Part I of Second Schedule** to the Chartered Accountants Act, 1949 a chartered accountant is held guilty of professional misconduct if he **certifies or submits a report of an examination of financial statements unless the examination of such statements and the related records has been made by him** or by a partner or employee in his firm or any other chartered accountant in practice.

Mr. Mohan has issued a certificate of consumption which does not reflect the correct factual position of the consumption of raw material by the concerned entity. He has failed in his duty of examining the record. He has relied on the minutes of Board of director's meeting which is not proper evidence to show the consumption of raw material. The relevant record of production and stock register should have been scrutinized thoroughly and properly.

Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 **also applies** to this case which states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

Mr. Mohan will be **held guilty of Professional Misconduct** under Clause (2) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

65.	CA. Z, in practice, is desirous of filling Multi-purpose Empanelment form (MEF) for inclusion of his name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA. Z has transacted in futures and options derivatives (equity) and has reflected income from such transactions in his return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949. Would it make any difference if CA. Z had earned income from transacting in currency derivatives and commodity derivatives? <i>(MTP May 24)</i>
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Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of Chartered Accountants unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a Chartered accountant from being a director of a Company, (not being a managing director or a whole-time director), unless he or any of his partners is interested in such company as an auditor.

Ethical Standards Board of ICAI has announced that it is **permissible for a member in practice to engage in derivative transactions in his personal capacity but not in professional capacity** i.e. for clients. **Such engagements in derivatives are not violative of provisions of Clause 11 of Part I of First Schedule** to the Chartered Accountants Act, 1949. Further, **members are allowed to transact in equity and currency derivatives. There is no requirement to take permission of Council in this matter.**

Therefore, **there is no difference if CA. Z had earned income from currency derivatives**. However, in accordance with announcement of Ethical Standards Board of ICAI, it is **not permissible for members in practice to transact in commodity derivative transactions**. In such a case, CA. Z would be **held guilty of professional misconduct** for engaging in business other than profession of Chartered Accountancy.

66. **Mr. X is a practicing Chartered Accountant. Mr. Y is a practicing advocate** representing matters in the court of law. X and Y decided to help each other in matters involving their professional expertise. Accordingly, Mr. X recommends Mr. Y in all litigation matters in the court of law and Y consults X in all matters relating to finance and other related matters, which come to him in arguing various cases, consequently, **they started sharing profits of their professional work. Is Mr. X liable for professional misconduct?**

(PP Nov 22) (MTP May 18) (May 16)

According to **Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949**, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualifications as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Furthermore, **Clause (3) of Part I of the First Schedule** to the said Act states that a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute.

However, a practicing member of the Institute **can share fees or profits arising out of his professional business with such members of other professional bodies or with such other persons having such qualifications as prescribed by the Council** under Regulation 53-A of the Chartered Accountants Regulations, 1988. Under the said regulation, the member of "Bar Council of India" (**Advocate**) is included.

Therefore, Mr. Y, a practicing advocate, a member of Bar Council, is **allowed to share part of profits** of his professional work with Mr. X. Hence, Mr. X, a practicing Chartered Accountant, will **not be held guilty** under any of the above-mentioned clauses for paying and accepting part of profits to/from Mr. Y.

67. CA K qualified as Chartered Accountant and started practice as proprietor in the name of M/s K & Associates in the year 2015-16. LST Limited, a **listed entity**, appointed M/s K & Associates as Statutory Auditor for the year ended 31st March, 2022. **CA K signed the balance sheet of LST Limited** for the year ended 31st March, 2022 on 14th May, 2022. **M/s K & Associates never subjected themselves to the Peer Review process of the Institute since its inception of practice. Comment with reference to Chartered Accountants Act, 1949.**

(PP May 22)

Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

This clause implies that the audit should be performed in accordance with "**generally accepted procedure of audit applicable to the circumstances**" and if for any reason the auditor has **not been able to perform the audit in accordance with such procedure**, his report should **draw attention to the material departures** from such procedures. What constitutes "generally accepted audit procedure" would depend upon the facts and circumstances of each case, but guidance is available in general terms from the various pronouncements of the Institute is issued by way of Engagement and Quality Control Standards, Statements, General Clarifications, Guidance Notes Technical Guides, Practice Manuals, Studies and Other Papers.

Audit of Listed Companies: Pursuant to **SEBI Notification, statutory audit of listed companies** under the Companies Act, 2013 **shall be done by only those auditors who have subjected themselves to the Peer Review process** of the Institute, and **hold a valid certificate issued by the Peer Review Board of the ICAI**.

In the given case of M/s. K & Associates, who is appointed auditor of a listed entity LST Limited for the year ended 31.03.2022, CA K, the proprietor signed the balance sheet on 14.05.2022 but never subjected the firm to the Peer Review process of the Institute. CA K would be held **guilty** of professional misconduct under clause (9) of Part I of Second Schedule of the Chartered Accountants Act, 1949. Also, **CA K did not comply with the SEBI Notification** which was required to be complied with.

Alternative Solution

Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of misconduct if he **contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council**. It requires every member of the institute to act within the framework of the Chartered Accountants Act, 1949 and the regulations and guidelines made by Council thereunder.

The **Statement on Peer Review shall be deemed to be a guideline of the Council** under Clause (1) of Part II of Second Schedule to the Act and it is **obligatory for the Practice Unit to comply with the provisions contained in this Statement**.

As per the Statement **every Practice Unit including its branches who has conducted Statutory Audit of Enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI(LODR) regulations, 2015, will be subject to Peer Review in accordance with this statement**.

68. **Mr. Sunil was appointed statutory Auditor of M. Autotech Limited after Mr. Ram resigned from the position of auditor on 31-07-2022** for the financial year 22-23. Mr. Sunil received the appointment letter duly signed by the **Board of Directors and a resolution of the Audit Committee** recommending the name of Mr. Sunil to the Board. **Mr. Sunil received the letter of appointment on 31-07-2022, which he accepted on 01-08-2022. On 15-08-2022, Mr. Sunil fixed a meeting with Mr. Ram to understand the reasons for his resignation and any concerns he should be aware of about the company. Prior to this, Mr. Sunil had not communicated with Mr. Ram.** Board of M Autotech Limited filed ADT-1 with the registrar on 31-08-2022.

Mr. Sunil, after performing the audit, issued his audit report on 31-05-2023. The registrar, after issuance of the audit report, suo moto initiated an inquiry regarding the appointment of Mr. Sunil as the auditor of the company. **After the inquiry, Registrar issued a report to ICAI wherein it was mentioned that Mr. Sunil should be held guilty of professional misconduct.** You are required to guide Mr. Sunil with respect to the recommendation of the registrar for him being guilty of professional misconduct.

(MTP Nov 23)

Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013, in respect of such appointment have been duly complied with. Under this clause, it is obligatory for the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.

As per section **139(8) of the Companies Act, 2013, any casual vacancy in the office of an auditor** shall in the case of a company be filled by the **Board of Directors within thirty days**, but if such casual vacancy is as a result of the **resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months** of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

Also, **before such appointment is made, the written consent of the auditor to such appointment and a certificate** from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed shall be obtained from the auditor. **Provided also that the certificate shall also indicate whether the auditor satisfies the criteria provided in section 141.** Also, that the company shall inform the auditor concerned of his or his appointment and also **file a notice of such appointment with the Registrar within fifteen days** of the meeting in which the auditor is appointed.

Also, a member in practice shall be held guilty of professional misconduct as per **clause 8 of Part I of the First Schedule** where **he accepts a position as auditor previously held by another Chartered Accountant without first communicating with him in writing**.

In the current case, Mr. Sunil was appointed statutory Auditor of M. Autotech Limited after Mr. Ram resigned from the position of auditor on 31-07-2022 for the financial year 2022-23. Mr. Sunil received the appointment letter duly signed by the Board of Directors. Mr. Sunil received the letter of appointment on 31-07-2022, which he accepted on 01-08-2022. On 15-08-2022, Mr. Sunil fixed a meeting with Mr. Ram to understand the reasons for his resignation and any concerns he should be aware of about the company. Prior to this, no communication happened between Mr. Sunil and Mr. Ram. The Board of M. Autotech Limited filed ADT-1 with the registrar on 31-08-2022.

Hence, **Mr. Sunil did not verify whether the requirement of section 139** of the Companies Act, 2013 has been complied with or not, as in the current case, there was **no approval by the company at a general meeting convened within three months** of the recommendation of the Board. Under Section 139(8), approval by a company at general meeting as discussed above is **mandatory requirement**. Therefore, **he has not ascertained from company whether requirements of section 139 and 140** of Companies Act, 2013 have been complied with. Moreover, **Mr. Sunil did not communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication** to the outgoing/previous auditor.

Therefore, Mr. Sunil is **guilty of professional misconduct both under clause 8 and 9 of First Schedule** to Chartered Accountants Act, 1949.

69.	(a) Mr. SP, a Chartered Accountant, obtains registration as category IV Merchant Banker under the SEBI's Rules and Regulations and act as Advisor to a capital issue of MB Co. Ltd. He designates himself under the caption "Merchant Banker" in client offer documents and 'Advisor to issue' in his own letterheads, visiting cards and professional documents. (b) A Chartered Accountant having CoP entered into partnership with persons, who are not the members of the institute, for the purpose of carrying on business. The share of the chartered account in the profit and losses was 25%. He was to take part in the business and was entitled to represent the firm before Govt. authorities etc. He was operating the bank account of the firm, was receiving moneys from the customers and was also looking after the affairs of the Partnership.
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(May 15)

a) **Use of Designation other than Chartered Accountant: Clause (7) of Part I of First Schedule** to the Chartered Accountants Act, 1949 restrains a Chartered Accountant in practice from advertising his professional attainments or services. It also prohibits a member from using any designation or expressions other than CA on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by CG or a title indicating membership of ICAI or of any other institution that has been recognized by CG or may be recognized by the Council.

It may be noted that, in Client **Companies' offer documents and advertisements regarding capital issue, name and address of the CA acting as Advisor or Consultant to the Issue could be indicated under the caption "Advisor/Consultant to the Issue"**. Further, such **members should not use the designation of either 'Merchant Banker' or 'Advisor/Consultant to Issue' in their own letterheads, visiting cards, professional documents, etc.**

In the given case, Mr. SP, a Chartered Accountant, has obtained registration as category IV Merchant banker and acted as advisor to a capital issue of MB Co. Ltd. He has designated himself under the caption "Merchant Banker" in client offer documents and "advisor to issue" in his own letterheads, visiting cards and professional documents.

Therefore, Mr. SP shall be **held guilty of professional misconduct** as per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.

(b) **Practicing CA Entering into Partnership and Carrying on Business: As per Clause (4) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he enters into partnership, in or outside India, with any person other than CA in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (v) of sub-

section (1) of section 4 or whose qualifications are recognized by CG or the Council for the purpose of permitting such partnerships.

It may be noted that the Council has **prescribed the list of persons qualified and the professional bodies** for the purpose of entering into partnership under the Chartered Accountants Regulations, 1988.

Further, according to **Clause (11) of Part I of First Schedule** to the said Act, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he **engages in any business or occupation other than the profession of chartered accountant** unless permitted by the Council so to engage.

It may also be noted that a member in practice is **required to apply for specific and prior approval of the Council** for entering into any business.

In the given case, a chartered accountant in practice has **entered into partnership with persons who were not the members of the Institute**, for the purpose of carrying on business.

The **question is silent about with whom the partnership has been entered into and whether the prior permission for entering into such business has been obtained.**

Conclusion: It is assumed that the persons with whom the partnership has been entered into has not been allowed under the Regulations and the prior approval of the Council has not been obtained for entering into such business. Hence, the Chartered Accountant shall be **held guilty** of professional misconduct under **Clause (4) and Clause (11).**

70.	(a) A firm of Chartered Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for their operation system. One of the partners of the firm of chartered accountants was a non-executive director of the company. (b) M/s. XYZ, a firm of Chartered Accountants has taken a loan for acquiring a home from a company whose Managing Director's son is an Articled Assistant with A, a partner of M/s. XYZ. The Articled Assistant had no direct interest in the Company and the loan was not related to his engagement. (Nov 14)
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(a) **Expression of Opinion on Financial Statements: Clause 4 of Part I of the Second Schedule** to Chartered Accountants Act, 1949, states that expressing an opinion on financial statements of any business or any enterprise in which the auditor, his firm or a partner in his firm has a **substantial interest** would constitute misconduct. Also, the Council of ICAI has stated that in cases where a **member of the Institute is a director of a company, or the firm in which the said member is a partner, should not express any opinion on its financial statements.**

As per facts of the case, firm has been retained to **evaluate the cost of products manufactured** by it for its information system. It is a **part of management consultancy service** of firm and moreover its **partner was on Board.**

Hence, the **firm can perform this assignment and it will not constitute misconduct.** However, the firm while accepting the position as auditor in future would have to consider whether it would be possible to act in independent manner and express opinion on financial statements.

(b) **Loan from a Company:** As per **Clause (1) of Part II of Second Schedule** to the Chartered Accountants Act, 1949, a chartered accountant is deemed to be guilty of professional misconduct if he **contravenes any of the provisions of Chartered Accountants Act, 1949 or Regulations made there under. Regulation 47** of Chartered Accountant's Regulations, 1988, **prohibits a member from accepting any premiums or loans or any deposit in any form from an articled clerk directly or indirectly.** However, M/s XYZ has taken loan from a company whose Managing Director happens to be father of articled clerk with Mr. A, a partner of M/s XYZ.

In this case, the articled trainee has no direct interest in that company. There has been a case wherein a chartered accountant was held guilty of professional misconduct because he took a loan from a firm in which the articled clerk

and his father were both interested. But, in this case as per the facts, the articulated trainee has no direct interest in the company. However, **if relationship, direct or indirect, can be established in view of relationship of articulated trainee with MD of the company, Mr. A of M/s XYZ would be held liable for professional misconduct.**

Thus, M/s XYZ **would be guilty of professional misconduct under this clause if it is proved that the loan was related to the engagement of the articulated clerk.**

71.	"ABC & Co." is an Audit Firm having partners "Mr. A", "Mr. B" and "Mr. C", Chartered Accountants. "Mr. A", "Mr. B" and "Mr. C" are holding appointment as an Auditor in 4, 6 and 10 Companies respectively. (i) Provide the maximum number of Audits remaining in the name of "ABC & Co." (ii) Provide the maximum number of Audits remaining in the name of individual partner. (iii) Can ABC & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than ₹ 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the Companies Act with the Registrar, 2 small companies and 1 dormant company? (iv) Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of ₹ 110 crore each? <i>(RTP Nov 19) (MTP Nov 18)</i>
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Provisions and Explanations: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

As per section 141(3)(g), this limit of **20 company audits is per person**. In the case of an audit firm having 3 partners, the overall ceiling will be **3 × 20 = 60 company audits**. Sometimes, a chartered accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Conclusion:

(i) Therefore, ABC & Co. can hold appointment as an auditor of **40 more companies:**

Total Number of Audits available to the Firm = 20*3 = 60

Number of **Audits already taken** by all the partners in their individual capacity = 4+6+10 = 20

Remaining number of Audits available to the Firm = 40

(ii) With reference to above provisions an auditor can hold more appointment as auditor = ceiling limit as per section 141(3)(g)- already holding appointments as an auditor. Hence (1) **Mr. A** can hold: 20 - 4 = **16 more audits**. (2) **Mr. B** can hold 20-6 = **14 more audits** and (3) **Mr. C** can hold 20-10 = **10 more audits**.

(iii) In view of above discussed provisions, **ABC & Co. can hold appointment as an auditor in all the 60 private companies having paid-up share capital less than ₹ 100 crore** (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar), **2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.**

(iv) As per fact of the case, ABC & Co. is **already having 20 company audits and they can also accept 40 more company audits**. In addition, they can also conduct the audit of **one person companies, small companies, dormant companies and private companies having paid up share capital less than ₹ 100 crores** (private company which has not committed a default in filing its FS under section 137 of the said Act or annual return under section 92 of the

said Act with the Registrar). In the given case, **out of the 60 private companies ABC & Co. is offered, 45 companies having paid-up share capital of ₹ 110 crore each.**

Therefore, ABC & Co. **can also accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than ₹100 crore** (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.”) **and 40 private companies having paid-up share capital of ₹ 110 crore each in addition to above 20 company audits already holding.**

72.	(a) Mr. B, a practicing Chartered Accountant as well as a qualified lawyer, was permitted by the bar council to practice as a lawyer also. He printed his visiting card where he mentioned his designation as Chartered Accountant and Advocate. (b) Mr. C, a practicing Chartered Accountant, in the course of the audit of a listed company discovered serious violations of the provisions of the Companies Act 1956, informed the Registrar of Companies out of public interest. (May 13)
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(a) Under **clause (7) of part I of First Schedule**, a CA in practice is deemed to be guilty of professional misconduct if he (i) advertises his professional attainments or services or (ii) uses any designation or expressions other than ‘Chartered Accountant’ on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by the CG or a title indicating membership of the ICAI or of any other institution that has been recognized by CG or may be recognized by the council.

This clause **prohibits advertising of professional attainments** or services of a member. It also **restrains a member from using any designation or expression other than that of a Chartered Accountant** in documents through which the professional attainments of the member would come to the notice of the public.

Members of the Institute in practice who are otherwise eligible may practice as advocates subject to the permission of the Bar Council but in such case, they should not use designation ‘chartered accountant in respect of the matters involving the practice as an advocate. In respect of **other matters**, they should use the designation ‘chartered accountant’ but they **should not use designation ‘chartered accountant’ & ‘advocate’ simultaneously.**

Since Mr. B has printed his visiting card where **he mentioned his designation as Chartered Accountant and Advocate** which is prohibited under the above clause and hence Mr. B is **guilty** of professional misconduct.

(b) **Clause (1) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 deals with the professional misconduct relating to the disclosure of information by a chartered accountant in practice relating to the business of his clients to any person other than his client without the consent of his client or otherwise than as required by any law for the time being in force would amount to breach of confidence. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment. The **Chartered Accountant may however, disclose the information in case it is required as a part of performance of his professional duties.**

In the given case, **Mr. C has disclosed serious violations of the provisions of the Companies Act, 1956 to Registrar of Companies without the consent of the client under the impression that it would be in public interest.** Instead of disclosing the violations to the Registrar of Companies directly, he should impress on the client that while disclosure may entail only monetary penalties, nondisclosure and subsequent discovery thereof may entail imprisonment and fine, in addition to penalties. He should mention the violations in his report instead of **informing the Registrar of Companies.** Thus, it is a **professional misconduct** covered by clause (1) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

1. Certain studies have suggested that increase in cyber-attacks and rise in global payment processing cost have hit global banking and finance industries enormously. Therefore, such industries are going to place reliance on new technologies such as Blockchain. Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. However, such technology comes with its weaknesses and associated risks.

What are common risks for Blockchain technology? Also discuss probable audit implications where such technology can be used.

(RTP May 24)

The **strengths of blockchain can also be its weaknesses**. The **inability to reverse transactions** and to **access data** without the required keys make the system secure but also means that organizations need specific protocols and management processes to ensure that they are **not locked out** and have clear contingency plans. Operating through network nodes could also expose the organisation to cyber-attacks and data hacks, so security issues are important.

Auditors should consider the appropriate **governance and security** around the transactions. Although blockchain's core security premise rests on cryptography, there are risk factors associated with it. As blockchain **interacts with legacy systems** and business partners, concerns related to insecure application programming interfaces (APIs), data confidentiality and privacy cannot be ignored. **Weak blockchain application** development protocols are something auditors cannot overlook. Similarly, **data privacy laws and regulations** may be an area of concern as data are communicated across geographic boundaries. Auditors must be able to determine whether the data put on blockchain will **expose the enterprise for non-compliance** with applicable laws and regulations.

Auditors should also ensure that the organisation has the necessary data management processes which complies with regulations. The **regulatory landscape is still evolving** for blockchain so audit teams should check that compliance managers are following developments constantly and adapting processes accordingly.

2. **IT dependencies** also arise due to “system generated reports” and “interfaces”.

How do such IT dependencies arise?

Why it is important to identify IT dependencies to develop an effective and efficient audit approach?

(MTP May 24)

IT dependencies are created when IT is used to **initiate, authorize, record, process, or report** transactions or other financial data for inclusion in the financial statements.

System generated reports are the information generated by the IT systems. These reports are often **used in an entity's execution of a manual control, including business performance reviews, or may be the source of entity information used by us when selecting items for the testing, performing substantive tests of details or performing a substantive analytical procedure. e.g. (Vendor master report, customer ageing report).**

Interfaces are programmed logic that transfer the data from one IT system to another. For example, an interface may be programmed to transfer data from a payroll subledger to the general ledger. In this manner, IT dependencies arise due to “system generated reports” and “interfaces”.

Identifying and documenting the entity's IT dependencies in a consistent, clear manner helps to **identify the entity's reliance upon IT**, understand **how IT is integrated into the entity's business model**, identify **potential risks** arising from the use of IT, identify **related IT General Controls** and enables us to **develop an effective and efficient audit approach**.

1.	SEBI has made Business Responsibility and Sustainability Report (BRSR) mandatory for certain listed companies. It is an evolutionary step in Environment, Social and Governance (ESG) reporting. Discuss the nature of ESG reporting. How can corporates contribute to Sustainable Development Goals (SDGs)? (RTP May 24)
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Environment, Social and Governance (ESG) reporting is all about disclosure of information, data, metrics that explain the added value in following three areas:

Environment

Environmental stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation, and treatment of animals. It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on.

Thus, one is dependent on the environment for carrying out its operations.

Social

It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business and the value chain involved. It further includes labour relations, diversity, and inclusions. Every company operates within a broader and diverse society.

Governance

It is the internal system of practices, controls, and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law, and meet the needs of all stakeholders. Every entity, which is itself a legal creation, requires governance.

ESG reporting can be both quantitative and qualitative in nature. Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked to each area in order to measure progress against goals and report on achievements. Naturally, a mixed approach that makes use of both qualitative and quantitative information tends to add the maximum value to the quality of disclosures.

United Nations members states adopted Sustainable Development to provide a blueprint which mentioned the Sustainable Development Goals (SDGs). They recognized that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Corporates can contribute to SDGs due to their capacity to provide solutions necessary for meeting SDGs. Companies can lead in innovation and contribute to achievement of Sustainable Development Goals.

2.	CTO Limited is engaged in the fintech business. It is a member of few prominent industry chambers and trade associations and has come under mandatory purview of Business Responsibility and Sustainability Reporting (BRSR) for year 2022-23. The company had submitted inputs on draft Digital personal data protection bill to concerned Ministry during year 2022-23. It had also submitted to one of the industry chambers during the same year certain key inputs on leveraging India's digital public infrastructure for creating solutions by banks and fintechs together as its taskforce member on the subject. Considering the above, discuss how above information would likely be disclosed by company in "Principle-wise performance disclosures" as part of BRSR for year 2022-23? Whether information discussed above would require to be disclosed mandatorily? (MTP May 24)
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The given case highlights that CTO Limited, engaged in Fintech business, is a member of Chamber of Commerce/associations. Such information needs to be disclosed under **Principle 7 of Principle-wise Performance Disclosures**.

Principle 7 recognizes that businesses, when engaging in influencing public and regulatory policy, operate within the framework of statutory and legislative policies of the governing authority. Collective associations such as trade groups and industry chambers have to be utilized when moving ahead with **policy advocacy and formulation**. The **information under each principle is to be disclosed under Essential indicators (mandatory disclosures) and Leadership indicators (optional disclosures).**

Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires mandatory disclosures. Information relating to **inputs provided by company to the Ministry on a legislative bill and inputs provided to one of the prominent chambers on leveraging India's digital public infrastructure** for creating solutions by banks and Fintechs together as a taskforce member on the subject are in nature of leadership positions taken by the company. These are in the nature of **Leadership Indicators** and are **optional disclosures**.

3. You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by ICAI. The company you have joined is not amongst top 1000 listed companies in the country. However, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting.

In above context, dwell upon **what is your understanding of "Sustainability reporting"? You are also required to list its expected benefits.**

(MTP May 24) (SM)

Sustainability reporting is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development.

Sustainability reporting **refers to the information that companies provide about their performance to the outside world on a regular basis in a structured way.** It is a comprehensive mechanism of measuring and disclosing sustainability data with performance indicators and management disclosures.

Expected Benefits:

It can **help stakeholders to understand organizations performance** vis a vis sustainability and impacts. The reporting process emphasizes the **link between financial and non- financial performance**.

Such reporting can **help entities to focus on long-term value creation, by addressing environmental, social and governance (ESG) issues.**

Since **investors** are increasingly recognizing that environmental and social issues provide both risks and opportunities in respect of their investments and are **seeking disclosures on environmental and social performance of businesses**, they can use ESG performance of companies **to make investment decisions**.

Investing in social and environmental issues will not only **improve own business continuity** of companies but also put them in a **better position with their B2B** (Business to Business) customers as well as enable them to acquire new ones.

4.	Trustworthy Industries Limited (a listed company) has already been preparing and disclosing its sustainability report based upon internationally accepted reporting framework of “Integrated Reporting” on a voluntary basis even some years before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The key thrust of “Integrated Reporting” is how company creates value over short, medium and long term. Following further information is provided in respect of the above company: - [i] It has increased the number of customers using digital customer mobile app of the company from 2 lac users to 4 lac users. There is 100% increase in digital collection. It has benefitted customers of the company and resulted in use of digital methods for business operations of the company. [ii] It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them. Discussing above information, identify which of the capitals of “Integrated Reporting” are being referred to at [i] and [ii] respectively? (SM)
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The information at [i] states that **company has increased the number of customers using digital mobile app**. Besides, it has led to 100% increase in digital collection. Therefore, it involves **use of technology for deriving business benefits**. It has invested in innovation deriving business benefits from digitization. The capital referred to at [i] is **“Intellectual Capital”**.

Increase in number of beneficiaries under **flagship CSR programmes** providing value for communities and sustainable livelihood is an example of **relationships established within and between each community**, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is **“Social and Relationship Capital.”**

1. CA. K is appointed as **statutory auditor** of SEEK INDIA LTD under Companies Act, 2013 for the first time. The company is preparing its accounts keeping in view applicable requirements of Division II of Schedule III of Companies Act, 2013. On scrutiny of FS of company put up for audit, it was noticed that notes to accounts show ageing of trade payables as per amended requirements of Schedule III of the Companies Act, 2013. The ageing schedule forming part of notes is as under: -
Outstanding for following periods from due date of payment (₹ In crore)

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	NIL	NIL	NIL	NIL	NIL
Others	2	4	3	1	10
Disputed dues-MSME	NIL	NIL	NIL	NIL	NIL
Disputed dues-others	NIL	NIL	NIL	NIL	NIL

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms. Most of the **key financial ratios are in red. There is no other relevant info. concerning above in notes to accounts.**

Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is **no debit transaction in the month of March, 2022**. On inquiry, he came to know that stock audit of company was conducted in the month of January, 2022 and stock auditors have commented vide their report dated 25.2.2022 that **company had negative drawing power due to high creditors**. Accordingly, the **bankers have refused further debits in cash credit account from start of March, 2022**. There is no information in this respect in FS and notes to accounts.

Discuss how CA K should deal with above for reporting in his audit report under the Companies Act, 2013.

(MTP Nov 22) (RTP May 23)

In the given situation, it is clear from the ageing schedule that company is not able to pay its creditors on time. Outstanding to creditors for a period of 1 year or more account for 80% of total dues to the creditors of the company from due date of payment. Most of key financial ratios are adverse.

Further, bankers have refused further debits in cash credit account due to negative drawing power from March 2022. Cash credit loans are repayable on demand. There is no other information or disclosure available how the company plans to run its business without bank finance.

All the above factors are **indicators that a material uncertainty exists that may cast a significant doubt on the company's ability to continue as going concern**. There is no express disclosure of this fact in FS.

Therefore, **it is a situation where material uncertainty exists which has cast a significant doubt on company's ability to continue as going concern** in accordance with SA 570, "Going Concern".

Keeping in view above the fact that although a material uncertainty exists casting a significant doubt on the ability of company to continue as going concern, **adequate disclosure of material uncertainty is not made in FS**, CA K shall give **qualified or adverse** opinion in accordance with SA-705.

2. You have been appointed as auditor of ARHAM 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?**

(MTP Dec 21)

{The question doesn't mention PSU audit or performance audit. It's hard to find any hint in it. However, if you recall the points of performance audit, the audit criteria come right after the audit objectives. This may not be a direct hint, but it can help in a tricky situation. Still, do remember — if there's a question about audit criteria, it's most likely related to PSUs.}

Determining Audit Criteria - Audit criteria are the standards used to determine whether a program meets or exceeds expectations. It provides a context for understanding the results of the audit. Audit criteria are reasonable and attainable standards of **performance against which economy, efficiency and effectiveness** of programmes and activities can be assessed. The audit criteria **may be sought to be obtained from the following sources:**

- (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 mgmt** and **subject matter literature** and **research papers.**

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| 3. | <p>You have been appointed as an internal auditor of a company RSM Ltd. The Managing Director Rakesh is worried about employee attrition in large number. Rakesh requests you to analyse the causes for high employee attrition rate in his company. What factors would you consider in such analysis?</p> <p style="text-align: right;"><i>(MTP May 20)</i></p> |
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{You won't find these points in the Internal Audit chapter, as they are given only as examples in the module. Yes, this question can appear in the exam. Still, instead of memorizing these points, try to understand the flow and move forward. In my opinion, there's no need to remember these specific points because ICAI might ask a similar question by changing the situation. So, you'll need to think and write more specific points on your own}

The factors to be considered to analyse causes for high employee attrition rate are as under:

- (i) Job Stress & work life imbalance.
- (ii) Wrong policies of the Management.
- (iii) Unbearable behaviour of Senior Staff.
- (iv) Safety factors.
- (v) Limited opportunities for promotion.
- (vi) Low monetary benefits.
- (vii) Lack of labour welfare schemes.
- (viii) Whether the organization has properly qualified and experienced personnel for the various levels of works?
- (ix) Is the number of people employed at various work centres excessive or inadequate?
- (x) Does the organization provide facilities for staff training so that employees and workers keep themselves abreast of current techniques and practices?

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| 4. | <p>Z Ltd changed its employee remuneration policy from 1st of April 2017 to S provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy the employees can either utilize or encash it. As at 31st March 2018 the company obtained an actuarial valuation for leave encashment liability. However, it did not provide for 12% PF contribution on it.</p> <p>Auditor of company wants it to be provided but the mgmt replied that as and when the employees availed leave encashment, the provident fund contribution was made. Company further contends that this is correct treatment as it is not sure whether employees will avail leave encashment or utilize it. Comment.</p> <p style="text-align: right;"><i>(MTP Nov 18)</i></p> |
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{Don't ask where this question came from — yes, it's from the Audit MTP. What can I even say... just read it. Finished reading? Now listen — they might modify the question at the end, so stay alert. SA 250, CARO 2020 Clause (vii) of Para 3, SA 705, etc. — all of these seem to be linked at first glance}

As per AS-15 on "Employee Benefits", issued by ICAI, an enterprise **should recognize the expected cost of short-term employee benefits** in the form of compensated absences in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences.

Since the company obtained actuarial valuation for leave encashment, it is obvious that compensated absences are accumulating in nature. An enterprise should measure the expected cost of accumulating compensated absences as the additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Here, Z Ltd will accumulate the amount of leave encashment benefits as it is the liability of the company to provide 12% PF on amount of leave encashment. **Hence the contention of the auditor is correct that full provision should be provided by the company.**

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| 5. | GeM (e-market place) is a public procurement portal which provides opportunities to start-ups, entrepreneurs etc. to showcase their innovative products and services to government buyers and engage in public procurement. The Government e Marketplace Special Purpose Vehicle (GeM SPV), a 100% government owned and section 8 (Non-Profit) company under the Ministry of Commerce, Government of India has been incorporated under the Companies Act, 2013 to develop, manage and maintain GeM platform. Whether a firm of CAs can register on GeM portal for rendering professional services to government departments? |
|----|---|

(MTP May 24)

As per provisions of Council Guidelines for Advertisement, 2008, it is **not permissible for members to list themselves with online application-based service provider Aggregators**, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

Further, as per explanation to **Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949**, the govt. departments, govt. Companies/ corporations, courts, cooperative societies and banks and other similar institutions prepare panels of CAs for allotment of audit and other professional work. Where the existence of such a panel is within the knowledge of a member, he is **free to write to the concerned organization with a request to place his name on the panel**. However, it would **not be proper for the CA to make roving enquiries** by applying to any such organization for having his name included in any such panel. It is **permissible to quote fees on enquiries** being received or respond to tenders from the org. requiring professional services, which maintain such panel.

Getting registered on GeM portal by members does not appear to amount either to empanelment or listing on Aggregator. In Aggregator, it is the third party which is operating, and not the client itself. GeM is operated by the client itself.

It is a pre-requirement of rendering professional services to the govt. departments, as stipulated by them, and be considered as **ancillary requirement to providing services** to the govt. departments. **Firms of CAs are permitted to register on GeM Portal** for rendering professional services as there is no violation of the ethical norms of the Institute in registering on the GeM portal and such registration on the Portal is a pre-requirement for providing services to the govt. departments/ organisations.

However, firms should **ensure compliance with the tender guidelines** issued by the Institute while participating in tender or bid floated through GeM Portal. The ICAI has made an announcement in relation to the above.

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| 6. | CA S has been appointed as Statutory Auditor of SRT Ltd. for the financial year 2022-2023. The Company while preparing FS for the year under audit prepared one additional profit and loss account that disclosed specific items of expenditure and included the same as an appendix to FS. CA. S has not been able to understand this as the additional profit & loss account is not covered under the applicable FRF. Guide him as to how he should deal with this issue while reporting on the FS of SRT Ltd. |
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(MTP Nov 23)

{Hmm... it feels familiar, like you've seen or heard it before, but can't remember, right? No worries — this is a repeated question, placed intentionally. Go to SA 700 → check point 1.5: Supplementary Information Presented in the Financial Statements. Ahh, now you remember... right? Haha.}

If SI that is not required by the applicable FRF is presented with the audited FS, the auditor shall evaluate whether, in the auditor's professional judgment, SI is nevertheless an integral part of FS due to its nature or how it is presented. When it is an **integral part of FS**, the **SI shall be covered by the auditor's opinion**.

If SI that is not required by the applicable FRF is **not considered an integral part** of the audited FS, the auditor shall evaluate whether such SI is **presented in a way that sufficiently and clearly differentiates it from the audited FS**. If this is **not the case**, then the auditor shall **ask mgmt to change** how the unaudited SI is presented.

If mgmt refuses to do so, the auditor shall **identify the unaudited SI and explain in the auditor's report that such SI has not been audited**. When an additional profit and loss account that discloses specific items of expenditure is

disclosed as a separate schedule, included as an appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

Thus, **additional profit and loss account is not considered an integral part** of the audited FS and the auditor shall evaluate that SI is presented in a way that sufficiently and clearly differentiates it from the audited FS.

7. **Namo Limited wants to acquire a unit of Sidha Limited.** Namu Limited is uncertain about the future viability of the unit under consideration. **You are appointed to investigate economic and financial position of the unit. What are the factors that you shall consider while studying the economic and financial position of the business?**

(MTP Nov 23)

{First, go read the answer. Did anything come to mind? No? That's okay. Go to the Investigation chapter → check point 5.1: Studying the overall picture. Now it rings a bell, right? Good!}

For studying the economic and financial position of the business, the following should be considered:

- The adequacy or otherwise of **fixed and working capital**. Are these sufficient for the growth of the business?
- What will be the **trend of the sales and profits in the future**? Establishing the trend of sales, product-wise and area-wise will ordinarily help in drawing a conclusion on whether the trend will be maintained in the future.
- Whether the profit which the business could be expected to maintain in the future would yield an **adequate return on the capital employed**?
- Whether the business is operating at its **100 percent capacity** or improvements can be made to reach at full productivity?

8. CA. Rajul is acting as **Credit manager in branch** of **DFC Bank Limited**. A company has approached the branch for a **request to sanction credit facilities worth ₹10 crore** for meeting usual business requirements. It is a prospective new client. **She checks past history of the company, back ground of promoters & directors, shareholding pattern and nature of business. Assessment of financial results of past years and future projections is also undertaken. She also carries out SWOT analysis of the company.**

Besides, **assessment of net worth of directors is also undertaken. Status of CIBIL score and position of name of promoters/directors in RBI defaulter list** is also verified.

She also makes discreet inquiries from few clients of the branch engaged in similar line of activity regarding **credit worthiness of company, its promoters and directors.**

Based on above:

- Identify activity being performed by CA Rajul and discuss its nature.**
- Would your answer be different if this activity was to be performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.**
- Name any three other areas where identified activity can be undertaken.**

(MTP May 23) (RTP May 23)

{Haha, good going. I'm sure you haven't opened the Bank Audit chapter yet, so you're on the right track. But keep in mind, there's **another question similar to this one**. It's different, but still worth checking. Go to **Chapter 16(B) in the Investigation section** → check point 6: Types of Investigation → C) Investigation on behalf of a Bank}

- The activity described in the situation is **Due diligence (DD)**. DD is a measure of prudence activity, or assiduity, as is properly to be expected from, and **ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measured by any absolute standard but depending upon the relative facts of the case**. It involves a careful study of financial and non-financial possibilities. It implies a general duty to take care in any transaction.
 - DD is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations & mgmt and the verification of material facts.** It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. DD involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans.

- b. **DD involves an analysis carried out before acquiring a controlling interest in a company** to determine that the conditions of the business conform with what has been presented about the target business. Also, DD can apply to recommendation for an investment or advancing a loan/credit.

(ii) **There would be no difference in answer if above activity was to be performed by a person who is not a Chartered Accountant.** The activity would remain DD. **DD can be performed by any person. It is not necessary that due diligence can only be carried out by CA.** As DD involves exercise of prudence and general duty to take care in any transaction, it can be undertaken by any person.

(iii) The areas where DD may be undertaken are: -

- (1) **Corporate restructuring.**
- (2) **Venture capital financing.**
- (3) **Public offerings.**

9. **During the process of extracting the exception reports, the auditors noted numerous purchase entries without valid purchase orders.** In terms of percentage, **about 35% of purchases were made without valid purchase orders** whereas **few purchase orders were validated after the actual purchase**. Also, there was **no reconciliation between the goods received and the goods ordered**.

You are required to **briefly explain the audit procedures to address the validity of account balance level.**

(MTP May 23)

{The link isn't clear, and you're not sure where the question is coming from, but it's okay, don't worry. The question is like that. Go to **Chapter 3 (A) on Materiality & Risk Assessment** → **II) Risk Assessment** → you'll find it **just before Risk-Based Audit Approach.**}

In the given scenario, the auditors noted numerous purchase entries without valid purchase orders during the process of extracting the exception reports. Further, in terms of percentage, about 35% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also, there was no reconciliation between the goods received and the goods ordered.

Audit Procedures: The following procedures may address the validity of the account balance:

- Make a selection of the purchases, review correspondence with the vendors, purchase requisitions (internal document) and reconciliations of their accounts.
- Review Vendor listing along with the ageing details. Follow up the material amounts paid before the normal credit period and analyse the reasons for exceptions.
- Meet with the company's Purchase Officer and obtain responses to Our inquiries regarding the purchases made without purchase orders.
- Discuss the summary of such issues with the client.

10. **A Ltd. holds the ownership of 10% of voting power and control over the composition of Board of Directors of B Ltd.**

While planning the statutory audit of A Ltd., what factors would be considered by you for audit of FS?

(May 15)

{Read the answer. Does it seem familiar? These kinds of questions are general. Don't try to memorize specific points. Focus on your understanding and write the most relevant part that comes to mind during the exam. Now, go to **Chapter 11 on Group Audit** → **check point 5.4: Verifying control & influence of the parent company.**}

Voting Power and Control over the composition of Board of Directors: In this case, A Ltd. holds only 10 percent of the voting power and control over the composition of the Board of Directors of B Ltd. In such a case, A Ltd. would be **considered as a parent of B Ltd.** and, therefore, it would consolidate B Ltd., in the **CFS** as subsidiary.

The auditor should **verify whether the parent controls the composition of the BOD** or corresponding governing body of any entity. There would be various means by which such kind of control can be obtained.

In this regard, the auditor may **verify the Board's minutes, shareholder agreements** entered into by the parent, **agreements with the entities** to which the parent might have provided any **technology or know how, enforcement of statute**, as the case may be, etc.

The auditor should verify that the **adjustments warranted by the relevant AS** have been made wherever required and have been **properly authorised by mgmt of the parent**. The preparation of CFS gives rise to permanent consolidation adjustments and current period consolidation adjustments. The auditor should **make plans, among other things, for the understanding of accounting policies of the parent, subsidiaries, associates and joint ventures** and determining and programming the NTE of the audit procedures to be performed etc.

Further, the duties of an auditor with regard to reporting of transactions with related parties as required by **AS 18** are given in **SA 550 on Related Parties**. As per SA 550 on, "Related Parties", the auditor should **review information provided by the mgmt of the entity identifying the names of all known related parties**. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity are considered as Related Party.

In forming an opinion on the FS the auditor shall evaluate whether the **identified related party relationships and transactions** have been **appropriately accounted for and disclosed** in accordance with the applicable FRF and whether the effects of the related party relationships and transactions prevent FS from achieving true and fair presentation (for fair presentation frameworks); or cause FS to be misleading (for compliance frameworks).

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| 11. | In the case of companies carrying on the business of a non-banking financial institution, the auditor needs to report under CARO, 2020 whether the registration has been obtained under section 45-IA of the Reserve Bank of India Act, 1934 , if required. You are required to state in brief the audit procedure to be followed while reporting under above mentioned circumstances. |
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(RTP May 18)

{Read along with other similar new questions. Instead of being confused it is advisable to write both CARO points & NBFC points}

Reporting under **CARO, 2020** for Registration under RBI Act, 1934: As per **Clause (xvi) of paragraph 3 of the CARO, 2020**, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.

Audit Procedures and Reporting-

- (i) The auditor should **examine the transactions of the company** with relation to the activities covered under the RBI Act and directions related to the NBFC.
- (ii) FS should be examined to **ascertain whether company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income.**
- (iii) Whether the company has **net owned funds as required** for the registration as NBFC.
- (iv) Whether the company has **obtained the registration as NBFC**, if not, the reasons should be sought from the management and documented.

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| 12. | Beta Limited, is a company registered with SEBI, having five subsidiaries. MIs XYZ, Chartered Accountants, have been appointed as Statutory Auditors for the audit of CFS. Statements for the year ending March 31, 2013. Out of five subsidiaries, the audit of one subsidiary was conducted by another auditor, M/s Badnam and Company, CAs. "Opinion" para of audit report furnished by M/s XYZ CAs is given below: |
|-----|--|

Opinion

In our opinion and to the best of our information and according to the explanations given to us the **consolidated financial statements give a true and fair view, except the financial statement of one subsidiary whose accounts were audited by M/s Badnam & Company, Chartered Accountants and about the same we are not in a position to express our opinion as the audit has not been performed by us:**

- (i) in the case of the consolidated Balance Sheet, of state of affairs of Company as at March 31, 2013.
- (ii) in the case of the consolidated Profit and Loss Account, of profit/loss for year ended on that date.

Do you find any deficiencies in the opinion para? If yes, you are required to give your suggestions and redraft the opinion para.

(Nov 13)

{Question is clearly asking for an opinion, so at most, you can look at the group audit reporting. But don't even think about opening SA 600}

Yes, the opinion para contains the following deficiencies.

1. Out of five subsidiaries, the **audit of one subsidiary was conducted by another auditor**, M/s Badnam and Company **which would be reported in other matter para**.
2. **After point no. (ii) in the opinion para, point no. (iii) would appear as under-**
“in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.”

The **redrafted opinion para and other matter para are given hereunder** as per SA 706 on Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report-

Opinion

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on the financial statements of the subsidiaries as noted below, the **consolidated financial statements give a true and fair view** in conformity with the accounting principles generally accepted in India:

- (a) in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31, 2013;
- (b) in the case of the consolidated Profit and Loss Account, of the profit/ loss for the year ended on that date; and
- (c) **in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.**

Other Matter Para

We did not audit the FS of one subsidiary, whose FS reflect total assets (net) of ₹ XXXX as at March 31, 2013, total revenues of ₹ XXXX and net cash outflows amounting to ₹ XXXX for the year then ended. **These FS have been audited by other auditors M/s Badnam and Company**, Chartered Accountants whose reports have been furnished to us by the Mgmt, and our opinion is based solely on the reports of the other auditors. **Our opinion is not qualified in respect of this matter.**

13.	While conducting the audit of Quantum Mechanics Limited, Mr. Manoj, the audit manager, identified significant payments made by the company for legal and retainership fees related to litigation. The litigation pertained to the Thirunelly manufacturing plant, situated on forest land reserved for the Elephant Corridor, which was declared illegally constructed. The company had received a notice to decommission the plant by 31-05-2022, but it had challenged decommissioning order in the High Court and matter was still pending there. The company had not disclosed any information related to the litigation in its financial statements for Financial Year 2022-23. The Thirunelly plant accounted for over 75% of the company's annual production, and the audit team expressed concerns that decommissioning could significantly disrupt operations and potentially lead to bankruptcy. The audit was near to completion. When Mr. Manoj sought advice from audit partner Mr. Shalabh on this matter, he suggested that no immediate action was necessary from the auditors, as the matter was still pending in Kerala High Court. However, Mr. Manoj feels that situation requires action from auditors and to be indicated in the report. Whose view seems to be appropriate? Comment with reference to applicable Standards on Auditing. (RTP May 24)
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{Haha, don't worry. Reference to SA 570 is there, keep reading. For these types of que., you just need to understand how to write relevant portion of answer in exam. They print fact of case para from que., so there's not much left to draft in the answer. What do you think?}

In accordance with **SA 250**, “Consideration of Laws and Regulations in an Audit of FS”, **if the auditor concludes that the non- compliance has a material effect on FS and has not been adequately reflected in FS, the auditor shall in accordance with SA 705**, “Modifications to the Opinion in the Independent Auditor's Report”, **express a qualified or adverse opinion on FS.**

In the specific case of Quantum Mechanics Limited, where significant legal and retainership fees have been paid related to a lawsuit concerning the Thirunelly manufacturing plant, the auditor needs to assess the impact of non-compliance on the financial statements. Given that the Thirunelly plant constitutes over 75% of the company's

annual production and the audit team believes that decommissioning the plant could potentially lead to bankruptcy, the **non-disclosure of such a significant matter would have a material and pervasive impact on FS.**

Contrary to the audit partner's suggestion that no action is necessary as the matter is pending in the Kerala High Court, the requirements of SA 250 and SA 705 necessitate a different approach. The auditor should express either a **qualified or an adverse opinion** on FS based on the level of impact of non-disclosure. Further, above situation involves pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity may not be able to satisfy.

It is an example of events or conditions that may cast a significant doubt on entity's ability to continue as a going concern. However, **no disclosure is made in FS about the material uncertainty.** SA 570, "Going Concern" also mandates auditor to express a qualified or an adverse opinion in accordance with SA 705, if adequate disclosure is not made about material uncertainty in FS. **As a non-disclosure of such a significant matter would have material and pervasive impact of FS, adverse opinion in this situation appears appropriate.**

Therefore, Mr. Manoj's view seems to be proper.

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| 14. | In the course of audit of RKP Ltd., its auditor Mr. 'Noor' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. 'Noor' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. 'Noor'. |
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(RTP May 18) (MTP Nov 18)

{In such que., you won't immediately know which SA to mention or which points to write. So, it's important to practice these types of que.}

Auditor's Responsibilities Relating to Fraud: As per **SA 240**, auditor is **responsible for obtaining reasonable assurance that FS, taken as a whole, are free from material misstatement, whether caused by fraud or error.**

As per **SA 580**, if **mgmt modifies or does not provide the requested written representations**, it may alert the **auditor to the possibility that one or more significant issues may exist.**

In the instant case, the auditor observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report which was not provided by the mgmt despite of many reminders. The auditor also insisted for WR in respect of fraud on/by the company. For this request also mgmt remained silent.

It may be noted that, **if mgmt does not provide one or more of the requested WR,**

- the auditor shall **discuss the matter with mgmt;**
- **re-evaluate the integrity of mgmt** and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
- **take appropriate actions**, including determining the possible effect on the opinion in the auditor's report.

Write point no VII. Auditor unable to continue egmt of SA 240 from notes.

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| 15. | M Ltd. intends to intensify its advertisement strategy of hoarding advertisements to increase its sale during the impending festival season. You have been appointed as the special auditor to examine expenditure under this head. What will be usual evidence you will look for in this case to justify the expenditure? |
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(Nov 13)

{If the concept of PSU's propriety audit comes to your mind, then congratulations, you're on the right track. But this question is very general. Honestly, I don't think ICAI should ask this again, but if they do, it should be related to propriety audit. This is very old que., you can ignore.}

Hoarding Advertisement Expenses: The following would be the usual evidence to justify the expenditure-

- (i) **Copy of Resolution** passed by the Company **authorizing expenditure.**
- (ii) **Examination of Quotations received** from various advertising agencies.

- (iii) **Permission letter from the Municipal authorities.**
- (iv) **Copies of contracts with advertising agencies.**
- (v) **Bill/Invoice from advertising agency.**
- (vi) **Receipts issued by the advertising agencies.**

16. The Managing Director of the Company has committed a “Teeming and Lading” Fraud. The amount involved has been however subsequently after the year-end deposited in the company. As a Statutory Auditor, how would you deal?

(MTP May 18)

{Any student who has gone to Chapter 16(B) in the Investigation section → point 6.F) I) 3) iv) Teeming and Lading — that’s great! This is how the linking should be. But now, listen carefully: You won’t find these points directly in SA 240. So, understand the answer carefully. And don’t forget to include Section 143(12) and CARO}

Fraud Committed by Managing Director: The Managing Director of the company has committed a “Teeming and Lading” fraud. The **fact that the amount involved has been subsequently deposited after the year end is not important because the auditor is required to perform his responsibilities** as laid down in SA 240.

First of all, as per SA 240, the auditor **needs to perform procedures whether the FS are materially misstated**. Because an instance of fraud cannot be considered as an isolated occurrence and it becomes important for the **auditor to perform audit procedures and revise the audit risk assessment**.

Secondly, the auditor needs to **consider the impact of fraud on FS and its disclosure** in the audit report.

Thirdly, the auditor should **communicate the matter to the Chairman and BOD**.

Finally, in view of the **fact that the fraud has been committed at the highest level of mgmt, it affects the reliability of audit evidence previously obtained** since there is a **genuine doubt about representations of mgmt**.

Further, as per **section 143(12) of the Companies Act, 2013**, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he **shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above) or AC or BOD in other cases** (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

The auditor is **also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020**, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

17. Is it appropriate for the auditor to make inquiries of mgmt regarding mgmt’s own assessment of the risk of fraud and the controls in place to prevent and detect it? Discuss.

(Nov 16)

{Answer can be found in paragraph A12 of the Auditing Pronouncements. If you read it 1-2 times, you’ll understand it. So, try to understand it here itself. You won’t find these points in the notes because the pronouncements for SA 240 are quite lengthy, and many possible questions can be made. If everything is included, you’ll end up with too much confusion, and there’s a risk of forgetting what you already know.}

Auditor to make Inquiries regarding Mgmt’s own Assessment of Risk of Fraud and Controls: As per **SA 240**, mgmt accepts responsibility for the entity’s internal control and for the preparation of the entity’s FS.

Accordingly, it is appropriate for the auditor to **make inquiries of mgmt regarding mgmt’s own assessment of the risk of fraud and the controls** in place to prevent and detect it. The **nature, extent and frequency of mgmt’s assessment of such risk and controls** may vary from entity to entity.

In some entities, mgmt may make **detailed assessments on an annual basis** or as part of continuous monitoring. In other entities, mgmt’s assessment may be **less structured and less frequent**. The **nature, extent and frequency of mgmt’s assessment are relevant to the auditor’s understanding of the entity’s control environment**. For example, the fact that mgmt has not made an assessment of the risk of fraud may in some circumstances be indicative of the **lack of importance that mgmt places on IC**.

Auditor's **inquiries of mgmt** may provide useful info. concerning ROMM in FS resulting from employee fraud. However, such inquiries are **unlikely to provide useful info. regarding ROMM in FS resulting from mgmt fraud.**

Mgmt is often in the best position to perpetrate fraud. Accordingly, when **evaluating mgmt's responses to inquiries with an attitude of professional skepticism**, the auditor may judge it necessary to corroborate responses to inquiries with other information.

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| 18. | The Auditor of PQR Pvt. Ltd. having turnover of ₹ 12 crore, was not able to get the confirmation about the existence and value of certain stock. However, a certificate from the Mgmt has been obtained regarding the existence and value of the stock at the year end. The auditor relied on the same and without any further procedure , signed the Audit Report. Is he right in his approach?
<div style="text-align: right;">(Nov 14)</div> |
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*{Are you also feeling that Professional Ethics and SA 501 should be part of the answer? You're correct, but this is an old ICAI suggested answer. Look, SA 580 is already mentioned in the answer. I think it should be amended to include Professional Ethics and SA 501. But it's up to you. If it comes up in the exam, just make sure to **at least reference** them on the safer side.}*

The **physical verification of stock is the primary responsibility of the mgmt.** The auditor, however, is required to **examine the verification programme** adopted by mgmt. He must satisfy himself about the existence and valuation of stock. In the case of PQR Pvt. Ltd., the auditor has **not been able to verify the existence and value** of certain stock despite the verification procedure followed in routine audit. He **accepted the certificate** given to him by the mgmt without making any further enquiry.

As per SA 580, when **representation relate to matters which are material to the financial information**, then the **auditor should seek corroborative audit evidence** for other sources inside or outside the entity.

He should **evaluate whether such representations are reasonable and consistent with other evidences** and should consider whether individuals making such representations can be expected to be well informed on the matter. **WR cannot be a substitute for other audit evidence** that the auditor could reasonably expect to be available.

If the auditor is unable to obtain SAE that he believes would be available regarding a matter, which has or may have a material effect on the financial information, this will constitute a **limitation on the scope** of his examination even if he has obtained a representation from mgmt on the matter. Therefore, the **approach adopted by the auditor is not tenable.**

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| 19. | MIM & Co. wants to issue a prospectus , to provide potential investors with information about future expectations of the Company. You are hired by MIM & Co. to examine the projected financial statements and give report thereon. What audit evidence will be obtained for reporting on projected FS?
<div style="text-align: right;">(MTP Nov 18)</div> |
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{They're trying to confuse you by mentioning Prospectus. Don't bring SAE 3420 into this — the examination of prospective financial information or projected financial statements is covered under SAE 3400. Now you might be wondering where these points came from... Did you forget? Go check Chapter 10 (A) → SAE 3400 → Point 1.8: Documentation}

Audit evidence to be obtained for Reporting on Projected FS: The **auditor should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out.** The audit evidence in form of working papers will include:

- (1) the **sources of information**,
- (2) **basis of forecasts**,
- (3) the **assumptions made** in arriving the forecasts,
- (4) **hypothetical assumptions, evidence supporting** the assumptions,
- (5) **management representations** regarding the intended use and distribution of the information, completeness of material assumptions,
- (6) **management's acceptance of its responsibility** for the information,
- (7) **audit plan**,
- (8) the **NTE of examination procedures performed**, and,
- (9) in case of **modified opinion or withdraws from the engagement**, the **reasons** forming the basis of such decision.

20. Nandini Ltd. a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2022-23 appointed Vasu & Co. as their statutory auditors. During the course of the audit, Vasu & Co. identified that Nandini Ltd. received a **show cause notice** from National Green Tribunal based on the investigation performed by the regional forest department **for violating environmental laws**. Upon gathering a further understanding of the said matter, it was identified that **Nandini Ltd. was dumping toxic solid waste grounds, and because of this, the nearby water bodies were getting polluted.**

Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the **penalty of an amount of ₹700 crore**. The **unaudited profit for FY 2022-23 of Nandini Ltd. was ₹ 49 crore and the unaudited turnover was ₹ 120 crore**. Upon inquiry it was identified that Nandini Ltd. has **disclosed this matter in FS by way of footnote, the extract of which is provided below:**

“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and **company’s legal department has assessed and found that judgment would be in favour of the company**. Accordingly, **no provision has been created for such notices.**”

In the light of the above scenario kindly **provide what should be the appropriate option for the statutory auditor of the company to report this matter.**

(MTP May 24) (RTP Nov 22)

{After hearing about a ₹700 crore penalty against a ₹120 crore turnover, did SA 570 come to your mind? There’s clear material uncertainty here. If company loses the case, it’s over — game over. Remember, in situations involving material uncertainty, proper disclosure is essential. But in this case, the company didn’t provide that disclosure — they just brushed it off. That’s not acceptable. In cases of inadequate disclosure, the auditor must issue a Qualified or Adverse opinion. And looking at ₹700 crore versus ₹120 crore, it clearly leans toward an Adverse opinion.}

As per **SA 250**, the auditor is **required to obtain an understanding and need to evaluate the impact of other laws and regulations that do not have a direct effect** on the determination of the amounts and disclosures in the FS, **but compliance with which may be fundamental to the operating aspects of the business**, to an entity’s ability to continue its business, or to avoid material penalties (for e.g., compliance with the terms of an operating license, regulatory solvency requirements, or environmental regulations); **non-compliance with such laws and regulations may therefore have a material effect** on the FS.

The **auditor shall perform the following audit procedures to help identify instances of non-compliance** with other laws and regulations that may have a material effect on FS:

- (b) **Inquiring of M&T**, as to **whether the entity is in compliance with such laws and regulations**; and
- (c) **Inspecting correspondence**, if any, with the relevant licensing or regulatory authorities

As per **section 143(3)(j)** read with Rule 11(a), the auditor is required to **report whether the company has disclosed the impact, if any, of pending litigations on its financial position** in its FS.

As per **SA 570**, if the auditor concludes that management’s **use of going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists**, auditor **shall determine whether the FS:**

- (a) **Adequately disclose the principal events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern** and mgmt’s plans to deal with these events or conditions; and
- (b) **Disclose clearly that there is material uncertainty related to events or conditions** that may cast significant doubt on the entity’s ability to continue as a going concern **and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.**

If adequate disclosure about the material uncertainty is not made in FS, the auditor shall

- (a) Express a **Qualified opinion or Adverse opinion**, as appropriate, in accordance with **SA 705**; and
- (b) In the **Basis for Qualified (Adverse) Opinion** section of the auditor’s report, state that a **material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the FS do not adequately disclose this matter.**

In the current scenario, Nandini Ltd. has received a **show cause notice** from the National Green Tribunal of an **amount which is more than the net profit and the turnover** of the company for the year. In the event of an unfavourable order for Nandini Ltd., there will be an **impact on Nandini Ltd.'s ability to continue as a going concern**. As a result, **appropriate disclosure should be provided by mgmt for such events**, which cast significant doubt on the entity's ability to continue as a going concern.

As no appropriate disclosure has been provided by Nandini Ltd. for such show cause notice, Vasu & Co. should report this matter under clause (j) of section 143(3) of the Companies Act, 2013. Also, the auditor is required to issue an Adverse opinion as per SA 705.

21.	During the course of audit of CT Ltd. for the financial year 2017-18, it is noticed that Rs. 3.00 lakhs of employee contribution and Rs. 7.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that Rs. 5.00 lakhs only has been deposited with ESIC department during the year ended 31st March, 2018. The Finance Manager informed the auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. Comment as a statutory auditor. (MTP Nov 18) (May 16)
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{Don't get stuck deciding whether it's Qualified or Adverse — just mention both. And yes, let me remind you again: Don't forget CARO.}

Non-Compliance of Laws and Regulations & Reporting Requirements:

As per **SA 250**, it is the responsibility of mgmt, with the oversight of TCWG, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's FS.

The **auditor is responsible for obtaining reasonable assurance** that the FS, taken as a whole, are free from material misstatement, whether caused by fraud or error. In conducting an audit of FS, the auditor **takes into account the applicable legal and regulatory framework**. If the **auditor concludes that the non-compliance has a material effect on the FS, and has not been adequately reflected** in the FS, the auditor **shall express a qualified or adverse opinion** on the FS.

Further, the auditor is **required to report under clause (vii)(a) of Para 3 of CARO, 2020** whether the company is **regular in depositing undisputed statutory dues** including employees' state insurance with the appropriate authorities and **if not, the extent of the arrears of outstanding statutory dues as at the last day of the FY** concerned for a period of **more than six months from the date, they became payable**, shall be indicated by the auditor.

In the instant case, **even though accrual principles have been followed, disclosure of non-payment is necessary**. The **auditor should disclose the fact of non-payment** of rupees 7.50 lakhs in his report.

22.	KRP Ltd., at its AGM, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for FY 2017-18. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known actuaries. Due to difference of opinion, all the joint auditors consulted their respective actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr. Y's actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y's actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma. <u>Explain the responsibility of auditors, in case, report made by Mr. Y's actuary, later on, found faulty.</u> (RTP Nov 18) (MTP May 18) (MTP May 23)
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{Suddenly everything changed — the mood, the game... We got so caught up in SA 299 that we forgot what the question was even about! This is one of those questions that makes the exam feel easy while writing, but after results... well, let's not go there. Just remember — the last line of the question is always important. If you read it carefully, you'll understand what's actually being asked. The question is: If Y's actuary's report — who is considered an auditor's expert — turns out to be faulty, then what is the auditor's responsibility? Got it?}

Using the work of an Auditor's Expert: As per SA 620, the expertise of an expert may be required in the actuarial calculation of liabilities associated with insurance contracts or employee benefit plans etc., however, the **auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert.**

The auditor shall **evaluate the adequacy of the auditor's expert's work for the auditor's purposes**, including the **relevance and reasonableness of that expert's findings** or conclusions, and their **consistency with other audit evidence as per SA 500.**

Further, in view of SA 620, **if the expert's work involves use of significant assumptions and methods**, then the **relevance and reasonableness of those assumptions and methods** must be ensured by the auditor and if the expert's work **involves the use of source data** that is significant to that expert's work, the **relevance, completeness, and accuracy of that source data** in the circumstances must be verified by the auditor.

In the instant case, Mr. X, Mr. Y and Mr. Z, jointly appointed as an auditor of KRP Ltd., referred their own known Actuaries for valuation of gratuity scheme. Actuaries are an auditor's expert as per SA 620. **Mr. Y's referred actuary has provided the gratuity valuation report, which later on found faulty.** Further, Mr. Z is not agreed with this report therefore he submitted a separate audit report specifically for such gratuity valuation.

In such situation, **it was duty of Mr. X, Mr. Y and Mr. Z, before using the gratuity valuation report of Actuary, to ensure the relevance and reasonableness of assumptions and methods used.** They were also required to examine the **relevance, completeness and accuracy of source data used for such report before expressing their opinion.**

Mr. X and Mr. Y will be held responsible for grossly negligence and using such faulty report without examining the adequacy of expert actuary's work whereas **Mr. Z will not be held liable for the same due to separate opinion expressed by him.**

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|-----|---|
| 23. | Fam Associates have been appointed auditors of Home Ltd. which acquired 55% shares in Sam Ltd. on 15th October, 2022. During the audit of Home Ltd., the auditors found that the company has not prepared consolidated FS because, on the date of acquisition, the fair value of certain assets & liabilities has not been ascertained, which is significant and are accounted for on estimated basis only.
Help Fam Associates in framing the opinion paragraph of the audit report. |
|-----|---|

(PP Nov 23) (PP May 19)

{I've seen this question in many students' RTI papers — and you won't believe it, everyone had a different answer! A lot of students went into the Group Audit chapter — some wrote about applicability, some about exemptions, and others about reporting from that section. But hey... read the last line of the question. It clearly asks about forming an opinion. Now here too, some students gave 'Disclaimer of Opinion' — and okay, there can be confusion. But look — there's no doubt that the issue is pervasive. The only thing to check is whether SAAE was obtained or not. Remember: A disclaimer is given when you're talking about possible effects due to lack of evidence. But in this case, you already know the FS are not giving a true and fair view — so it's not about possible effects anymore. Got it? I hope this clears it up. Did it click?}

Opinion Paragraph of Audit Report: In the instant case, Home Ltd. acquired 55% shares in Sam Ltd. and the company did not prepare CFS because on the date of acquisition the fair value of certain assets and liabilities has not been ascertained. Therefore, **accounting is done on estimate basis only which is not correct as the FS are materially misstated due to non-consolidation of subsidiary. The material misstatement is deemed to be pervasive to the consolidated FS.** Thus, the auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS.

Adverse Opinion

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated FS do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 2023, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.

Basis for Adverse Opinion is given below:

As explained in Note X, the Home Ltd. has **not consolidated** subsidiary Sam Ltd. that the Home Ltd acquired during 2022 **because it has not yet been able to determine the fair values of certain material assets and liabilities of subsidiaries at the acquisition date.** This investment is therefore accounted for on an estimate basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had Sam Ltd. been consolidated, many elements in accompanying CFS would have been materially affected. The effects on CFS of failure to consolidate have not been determined.

24.	SPM Ltd., about to complete fifty years of age since its incorporation in the FY 2023-2024, decided during the FY year 2022-23 to upgrade its registered office at an important location in Mumbai city. As part of planned package, it decided to acquire a land very adjacent to the site of registered office, which had been owned by Mr. Parry, who is a director of the Company. Since he was reluctant to part with the ownership, he had been persuaded to convey the property in favour of the company in exchange of a site owned by the company located at the next street to the street where the registered office is situated, which is 1.50 times larger in area than that of the site owned by the director adjacent to the Registered office. Happier with what he was offered in negotiation, Mr. Parry agreed for transferring the property in favour of the company in a deed of exchange duly executed by authorized persons of the Board, and Mr. Parry. The registration formalities were completed by 31st December, 2022. Assuming that you are the EP for the audit of the accounts of the company for FY ended on 31st March, 2023, give a list of additional audit procedures and reporting requirements, if any, that this transaction might trigger in your audit. (PP May 23)
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{What a brilliant question and solid answer! Honestly, I didn't expect this much from you... But buddy, at least be thorough with CARO and the RPT. Even if you don't go deep into Section 192 or all the documentation details, it should still work.}

CARO Audit Procedures and Reporting:

In the given situation, SPM Ltd has **entered into non-cash transactions with one of the directors**, Mr. Parry during the year, by transferring the property (by Mr. Parry) in favour of Co. in a deed of exchange of a site owned by Co.

Paragraph 3 Clause (xv) of the CARO 2020 & Reporting Requirements:

The auditor is required to report the transaction as per Paragraph 3(xv) of the CARO, 2020 which states that whether the company has **entered into any non-cash transactions with directors or persons connected with him** and if so, whether the **provisions of section 192 of Companies Act have been complied with.**

For reporting on the first part of this clause, the starting point of the auditor's procedures could be obtaining a management representation as to whether the company has undertaken any non-cash transactions with the directors or persons connected with the directors, as envisaged in section 192(1) of the Act.

Second part of this clause requires auditor to report whether company has complied with the provisions of section 192 in this regard. Section 192(1) & (2) of the Act envisage the following compliances in respect of such transactions:

- (i) The company should have obtained a prior approval for such arrangement by a resolution in general meeting.
- (ii) Notice for approval of resolution should contain details of arrangement along with the value of assets involved.

The auditor should check compliance with section 192(2) of the Act and verify the notice of the general meeting that it includes particulars of arrangement along with the value of the assets involved in such arrangements.

This transaction was duly executed by the authorised persons of the Board. The auditor has to state the fact whether approval has been obtained in the general meeting of the company.

Related Party Transactions

This is a transaction with a related party. The **provisions of section 188** of the Companies Act, 2013 as regards Related Party Transactions are to be checked for compliance. Section **189** of the Companies Act, 2013 requires a register to be maintained wherein the contract with related parties are to be entered. The compliance with section **177 and section 188** has to be reported under **Clause (xiii) of the CARO, 2020.**

Documents to be verified:

A scrutiny of the following books of account, records and documents could provide source of such audit evidence to the auditor as to the existence of such non-cash transactions.

- Register of Loans, Guarantee, Security and Acquisition Made by the Company, Register of Contracts with Related Party and Contracts and Bodies etc. in which Directors are Interested.
- Movements in the Fixed Asset Register.
- Minutes book of the General Meeting and Meetings of Directors.
- Report on Annual General Meeting.

25.	Milk Ltd. is engaged in the business of manufacturing and distribution of various milk products like cheese, curd, paneer, etc. Govt. made certain changes in rules and regulations relating to this sector, consequently mgmt decided to go for expansion. Mgmt was looking for some financial investor , who can fund some part of the proposed expansion. Mr. X is interested in the venture and appoints you to act as an advisor to the proposed investment in the business of Milk Ltd. You have to investigate the audited FS and ensure that the valuation of shares of the company on the basis of audited FS is appropriate. What process will be used for checking and whether you can put reliance on already audited statement of accounts?
<i>(PP July 21)</i>	

{Don't try to match everything exactly, just read and move on. Focus on remembering the important words, like the underlined portions. And for reference, check Chapter 16 (B) in Investigation section → Point 4(b) about whether investigator can rely on already audited statements.}

Process used for checking and reliance on already audited FS - Following process may be carried out-

1. If the statements of account produced before the investigator **were not audited by a qualified accountant**, then **of course there arises a natural duty to get the figures in the accounts properly checked and verified**.
2. However, **when the accounts produced to the investigator have been specially prepared by a professional accountant**, who knows or ought to have known that these were prepared for purposes of the investigation, **he could accept them as correct relying on the principle of liability to third parties**.
3. Nevertheless, it would be **prudent to see first that such accounts were prepared with objectivity and that no bias** has crept in to give advantage to the person on whose behalf these were prepared.

Whether the investigator can put reliance on the already audited statement of account - If the investigation has been launched because of some **doubt in the audited statement** of account, **no question of reliance** on the audited statement of account arises. However, if the **investigator has been requested to establish value of a business or a share or the amount of goodwill payable by an incoming partner**, ordinarily the investigator would be **entitled to put reliance on audited materials** made available to him **unless, in the course of his test verification, he finds the audit to have been carried on very casually** or unless his terms of appointment clearly require to test everything afresh.

26.	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, are 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.
<i>(PP May 19)</i>	

{Don't ask where this came from or what it is — just read it, move ahead. It's an exam question. If ICAI feels like it, they might ask it. Don't waste time memorizing the exact same points — focus on the big picture and key points before the exam}

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 TCWG** 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**.

27.	Distinguish between - Reasonable Assurance Engagement from Limited Assurance Engagement (PP May 18)
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{Don't take too much load — just read and move on.}

Limited Assurance	Reasonable Assurance
The practitioner should design and perform procedures to address the subject matter and to obtain limited assurance to support practitioner's conclusion.	The practitioner should design and perform procedures to address the subject matter and to obtain reasonable assurance to support practitioner's conclusion.
In obtaining an understanding of the underlying subject matter and other engagement circumstances, the practitioner should consider the process used to prepare the subject matter information .	In obtaining an understanding of the underlying subject matter and other engagement circumstances, the practitioner should obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement .
Based on the practitioner's understanding, the practitioner should: (a) Identify areas where a material misstatement of the subject matter information is likely to arise; (b) Design and perform procedures to address the areas and to obtain limited assurance to support the practitioner's conclusion.	Based on the practitioner's understanding the practitioner should: (a) Identify & assess the ROMM in subject matter information; and (b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's opinion.

28.	While conducting audit of PC Ltd., CA. T decided to use sampling technique to test the trade receivables at the planning stage. He directed his team members to divide the whole population of trade receivables balances to be tested in a few separate groups called 'strata'. He directed to treat each stratum as if it was a separate population and divided the trade receivables balances of PC Ltd. for the Financial Year 2022 -23 into groups on the basis of personal judgment as follows:
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Sl. No.	Particulars
1	(a) Balances in excess of ₹ 50,00,000;
2	(b) Balances in the range of ₹ 40,00,001 to ₹ 50,00,000;
3	(c) Balances in the range of ₹ 30,00,001 to ₹ 40,00,000;
4	(d) Balances in the range of ₹ 20,00,001 to ₹ 30,00,000;
5	(e) Balances in the range of ₹ 10,00,001 to ₹ 20,00,000;
6	(f) Balances ₹ 10,00,000 and below

From the above-mentioned groups, CA. T directed to pick up different percentage of items for examination from each of the group. One of the team members, Mr. Neel, wants to use some other technique of sampling for the above purpose as the concept of stratification is not clear to him. You are required to explain the concept of stratification and its uses to Mr. Neel.

(Read) (PP May 23)

{This question is here to help you recognize the issue because many students got it wrong. Almost everyone wrote the answer based on systematic sampling.}

Concept of Stratification: Stratification is the process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

Uses of Stratification

- Audit efficiency may be improved** if the auditor stratifies a population by **dividing it into discrete sub-populations which have an identifying characteristic**. The objective of stratification is to reduce the variability of items within each stratum and therefore **allow sample size to be reduced without increasing sampling risk**.
- When performing tests of details, the population is **often stratified by monetary value**. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement. Similarly, a population **may be stratified according to a particular characteristic that indicates a higher risk of misstatement**, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.

3. The **results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum**. To draw a conclusion on the entire population, the auditor will need to consider the ROMM in relation to whatever other strata make up the entire population. For example, **20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items**. The auditor evaluates the results of this sample and reaches a conclusion on the 90% of value separately from the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).
4. If a class of transactions or account balance has been divided into strata, the misstatement is projected for each stratum separately. Projected misstatements for each stratum are then combined when considering the possible effect of misstatements on the total class of transactions or account balance.

CA Mahesh Lamkane

1. SPS & Associates, CA, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified and commenced providing software solutions in "e-commerce" in India as well as in certain African countries.

SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. **SPS & Associates does not possess the necessary expertise** and infrastructure to carry out the audit of these diversified business activities and accordingly **wishes to withdraw from the engagement and client relationship**.
Discuss the issues that need to be addressed before deciding to withdraw.

As per **SQC 1**, "QC for Firms that Perform Audits and Reviews of Historical FI, and Other Assurance and Related Services Engagements", the **firm should establish P&P for the acceptance and continuance of client relationships and specific engagements**, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, ____.

Write from SQC 1 point no. -> 1.3 ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS -> C) Withdrawal from engagement.

SPS & Associates should address the above issues before deciding to withdraw.

2. PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to reappointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA R is the engagement partner and is planning to issue the acceptance letter.

During the current FY, there was a **search by the Income-tax Authorities** on the company, and certain **accounting records were seized** for verification. Based on the information available on social media, CA R noted that the **promoters' brother is contemplating to contest in the ensuing elections**, under the banner of a political party.

One of the current senior **engagement team manager**, who has been doing the audit engagement till last year, has **left PQR Associates** and is planning to **provide some accounting services to one of the associate companies**. **PQR Associates are yet to recruit another senior manager having adequate experience** in the audits of clients engaged in the automotive sector.

Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationships considering the above issues.

Acceptance and Continuance of Client Relationships: As per **SQC 1**, "QC for Firms that Perform Audits and Reviews of Historical FI, and Other Assurance and Related Services Engagements," a firm **before accepting an engagement should acquire vital information** about the client.

Such an information should help firm to decide about: -

- Integrity of Client, promoters, and key managerial personnel.
- Competence (including capabilities, time, and resources) to perform engagement.
- Compliance with ethical requirements.

The firm should **obtain such information as it considers necessary** in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where **issues have been identified**, and the **firm decides to accept** or continue the client relationship or a specific engagement, it should **document how the issues were resolved**.

Further, as per **SA 220**, "QC for an Audit of FS", the EP shall form a conclusion on **compliance with independence requirements** that apply to the audit engagement. In doing so, the EP shall **obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence**.

In view of the above, PQR Associates should:

- ✓ **Follow their firm's policies and procedures for client acceptance and continuance.** This includes evaluating the **integrity of the client**, assessing **potential risks associated** with the engagement, and ensuring the **firm has the necessary resources and expertise** to perform the engagement effectively. The engagement team, should assess, whether company is involved in any funding activities, to the political parties, and if so enquire and assess the risks related to such transactions.
- ✓ **Communicate clearly with the client** regarding the scope of the engagement, the **responsibilities of both parties**, and **any limitations** on the services to be provided.
- ✓ **Independence and objectivity throughout the engagement.** Since the **senior manager** who was on this engagement is **providing certain accounting services, to one of the group companies**, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant **ethical/independence requirements**.
- ✓ **Continually monitor the client relationship for any changes or developments** that may impact the firm's ability to provide services effectively. This includes **staying informed about significant events such as the income-tax search**. Since there was an income-tax raid on the organisation, the engagement partner should **evaluate ROMM, and non-disclosure of tax disputes and liabilities**.
- ✓ **Ensure that their engagement team possesses the necessary competence and capabilities** to perform the audit effectively. Since one of the **senior engagement team members has left** PQR Associates, EP should assess, whether he would be in a position to devote adequate time on the engagement or whether to **recruit another resource, before commencement of the audit**.

3. CA Giri is a **senior partner** of M/s TSV Associates. M/s TSV Associates is a reputed firm of CA which has been in practice for more than five decades. The firm **undertakes statutory audits of large listed companies** across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an **Engagement Quality Control Reviewer** for an audit engagement of a **listed company**.

What are the aspects which would be looked into by CA Giri as an EQCR in relation to the engagement? Upon completion of the review, **CA Giri has identified certain issues** with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The **views of CA Giri are not accepted by the Engagement Partner**.

Suggest ways of resolving the differences of opinion between CA Giri and engagement partner.

As per **SA 220**, “Quality Control for an Audit of FS”, for audits of FS of listed entities, CA Giri, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:

- (i) The **engagement team’s evaluation of the firm’s independence** in relation to the audit engagement;
- (ii) Whether **appropriate consultation has taken place** on matters **involving differences of opinion** or other **difficult or contentious matters**, and the **conclusions arising** from those consultations;
- (iii) Whether **audit documentation** selected for review **reflects the work performed** in relation to the **significant judgments** made and **supports the conclusions** reached.

As per **SQC 1**, “QC for Firms that Perform Audits and Reviews of Historical FI, and Other Assurance and Related Services Engagements,”, there **might be difference of opinion**

- within engagement team,
- with those consulted and
- between engagement partner and engagement quality control reviewer.

The **report should only be issued after resolution of such differences**. In case, **recommendations of engagement quality control reviewer are not accepted** by engagement partner and **matter is not resolved to reviewer’s satisfaction**, the **matter should be resolved by following established procedures of firm** like by **consulting with another practitioner or firm, or a professional or regulatory body**.

In the given situation, under completion of review, CA Giri, Engagement Quality Control Reviewer has identified certain issues. However, the view of CA Giri, the EQCR are not accepted by the Engagement Partner. This difference of opinion among the CA Giri and Engagement Partner should be resolved with abovementioned manner as per SQC 1.

CH 2 – PLANNING, STRATEGY & EXECUTION

- | | |
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| 1. | A & Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan? |
|----|---|

Development of an overall plan - Overall plan is basically intended to provide direction for audit work programming and includes the determination of timing, manpower development and co-ordination of work with the client, other auditors and other experts. The auditor should consider the following matters in developing his overall plan for the expected scope and conduct of the audit:

- (i) **Terms of his engagement and any statutory responsibilities.**
- (ii) **Nature and timing of reports** or other communications.
- (iii) **Applicable Legal or Statutory requirements.**
- (iv) **Accounting policies adopted** by the clients and changes, if any, in those policies.
- (v) The effects of new accounting and auditing pronouncement on the audit.
- (vi) Identification of **significant audit areas**.
- (vii) Setting of **materiality levels** for the audit purpose.
- (viii) **Conditions requiring special attention** such as the **possibility of material error or fraud**.
- (ix) Degree of **reliance to be placed on the accounting system and internal control**.
- (x) Possible rotation of emphasis on specific audit areas.
- (xi) **Nature and extent of audit evidence to be obtained.**
- (xii) **Work of the internal auditors** and the extent of reliance on their work, if any in the audit.
- (xiii) **Involvement of other auditors** in audit of subsidiaries/branches of client & involvement of experts.
- (xiv) Allocation of works to be undertaken between joint auditors & procedures for its control & review.
- (xv) Establishing and **coordinating staffing requirements**.

CH 3 - MATERIALITY, RISK ASSESSMENT & IC

1. AMRO Ltd. is a manufacturing and trading Company of leather goods since last 10 years. You are the internal auditor of the company for the year 2023-24. In order to review internal controls of the company, you visited the departments and noticed:
 - (1) The **head of procurement**, Mr. Amit, **has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.**
 - (2) The company's staff has been working in the same roles for over five years **without any rotation**. The finance manager, Mr. Sachin, in particular, has never had his duties rotated since joining the company.
 - (3) The **store manager**, Mr. Gupta, who is **responsible for maintaining the inventory**, also keeps the inventory records.
 - (a) **Briefly discuss the general conditions pertaining to the internal check system to be ensure by you as an auditor.**
 - (b) **Do you think that general conditions pertaining to the internal check system are violated in the given situation?**

For (a) Write from Ch. 3B -> 2.5 MONITORING OF CONTROLS -> A) INTERNAL CHECK SYSTEM -> III) GENERAL CONDITIONS

(b) **Yes, in the given situation general conditions pertaining to the internal check system are violated as follows:**

- (1) The head of procurement, Mr. Amit, having complete control over the procurement process without oversight violates the principle that **no single person should control** any important aspect of the business operation.
- (2) The **lack of staff rotation** for over five years violates the principle that staff duties should be rotated periodically to prevent any single person from performing the same function for too long.
- (3) Allowing Mr. Gupta, the store manager, to maintain inventory records while also having custody of the inventory violates the principle that those **with physical custody of assets should not have access to accounting records.**

CH 4 - 200 SERIES

Already covered.

CH 5 - 500 SERIES

1. CA Shobit is conducting an audit of XYZ Ltd. for the year 2023-24. The company is engaged in the export of handicraft items in Europe. The **audit is nearing completion in the month of July 2024.**

 However, it **becomes known** to CA Shobit that one of overseas buyers has made a legal claim against the company **on 1st June 2024** for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2023.

 The management of the company has decided to **agree to an out of court settlement** of Rs. 4 crore to protect its reputation. The **FS of the company are silent on this issue.**
 Discuss, how, CA Shobit should proceed to deal with above issue.

In the given case, the auditor has **come to know** the legal claim against the company **before the issuance of the audit report**. It has also come to his knowledge that the management of the company has agreed to an out of court settlement of ₹ 4 crore.

This is an example of a **subsequent event between the date of the FS and the date of the auditor's report**. It provides evidence of conditions that existed at the date of the FS and requires adjustment in FS.

Further as per **SA 560**, "Subsequent Events", the auditor shall **request management** and, where appropriate, TCWG, **to provide a written representation** in accordance with **SA 580**, "Written Representations" that **all the events occurring subsequent to the date of FS and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed**.

CA Shobit should **ensure that appropriate adjustments and disclosures are made by the management**. **In the absence of the same, he should consider the impact of the said event and report accordingly**.

2.	CA N is carrying out an audit of restated FS of BQR Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA N is planning to issue an Audit Report on 5th August, 2024 covering these restated FS. Before issuing the audit report, CA N requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period. How would CA N deal with the above situation as per relevant Standard on Auditing?
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In the given situation, CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e., 2023-24, 2022-23 and 2021-22 so he requested Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the Company provided the Management Representation Letter only for the financial year 2023 -24 as they were not in place during that period.

As per **SA 580**, "Written Representations", as **written representations are necessary audit evidence**, the **auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations**.

As per **SA 560**, "Subsequent Events", the **auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the FS**, the **written representations are dated as near as practicable to, but not after, the date of the auditor's report on the FS**.

In **some circumstances** it may be appropriate for the **auditor to obtain a written representation about a specific assertion in the FS during the course of the audit**. Where this is the case, it **may be necessary to request an updated written representation**.

The **written representations** are for **all periods referred to in the auditor's report** because **management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate**. The **auditor and management may agree to a form of written representation** that updates written representations **relating to the prior periods** by addressing whether there are any **changes** to such written representations and, if so, what they are.

Situations may arise where **current management were not present during all periods** referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. **This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole**.

Accordingly, the requirement for the auditor to request from them written representations that **cover the whole of the relevant period(s)** still applies. Therefore, as per the above requirement of SA 580 CA N should take written representation letter from management of BQR Limited for the financial year 2022-23 and 2021-22 also.

In case the management of BQR Limited **does not provide written representation** as requested, the auditor shall **discuss with the management, re-evaluate the integrity of management, and take appropriate actions** including the impact on the audit report as per SA 705.

3. Mudit & Associates is appointed as Statutory Auditors of GRF Private Limited for the financial year 2023-24. The company is into the business of Health Club, Fitness Centre and gym costumes. CA M is the EP for the audit assignment. CA M observed the following points while auditing:
- Customer's base is reducing continuously** due to tough competition and discount war existing in the market.
 - Payments of creditors are delayed** and made with overdue interest.
 - Company has **not been able to pay the salaries** of staff and trainers on time.
 - Key financial ratios** of the company, like current ratio, debt-service coverage ratio, **are in the red** and have **deteriorated** considerably as compared to last year.
 - The company has **requested its bankers to provide it with additional working capital** credit facilities of Rs. 1.5 Crores, but **bankers are not considering** the company's proposal favorably.
- What audit procedures should be followed** by CA M considering the above circumstances as per SA 570 - "Going Concern"?
- How auditor should deal **if the use of going concern basis of accounting is appropriate, but a material uncertainty exists, and adequate disclosure of material uncertainty is made** in FS?

Audit procedures when conditions or events are identified:

- Requesting mgmt to make its assessment** relating to entity's ability to continue as a going concern, if not yet performed.
- Evaluating mgmt's plan of future actions.** (*Outcome likely to improve situation? / Plans are feasible?*)
- Analyzing the cash flow forecast** of the entity.
 - Reliability of underlying data
 - Support for assumptions
- Considering the **additional facts** or information available.
- Requesting WR** from mgmt regarding the **plans of future actions and the feasibility** of these plans.

In the given case, CA M has observed such points that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, CA M should follow audit procedures such as:

- Review of management's assessment** of the company's ability to continue as a going concern.
- Examine and challenge the reasonableness of the **company's cash flow forecasts** and key assumptions.
- Review **events after the reporting period** that might affect the going concern assumption, such as further financial deterioration or inability to secure financing.
- Analysis of the company's key financial ratios** and compliance with loan agreements to assess liquidity and solvency.
- Review of the company's **challenges and efforts to secure additional financing** and the reasons for the bank's reluctance to provide further credit.
- Assess the impact of declining customer base, delayed payments, and other operational challenges** on the company's ability to continue as a going concern.

Further, as per **SA 570** if adequate disclosure about the material uncertainty is made in FS, the auditor shall **express an unmodified opinion** and the **auditor's report shall include a separate section** under the heading **"Material Uncertainty Related to Going Concern"** to:

- (a) **Draw attention to the note in the FS** that discloses the matters; and
- (b) **State** that these **events or conditions indicate that a material uncertainty exists** that **may cast significant doubt on the entity's ability to continue as a going concern** and that the **auditor's opinion is not modified in respect of the matter**.

CH 6 - REPORTING

1. During the course of audit of PEC Limited, CA Guru has reason to believe that a **fraud involving ₹ 75 lakhs** has been committed in the company by its employees. Is CA Guru under **statutory obligation to report the above matter to Central government** by filing prescribed form on MCA Portal? **How should he proceed to report above said matter?**

As per **section 143(12)** of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, **has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of Rs. 1 crore or above**, is being or has been committed in the company by its officers or employees, the auditor **shall report the matter to the Central Government** within such time and in such manner as prescribed.

In the given case, CA Guru has reason to believe that a fraud involving **Rs. 75 lakhs** has been committed in the company by its employees.

Therefore, he is under **no statutory obligation to report this matter to Central Government** by filing prescribed Form (ADT - 4) on MCA portal.

In case of a **fraud involving lesser than the specified amount** [i.e. less than Rs. 1 crore], the auditor shall **report the matter to the audit committee** constituted under section 177 **or to the Board** in other cases within such time and in such manner as prescribed.

Besides, auditor has obligation to report matters pertaining to fraud under clause (xi) of paragraph 3 of CARO, 2020.

2. Discuss the reporting responsibilities of statutory auditor in the following situations for year 2023-24 under CARO, 2020:
 - (i) In the financial year 2023-2024, Candy Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the **company sought to acquire an adjacent plot of land owned by Mr. Sidhant, who is also a director of Candy Ltd.** Initially hesitant to sell, Mr. Sidhant was persuaded to transfer his property to the company **in exchange for a larger plot** owned by Candy Ltd. This plot, located on a nearby street, is double the size of Mr. Sidhant's land.
Satisfied with the exchange, Mr. Sidhant agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorized representatives and Mr. Sidhant. The registration of the properties was completed by December 31, 2023.
 - (ii) On 15th May, 2023, a **TDS survey** was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income Tax Act, 1961. The survey team pointed out certain **lapses regarding non-deduction of tax at source** and subsequently Deputy Commissioner of Income Tax (TDS) **raised a demand of ₹ 25 lacs on the company** treating it as "assessee in default". **The company has not deposited demand raised and filed appeal** against impugned order on 01st March, 2024 under e-appeals scheme with JCIT (Appeals).

(i) The auditor is required to **report the transaction as per Clause (xv)** of Paragraph 3 of the CARO, 2020 which states that whether the company has entered into any **non-cash transactions with directors or persons connected with him** and if so, whether the provisions of **section 192** of the Companies Act have been complied with.

Further, as per Clause (xiii) of Paragraph 3 of the CARO, 2020, auditor should report whether **all transactions with the related parties are in compliance with sections 177 and 188** of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards.

In the given situation, Candy Ltd. has entered into non-cash transactions with one of the directors, Mr. Sidhant during the year, by transferring the property (by Mr. Sidhant) in favour of the Company in a deed of exchange of a site owned by the company.

Thus, the auditor is required to report the same as per **Clause (xv) and Clause (xiii)** of Paragraph 3 of the CARO, 2020.

(ii) As per **clause (vii) (b)** of Paragraph 3 of CARO, 2020, the auditor is required to report where statutory dues have **not been deposited on account of any dispute**, then the amounts involved and the forum where dispute is pending shall be mentioned.

In the given situation, the survey team pointed out certain lapses regarding non- deduction of TDS and demand raised by DCIT(TDS). TDS dues are in the nature of statutory dues and the company has filed appeal against order of DCIT (TDS) raising a demand of ₹ 25 lacs with JCIT (Appeals).

Therefore, these are in the nature of **disputed statutory dues**. Thus, it should be reported in accordance with **Clause (vii) (b)** of Paragraph 3 of CARO, 2020.

3. Fancy Limited is a **foreign company** providing **software support services having its Branch Office at Delhi**. During the year 2023-24, a **subsidiary Nancy Private Limited** in Gurgaon. For furtherance of objectives, Fancy Limited entered into a **Business Transfer Agreement dated 5th October 2023** with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited **on a going concern basis effective from 01st April, 2023**. Further necessary **approval from regulatory authorities is also received on 20th December, 2023** for such transfer. Fancy Limited promised that it shall provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited.

During the year **2023-24**, Delhi Branch of Fancy Limited have **prepared its FS** on the basis that the Branch Office **does not continue to be a going concern** and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the FS. **Delhi Branch has incorporated above matter in detailed form in Note XX to the FS.**

You are the **statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24**. **According to you**, Delhi Branch has **correctly disclosed** about the matter in Note XX to the FS regarding management's intention to close the operations of the branch office. Further **you have obtained SAAE** concerning audit and on the verge of finalization of audit report.

Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard.

Drafting of Opinion Paragraph and basis thereof along with disclosure of Note XX:

INDEPENDENT AUDITOR'S REPORT

To the Members of Delhi Branch Office of Fancy Limited
Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of Delhi Branch Office of Fancy Limited ("the Company"), which comprise the balance sheet as at March 31, 2024, and the statement of Profit & Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, and to the best of our information and according to the explanations given to us the aforesaid financial statements, **give a true and fair view**, in conformity with the accounting principles generally accepted in India, of the state of affairs of the Delhi Branch Office of the Company as at March 31, 2024 and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing (SAs). Our **responsibilities** under those standards are further **described in the Auditor's Responsibilities** for the Audit of the Financial Statements section of our report. **We are independent of the Company** in accordance with the **ethical requirements** that are relevant to our audit of the financial statements as per the **ICAI's Code of Ethics** and the **provisions of the Companies Act, 2013**, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the **audit evidence we have obtained is sufficient and appropriate** to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note XX regarding Delhi Branch Office management's intention to close the operations of the Branch Office subject to regulatory approvals.

Accordingly, the financial statements have been prepared on the basis that the Delhi Branch Office does not continue to be a going concern and provisions have been made in the books of account for the losses arising or likely to arise on account of closure of operations including the losses on the realizability of current assets. **Our opinion is not modified in respect of this matter.**

CH 7 - SPECIALISED AREAS (800 SERIES)

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| 1. | <p>Mr. BK has been engaged by XYZ Ltd. to report on summary FS derived from the FS audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment.</p> <p>Guide him the factors affecting auditor's determination of the acceptability of applied criteria as per relevant Standard on Auditing.</p> |
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In the given situation, Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment.

As per **SA 810, "Engagements to Report on Summary Financial Statements"**, **before accepting** an engagement to report on summary of financial statements, the **auditor shall determine whether applied criteria are acceptable. 'Applied criteria' refers to the criteria applied by management in the preparation of the summary financial statements.**

Factors affecting the auditor's determination of the acceptability of the applied criteria are:

- The **nature of the entity**;
- The **purpose of the summary financial statements**;
- The **information needs of the intended users of the summary financial statements**; and
- **Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.**

CH 8 – RELATED SERVICES

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| 1. | <p>MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit engagements and do not have exposure to compilation engagements.</p> <p>Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differs from assurance engagements.</p> <p>Give your views on the applicability of SQC 1 to this engagement.</p> |
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As per **SRS 4410, Compilation engagement** is an engagement in which a **practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information** of an entity in accordance with an applicable FRF and issues a report.

Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. Financial information that is the subject of a compilation engagement may be required for various purposes including: -

- To **comply with mandatory periodic financial reporting requirements** established in law or regulation.
- For **purposes unrelated to mandatory financial reporting** under relevant law or regulation, including for example: -
 - ✓ For **management or those charged with governance**, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
 - ✓ For periodic financial reporting undertaken for **external parties under a contract or other form of agreement** (such as financial information provided to a funding body to support provision or continuation of a grant).
 - ✓ For **transactional purposes**, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a **merger or acquisition**).

“Assurance engagement” means an engagement in which a practitioner **expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party** about the **outcome of the evaluation or measurement of a subject matter against criteria**. It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished.

A compilation engagement is not an assurance engagement. A compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.

Further, **SQC 1 is applicable to all Engagement and Quality Control Standards**. Since SRS 4410 is also one of Engagement and Quality Control Standards, **SQC 1 applies to firms in respect of firm's compilation engagements** too which is covered in Related Services.

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| 2. | <p>You have been appointed to compile the financial statements of Kings & Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly</p> |
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understated, and the **company has failed to apply applicable standards**. On pointing out the same, the partners of Kings & Company inform you that it is **outside your scope** since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment.

As per **SRS 4410, "Compilation Engagements"**,

If the **practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested**, the practitioner shall **withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing**.

If the practitioner **becomes aware** during the course of the engagement that:

- (a) The compiled financial information **does not adequately refer to or describe the applicable FRF**
- (b) **Amendments** to the compiled financial information **are required** for the financial information **not to be materially misstated**; or
- (c) The **compiled financial information is otherwise misleading** the practitioner shall **propose the appropriate amendments to management**.

If management **declines or does not permit** the practitioner to **make the proposed amendments** to the compiled financial information, the practitioner shall **withdraw** from the engagement and **inform management** and those charged with governance of the **reasons for withdrawing**.

If **withdrawal from the engagement is not possible**, the practitioner shall **determine the professional and legal responsibilities** applicable in the circumstances.

The practitioner shall **obtain an acknowledgement from management** or those charged with governance, as appropriate, that **they have taken responsibility for the final version of the compiled financial information**.

3. The practitioner shall **not accept the compilation engagement unless the practitioner has agreed to the terms of engagement with management**, and the engaging party if different.
In view of the above, mention the **responsibilities of the management to be agreed on for the compilation engagement in accordance with SRS 4410**.

The practitioner shall not accept the compilation engagement unless the practitioner has agreed to the terms of engagement with management, and the engaging party if different. In accordance with SRS 4410, "Compilation Engagement", the responsibilities of the management to be agreed on for the compilation engagement are that:

- (i) The **financial information**, and for **preparation and presentation thereof**, in accordance with **FRF** that is acceptable in view of the intended use of the financial information and the intended users;
- (ii) **Design, implementation and maintenance of such internal control** as management determines is necessary to enable the preparation of FS that are free from material misstatement, whether due to fraud or error;
- (iii) The **accuracy and completeness of the records**, documents, explanations and other information provided by management for the compilation engagement; and
- (iv) **Judgments needed** in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement.

CH 9 - REVIEW

1. A **review** of financial statements includes consideration of the entity's **ability to continue as a going concern**. If, during the performance of the review, the practitioner becomes aware of events or conditions that **may cast significant doubt** about the **entity's ability to continue as a going concern**. **Enumerate the steps to be taken by the practitioner for the same**.

Going concern:

- Review process includes an **assessment of the entity's ability to continue operating as a going concern**.
- If practitioner identifies **events or conditions raising significant doubt about going concern, they shall:**
 - a. **Inquire with mgmt** about their **plans** to address the situation and the **feasibility** of those plans.
 - b. **Evaluate the responses** to determine if they **provide sufficient basis for:**

i. Continue to present FS on going concern basis if FRF includes assumption; or	ii. Conclude FS are materially misstated , or are otherwise misleading regarding entity's ability to continue as a going concern.
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- c. Consider mgmt's responses **in light of all relevant info. obtained** during review.

2. **GAK Limited** has **compiled the interim financial information**, as per the **Listing agreement requirements**, and **submitted it to the auditors for their review**. CA Reena has been assigned on the **engagement to review the interim financial information** of GAK Limited.

Based on the **inquiries and other review procedures** carried out, CA Reena assessed that GAK Limited has been **facing continuous working capital shortages**. **No financial institutions or banks are ready to lend additional funding limits to GAK Limited**, since the company has been **continuously incurring losses for over 3 years** and the company has **defaulted payment of loan instalments & interest** over the last one year and **operations have been curtailed significantly**.

Under such circumstances CA Reena, who is doing the review for the first time, noted that GAK Limited has **not disclosed any information in the interim financial information relating to material uncertainties**.

Given the situation, please advise CA Reena, **what kind of review report is required to be issued?** If, GAK Limited has **disclosed information relating to material uncertainty**, can CA Reena give a **clean report?** Discuss.

Going Concern and Significant Uncertainties: As per **SRE 2410**, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity",

If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and **adequate disclosure is made** in the interim financial information the auditor **modifies the review report by adding an emphasis of matter paragraph**.

The auditor **may have modified a prior audit or review report by adding an emphasis of matter paragraph** to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is **not adequately disclosed** in the interim financial information, the **auditor should express a qualified or adverse conclusion**, as appropriate. The **report should include specific reference to the fact** that there is such a material uncertainty.

In view of the above, **in the given situation**, GAK Limited has compiled the interim financial information, as per the Listing agreement requirements, and submitted it to the auditors for their review. CA Reena has been assigned on the engagement to review the interim financial information of GAK Limited. CA Reena noticed that GAK Limited has **not disclosed any information** in the interim financial information

relating to material uncertainties that casts significant doubt about the entity's ability to continue as a going concern.

Thus, the auditor should **express a qualified or adverse conclusion**, as appropriate. The report should include **specific reference to the fact** that there is such a material uncertainty.

If the **material uncertainty still exists and adequate disclosure is made** in the interim financial information, the auditor **modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty**. If GAK Limited has disclosed information relating to material uncertainties, CA Reena should **modify the review report by adding an emphasis of matter paragraph**.

CH 10 – SAE

1. Mr. Vineet, an auditor, has been approached by Qub Ltd. to **examine the prospective financial information** of the company. **What factors should an auditor consider before accepting an engagement** to examine prospective financial information, and under **what conditions should the auditor decline or withdraw** from such an engagement? **Additionally, what steps should be taken to formalize the terms of the engagement?**

Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- The **intended use** of the information;
- Whether the information will be for **general or limited distribution**;
- The **nature of the assumptions**, that is, whether they are best estimates or hypothetical assumptions;
- The **elements** to be included in the information; and
- The **period covered** by the information.

The auditor should **not accept**, or should **withdraw** from, an engagement when the **assumptions are clearly unrealistic** or when the auditor believes that the prospective financial information will be **inappropriate for its intended use**. The auditor should consider the extent to which reliance on the entity's historical financial information is justified.

To formalize the terms of the engagement, it is essential to **agree on the terms** with the client by sending an engagement letter, like in other engagements.

2. During the audit of Indo limited, CA Harish 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. Indo Limited used a service organisation to record transactions and process related data. What factors should CA Harish consider 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. Discuss with reference to the relevant Standards on Auditing.

As per **SA 402** "Audit Considerations relating to an Entity using a Service Organization", when obtaining an understanding of the user entity in accordance with **SA 315**, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment", the user auditor shall **obtain an understanding of how a user entity** uses the services of a service organisation in the user entity's operations, including:

- i. The **nature of the services** provided by the service organisation and the **significance of those services** to the user entity, including the effect thereof on the user entity's internal control;
- ii. The **nature and materiality of the transactions** processed or accounts or financial reporting processes affected by the service organisation;

- iii. The **degree of interaction** between the activities of the service organisation and those of the user entity; and
- iv. The **nature of the relationship** between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organization.

Based on above; while conducting the audit, CA Harish will assess the effect on the audit risk and take necessary steps.

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| 3. | <p>Happy Hospital is a very renowned hospital for Orthopedic Surgeries in Mumbai having sophisticated infrastructure. Happy Hospital has started using a novice system which includes complete record of Indoor Patient i.e. their diagnosis, their treatment, their medications, their billings, and receipts thereon which is developed and managed by CT Contractors. CA Z is a statutory auditor of Happy Hospital. CA Z came to know about this system while auditing.</p> <p>CA Z is concerned whether the controls at CT Contractors Associates are operating effectively or not. For this purpose, CA Z demand from CT Contractors, an assurance report from a practicing CA about their opinion on the description of CT Contractor's system, and the effectiveness of the control.</p> <p>Which type of report should be obtained by CA Z in terms of relevant Standard on Auditing? What aspects are to be considered by CA Z in using such assurance report as audit evidence that controls at CT Contractors are operating effectively?</p> |
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In the given scenario, CA Z, as the statutory auditor of Happy Hospital, is concerned about the effectiveness of controls at the service organization, specifically the system managed by CT Contractors.

To address this concern, **CT Contractors should provide a Type 2 assurance report** from a practicing CA as per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation". This report will offer an opinion on the **description of the system** in use at Happy Hospital, **as well as evaluate the effectiveness of the controls implemented by CT Contractors**.

Using a Type 2 report as audit evidence that controls at the service organisation are operating effectively: If, the user auditor **plans to use a Type 2 report** as audit evidence that controls at the service organisation are operating effectively, the user auditor shall **determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment by:**

- i. Evaluating whether the **description, design, and operating effectiveness of controls** at the service organisation is at a **date or for a period** that is appropriate for the user auditor's purposes;
- ii. Determining whether **complementary user entity controls** identified by the service organisation are relevant to the user entity and, if so, obtaining an understanding of whether the **user entity has designed and implemented such controls** and, if so, testing their **operating effectiveness**;
- iii. Evaluating the **adequacy of the time period covered by the tests of controls** and the **time elapsed** since the performance of the tests of controls; and
- iv. Evaluating whether the **tests of controls performed by the service auditor and the results thereof**, as described in the service auditor's report, are **relevant to the assertions** in the user entity's financial statements and **provide sufficient appropriate audit evidence** to support the user auditor's risk assessment.

CH 11 – GROUP AUDIT (CSF)

1.	R Limited is a listed company engaged in manufacture of round bars. The company is having investment in the following components: (i) 2 Subsidiary Companies (ii) 1 Joint Venture Company (iii) 2 Associate Companies (iv) 3 Business entities under common control (v) Interest in assets, liabilities, revenues, and expenses in a joint operation with 1 Company R Limited and all its components are required to present their accounts as per Ind AS. While preparing consolidated financial statements, R Limited consolidated its components on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows. R Limited seeks your advice on the accounting treatment in respect of the above components for consolidation in accordance with the Companies (Indian Accounting Standards) Rules, 2015.
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Companies (Indian Accounting Standards) Rules, 2015:

Ind AS 110 (CFS):

- FS of the parent and its subsidiaries are on a **line-by-line basis** by adding together like items of assets, liabilities, income, expenses & cash flow.
- Adjustments such as **elimination of intra-group trsns, balances, & unrealized profits** are performed.

Ind AS 103 (Business Combinations):

- **Goodwill/ capital reserve** (gain on bargain purchase) and **NCI** is determined.
- Accounts for business combinations under **common control** using **pooling of interest method**.
- **Business Combinations in Stages:** Remeasures **previously held equity interest in the acquiree at its fair value** and **recognizes resulting gain or loss**.

Ind AS 28: Accounts for **associates and joint ventures** using the **equity method**.

Ind AS 111: Accounts for interests in A/L/R/E in **joint operation** as **part of the entity's separate FS**.

In the given situation, R Limited is, a listed company having investment in the (i) 2 Subsidiary Companies, (ii) 1 Joint Venture Company, (iii) 2 Associate Companies, (iv) 3 Business entities under common control, (v) Interest in assets, liabilities, revenues, and expenses in a joint operation with 1 Company. R Limited and all its components are required to present their accounts as per Ind AS.

In view of above, R Limited consolidated its components on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows while preparing its consolidated financial statements **which is correct for the subsidiaries**, however the **treatment is not correct for other components** as per abovementioned Companies (Indian Accounting Standards) Rules, 2015.

2.	CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA H regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors?
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CA H should consider the requirement of SA 600, "Using the Work of Another Auditor", if he decides to use the work of another auditor in relation to the audit of consolidated financial statements and he should comply with the requirements of SA 600.

In carrying out the **audit of the standalone financial statements**, the **computation of materiality** for the purpose of issuing an opinion on the standalone financial statements of each component would be done **component-wise on a standalone basis**.

However, with regard to **determination of materiality during the audit of consolidated financial statements (CFS)**, the auditor should consider the following:

- (i) The auditor is required to **compute the materiality for the group as a whole**. This materiality should be used to **assess the appropriateness of the consolidation adjustments** (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- (ii) The parent auditor can also use the materiality computed on the group level to determine whether the **component's financial statements are material to the group** to determine whether they should **scope in additional components**, and **consider using the work of other auditors** as applicable.
- (iii) The principal auditor also **computes materiality for each component and communicates to the component auditor**, if he believes is required for true and fair view on CFS.
- (iv) The principal auditor also **obtains certain confirmations from component auditors** like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while **considering the observations** (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the principles of SA 600 need to be considered i.e. **CA H (the parent auditor) should comply with the requirements of SA 600**, "Using the Work of Another Auditor".

CH 12 – PSU AUDIT

Already Covered.

CH 13 – INTERNAL AUDIT

1. **Rishi** is appointed as **internal auditor** for SPOM Limited, a medium-sized manufacturing company, while **CA Nitin** is the **statutory auditor** of SPOM Limited.
 - (a) During the review, **Rishi notices several discrepancies in the disbursement records and suspects there might be weaknesses in the internal control system**.
Additionally, there have been recent changes in the company's business policies that he was not informed about. Rishi is concerned about maintaining his independence and objectivity while ensuring that management is aware of these issues. **What are the responsibilities of Rishi as an Internal Auditor with respect to the accounting function and financial records of the organisation?**
 - (b) **CA Nitin asked Rishi to provide direct assistance** to him regarding evaluating the **appropriateness of management's use of the going concern assumption**. In view of Standards on Auditing, **whether Nitin can ask direct assistance from Rishi as stated above?**

(a) In the given case, Rishi notices several discrepancies in the disbursement records and suspects there might be weaknesses in the internal control system. He is concerned about maintaining his independence and objectivity while ensuring that management is aware of these issues. Responsibilities of Rishi as an internal Auditor with respect to the accounting function and financial records of the organisation include:

- **to ascertain adequacy of system of internal control** by a continuous examination of accounting procedures, receipts and disbursements, and **to provide adequate safeguards against misappropriation of assets.**
- **to operate independently of the accounting staff** and must not in any way divest any of the responsibilities placed upon him.
- **not to involve in the performance of executive functions** in order that the objective outlook does not get obscured by the creation of the vested interest.
- **to observe facts and situations and bring them to notice of authorities** who would otherwise never know them; also, **critically appraise various policies of the management** and draw its attention to any deficiencies, wherever these require to be corrected.
- **to associate closely with management and keep knowledge up to date** by being informed about all important occurrences and events affecting the business, as well as the changes that are made in business policies.
- **at all times, the internal auditor must enjoy an independent status.**

(b) As per SA 610, "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make significant judgments in the audit engagement.

Significant judgments include the following:

- **Assessing the risks of material misstatement;**
- Evaluating the **sufficiency of tests performed;**
- Evaluating the appropriateness of management's use of the **going concern assumption;**
- Evaluating **significant accounting estimates;** and
- Evaluating the **adequacy of disclosures** in the financial statements, and other matters affecting the **auditor's report.**

In view of the above, CA Nitin cannot ask direct assistance from internal auditors regarding evaluating the appropriateness of management's use of the going concern assumption in accordance with SA 610.

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| 2. | CA Sanjana has recently joined as Chief Internal Auditor of Up Scale Limited, a listed company. Her subordinate staff in the internal audit department brings to her knowledge many prior audit issues highlighted in the previous internal audit reports which are still open. Does she have any responsibilities in this regard? How should she proceed in this situation? |
|----|---|

In the given situation, CA Sanjana has recently joined as Chief Internal Auditor in Up Scale Limited, a listed company.

As a **Chief Internal Auditor**, CA Sanjana is **responsible for continuously monitoring the closure of prior audit issues** through timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance. The **responsibility to implement the action plans remains with the management.**

In monitoring and reporting of prior audit issues, the responsibility of the CA Sanjana as internal auditor is usually in the form of an **"Action Taken Report (ATR) of previous audits"**. The term "Monitoring and Reporting" refers to the **periodic tracking of issues** raised during prior audits and **evaluation of the corrective actions undertaken by the auditee** to resolve them and to **report any open and pending matters to the management and those charged with governance.**

CA Sanjana should review whether **follow-up action is taken by the management** on the basis of his report. **If no action is taken** within a reasonable time, she should **draw the management's attention to it.**

Where the management has **not acted upon the suggestions** or not implemented the prescribed recommendations, she should **ascertain the reasons thereof**.

Where the management has **accepted recommendations** of the CA Sanjana and **initiated the necessary action**, she should **periodically review** the manner and the extent of implementation of the recommendations and **report to the management highlighting the recommendations which have not been implemented fully or partly**.

3. The management of High Limited is concerned with the reporting requirement cast through Rule 11 of the Companies (Audit and Auditors) Rules, 2014 for the financial year 2023-24 with regard to the **Audit Trail (edit log)**. Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software.

Consequently, the management of the company approached CA J and asked him to **suggest them list of internal controls which may be required to be implemented and operated to demonstrate that the Audit trail (or Edit Log) feature was functional, operated & was not disabled**. Guide CA J.

Internal Controls for Audit Trail:

- Controls to ensure that the **audit trail feature has not been disabled or deactivated**.
- Controls to ensure that User IDs are assigned to each individual and that **User IDs are not shared**.
- Controls to ensure that **changes to the configurations of the audit trail are authorized** and logs of such changes are maintained.
- Controls to ensure that **access** to the audit trail (and backups) **is disabled or restricted** and access logs, whenever the audit trails have been accessed, are maintained.
- Controls to ensure that **periodic backups** of the audit trails are taken and **archived** as per the statutory period specified under the provisions of the Act.

CH 14 - NBFC AUDIT

1. Yo-Yo Finance Limited is **NBFC-ML** as per the **revised categorisation** of NBFC done by RBI. YAK & Associates, a firm of chartered accountants, are appointed as Statutory Auditors of the Company for the year 2023-24. The audit team consists of CA Y, 1 Audit Manager and 3 junior assistants. The **Audit Manager has been recently appointed, who does not have much exposure in the field of Auditing of NBFCs**. During the engagement team meeting, the Audit Manager asked CA Y, regarding the **audit procedures** to be undertaken to verify whether the aforesaid Company has followed **Prudential Norms**? As an Engagement partner **suggest any four procedures** to the Audit Manager.

Write down from NBFC Chapter -> 3. AUDIT PROCEDURES -> 3.1 KEY STEPS IN AUDITING AN NBFC -> E. NBFC Prudential Norms

CH 15 - BANK AUDIT

1. CA J is the statutory auditor of the branch of a nationalized bank. During the audit, he is also focusing upon **verification of Current Accounts & Savings Accounts (CASA)** maintained at the branch. Suggest a few audit procedures he should follow.

Current & Saving Account

- Verify a sample of newly opened accounts for adherence to **KYC norms**.
- Ensure **savings a/c** are opened only for eligible entities and **not for business purposes -> (current a/c)**.

- Test-check **interest calculations on deposits**. (*current a/c -> no interest*)
- Verify **a/c balances for a sample of accounts**.
- Verify the **bank's procedure for obtaining periodic balance confirmations** from customers.
- Examine a **sample of received confirmations**.
- Ensure **debit balances in current a/c aren't netted out with liabilities but shown under "advances"**.
- In-operative accounts are accounts with no transactions for over **2 years** and are considered high-risk for fraud. Ensure proper authorization for revivals & withdrawals.

CH 16 – DD, INVESTIGATION & FA

1. Sid is a financial analyst working for a large corporation that is considering the acquisition of a mid-sized manufacturing company. The initial financial statements provided by the target company appear to be in order, showing profits and a solid asset base. However, his team is concerned about potential risks that may not be immediately visible in the financial documents provided.

Guide Sid on what specific aspects should be focused during due diligence to ensure that there are no hidden liabilities in this deal?

Hidden Liabilities:

Tax liabilities under direct and indirect taxes	Unresolved labour litigations	Letters of Comfort
Show any show cause notices which have not matured into demands	Unfunded gratuity/ superannuation/ leave salary liabilities; incorrect gratuity valuations	Agreement to buy back shares sold at a stated price
Pending tax assessments	Huge labour claims under negotiation	Future lease liabilities
Pending final assessments where provisional assessment has been completed	warranty liabilities; product returns/discounts; liquidated damages; other claims & litigation.	Environmental problems/ claims/ third party claims

2. Mr. Rajat, while reviewing the anti-fraud controls for a construction company, found that the company has witnessed a few frauds in the past mainly in the nature of material theft from the sites and fake expense vouchers.

Mr. Rajat is evaluating options for verifying the process to reveal fraud and the corrective action to be taken in such cases. **As an expert in fraud prevention, you have been asked to brief Mr. Rajat about the inventory fraud and verification procedure with respect to defalcation of inventory.**

Embezzlement of Inventory

Methods / Areas of Verification:	Verification Procedures:
- Employees may simply remove goods from premises. Theft of goods may be concealed by writing them off as damaged goods, etc. Manipulating inventory records (<i>book quantity to match with actual</i>) to hide missing items. Inflating quantities issued for production. Stocks actually dispatched but not entered in sales or debtor's a/c.	➤ Perform a physical inventory count and reconcile it with book quantities. ➤ Review the system for receiving, storing, and issuing inventory to identify weaknesses. ➤ Investigate discrepancies between purchase records and inventory levels. ➤ In mfg. co., reconcile raw material usage with production output (may require an engineer's assistance).

3. Quality Ltd. is engaged in the **business of manufacturing and distribution** of various **Ready to cook products** like vegetables, Noodles etc. The government made certain changes in rules and regulations relating to this sector, **consequently management decided to go for expansion.**
- Management was looking for some financial investor** who can fund some part of the proposed expansion. **Mr. Aman is interested** in the venture and **appoints you to act as an advisor to the proposed investment in the business of Quality Ltd.**
- You have to **investigate the audited FS** and **ensure that the valuation of shares** of the company on the basis of audited financial statements is **appropriate. What process will be used for checking and can reliance be placed on the already audited statement of accounts?**

In the instant case, Quality Ltd. is engaged in the business of manufacturing and distribution of various ready-to-cook products like vegetables, noodles etc. Further, management was looking for some financial investor to fund some part of the proposed expansion. Aman is interested in funding; therefore, he initiated investigation of audited financial statements to ensure the appropriateness of the valuation of the shares. For initiating the same it may be considered that **if the investigation has been launched because of some doubt in the audited statement of account, no question of reliance on the audited statement of account arises.**

However, if the investigator has been requested to establish **value of a business** or a **share or the amount of goodwill** payable by an incoming partner, **ordinarily the investigator would be entitled to put reliance on audited materials** made available to him **unless, in the course of his test verification, he finds the audit to have been carried on very casually or unless his terms of appointment clearly require to test everything afresh.**

- If the **statements of account produced before the investigator were not audited** by a qualified accountant, then of course there arises a **natural duty** to get the figures in the accounts **properly checked and verified.**
- However, when the accounts produced to the investigator have been **specially prepared by a professional accountant, who knows or ought to have known that these were prepared for purposes of the investigation**, he **could accept them as correct** relying on **principle of liability to third parties.**
- It would be prudent to **see first** that such accounts were **prepared with objectivity** and that **no bias** has crept in to give advantage to the person on whose behalf these were prepared.

CH 17 – PROFESSIONAL ETHICS

1. CA Vaayu is the auditor of **Viva Limited** having a **turnover of more than Rs. 200 Crores.** The **audit fee** for the year is fixed at **Rs. 80 Lakhs.** During the year, the company offers CA Vaayu an **assignment of representation before Income Tax Appellate Tribunal** for certain matter for **remuneration of Rs. 1.75 crores.** CA Vaayu accepted the assignment.
- Discuss action of CA Vaayu with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto.

As per the Council General Guidelines 2008, under **Chapter IX** on appointment as statutory auditor a member of the Institute in practice shall not accept the appointment as a statutory auditor of a **PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of Rs. 50 crores or more in a year** and where he accepts any **other work(s) or assignment(s) or service(s)** in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking. For this purpose, the **other work/services include Management Consultancy and all other professional services permitted by Council excluding audit**

under any other statute, Certification work required to be done by the statutory auditor and any representation before an authority.

In the given case, the company offers CA Vaayu, the statutory auditor, an assignment of representation before Income Tax Appellate Tribunal for remuneration of Rs. 1.75 Crores.

Conclusion: In view of the above provision, it would **not be misconduct on Vaayu's part** if he accepts the assignment of **representation before Income Tax Appellate Tribunal** for remuneration of Rs. 1.75 crore.

2.	Sanjeev & Associates, a firm of Chartered Accountants responded to a tender from a PF Office, Chembur for filing quarterly e-TDS returns. The terms of tender are as follows: (i) Earnest Money Deposit of Rs. 7,500/- (ii) It is open for all categories (iii) Maximum fees of Rs. 7,500/- per quarter Discuss whether Sanjeev and Associates can respond to the said tender with reference to provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto.
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As per **Clause 6 of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

- (i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or
- (ii) A member from **responding to tenders** or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the Guidelines issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice **shall not respond to any tender** issued by an organisation or user of professional services in areas of services which are **exclusively reserved for chartered accountants**, such as audit and attestation services. However, such a **restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.**

In the given case, Sanjeev & Associates responded to a tender from a PF Office, Chembur, filing quarterly e-TDS returns.

Conclusion: Sanjeev & Associates **can respond to the said tender as the tender is open to all the categories** i.e. it is open to other professionals along with the Chartered Accountants

3.	In terms of subsection 114 of Revised Code of Ethics, a professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as result of professional and employment relationships. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in knowledge that the information will not be disclosed to a third party. In this context, enumerate the circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate. In deciding whether to disclose confidential information what are the points that should be kept in the mind of professional accountants?
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Principle of Confidentiality: In terms of subsection 114 of Revised Code of Ethics, a professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and employment relationships. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party.

Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (1) Disclosure is **required by law**,
- (2) Disclosure is **permitted by law and is authorized by the client** or the employing organisation;
- (3) There is a **professional duty or right to disclose**, when not prohibited by law:
 - (i) To comply with the **requirements of Peer Review or Quality Review of the Institute**;
 - (ii) To respond to an **inquiry or investigation by a professional or regulatory body**;
 - (iii) To protect the **professional interests of a professional accountant in legal proceedings**; or
 - (iv) To comply with **technical and professional standards**, including **ethics requirements**.

In deciding whether to disclose confidential information, professional accountants should consider the following points:

- (1) **Whether the interests of any party**, including third parties whose interests might be affected, **could be harmed** if the client or employing organization consents to the disclosure of information by the professional accountant;
- (2) **Whether all the relevant information is known and substantiated**, to the extent it is practicable; and
- (3) The **proposed type of communication**, and to **whom it is addressed**;
- (4) Whether the **parties to whom the communication is addressed are appropriate recipients**.

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| 4. | CA Raj, a practicing CA, is offered to take up an appointment as a " Secretary " in his professional capacity by the Central Government for a Metro Project for a term of 2 years not on a salary-cum-full-time basis . After giving deep thought to the offer, CA Raj accepted the appointment . Comment in terms of the Chartered Accountant Act, 1949 and Schedules thereto. |
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As per **Section 2(2)(iv)** of the Chartered Accountant Act, 1949 as amended from time to time, a member of the Institute shall be **deemed 'to be in practice'** when individually or in partnership with Chartered Accountants in practice, or in partnership with members of such other recognized professional as may be prescribed, 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.

As per **Clause (11) of Part I of First Schedule** of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he **engages in any business or occupation other than the profession of Chartered Accountant** unless permitted by the Council so to engage.

However, the Council of the Institute is **empowered to permit chartered accountants in practice** to engage in any other business or occupation considered fit and proper. Accordingly, the Council formulated Regulations 191 to the Chartered Accountants Regulations, 1988 specifying the activities with which a member in practice can associate himself **with or without the permission of the Council**.

As per **Regulation 191** a Chartered Accountant in practice may take up an appointment that may be made by the **Central Government or a State Government or a court of law or any other legal authority or may act as a secretary in his professional capacity, provided his employment is not on a salary-cum-full-time basis**".

In the instant case, CA Raj, a practicing CA has been appointed as a “Secretary” in his professional capacity by the Central Government for a metro project for a term of 2 years not on a salary-cum-full-time basis.

Conclusion: In view of above, in the given scenario, CA Raj will **not be held liable for misconduct** for acceptance of appointment as Secretary in terms of compliance of Regulations 191 read with Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949.

5. TP Limited is a **listed company** engaged in the business of manufacturing of kids garments under the brand name of MM. M/s R & Associates, firm of chartered accountants, are appointed as a **Statutory Auditor** of the Company for the year 2023-24. CA R is looking after the audit of the Company.
- During the audit, CA R observed that there are **number of notices received from GST Department and Income-tax Department for various issues**. Further **during plant visit**, CA R observed that few **child labourers** are engaged in some of the activity.
- In response to the observation made, CA R **followed the procedure as envisaged in SA 250**, "Consideration of Laws and Regulations in an Audit of FS". **According to CA R, the provisions of SA 250 and the provisions of NOCLAR** (Non-Compliance with Laws and Regulations) under Revised Code of Ethics **are one and the same. Do you agree? If not, give your comments.**

In the given situation, CA R is looking after the audit of TP Limited, a listed company. During the audit, CA R observed that there are a number of notices received from GST Department and Income-tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". assuming the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same.

However, following points indicates that the provisions of SA 250 and NOCLAR (Non- Compliance with Laws and Regulations) under the Revised Code of Ethics are not one and same:

- (i) **SA 250** is applicable **only on Audit**, and not on other Assurance engagements. However, **NOCLAR** is applicable on **professional accountants in service, and in practice**.
- (ii) **SA 250** talks of auditor's responsibilities for **laws having direct effect** on the determination of material amounts and disclosures in the financial statements (such as tax and labour laws); **and other laws and regulations that do not have a direct effect** on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business. **NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non- financial terms.**
- (iii) **SA 250 does not define stakeholders. NOCLAR is related to affect of non- compliance on investors, creditors, employees as also the general public.**
- (iv) As per **NOCLAR, in exceptional circumstances**, the professional accountant might **become aware of an imminent breach of a law or regulation that would cause substantial harm** to investors, creditors, employees or the general public. **Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance** of the company, the **accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority** in order to prevent or mitigate the consequences of such imminent breach. **If disclosure is made, that disclosure is permitted. This provision is not existent in SA 250.**

6. CA Kumar, a practicing-chartered accountant, is well known in the field of pleading of Income-tax cases at Income-tax Tribunal and **does not provide any assurance services**. Considering the long

standing in the field, **CA Kumar is approached by XYZ Limited to file an appeal in the Tribunal against the Income-tax Demand of Rs. 10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case with the following fee structure:**

Fees for filing an appeal and to plead at Income-tax Tribunal will be 10% of Tax Demand Reduced.

Comment on the act of CA Kumar in terms of Chartered Accountant Act, 1949 & Schedules thereon.

Restriction on Fees based on a Percentage: According to **Clause (10) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

However, **Regulation 192 allow** the Chartered Accountant in practice to charge the fees in respect of any professional work which are based on a percentage of profits, or which are contingent upon the findings or results of such work, in the case of a **non- assurance services to non-audit clients**, and the fees may be based on a percentage of Tax Demand Reduced.

In the given case, CA Kumar, a practicing Chartered Accountant, provides non- assurance services. He is approached by XYZ Limited, a non-audit client, to file an appeal in Tribunal against Income-tax Demand of Rs.10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case and agrees to charge fees 10% of Tax Demand reduced.

Conclusion: Therefore, Mr. Kumar will **not be held guilty of professional misconduct** since he is not providing any assurance services to non-audit clients pursuant to Regulation 192 read with Clause 10 of Part I of First Schedule.

7. GeM (e-market place) is a public procurement portal which provides opportunities to start-ups, entrepreneurs etc. to showcase their innovative products and services to government buyers and engage in public procurement. The Government e Marketplace Special Purpose Vehicle (GeM SPV), a 100% government owned and section 8 (Non-Profit) company under the Ministry of Commerce, Government of India has been incorporated under the Companies Act, 2013 to develop, manage and maintain GeM platform.

Whether a firm of Chartered Accountants can register on GeM portal for rendering professional services to government departments?

As per provisions of Council Guidelines for Advertisement, 2008, it is **not permissible for members to list themselves with online application-based service provider Aggregators**, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

Further, as per explanation to **Clause (6) of Part I of First Schedule** to the Chartered Accountants Act, 1949, the government departments, government Companies/ corporations, courts, cooperative societies and banks and other similar institutions prepare panels of Chartered Accountants for allotment of audit and other professional work. Where the existence of such a panel is within the knowledge of a member, he is **free to write to the concerned organization with a request to place his name on the panel**. However, it would **not be proper for the Chartered Accountant to make roving enquiries** by applying to any such organization for having his name included in any such panel. It is **permissible to quote fees on enquiries** being received or respond to tenders from the organizations requiring professional services, which maintain such panel.

Getting registered on GeM portal by members does not appear to amount either to empanelment or listing on Aggregator. In Aggregator, it is the third party which is operating, and not the client itself. GeM is operated by the client itself.

It is a pre-requirement of rendering professional services to the Government departments, as stipulated by them, and be considered as ancillary requirement to providing services to the Government departments. Firms of Chartered Accountants are permitted to register on GeM Portal for rendering professional services as there is no violation of the ethical norms of the Institute in registering on the GeM portal and such registration on the Portal is a pre-requirement for providing services to the Government departments/ organisations.

However, firms should ensure compliance with the tender guidelines issued by the Institute while participating in tender or bid floated through GeM Portal. The ICAI has made an announcement in relation to the above.

CH 18 – DIGITAL AUDIT

1.	CA Kabir, an auditor assigned to conduct a remote audit of Beetal Limited. The audit will be conducted virtually using online platforms, with the client sharing documents and participating in video conferences. What key considerations should CA Kabir address to ensure the effectiveness and security of the remote audit?
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Considerations for Remote Audits:

To ensure a successful remote audit, auditors need to develop tailored strategies that meet the same requirements and deliver results comparable to traditional on-site audits. Here are key considerations:

Feasibility, Planning and Execution:	Technical feasibility: Determine the technology needed, assess technical competencies of both parties, and ensure resource availability. Planning discussions: Agree on audit timelines, meeting platforms (Zoom, Microsoft Teams, Google Meet), data exchange methods, and any access authorization requests. Execution: Conduct video/teleconferences with auditees and transfer documentation for audit evidence via a document sharing platform.
Confidentiality, Security, and Data Protection:	Data security & storage: Restrict access to document sharing platforms and encrypt data transfers. Once reviewed, remove information from the platform and store it according to archiving standards and data protection requirements. Legal and regulatory considerations: Address any additional agreements required (e.g., no recording of audio/video, authorization for using people's images). Auditors should not take screenshots of auditees as evidence. Obtain prior authorization for screenshots of documents or records. VPN usage: When accessing the auditee's IT system, auditors should use a Virtual Private Network (VPN) to create a secure and encrypted connection.
Risk Assessment:	Clear communication: Maintain clear and consistent communication between auditors and auditees, which is even more critical during remote audits. Risk identification and management: Identify, assess, and manage risks associated with achieving audit objectives. Remote audit suitability: Evaluate whether a remote audit is sufficient to achieve audit objectives and document this assessment for each audit, involving all audit team members and the auditee's representative.

2. Mr. Karan is a consultant tasked with helping a mid-sized manufacturing company modernize its operations by integrating Internet of Things (IoT) technology. The company wants to connect various devices such as manufacturing equipment, smart home security systems for their facility, and inventory management systems. They aim to leverage IoT to improve operational efficiency, predict equipment maintenance needs, and enhance overall security. However, they are concerned about the potential risks and the impact on their audit processes.

Describe the key components and benefits of IoT, the risks associated with IoT implementation, and the implications for the company's audit processes. How should the company address these concerns to ensure a smooth transition?

IoT connects various devices (phones, appliances) to the internet, enabling data collection, analysis, and connectivity. IoT transforms business models and strategic objectives, altering the organization's risk profile due to exposure to new regulations. e.g., Connected cars, smart home security, etc.

Audit Implications -

Shift from Manual Controls: Auditors may need to rely less on manual controls and focus on automated systems within the audit scope.

Upskilling for Auditors: Audit firms need to train auditors to evaluate the design and effectiveness of these automated controls.

Consumer-Facing Tools: Tools connecting to business environments can introduce new risks for transactions and require auditor consideration.

Example: Mobile payment processing impacting transaction flow and introducing new controls for auditors to assess.

Common risks of IoT -

The key risks associated with IoT, including,

Device hijacking	Data siphoning	DoS attacks	Data breaches and	Device theft
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3. Gravity Ltd. is a medium-sized manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Ravi as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the organization.

In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively.

Some examples of technology risks where auditors should test the appropriate controls for relying on the digital systems:

- Reliance on systems that are **inaccurately processing data, processing inaccurate data**, or both
- **Unauthorized access** to data that might result in potential data destruction or manipulation especially in multi-user environment
- Possibility of IT personnel gaining **access privileges** beyond those necessary to perform their assigned duties, thereby leading to **insufficient SOD**
- **Unauthorized or erroneous changes** to data in master files or systems or programs
- **Failure to make necessary or appropriate changes** to systems or programs
- **Inappropriate manual intervention**
- **Potential loss of data** or inability to access data as required

- Risks introduced when using **third-party service provider**
- **Cybersecurity risks**

Further Mr. Ravi should focus on the following control considerations to mitigate risks effectively:

1. Auditors should **gain a holistic understanding of changes in the industry and the information technology environment** to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures.
2. Auditors, as appropriate, should **consider risks resulting from the implementation of new technologies** and how those risks may differ from those that arise from more traditional, legacy systems.
3. Auditors should consider **whether digital upskilling or specialists are necessary to determine the impact of new technologies** and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls. E.g., cybersecurity control experts, IT specialists in the team etc.

4. Remote audit is an audit where the auditor uses online or electronic means to conduct the same. It could be partially or completely virtual, auditor engages using technology to obtain the audit evidence or to perform documentation review with the participation of the auditee. For example, an auditor might use video conferencing and cloud-based file sharing to review financial records remotely. **What are the advantages and disadvantages of remote auditing?**

Advantages and Disadvantages of remote audit:

Advantages	Disadvantages
Cost and time effective like no travel time and travel costs involved.	Due to network issues , interviews and meetings can be interrupted.
Comfort and flexibility to the audit team as they would be working from home environment,	Limited or no ability to visualize facility culture of the organization, and the body language of the auditees. Time zone issues could also affect the efficiency of remote audit session.
Time required to gather evidence can spread over several weeks, instead of concentrated into a small period that takes personnel from their daily activities.	The opportunity to present doctored documents and to omit relevant information is increased (Increased risk of fraud). This may call for additional planning, some additional/different audit procedures, Security and confidentiality violation.
Auditor can get first-hand evidence directly from the IT system as, direct access may be provided.	Remote access to sensitive IT systems may not be allowed. Security aspects related to remote access and privacy needs to be assessed.
Widens the selection of auditors from global network of experts .	Cultural challenges for the auditor. Lack of knowledge for local laws and regulations could impact audit. Audit procedures like physical verification of assets and stock taking cannot be performed (Limited procedures).

5. MNC Limited is engaged in manufacture & sale of FMCG products. It has manufacturing locations across various states in India and engages dealer channels to sell its products. One dealer is appointed for each district within the state and products are despatched from the nearest manufacturing location to the dealer. Considering the voluminous transactions, MNC Limited has a robust ERP network, for recording the transactions. As statutory auditors of MNC Ltd., your firm is about to commence the current year's audit. The audit team includes certain IT experts and discussions are underway amongst the team members. As an IT manager of the engagement team,

explain the **key areas for an auditor to understand IT environment**.

Key Areas for an Auditor to Understand IT Environment are as follows:

1. Understand the flow of transaction:	Auditors map the flow of transactions within the IT system, including how they are processed and stored . Understanding changes in this flow is crucial for risk assessment.
2. Identification of Significant Systems:	Auditors identify IT applications and infrastructure critical to processing information related to significant ABCD.
3. Manual and Automated Controls:	Both manual and automated controls are used within an entity's ICS. The mix of these controls depends on the nature and complexity of the IT environment. This is relevant for risk assessment.
4. Identification of the technologies used:	Recognizing and understanding emerging technologies implemented by the organization, such as blockchain, IOT, AI, robotics, drone and biometrics are crucial. These technologies might introduce new risks that require specialist expertise for assessment.
5. Assessing the complexity of the IT environment:	Not all IT applications are equally complex. Factors like automation level, reliance on system-generated reports, customization, business model, and recent changes can influence the overall complexity of the IT environment. Auditors consider these factors to determine the need for additional expertise.

CH 19 - SDG & ESG ASSURANCE

1. SU Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it **requires SU Limited to make disclosures** on their performance against the various principles of the "National Guidelines on Responsible Business Conduct". **One of the principles emphasizes** that the **business decisions in an organization should be open to disclosure and accessible to the relevant interested parties**.
Elucidate the essence of core elements associated with the aforesaid principle.

Principle 1 – Ethics, Transparency & Accountability:

Focus: Building trust with stakeholders through ethical conduct, open communication, and responsible decision-making.

Key elements:

- a) **Strong governance** with policies promoting ethical practices throughout the organization.
- b) **Transparency in disclosing policies, procedures, performance** on ESG matters.
- c) In case of **adverse effects, more care has to be taken for transparent disclosures**.
- d) Encouraging **ethical practices within value chain** (suppliers, distributors, etc.).
- e) **Proactively addressing violations of BRSR principles by external entities** which may include suppliers, distributors, sub-contractors, or regulatory officers.

CH 1 - QUALITY CONTROL

1. M/s **JinKushal & Co.** has been appointed as an auditor of SC Ltd. for the financial year 2023-24. CA **Jin**, one of the partners of M/s JinKushal & Co., **completed entire routine audit work** by 19 th June, 2024. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he **met with a road accident and died**. CA **Kushal**, another partner of M/s JinKushal & Co., therefore, **signed the accounts** of SC Ltd., **without reviewing the work performed by CA Jin**. **State with reasons whether CA Kushal is right** in expressing an opinion on financial statements, the audit of which is performed by another auditor.

Relying on Work Performed by Another Auditor: As per **SA 220** "Quality Control for an Audit of FS", an engagement partner taking over an audit during engagement **may apply the review procedures** such as -

- a) **Work** has been performed in accordance with **professional std., regulatory & legal requirements**;
- b) **Significant matters** have been raised for further consideration;
- c) **Consultations** have taken place & resulting **conclusions** have been **documented** & implemented;
- d) There is a need to **revise the nature, timing & extent** of work performed;
- e) **Work** performed supports the **conclusions** reached & is appropriately **documented**;
- f) **Evidence** obtained is **sufficient & appropriate** to support the auditor's report; and
- g) **Objectives** of the engagement procedures have been **achieved**.

Further, as per the **Code of Ethics** it is the **auditor's professional responsibilities** and should be complied with that when the **auditor delegates work to assistants or uses work performed by other auditors and experts**, he will **continue to be responsible for forming and expressing his opinion** on the financial information. However, he will be **entitled to rely on work performed by others, provided he exercises adequate skill and care** and is **not aware of any reason to believe that he should not have so relied**.

However, the auditor should carefully **direct, supervise and review the work delegated**. He should **obtain reasonable assurance** that **work performed by other auditors/experts and assistants is adequate** for his purpose.

In the given case, all the auditing procedures before the moment of signing of final report have been performed by CA Jin. However, the report could not be signed by him due to his unfortunate death. Later on, CA Kushal signed the report relying on the work performed by CA Jin. **Here, CA Kushal is allowed to sign the audit report, though, will be responsible for expressing the opinion. He may rely on the work performed by CA Jin provided he further exercises adequate skill and due care and review the work performed by him.**

CH 5 - 500 SERIES

1. As auditor of Growth Limited, you have **sent positive confirmation requests to 45 creditors** of the company in March 2024. All of the creditors in the informal sector are small concerns. You choose to send positive confirmation requests to all the above parties at their business addresses stated on respective bills after discussing the matter with the CFO of the company. The **CFO is cooperative** and does not raise any hassles in the matter.

Responses to confirmation requests are received within a week's time. Your articled clerk informs you that **out of above 45 creditors, GST registrations of 38 concerns have been cancelled during financial year 2023-24 itself by collating information from GST portal**. He further informs you that there are **no fresh registrations pertaining to PANs of these parties**.

How would you proceed to deal with the situation as auditor of the company?

SA 505, “External Confirmations”, states that if the auditor determines that a **response to a confirmation request is not reliable**, the auditor shall **evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures**.

In the instant case, GST registrations of 38 concerns have been cancelled in the year 2023-24. It indicates that businesses at those addresses were closed. Further, there are no fresh registrations pertaining to the PANs of these parties. However, the auditor sent external confirmation requests in March 2024, which were duly responded. It raises questions on the reliability of responses received.

SA 500, “Audit Evidence” indicates that even when audit evidence is **obtained from sources external** to the entity, **circumstances may exist that affect its reliability**. All responses carry some risk of interception, alteration or fraud. Such **risk exists regardless of whether a response is obtained in paper form or by electronic or other medium**.

Factors that may indicate doubts about the reliability of a response include:

- Was **received by the auditor indirectly** or
- **Appeared not to come from the originally intended confirming party**.

Keeping in view the circumstances described in the given situation, **there is a risk that the response has not come from the originally intended confirming party. Unreliable responses may indicate a fraud risk factor that requires evaluation**.

2.	Udit & Co. is the statutory auditor of Fun Journey Ltd., a company engaged in the tours and travel business. The company has an annual turnover of Rs. 1,200 crores and profits of Rs. 150 crores. While planning, the auditors discussed the requirement for a written representation letter from management for confirming that: (i) The auditor is provided with all relevant information and access as agreed in the terms of the audit engagement; and (ii) All transactions have been recorded and are reflected in the financial statements As the audit was near to completion, the auditor disagreed with the management on one of the matters including need of written representation contending that verbal confirmations given during the audit should be sufficient. Thus, separate written representation is not required. Udit & Co., however, explained that under SA 580 obtaining a formal written statement from management is mandatory. Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests. (a) Whether the contention of auditor for seeking written representation letter is justified? (b) What should be the form of such written representation? (c) How should the auditor proceed if management refuses to provide the written representation?
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(a) As per **SA 580, “Written Representations”**, the auditor shall **request** management to provide a **written representation** that it has **fulfilled its responsibility** for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.

Further, the auditor shall request management to provide a written representation that:

- (i) It has provided the auditor with **all relevant information and access** as agreed in the terms of the audit engagement
- (ii) **All transactions** have been **recorded** and are **reflected** in the financial statements.

In the given case, Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests. Thus, in view of above the contention of auditor is correct.

(b) The written representations as per SA 580, shall be in the form of a representation letter **addressed to the auditor**. If **law or regulation requires management to make written public statements** about its responsibilities, and the auditor determines that such **statements provide some or all of the representations required**, the **relevant matters covered by such statements need not be included** in the representation letter.

(c) As per SA 580, if management **does not provide one or more of the requested written representations**, the auditor shall:

- (i) **Discuss the matter** with management;
- (ii) **Re-evaluate the integrity of management** and **evaluate the effect** that this may have on the **reliability** of representations (oral or written) and **audit evidence in general**; and
- (iii) **Take appropriate actions**, including determining the possible effect on the opinion in the auditor's report in accordance with **SA 705 (Revised)**.

Furthermore, the auditor shall **disclaim an opinion** on the financial statements in accordance with SA 705 (Revised) if the auditor concludes that there is **sufficient doubt about the integrity of management** such that the written representations required are not reliable or management does not provide the written representations required.

Thus, **refusal to provide a written representation could impact the auditor's ability to obtain sufficient appropriate audit evidence, potentially leading to a modified audit report.**

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| 3. | <p>During the audit of the financial statements of Looks Limited for the year ended March 31, 2024, CA Suyash, the statutory auditor requested external confirmation for certain trade receivables and trade payables as part of audit procedures in accordance with SA 505:</p> <ol style="list-style-type: none"> (i) CA Suyash sent a confirmation request to a debtor for balance of Rs. 15,50,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated. (ii) He also sent a confirmation request to a creditor with an outstanding balance of Rs. 13,25,000 requesting a response only if there was a disagreement with the stated amount. <p>CA Suyash received responses from the aforementioned debtor and creditor in following manner:</p> <ul style="list-style-type: none"> • The debtor confirmed that, as per their records, they owed Rs. 14,90,000 to Looks Limited instead of Rs. 15,50,000 as per the company's books. • The creditor did not respond to the confirmation request. <p>Identify and explain the type of confirmation request sent by the auditor to the debtor and creditor. Also, discuss the course of action the auditor should take for the discrepancy in the confirmation received from the debtor and non-receipt of confirmation from the creditor.</p> |
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Positive confirmation request: A request that the confirming party respond directly to the auditor indicating whether the confirming **party agrees or disagrees** with the information in the request or providing the requested information.

Exception – A response that indicates a **difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party**. The **exception needs to be assessed to the entire population after analyzing the reason for difference**.

In the given situation, the auditor has sent the positive confirmation request for the amount of Rs. 15,50,000 to a debtor which was outstanding for more than 6 months, however, due to difference between information requested to be confirmed, or contained in the entity's records (i.e. Rs. 15,50,000), and information provided by the confirming party (i.e. Rs. 14,90,000) is forming situation of exception confirmation.

The **auditor's evaluation**, when **taken into account with other audit procedures** the auditor may have performed, **may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether performing further audit procedures is necessary**, as required by SA 330 in case a response is indicating an exception.

The company **should be asked to investigate and reconcile the discrepancy** indicated by confirming party.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees. In the given case, the auditor has sent the negative confirmation request for Rs. 13,25,000 to a creditor. **Non- response by the creditor implies that creditor agrees with the amount.** Thus, an **auditor is not required to take any action in this case.**

CH 6 – REPORTING

1. Pratibha Ltd. is a company engaged in the manufacturing of iron doors. JLN & Associates are the statutory auditors of Pratibha Ltd. for the Financial Year 2023-24. During the course of audit, CA Shiv, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2024.

The Company has been **unable to re-negotiate or obtain replacement financing** and is considering **filing for bankruptcy**. These events indicate a **material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.** The FS (and notes thereto) **do not disclose this fact. What opinion should CA Prakash express in case of Pratibha Ltd.?**

In the present case based on the audit evidence obtained, CA Shiv has concluded that a material uncertainty exists related to the outcome of the legal dispute, which is uncertain, but if it results in an unfavorable judgment, it could severely impact the Company's financial position and cash flows. In such circumstances, CA Shiv should express an **adverse opinion** because the effects on the financial statements of such omission are **material and pervasive**.

The relevant extract of the Adverse Opinion Paragraph and Basis for Adverse Opinion paragraph is as under:

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements **do not present fairly**, the financial position of the entity as at March 31, 2024, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

The financing arrangements of Pratibha Ltd. has expired, and the amount outstanding was payable on March 31, 2024. The entity has been **unable to conclude re-negotiations or obtain replacement financing** and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may

cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

2.	Mr. Arjun was appointed as the engagement partner for conducting the audit of Kurukshetra Tech Ltd. for financial year 2023-24, on behalf of NEMI & Associates. Mr. Krishna was appointed as the engagement quality control reviewer (EQCR) by the firm for the said audit. During financial year 2023-24, Kurukshetra Tech Ltd. Implemented an ERP system in phases, leading to the automation of certain business processes. This implementation had a substantial impact on the auditor's overall audit strategy. Mr. Arjun discussed the implementation of such a system with Mr. Krishna and also told him that such matter may be a key audit matter to be reported in the audit report. Mr. Krishna considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements and so there was no need to disclose such matter as a key audit matter. Whether the contention of Mr. Krishna is appropriate with respect to the matters to be communicated as a key audit matter?
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As per **SA 701**, 'Communicating Key Audit Matters in the Independent Auditor's Report', the auditor shall determine, **from the matters communicated with those charged with governance**, those matters that required **significant auditor attention in performing the audit**. In making this determination, the auditor shall take into account the following:

- (i) **Areas of higher assessed risk of material misstatement**, or significant risks identified in accordance with SA 315.
- (ii) **Significant auditor judgments** relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- (iii) The **effect on the audit of significant events or transactions** that occurred during the period.

The auditor shall **determine which of the aforesaid matters considered were of most significance** in the audit of the financial statements of the current period **and therefore are the key audit matters**. These aforesaid considerations **focus on the nature of matters** communicated with those charged with governance. Such matters are often linked to matters disclosed in the financial statements and **are intended to reflect areas** of the audit of the financial statements **that may be of particular interest to intended users**.

The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, **matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit**.

In addition to matters that relate to the specific required considerations, there may be **other matters communicated with those charged with governance that required significant auditor attention** and that therefore may be determined to be key audit matters. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements.

For example, the **implementation of a new IT system** (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., **changes to a system affecting revenue recognition**).

In the given case, there was **implementation of ERP system** in the company due to which some of its business processes got automated and which had a **significant effect** on the auditor's overall audit strategy during the period.

As per Mr. Arjun, Engagement Partner, above mentioned matter can be considered as a key audit matter and should be reported in the audit report since it requires significant attention that had affected his overall audit strategy. Mr. Krishna, EQCR, considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements, therefore, no need to disclose such matter as a key audit matter.

In view of the above, the **contention of Mr. Krishna is not appropriate** as matters that do not link with the matters disclosed in the financial statements can also be considered as a key audit matter, if it requires significant attention.

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| 3. | Abhimanyu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2015 . The company was having net owned funds of Rs. 1,75,00,000/- (one crore seventy five lakhs) and was not having registration certificate from RBI and applied for it on 29 th March 2024 . The company appointed Mr. Kabra as its statutory auditors for the year 2023-24. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020? |
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As per **Clause (xvi) of Paragraph 3 of CARO 2020**, the auditor is required to report that **"whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained."**

The auditor is required to **examine whether the company is engaged in the business which attracts the requirement of the registration**. The registration is required where the **financing activity is a principal business of the company**. The **RBI restrict companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration**.

Audit Procedures and Reporting:

- (i) The auditor should **examine the transactions of the company** with relation to the **activities covered under the RBI Act** and directions related to the Non-Banking Financial Companies.
- (ii) The financial statements should be examined to **ascertain whether company's financial assets constitute more than 50 per cent of the total assets** and **income from financial assets constitute more than 50 per cent of the gross income**.
- (iii) Whether the company has **net owned funds as required** for the registration as NBFC.
- (iv) Whether the company has **obtained the registration as NBFC, if not, the reasons** should be sought from the management and documented.
- (v) The **auditor should report** incorporating the following:-
 - (1) Whether the **registration is required** under section 45-IA of the RBI Act, 1934.
 - (2) If so, **whether it has obtained the registration**.
 - (3) If the **registration not obtained, reasons** thereof.

In the given case, Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of Rs. 1,75,00,000/- (one crore seventy five lakhs) which is less in comparison to the prescribed limit i.e. 2 crore rupees and was also not having registration certificate from RBI (though applied for it on 29 th March 2024). **The auditor is required to report on the same as per Clause (xvi) of Paragraph 3 of CARO 2020.**

4. You are appointed as a Statutory Auditor of SDA Limited for the year **2023-24** in the place of CA T. During audit you found an order dated 01.05.2023 under section 148 of the Income-tax Act, 1961 wherein **tax of Rs. 50 lakhs were demanded owing to undisclosed cash sales of ₹ 150 lakhs** for the **financial year 2020 -21** which was accepted by the company and the applicable tax was paid by the Company during the year 2023-24.

The company has **not recorded such undisclosed income** in their books of account **during the year 2023-24**. On further inquiring the matter with CA T, you came to know that **CA T resigned due to non-recording of such transaction by the company**. Is there any reporting responsibility casted on you regarding the above matters under CARO, 2020 for the year 2023-24?

Reporting under Paragraph 3 of CARO, 2020: **Clause (viii) of Paragraph 3 of CARO, 2020** requires the auditor to report whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income-tax Act, 1961 (43 of 1961), if so, **whether the previously unrecorded income has been properly recorded in the books of account during the year**.

In addition, **Clause (xviii) of Paragraph 3 of CARO, 2020** requires the auditor to report whether there has been any **resignation of the statutory auditors during the year**, if so, **whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors**.

In the given situation, during audit an order dated 01.05.2023 under section 148 of the Income-tax Act, 1961 was noticed wherein tax of Rs.50 lakh were demanded owing to undisclosed cash sales of 150 lakh for the financial year 2020-21 which was accepted by the company and the applicable tax was paid by the company during the year 2023-24. The company has not recorded such undisclosed income in their books of account during the year 2023-24. The auditor would be required to report as per Clause (viii) of Paragraph 3 of CARO, 2020.

Further CA T, the auditor of SDA Limited resigned due to non- recording of such undisclosed income in their books of account. The auditor would be required to report the same in CARO, 2020 as per **Clause (xviii) of Paragraph 3 of CARO, 2020**. Hence, the auditor would be required to report as per **Clause (viii) and Clause (xviii) of Paragraph 3 of CARO 2020** for the year 2023-24.

5. Comment with reference to the provisions of CARO, 2020:
- (a) Relon Limited has a turnover of Rs. 650 crores during the financial year 2023-24. It has **outstanding dues towards income-tax of Rs. 15 lakhs since July 2023**. When inquired by the auditor, the company's management informed him that they have **filed an objection letter for the said demand with the Income-tax Authorities**, however, **no response is received** from the department. Is there any reporting responsibility of auditor under CARO, 2020?

(b) During the audit, CA Kunal found that **physical verification of inventories** of the company has been conducted by management on regular interval. The following is **a summary of inventory as per physical verification conducted by management vis-à-vis its books of accounts** as at the year-end:

(Amount ₹ in crores)		
Particulars	As per physical verification	As per books of accounts
Raw material	1,160	1,180
Work-in-progress	410	430
Finished goods	2,500	2,790
Stores and spares	220	180
Total	4,290	4,580

(a) Reporting responsibility of the auditor under paragraph 3 of CARO, 2020: The auditor is required to report as per **clause (vii) (a) of Paragraph 3 of CARO, 2020** that whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the **extent of the arrears of outstanding statutory dues as on the last day of the financial year** concerned for a period of **more than six months from the date they became payable**, shall be indicated;

Further, the auditor is also required to report as per **Clause (vii) (b) of Paragraph 3 of CARO, 2020**, where statutory dues referred to in sub-clause (a) have **not been deposited on account of any dispute**, then the amounts involved and the forum **where dispute is pending** shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute).

In the given case, Relon Limited has an outstanding Income-tax liability of Rs. 15 lakhs since July 2023. Although the management has filed an objection letter, no formal dispute has been raised, and the dues remain unpaid for more than six months.

Therefore, the auditor is required to report the same under **clause (vii)(a) of Para 3 of CARO, 2020**.

(b) As per **clause (3)(ii)(a) of CARO, 2020**, the auditor is required to report whether any **discrepancies of 10% or more in the aggregate for each class of inventory were noticed on physical verification** conducted by management and if so, whether they have been properly dealt with in the books of account.

Computation of % of discrepancies found in physical verification and Books of Accounts

Particulars	As per physical verification	As per books of accounts	% Change
Raw material	1,160	1,180	1.72%
Work-in-progress	410	430	4.87%
Finished goods	2,500	2,790	11.6%
Stores and spares	220	180	18.18%

Since, the discrepancies in the value of **finished goods (11.6%)** and **stores and spares (18.18%)** exceed the **10%** threshold specified under clause (3)(ii)(a) of CARO, 2020, the auditor should report these discrepancies accordingly.

CH 8 – RELATED SERVICES

1. **Compilation engagement** is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.
 - (i) For what **purposes** may the financial information prepared under such an engagement be required?
 - (ii) Briefly discuss the **elements of Practitioner's report** for such engagement.

(i) As per SRS 4410, "Compilation Engagements", financial information that is the subject of a compilation engagement may be required for various purposes including:

- To **comply with mandatory periodic financial reporting requirements** established in law or regulation, if any or
- For **purposes unrelated to mandatory financial reporting** under relevant law or regulation, including for example:
 - For **management or those charged with governance**, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for **internal use**).
 - For **periodic financial reporting undertaken for external parties** under a **contract** or other form of **agreement** (such as financial information provided to a funding body to support provision or continuation of a **grant**).
 - For **transactional purposes**, for example, to support a transaction involving changes to the entity's ownership or financing structure (such as for a **merger or acquisition**).

(ii) The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -

- (a) The report **title**;
- (b) The **addressee(s)**, as required by the terms of the engagement;
- (c) A statement that the practitioner has **compiled** the financial information **based on information provided by management**;
- (d) A description of the **responsibilities of management**, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;
- (e) Identification of the **applicable financial reporting framework** and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;
- (f) **Identification of the financial information**, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;
- (g) A description of the **practitioner's responsibilities** in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;
- (h) A **description of what a compilation engagement entails in accordance with this SRS**;
- (i) Explanations that: -
 1. Since a compilation engagement is **not an assurance engagement**, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and
 2. Accordingly, the practitioner **does not express an audit opinion or a review conclusion** on whether the financial information is prepared in accordance with the applicable financial reporting framework.
- (j) If the financial information is prepared using a **special purpose financial reporting framework**, an explanatory paragraph that:
 1. **Describes the purpose** for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
 2. **Draws the attention of readers** of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the **information may not be suitable for other purposes**;
- (k) The **date** of the practitioner's report;
- (l) The practitioner's **signature**; and
- (m) The **place** of signature.

CH 10 – SAE

1. PQ Pharma Limited, a company dealing in research and development and manufacture of pharmaceuticals is coming up with an **Initial Public Offer (IPO)**. PQ Pharma Ltd has prepared the **prospective financial statements** for the next 3 years and included the same in the prospectus as part of its IPO. The prospective financial information includes projected balance sheets, statement of profit and loss and cash flow statements, which are prepared on the basis of several **key assumptions** like favourable government regulations, planned research and development of more effective medicines at reasonable prices, etc.

The company approaches CA Z to **provide assurance on the prospective financial information** and to assess the **presentation and disclosure of the prospective financial information** included in the IPO. List out the aspects that must be considered for making such assessment.

When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, it needs to be considered whether: -

- (i) the presentation of prospective financial information is **informative and not misleading**
- (ii) the accounting policies are clearly disclosed in the notes to the prospective financial information
- (iii) the **assumptions** are adequately disclosed in the notes to prospective financial information. It needs to be clear whether assumptions represent management's **best-estimates or are hypothetical** &, when assumptions are made in areas that are material & are subject to high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed
- (iv) the **date** as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the **assumptions are appropriate as of this date**, even though the underlying information may have been accumulated over a period of time
- (v) the basis of establishing points in a **range** is clearly indicated and the **range is not selected in a biased or misleading** manner when results shown in the prospective financial information are expressed in terms of a range and
- (vi) if there is any change in the **accounting policy** of the entity from that disclosed in the most recent historical financial statements, whether **reason for the change** and the **effect of such change** on the prospective financial information has been adequately disclosed.

CH 11 – GROUP AUDIT (CSF)

1. Girdhar Ltd. **owns 61% voting power** in Meera Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its accounts. The **shares are held exclusively with a view to their subsequent disposal in the near future**. Girdhar Ltd. Represents that while preparing Consolidated Financial Statements, Meera Ltd. can be **excluded from the consolidation**. As a Statutory Auditor, how would you deal?

Consolidation of Financial Statement: As per **Ind AS 110**, there is no such exemption for **'temporary control'**, or **"for operation under severe long-term funds transfer restrictions"** and consolidation is mandatory for Ind AS compliant financial statement in this case. Paragraph 20 of Ind AS 110 states that **"Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee"**.

However, as per **Section 129(3) of the Companies Act, 2013** read with rule 6 of the Companies (Accounts) Rules, 2014, **where a company having subsidiary, which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with the provisions on consolidated financial statements provided in Schedule III to the Act.**

In the given case, Girdhar Ltd.'s intention is disposal of the shares in the near future as shares are being held as stock in trade and it is quite clear that the control is temporary, Therefore, **Girdhar Ltd. is required to prepare Consolidated Financial Statements in accordance with Ind AS 110 as exemption for 'temporary control' is not available in the same.**

2. **Advik Investments Ltd.** is a company having paid up share capital of Rs. 1 crore, it has a subsidiary, Investors Fund Management Ltd. Major business of Advik Investments Ltd. is to **pool money from investors on a collective basis** and **invest this money in various funds**. This company pooled Rs. 10 crore from a number of clients, which represent the Company's shareholders.
- While auditing books of accounts of Advik Investments Ltd. CA Chirag observed that whole amount of Rs. 12 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**. The performance of all of its investments is **measured on fair value basis**.
- Now, CA Chirag raised an issue while auditing financial statements of Advik 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.**

According to **Section 129(3) of the Companies Act, 2013**, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements **prepare a consolidated financial statement** of the company and of all the subsidiaries in the same form and manner as that of its own.

As per **sub-section 6 of section 129** of the Companies Act, 2013, the **Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies** from complying with any of the requirements of section 129 or the Rules made thereunder.

An **investment entity** is an entity that:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;**
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and**
- measures and evaluates performance of substantially all of its investments on a fair value basis.**

An **investment entity needs not present consolidated financial statements if it is required, in accordance with paragraph 31 of Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine** whether it is an investment entity.

However, as per paragraph 33 of Ind AS 110, Parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

Applying the above to the given case of **Advik Investments Ltd., which fulfils all the conditions** stated above, it is an investment entity. By applying Para 31 and 33 of Ind AS 110, it can be concluded that Advik Investments Ltd. is **not required to consolidate as per Section 129 (3) of the Companies Act, 2013.**

CH 14 - NBFC AUDIT

1. Kushal Pvt Ltd is a company **engaged in trading activities**, it also has made **investments in shares** of other Companies and advanced loans to group companies amounting to **more than 50% of its**

total assets. However, trading income constitutes majority of its total income. Whether the Company is an NBFC?

In order to identify a particular company as Non-Banking Financial Company (NBFC), it will **consider both assets and income pattern** as evidenced from the last audited balance sheet of the company to decide its principal business. The company will be treated as NBFC when a company's financial assets constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets constitute more than 50 per cent of the gross income. A company which fulfils both these criteria shall qualify as an NBFC and would require to be registered as NBFC by Reserve Bank of India.

In the given case, though Kushal Pvt. Ltd. is **fulfilling the criteria on the asset side, but however is not fulfilling the criteria on the income side, the company cannot be classified as a deemed NBFC.**

CH 15 – BANK AUDIT

1. CA. Ankit is **conducting concurrent audit** of branch of a public sector bank. It is a large branch having **advances of about Rs. 525 crores including export advances of Rs. 450 crores**. Some borrowers also get **Letter of Credits** issued from branch for importing gold from Dubai. He wants to be sure that there is **no revenue leakage** in branch. For the time being, he is **focusing on advances**. Discuss **any five areas pertaining to advances of the branch**.

The areas of advances which need to be verified are as under:

- i. **Interest rates** fed in the system need to be verified with respect to corresponding sanction letters. It would help ensure that the correct rate of interest is fed into the system and interest is applied properly at stipulated intervals on advances.
- ii. **Processing fees** in respect of freshly sanctioned advances and renewed limits need to be levied in accordance with bank guidelines and these need to be verified. Any revision in processing fees from time to time has to be given effect to in accordance with circulars/manual of bank.
- iii. **Sanction of cash credit limits** is generally accompanied with stipulation to submit stock statements. Non-submission of stock statements can involve levying of penal interest. Verification of this aspect is required.
- iv. **Verification of overdue interest on export bills** purchased and packing credit facilities for overdue period.
- v. **Verification of charges/commission in respect of letters of credit** issued in accordance with Bank's circulars/manual.

CH 16 – DD, INVESTIGATION & FA

1. **Core Limited submitted a credit proposal XYZ Bank Limited for the sanction of a Term Loan** of Rs. 150.00 crore required for procuring and installing a latest Plant and machinery for their upcoming project. Based on the application, **XYZ Bank Limited approached CA P to investigate the profitability of the business** for judging the accuracy of the schedule of repayment furnished by Core Limited, as well as the **value of the security in the form of assets** of the business already possessed and those which will be created out of the loan.
Elucidate the steps that should be undertaken by CA P?

To investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by the borrower, as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan, the investigating accountant should take the under- mentioned steps:

- (a) **Prepare a condensed income statement from the Statement of Profit and Loss for the previous five years**, showing separately therein various items of income and expenses, the amounts of gross

and net profits earned and taxes paid annually during each of the five years. The amount of **maintainable profits determined** on the basis of foregoing statement should be increased by the amount by which these would increase on the investment of borrowed funds.

- (b) Compute the under-mentioned ratios separately and then include them in the statement to show the trend as well as changes that have taken place in the financial position of the company:
- (i) **Sales to Average Inventories held.**
 - (ii) **Sales to Fixed Assets.**
 - (iii) **Equity to Fixed Assets.**
 - (iv) **Current Assets to Current Liabilities.**
 - (v) **Quick Assets (the current assets that are readily realisable) to Quick Liabilities.**
 - (vi) **Equity to Long Term Loans.**
 - (vii) **Sales to Book Debts.**
 - (viii) **Return on Capital Employed.**
- (c) Enter in a separate part of statement the **break-up of annual sales product-wise** to show their trend.

CH 17 – PROFESSIONAL ETHICS

1.	Mr. Jay is a practicing Chartered Accountant working as proprietor of M/s Adhya & Co. He went abroad for 4 months. He delegated the authority to Mr. Vijay a Chartered Accountant his employee for taking care of routine matters of his office. During his absence, Mr. Vijay has conducted the under mentioned jobs in the name of M/s Adhya & Co. (i) Asking for information or issue of questionnaire. (ii) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit. (iii) Acknowledging and carrying on routine correspondence with clients. Comment on eligibility of Mr. Vijay for conducting such jobs in name of M/s Adhya & Co. and liability of Mr. Jay under the Chartered Accountants Act, 1949.
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Delegation of Authority to the Employee: As per **Clause (12) of Part I of the First Schedule** of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct “if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements”.

In this case CA Jay proprietor of M/s Adhya & Co., went to abroad and delegated the authority to another Chartered Accountant Mr. Vijay, his employee, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants of India.

The Council has clarified that the **power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated** and such delegation will not attract provisions of this clause.

In the given case, Mr. Vijay, a Chartered Accountant being employee of M/s Adhya & Co. has asked for information or issued questionnaire. He has also proceeded for initiating and stamping of vouchers and of schedules prepared for the purpose of audit. Apart from the same, he acknowledged and carried out routine correspondence with clients. Here Vijay is right in doing the same, since the **same falls under routine work which can be delegated by the auditor**.

Therefore, there is **no misconduct** in this case as per Clause (12) of Part I of First Schedule to the Act.

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| 2. | <p>PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to PN and Associates for accepting the audit.</p> <p>CA N, the engagement partner communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA N has complied with same.</p> |
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As per **Clause (8) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the **mandatory requirement of communication** with previous auditor being Chartered Accountant **applies, in uniform manner, to audits of both government and Non-Government entities**, yet in the case of audit of government Companies/ banks or their branches, **if the appointment is made well in time to enable the obligation cast under this clause** to be fulfilled, **such obligation must be complied with before accepting the audit**.

However, **in case the time schedule given for the assignment is such that there is no time to wait for the reply** from the outgoing auditor, the **incoming auditor may give a conditional acceptance** of the appointment and **commence the work** which needs to be attended to **immediately after he has sent the communication** to the previous auditor in accordance with this clause. **In his acceptance letter**, he should **make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors** and that he will decide about his **final acceptance after taking into account the information received from the previous auditor**.

In the given case, PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. which is a government company as Central Government holds 65% of the paid-up share capital of the company and CA N has given a conditional acceptance of the appointment and commenced the audit. In view of above, **it can be concluded that CA N has complied with the provisions** of the Chartered Accountants Act, 1949 and the Schedules thereunder.

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| 3. | <p>CA. T, the statutory auditor of Race Limited, a PSU, for the year 2023-24. During the audit, CA. T did not detect any fraud having been committed during that year. However, the C & AG audit staffs, during their routine inspection, found that chief cashier of the company committed fraud in debtor's ledger and absconded with the amount. The investigation made in the fraud revealed that the auditor did not exercise proper skill and care and performed his work improperly. Comment with reference to the provisions of the Chartered Accountants Act, 1949.</p> |
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Failure to Exercise Reasonable Care and Skill: **Clause (7) of Part I of Second Schedule** to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he **does not exercise due diligence, or is grossly negligent** in the conduct of his professional duties.

In the given case, CA. T did not detect any fraud. However, the C & AG audit staff, during their routine inspection, found that the chief cashier of the company committed fraud in debtor's ledger and absconded with the amount. **Apparently, it appears that the auditor did not exercise proper skill and care** and that he performed his work in an improper manner.

In this matter, the **test for auditor's liability lies in whether he has applied reasonable care, skill and caution called for in the circumstances of the case and whether he reasonably used all the information that he came across during the audit.**

The **auditor should have been highly concerned about the cashbook's state due to the unexpected disappearance of the head cashier. This unexplained absence is a major red flag and demands a thorough investigation by the auditor.**

As per **SA 240**, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the **auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this that fraud has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.**

As it appears from the facts of the case, CA. T has been grossly negligent in performing his duties which constitutes professional misconduct. Thus, such instances require reference to Disciplinary Committee of the Council of the Institute.

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| 4. | NIS Limited, a company registered under the Companies Act, 2013 has created a separate Trust "NIS Employees Gratuity Fund Trust". Both the Company and Trust are under the same management. Mr. Anuj is the auditor of both the entities. Mr. Anuj has observed that some part of the expenditure was not applied towards the objects of the trust. He informed the matter to the Board of Trustees through a separate report but did not qualify the audit report of the Trust. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. |
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Disclosure of Material Facts: A Chartered Accountant in practice is deemed to be guilty of professional misconduct under **Clause (5) of Part I of the Second Schedule** if he "fails to disclose a material fact known to him which is not disclosed in a financial statement but disclosure of which is necessary to make the financial statement not misleading".

In the given case, Mr. **Anuj was aware of some part of the expenses not applied towards the object i.e. contraventions and irregularities committed by the trust as these were referred to in the separate report given by him to the Board of Trustees of the company.**

However, he issued an audit report without any qualification is not in order. Therefore, CA Anuj is deemed to be guilty of professional misconduct.

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| 5. | CA. Rishi is a newly qualified Chartered Accountant in practice and in order to increase his professional practice and client base, entered into an agreement with Mr. Krish, a qualified and experienced registered valuer, to share 18% professional fees for all cases of valuation referred to him by CA. Rishi. Based on this, CA. Rishi received Rs. 1,15,000 during the year 2023-24 from Mr. Krish. Is CA. Rishi guilty of misconduct under the Chartered Accountants' Act, 1949? |
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Sharing Professional Fees with Registered Valuer: As per **Clause (3) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant will be guilty of professional misconduct if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute.

A member cannot share his fees with a non-member similarly he is also not permitted to receive and share the fees of others except for sharing with member of such professional body or other person having such qualification as may be prescribed (Regulation 53A of the Chartered Accountants Regulations, 1988) by the council.

Under the Regulation 53A of the Chartered Accountants Regulations, 1988, **registered valuer is not included.**

In the instant case Mr. Rishi, who is a newly qualified Chartered Accountant in practice entered into an agreement with Mr. Krish, a qualified and experienced registered valuer, to share 18% professional fees for all case of valuation referred to him by CA.

Rishi. CA. Rishi also received ₹ 1,15,000 for the same from Mr. Krish. Thus, **CA. Rishi will be held guilty for misconduct under clause (3) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.

CH18 – DIGITAL AUDIT

1. Yuvi, a finance manager at DCB Ltd., received a **text message on his mobile phone** claiming to be from his bank. The message states that:
“Dear Customer, Your account has been temporarily suspended due to suspicious activity. To reactivate, please verify your details by clicking on the following link: [sendyourinfo-link.com]. Failure to do so within 24 hours will result in account deactivation. Thank you for banking with us”.
 Yuvi is worried about his account security. **Which type of phishing cyberattack Yuvi fell victim to? Also explain other types of such phishing attack.**

The type of **phishing cyberattack Yuvi fell victim to is Smishing**. It is a type of fraudulent practice of sending text messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as passwords or credit card numbers.

Other types of phishing cyberattacks are:

Spear Phishing: It is a type of phishing attack that **targets specific individuals or organizations typically through malicious emails**. The goal of spear phishing is to steal sensitive information such as login credentials or infect the targets’ device with malware.

Whaling: A whaling attack is a type of **social engineering attack specifically targeting senior or C-level executive employees** with the purpose of **stealing money or information or gaining access to the person’s computer** in order to execute further cyberattacks.

Vishing: Vishing, a **voice phishing attack**, is the fraudulent use of **phone calls and voice messages** pretending to be from a reputable organization to convince individuals to reveal private information such as bank details and passwords.

2. Mr. Sanket has been appointed as an auditor of XYZ Limited, a rapidly growing tech company, has recently adopted a range of new digital technologies to enhance its operations. These include robotics, artificial intelligence and blockchain. He seeks guidance on how to effectively conduct an audit in this technologically advanced environment.
Explain what are the key steps for auditors in a changing technology environment?

Key Steps for Auditors in a Changing Technology Environment As auditors obtain an understanding of the impact of technology on a company’s business, its systems of internal control, and its financial reporting. Some key steps to be taken by the auditor include the following:

- **Maintain sufficient professional skepticism** when reviewing management’s risk assessment for new systems.
- **Understand the direct and indirect effects of new technology** and determine how its use by the entity impacts the auditor’s overall risk assessment.

- **Understand how the technologies impact the flow of transactions**, assess the completeness of the in-scope ICFR systems, and design a sufficient and appropriate audit response.
- **Assess the appropriateness of management's processes** to select, develop, operate, and maintain controls related to the organization's technology based on the extent the technology is used.

CH 19 - SDG & ESG ASSURANCE

1. Consistent Enterprises Ltd., a listed company, has been voluntarily preparing and disclosing its sustainability report based on the internationally accepted "Integrated Reporting" framework for some years, even before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The **key focus of Integrated Reporting** is how the company creates value over the short, medium, and long term.

Following further information is provided in respect of the above company:
 (i) It has **secured a loan** to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the **pool of resources available** for production.
 (ii) It has **increased the number of beneficiaries under its flagship CSR programmes** from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.

Discussing the above information, identify which of the capitals of "Integrated Reporting" are being referred to at [i] and [ii] respectively?

The information given in situation

[i] states that company has secured a loan to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the pool of resources available for production. Therefore, it involves pool of funds that is available to the organization for use in the production of goods or provision of services. Further, it is obtained through financing, such as debt, equity, or grants, or generated through operations or investments. The capital referred to at [i] is "**Finance Capital**".

Further, situation [ii] describes increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is "**Social and Relationship Capital**".

2. The nine principles in BRSR are categorized into the ESG components of Environment, Social and Governance with two of the nine in Environment, three in social and four in Governance. One of the **principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being**.
Elucidate the essence of core elements associated with the aforesaid principle.

Principle 3 – Promote well-being of all employees including those in the value chain:

The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their **dignity, health, well-being**.

The essence of the core elements associated with the principle is:

- a) Entity should ensure **compliance with all regulatory requirements** as far as employees are concerned.

- b) The entities are to **respect the dignity of employee** as a human being and should not restrict their **freedom of associations**, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.
- c) Entities should **prevent all kinds of child labour, bonded labour**, & other forms of involuntary labour.
- d) Entities should have a system in which the **work-life balance** of the employees is not compromised.
- e) The businesses have to ensure **timely payment of the worker's wages and compensation**.
- f) The payment of the wages has to be as per the living wages, that can take care of the basic needs and **provide economic security** to the employees.
- g) The entities are responsible to create a workplace and **work environment** that is **safe, hygienic, and comfortable for people** to work for long durations.
- h) The **skill development, career development and training** of the workforce is another responsibility of the entities employing them.
- i) Creation of a workplace which is **free of harassment and violence** is also a responsibility of the entity.

1. Qura Capital Ltd., a Non-Banking Financial Company (NBFC) classified under the Scale-Based Regulation framework, is required to maintain a minimum capital ratio of 15% of its aggregate risk-weighted assets (RWA) and risk-adjusted off-balance sheet items. The company has provided the following financial data for computing of its Tier 1 and Tier 2 capital as per the RBI Master Directions:

Particulars	Amount in ₹
Owned Fund	₹ 1,000 crore
Investment in shares of other NBFCs and in group companies (exceeding 10% of owned fund)	₹ 150 crore
Perpetual Debt Instruments issued by Qura Finance Ltd.	₹ 120 crore
Preference Shares (not compulsorily convertible into equity)	₹ 80 crore
Revaluation Reserves	₹ 200 crore
General Provisions & Loss Reserves	₹ 50 crore
Hybrid Debt Capital Instruments	₹ 90 crore
Subordinated Debt	₹ 140 crore
Risk-Weighted Assets (RWA)	₹ 8,000 crore

Considering that Qura Finance Ltd. is neither an NBFC-MFI nor primarily engaged in lending against gold jewellery, compute the following:

- Tier 1 capital of Qura Finance Ltd. as per RBI guidelines.
- Tier 2 capital, ensuring it does not exceed the Tier 1 capital.

Also, determine whether Qura Finance Ltd. meets the minimum capital adequacy requirement of 15% of RWA.

To determine whether Qura Capital Ltd. meets the capital adequacy requirement, we need to compute its Tier 1 Capital, Tier 2 Capital and compare the total capital ratio against the required 15% of Risk-Weighted Assets (RWA).

Step 1: Computation of Tier 1 Capital

Tier 1 Capital = Owned Fund – Investments in Group Entities + Eligible Perpetual Debt Instruments.

Tier 1 Capital = 1,000 - 150 + 120 = ₹ 970 crore

Note: The perpetual debt instruments are limited to **15% of the previous year's Tier 1 capital**. Assuming ₹ 120 crore qualifies, we include it in Tier 1 capital.

Step 2: Computation of Tier 2 Capital

Tier 2 Capital = Sum of:

- **Preference Shares** other than those which are compulsorily convertible into equity = **₹ 80 crore**
- **Revaluation Reserves** at discounted rate of 55 percent = **₹ 90 crore** (₹200 crore × 55% = ₹ 110 crore i.e., ₹200 crore - ₹ 110 crore = ₹ 90 crore)
- **General Provisions (Limited to 1.25% of RWA)** = 1.25% of ₹ 8,000 crore = ₹ 100 crore (Since actual general provisions are ₹ 50 crore, we take **₹ 50 crore**)
- **Hybrid Debt Capital Instruments** = **₹ 90 crore**
- **Subordinated Debt** = **₹ 140 crore**
- **Perpetual Debt Instruments** exceeding Tier 1 Limit = **₹ 0 crore** (As ₹ 120 crore is already within Tier 1 limit)

Tier 2 Capital = 80 + 90 + 50 + 90 + 140 + 0 = ₹ 450 crore.

Note: **Tier 2 Capital cannot exceed Tier 1 Capital.** Since ₹ 450 crore is within the ₹ 970 crore Tier 1 limit, it is fully eligible.

Step 3: Compute Capital Adequacy Ratio (CAR)

Total Capital = Tier 1 Capital + Tier 2 Capital.

Total Capital = ₹ 970 crore + ₹ 450 crore = **₹ 1,420 crore**

Capital Adequacy Ratio (CAR) = (Total Capital/Risk-Weighted Assets) × 100 = $1420/8000 \times 100 = 17.75\%$

Step 4: Conclusion

- Minimum required capital ratio = 15%
- Actual Capital Adequacy Ratio (CAR) = 17.75%

Since Qura Capital Ltd.'s CAR (17.75%) is higher than the minimum requirement of 15%, it meets the regulatory capital adequacy norms.