

## **CHAPTER 18: Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance:**

**CS Qn:** "Quick Push Finance Limited" is one of the top listed 1000 companies by market capitalization. As per a SEBI circular, Business Responsibility and Sustainability Report (BRSR) based on ESG parameters is mandatory from financial year 2022-23 for top listed 1000 companies. The company is an NBFC and is engaged mainly in providing finance for commercial vehicles

The report is to be prepared in three sections- Section A, B and C. Whereas Section A and B relate to general disclosures and management & process disclosures respectively, Section C of the report relates to principle wise performance disclosures. Under this section C, information is sought on each of the 9 principles of "National Guidelines on Responsible Business Conduct" (NGBRCs). This information is categorized on two indicators i.e., "Essential indicators" and "Leadership indicators"

The said company has an anti-corruption/anti-bribery policy which is available on its website. Besides, the company has regularly conducted awareness programmes for its dealers highlighting relevant governance practices of the company.

The company is sensitive to environmental concerns. It has established mechanisms to recycle hazardous e-waste in accordance with applicable laws. Further, disposal of paper waste is also made responsibly. It is also a member of 5 prominent industry chambers/trade associations including FICCI, CII and ASSOCHAM. Besides, regular inputs to government are provided by the company through various forums for improvement in administrative processes relating to automobile and financial sectors.

One of the NGBRC principles states that businesses should promote inclusive growth and equitable development. The scope of this principle is wide and quite encompassing. Many activities of company could fall under promotion of inclusive growth and equitable development.

The CFO of company is clueless as to preparation of BRSR. Help him out by answering the following questions.

**Based upon above, answer the following questions: -**

- 1) As regards anti-corruption/anti-bribery policy and organization of awareness programmes for dealers conducted during the year, which of the following is most likely to be true? [N]
  - a) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of essential indicators.
  - b) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of leadership indicators.
  - c) Having an anti-corruption/anti-bribery policy is in nature of essential indicators. Organization of awareness programmes for dealers is in nature of leadership indicators.
  - d) Having an anti-corruption/anti-bribery policy is in nature of leadership indicators. Organization of awareness programmes for dealers is in nature of essential indicators.
- 2) As regards established mechanisms for recycle of hazardous e-waste and disposal of paper waste by company, which of the NGBRC principle(s) are involved? [N]
  - a) Principle 5 only
  - b) Principle 9 only
  - c) Principles 6 and 9
  - d) Principles 2 and 6
- 3) Considering description of membership of various industry chambers/ trade associations and providing of inputs to government for improvement in administrative processes, which of the NGBRC principle is referred to? [N]
  - a) Principle 8
  - b) Principle 4

- c) Principle 3  
d) Principle 7
- 4) Which of the following activities relates to the principle that businesses should promote inclusive growth and equitable development? [N - it's principal 8 ]
- a) CSR projects undertaken by the company in designated aspirational districts of country  
b) Carrying out real time digital Net Promoter score (NPS) with all public customers to gauge customer reactions and satisfaction  
c) Getting conducted "energy audits" in the company  
d) Conducting programmes to assist employees in finding employment after retirement
- 5) Which of the following statements is true in respect of essential indicators and leadership indicators as far as their reporting in BRSR is concerned? [N]
- a) Both types of indicators are mandatorily required to be disclosed.  
b) Essential indicators require mandatory disclosure whereas leadership indicators require voluntary disclosure.  
c) Essential indicators require voluntary mandatory disclosure.  
d) All indicators based information whether relating to essential indicators or leadership indicators is voluntary.

## Other MCQ's of ICAI:

MCQ	Crux
1	<b>EQCR Should be C.A only</b> , otherwise changes made in team is inappropriate
2	Following points should be check for acceptance and continuance of client relationships and audit engagements are appropriate): (i) The integrity of the principal owners, (ii) Whether the engagement team is competent (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 <b>(Do Not</b> check Fees of consultant & Qualification of all employees of entity)
3	<b>Performing analytical procedure (SAP) is mandatory</b> , as conclusion drawn from analytical procedures are corroborate conclusion formed during audit of individual component in F.S
4	Sample selection is assessment of audit team, they can Increase no. of samples from past years samples, client cannot object.
5	Yes, new auditor is requiring to check opening balances (SA 510) as well as he may require subsequent data also (SA 560). Client can-not object
6	<b>For RPT - Auditor can-not rely on Mngt representation only</b> , Auditor has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.
7	<ul style="list-style-type: none"> <li>• Receivables for which balance confirmation is not received ... Auditor have to perform Alternate procedure</li> <li>• For remaining Balance confirmations also... auditor should take <b>Direct confirmation</b> from Receivable (It's not allowed that management is receiving confirmation from debtor, than they are submitting to auditor)</li> </ul>
8	Unusual cash payment, Fines > Its Non-compliance of laws

9	<b>SA 540: BLOCK SAMPLING</b> : Means Selecting continuous Items <u>Example</u> : Select 50 consecutive cheque, rather than selecting 50 random cheque through out the year.
10	Most persuasive evidence regarding ownership of property is "Registration documents of property"
11	<b>Professional scepticism</b> is defined as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence
12	<b>SA 200: Professional Judgement</b> : Application of relevant training, knowledge & experience > To make informed decision.
13	<b>Judgements about materiality</b> are affected by both > the <b>auditor's perception of the financial information</b> needs of users of the financial statements, the <b>size or nature of a misstatement</b> .
14	" <b>Poor corporate governance</b> " is <b>NOT</b> an Inherent limitation of Audit
15	Engagement team should consult previous yr E.T. (Other firm), During course of planning
16	Audit team can revise materiality & plans even without consulting partner, it is not waste of time
17	Audit team must document ORIGINAL audit program, Further if any change > Document it with
18	The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors
19	If management appointed expert for machine valuation, so it is not mandatory that that expert should send the report to auditor independently, he can send it to management and then mngt can send it to auditor, In both the cases, Auditor is required to examine report of consultant
20	Prior to using internal auditors to provide direct assistance for purposes of audit, external auditor shall: (a) Obtain written agreement that IA will be allowed to follow external auditor instructions (b) Obtain written agreement from internal auditors that they will keep confidential
21	<b>SA-620</b> : A Prospective CA, soon to join auditors firm as a partner can-not be auditors internal expert
22	<b>SA 300</b> - If you need to revise materiality, then first make strategy, then make plan
23	Entity passed 10% discount to auditor for purchase of goods, However its normal practice of that entity ... as it had also passed 10% discount to other 50 customers also... so he is <b>NOT DISQUALIFY</b> to be an auditor, as transaction is at arm's length price
24	The <b>assessment of audit team is wrong</b> for this company <b>Because audit team decided to Not to assess inherent risk</b> only will take due care of the control risks
25	Even if it is private company, Risk-control matrices need to to properly documented (Should not be in draft format)
26	<b>MANAGEMENT is WRONG</b> : auditors started the risk assessment and requested the management to share their documentation for the same on which the management said that they don't have any risks & denied to give any doc.
27	<b>SA 210</b> - Engagement letter should be sign before commencing audit work
28	Subsidiary company is also require to maintain documentation on changes in processes and activities as any resultant impact of the same on management controls if IFC is applicable on them (Mngt can't say that it is maintained by parent company)
	<b><u>IF INTERNAL AUDITOR IDENTIFIED FREQUENT CHANGES IN BANK ACCOUNT &amp; OTHER MASTER DETAILS OF SUPPLIER</u></b> , After that Management Agrees to develop the process of monthly review the change in master details :
29	IT IS <b>DETECTIVE CONTROL</b> (Not preventive)
30	To evaluate I.C on Purchase > Auditor is <b>not</b> required to check whether company make monthly Bank reco.
31	If Internal auditor found that employee suddenly increase the claim amount of medical expense (reimbursement),

	Then Internal auditor should recommend that claim should be reduced & clear guidelines to all employees with disciplinary action
32	<b>Effective IC fails when:</b> Abuse by process owner
33	Documentation can be in a mix of both soft and hard copy
34	approach of audit team to obtain detailed understanding of the company & company IT system before starting with the audit procedures is absolutely fine
35	Its allow that company can maintain MANUAL as well as AUTOMATED control simultaneously (Auditor can't say that they should either maintain automated control or either manual)
36	<b>SA 315</b> An entity's system of internal control contains manual elements & often contains automated elements. As per SA 315 characteristics of manual or automated elements are relevant to auditor's risk assessment & further audit procedures based thereon. Hence, view of audit team looks fine because <b>without testing of internal control covering all types of control that is manual &amp; automatic those controls can't be said to be operating effectively</b>
37	Auditor is allowed to use audit tools (CAAT) - Mngt can't refuse to give data
38	<b>Professional Ethics:</b> CA Can-not accept audit of company or subsidiary of company in which he was director without finishing of the cooling period (i.e. 2 years)
39	<b>User ID &amp; Password required to access application :</b> Its PREVENTIVE CONTROL (Not Application control)
40	<b>Service organization (Outsourced company) is ISO certified &amp; Its controls are regularly audited :</b> Auditor should take the control audit report of S.O to review.
41	During the current FY, Company found that they have missed to account for certain transactions in PY financial statements, so they want to revise PY financial stat. as per sec 130 > No its not correct to revise FS. (As Ind AS/AS provided the accounting of errors in PY F.S. ... they should correct it in Current FY)
42	Management should prepare CFS and include BOTH TYPE OF SUBSIDIARIES (Indian Subsidiary & Foreign Subsidiary)
43	When auditor is qualifying report, then management shall explain the management view in notes to accounts, However don't hold the audit report even if they are not explaining their view in Notes to a/c's
44	In PY some deficiency in IC was found > In the current year's communication may repeat the description from previous communication or simply reference the previous communication (i.e., In CY also Auditor should refer PY IC Deficiency if its not corrected by mngt)
45	<b>Fixed deposit Books Amount V/s Bank confirmation amounts Differ , But management also showed the Fixed deposit certificate matching with books amount :</b>  Don't directly qualify report > Consider both the difference & Apply alternate procedure
46	<b>SA 701: If adverse opinion is given &gt; then report in KAM Para:</b> No other KAM "except matters describe in basis of adverse opinion section, no other KAM to communicate in our report
47	50:50 test determination is popularly used in NBFC Company
48	<b>If There is No requirements of the applicable FRF for disclosing the related party transaction :</b> Then Also Auditor need to <b>obtain an understanding of the entity's related party relationships and transaction, to conclude whether the financial statements affected by those relationships and transactions achieve a true and fair presentation and are not misleading.</b>
49	<b>CFS &gt; 1 subsidiary report is pending &gt; So if we didn't received its audited report &gt; Include component in CFS &amp; Qualify report</b>
50	Consolidation with foreign subsidiary requires from 1 <sup>st</sup> yr of acquisition only, it should be done and GAAP conversion adjustments are also required to be audited

51	Method of Depreciation of group companies can be different but method of valuation of inventory must be same
52	Only 1 JV is not audited, management giving auditors <b>MANAGEMENT CERTIFIED ACCOUNTS</b> on that JV, (Other than this JV also..75% of group companies are covered) : <u>Auditor should accept mngt certified A/c's</u>
53	Principal auditor not require to re-perform limited review of components which are already audited by another C.A
54	When component auditor is different then SA 600 is applicable.
55	<b>To check the loan sanctioned against FD &amp; Whether lien is marked in FD</b> Ensure FD receipt are discharge in favor of bank + lien is marked in computer ( <b>WRONG OPTION</b> : FD should be kept separately with branch manager)
56	<b>Bank Audit:</b> 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, 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.
57	NPA was regularise by Bank as on 28 <sup>th</sup> march (i.e., Before End of FY) ...as amount was paid by borrower, Yes its allow, Bank can regularise the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities.
58	<b>Bank Audit</b> > NPA Sold in excess of expected realizable value, So Profit should be credited to Provision for loss of NPA ( Not P&L)
59	Amount Payable to XYZ Ltd ( <b>As per our books</b> ): 58 lacs, However Amount payable to XYZ Ltd ( <b>As per confirmation received from XYZ Ltd</b> ) : 80 lacs, <b>As there is dispute</b> because <b>defective goods which were returned on 30th March 2021 -</b> <u>So, Auditor should perform below two task because of above difference :</u> <ul style="list-style-type: none"> <li>✓ Review post year-end credit notes for evidence of acceptance of return</li> <li>✓ Inspect pre year-end goods returned note in respect of the items sent back to the supplier.</li> </ul> <p>(<b>NOT CHECK</b> : "Inspect post year-end cash book for evidence that the amount has been settled" because management is itself accepting that amount is unpaid)</p>
60	10 partner in a firm * 60 per partner tax audit limit = All the partners of the firm can collectively sign 600 tax audit reports
61	An NBFC can <b>only give demand deposits</b> but it <b>cannot accept demand deposits</b> . Hence in this case, the <b>statutory auditors should report</b> regarding this matter.
62	C&AG may get involved in the audit of Govt co.
63	C&AG may order test audit as per the requirements of the Companies Act 2013.
64	<b>PSU:</b> The C&AG may conduct Performance audit of electricity company (i.e., Govt co), however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.
65	<b>PSU:</b> Auditor can change performance audit program (Its allow), But with the approval of competent authority and discussion with management
66	<b>PSU:</b> Direct reporting engagement > Not include > Financial audit
67	<b>PSU:</b> Audit report of PSU > Reviewed by > Committee on Public undertaking
68	<b>PSU:</b> I.T. AUDIT OF PSU i.e. <ul style="list-style-type: none"> <li>✓ Are separate ID-Password assigned?</li> <li>✓ Change in password ensure?</li> <li>✓ Data backup maintain</li> </ul> <b>It is Compliance audit</b>
69	External auditor can-not provide Internal audit/ Book-keeping service to auditee.
70	<b>Professional ethics:</b> No objection certificate should be obtained from retiring auditor by the newly appointed auditor.

71	For fraud $\geq$ 1 Cr, its has to be reported to CG + mentioned in audit report
72	<b>Auditor is not NEGLIGENT</b> : In prospectus there was an abnormal rise in the profits, Management is blaming auditor to do only Sample checking, However, Auditor proved that they found IC to be satisfactory and did not find any circumstance to arouse suspicion. The company was not able to prove that auditors were negligent in performance of their duties. Please suggest your views on this
73	If information in prospectus found to be misleading, then directors, promoters of the company and the <b>experts</b> involved would be liable to pay compensation to all these persons who had sustained losses or any damage. <b>Auditors are covered in this as experts.</b>
74	internal auditor shall either be a <b>chartered accountant</b> or a <b>cost accountant</b> (whether engaged in practice or not), or such <b>other professional as may be decided by the Board.</b>
75	Travelling cost of employees increased trendmously > Operational audit require
76	<b>Inventory checking in which ROMM may exist</b> > Can-not be delegated to Internal auditor
77	<b>Due diligence:</b> Initial decided price will be change due to new Hidden liability or contingent liabilities
78	<b>Due Diligence:</b> In case of merger due diligence, also need to check Financial projection
79	<b>Professional Ethics:</b> CA Cheque bounced (Retuned) - Clause (2) of Part IV of the First Schedule GUILTY
80	<b>Professional Ethics:</b> on CA Firm website, they put big poster that he got Best faculty award > Clause (6) of Part I of the First Schedule. GUILTY
81	<b>Professional Ethics:</b> CA is paying stipend late to article along with interest > Clause (1) of Part II of the Second Schedule
82	<b>Professional Ethics:</b> Council of ICAI allows only 25 hrs/week for teaching activities along with attest functions
83	Internal auditor observed non-compliance of minimum wages act, weekly off not provided, low wages to labour etc. > Internal auditor observation should be reported in his report along with management comments
84	Sale of the company has been decreased: So management want to perform Operational audit, There is already internal auditor in company, then why management want to appoint operational auditor: Below are the reasons: <ul style="list-style-type: none"> <li>✓ As the operational audit will be done by an independent person and will provide suggestions for improvement.</li> <li>✓ Because management audit is qualitative in nature and will analyse all aspects of operations as per management policies, objectives and goals.</li> <li>✓ Because internal audit is restricted to financial accounting and internal controls only</li> </ul>
85	Only <b>INDIVIDUAL</b> can be appointed as inspector under companies act for investigation (Not Companies/Firm etc.)
86	<b>SA-701:</b> In Key Audit matter para, Following Matters need to cover: <ul style="list-style-type: none"> <li>✓ Reference to related disclosures, if any, in the financial statements</li> <li>✓ How the matter was addressed in the audit.</li> <li>✓ Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter</li> </ul> <b>(Not require to cover :</b> Explanation on the matter given by management)
87	<b>SA 260:</b> It is <b>auditors responsibility</b> to communicate significant matters to TCWG (Not management's), <b>Also, management has a responsibility</b> to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility
87	<b>CARO 2020:</b> Is applicable if Borrowing of company exceed Rs.1 crore <b>at any point of time during the financial year</b>

89	<b>"Non-interest-bearing staff advances"</b> is OTHER ASSETS (Under "Others" heading of B/s)		
90	<b>Professional ethics:</b> Giving article in newspaper regarding inauguration of branch office by CAiP shall be professional misconduct under clause 7-1-1 with fine upto 1L & removal of name from register upto 3 months		
91	<u>Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued:</u> <b>Express qualified/ adverse opinion on current F.S. w.r.t. Corresponding figures Only</b>		
92	<b>CFS Audit:</b> Our Shareholding in subsidiary reduced (i.e. Change in shareholding) : Then Adjustment that requires to be made are Permanent adjustment		
93	25% of total asset (Inventory) was missing & 10% of total sales was fake: Auditor should issue <b>ADVERSE REPORT</b>		
94	Acceptable detection risk should be low in order to reduce audit risk to an acceptably low level.		
95	Relative/friend of auditor is working in company is Familiarity threat		
96	<b>Customer</b>	<b>Balance as per sales ledger ₹</b>	<b>Balance as per customer confirmation ₹</b>
	<b>Comment</b>		
	AM	225	225
	AN	350	275
	AO	620	480
	AP	535	535
	AR	178	No reply
			Invoice raised on 29th March 2021
			Payment made on 30th March 2021
			A balance of ₹45 is currently being disputed by AP
	Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?		
	(a) No further audit procedures need to be carried out in relation to the outstanding balances with AM Co. and AP Co.		
	(b) The difference in relation to AN Co. represents a timing difference and should be agreed to a pre-year-end invoice.		
	(c) The difference in relation to AO Co. represents a timing difference and should be agreed to pre-year-end bank statements.		
	(d) Due to the non-reply, the balance with AR Co. cannot be verified and a different customer balance should be selected and circularized.		
97	Only Practicing <b>CWA/CMA</b> can be appointed as cost auditor (Not CA), Further company auditor can-not be appointed as cost auditor of company		
98	<u>Management intentionally manipulated FS of the company :</u> The auditor would issue an <b>adverse audit opinion</b> stating that financial statements ' <b>do not give a true and fair view</b> '. The auditor should also include a ' <b>Basis for Adverse Opinion</b> ' paragraph below the opinion paragraph.		
99	An Insurance company should show: <ul style="list-style-type: none"> <li>• Training and non training expenses incurred for employees SEPERATELY in P&amp;L (Not under remuneration head)</li> <li>• Incentive paid to employees of company who have solicited insurance policies :Should be shown under Remuneration and Welfare Benefits a/c (Not Commission a/c)</li> </ul>		
100	Divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata': Stratified sampling.		

101	To check correctness of account payable balance, <u>Inspect the invoices issued supplier and the payments made</u>
102	Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon: <ul style="list-style-type: none"> <li>• Nature, size and complexity of the entity</li> <li>• Nature of the significant deficiencies identified</li> </ul>
103	Company has changed its payroll system software, now the new software is calculating wrong income tax, It is <b>Loss of IT General Controls</b> .
104	Every <b>Listed company &amp; Its material unlisted subsidiary</b> need to do <b>secretarial audit</b> .
105	<b>Prior period FS not audited</b> > Other matter paragraph
106	<u>In case of audits of listed entities, other information section is required in auditor's report when at the date of auditor's report:</u> Auditor has obtained or expects to obtain the other information
107	<u>In case of audits of unlisted corporate entities</u> , other information section is required in auditor's report when at the date of auditor's report: Auditor has obtained some or all of the other information

## INTEGRATED MCQ's SUMMARY (ICAI Only – But Other than SM)

<b>C.S 1</b>	<ul style="list-style-type: none"> <li>- <u>Trade payables shall be separately disclosed in the Balance Sheet as per Division 1 of Schedule III</u> <b>Only MICRO &amp; SMALL</b> (Not medium) ..... [Old Course]</li> <li>- <u>Code of ethics allow following acts:</u> <ul style="list-style-type: none"> <li>• Select, Train &amp; recruit employees of clients</li> <li>• One partner responsible to sign FS was in teaching</li> <li>• Can charge % basis fees from co-operative society</li> </ul> </li> </ul>
<b>C.S 2</b>	<ul style="list-style-type: none"> <li>- In starting of question % of Shareholding is given, so from it we can find out that company is govt company ..... So, if any special provision is applicable on Govt. company will apply over that</li> </ul>
<b>C.S 3</b>	<u>Bank contingent liability disclosure contains:</u> <ol style="list-style-type: none"> <li>1. Guarantee on behalf of constituent: <b>Yes</b></li> <li>2. Percentage of the total bills purchased by bank: <b>NO</b></li> <li>3. Unpaid salary to staffs, who are currently undergoing a court trail: <b>No</b></li> </ol>
<b>C.S 4</b>	<ul style="list-style-type: none"> <li>- <u>Loan taken for some other purpose but temporarily invested in F.D</u> It will also be reported in CARO for misutilization</li> <li>- Adhoc limit not reviewed within 180 days, then consider it as NPA</li> <li>- CA can act as <b>Surveyor &amp; Loss assessor</b> of insurance company i.e General permission</li> </ul>

C.S 5	<ul style="list-style-type: none"> <li>- Auditor should check direct as well as indirect Control i.e Both</li> <li>- Auditor can not mention about future viability (going concern) in A.Report or compliance certificate</li> <li>- Voluntary revision of FS require <u>TRIBUNAL</u> permission (Old Course ... Not in New ICAI SM)</li> </ul>
C.S.6	<ul style="list-style-type: none"> <li>- Investigator can ask for evidence available outside India from CG, by apply to competent court</li> <li>- <b>Comparative F.I on F.S</b> &gt; Auditor opinion shall not refer to corresponding figures, unless Previous year audit report is qualified</li> <li>- <b>Audit has given Qualified/Adverse opinion in F.S, Now ,</b> <ul style="list-style-type: none"> <li>• EOM para on a matter can be added if auditor's opinion is neither qualify/not adverse w.r.t that particular method</li> </ul> </li> </ul> <p><b>(Wrong Option :</b> Auditor can-not add EOM para in report on any matter, as qualify/adverse option is given)</p>
CS 7	<ul style="list-style-type: none"> <li>- <u>Statutory auditor planning to use Internal auditor work, Then :</u> The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor needs to reconsider the audit strategy and cannot use the work of the Internal Auditor</li> <li>- Even if the company become our subsidiary last year (i.e made investment last year only), then also auditor need to Review CFS as well as Related party transaction in current yr.</li> <li>- We had 45% investment in another company, bit we controlled 100% BOD decision of it, so its already our subsidiary, so even if in next year investment increased from 45% to 60%, <u>auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.</u></li> </ul>
CS 8	<ul style="list-style-type: none"> <li>- <u>Which statement is correct:</u> <ul style="list-style-type: none"> <li>• The Auditor contends that last year the inventory levels was not in the sampling materiality level and therefore, the issue was not identified. This is a part of the audit risk <b>(Wrong Option:</b> all the frauds and errors must be identified with the statutory audit)</li> </ul> </li> <li>- <u>Warehouse keeper himself do Invoicing, Dispatch goods, Physical Verification so it results into difference between BOOKS, INVENTORY RECORD, PHYSICAL VERIFICATION</u> So, <b>SOD Lacks: Execution, Custodian, Record Keeping</b></li> <li>- If director's declaration of interest u/s 162(2) not found, then auditor to report that matter in main report</li> <li>- Holding had given advances to subsidiary, now subsidiary suffered heavy losses (Net worth eroded), So Holding's auditor should give qualification i.r.o Advance (for non recovery of advance if adjustment entry not recorded in books)</li> </ul>
CS 9	<p><u>Company is not complying with FEMA regulations, Auditor involved regulatory expert &amp; Agreed with mngt views:</u></p> <ul style="list-style-type: none"> <li>- Auditor approach is correct, Mngt need to include this matter into notes to accounts of FS</li> </ul> <p><b>(Wrong Option:</b> Correct, But also modify report because penalty of non-compliance can be material)</p>

- CS 10** - Company performance is decreasing, New competitors are coming into market, new technology require...company is purchasing new machine....  
So, SA 570 require to assess Going concern, Auditor to **NOT** perform procedure:
- Analyze & discuss companies cash flow & profit of previous year with projected account.
- (Wrong option:** Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production)
- What auditor will **NOT** check to check compliance of Laws & regulation
- Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly  
{Because this will be done by Management}
- Company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned an amount of Rs.25 lakh was earmarked for the purchase of the machinery-Oil Extractor; but the company has acquired an improved model of machinery
- No reporting required in CARO, its not diversion of fund

- CS 11** - Bank audit > SLR requirement > DTL calculation

INCLUDE	EXCLUDE
- Credit balance of branch adj a/c	- Margin held for funded facility
- Adverse balance of nostro a/c	- Unadjusted deposit for agency business
	- Paid up capital, reserve, any credit balance in profit & loss account of bank, amount of loan taken from RBI and amount of refinance taken from EXIM bank, NHB, SIDBI and NABARD

- CS 12**
- treatment of Interest on deposits accrued but not due:
    - Amount should not be included in of deposits
    - Shown under head other liability & Provision
  - Interest rate swap : Shown as contingent liability
  - i.r.o unaudited branch, What info is required to disclose in auditor's report:
    - No. of unaudited Branch
    - Quantification of advances, deposit, int income & expense of such unaudited branch
  - Internal auditor should highlight in report (Almost ever matter: cash theft, low control etc. etc..) irrespective of facts that whether external auditor has also reported same fact or mngt started to take action against that matter.
  - Bank Audit:** How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report
    - The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.
  - CA Ram has left the Job and filled complaint of Boss (CA firm partner) to ICAI, that Employer is also involved in making digital signature (DSC)
    - Its Allowed to make DSC, employer is not guilty of misconduct
    - However CA "X" is guilty of misconduct C-1, P-II, S-1 because he shared salary portion to Job agency for getting new job

CS 13	<p><u>Auditor asked Trade payable Confirmation, found share Some Discrepancy, Which items Should Auditor Select for testing So to get samples on which Vendor Balance reco, can be performed:</u></p> <ul style="list-style-type: none"> <li>• <b>Wrong option:</b> major vendor -&gt;when Confirmation Balance → match with our ledger</li> <li>• <b>Right options:</b> <ul style="list-style-type: none"> <li>✓ Vendor have High volume of Business with us</li> <li>✓ Vendor with Balance of Rs. 15 lakh or more</li> <li>✓ Vendor with Balance of Rs. 15 lakh or Less</li> </ul> </li> </ul> <p><u>How to Check operating effectiveness of IC around accounting of Trade payable:</u></p> <ul style="list-style-type: none"> <li>• Input a fake purchase invoice into Client System to see if it is processed Accurately</li> </ul> <p><u>Two invoices were not received from creditor till year end, so they were not recorded, How Auditor ensure that payable balance of Creditor -x are Correctly recorded in F-S. ?</u></p> <ul style="list-style-type: none"> <li>• Inspect GRN to determine date of receipt of material</li> </ul> <p><u>Materiality was Rs.25 lkh, Discrepancy in external confirmation was Rs.12 lkh, (i.e Not recorded in FS due to weak IC), What auditor should do?</u></p> <ul style="list-style-type: none"> <li>• The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population</li> </ul> <p>- Area of high risk assessed by mngt expert is NOT KAM</p>
CS 14	<p><u>Security premium <b>can not be used</b> : for adjusting unabsorbed depreciation.</u></p> <p>- CA Dev of charging 2% consultancy fees for amount raised by startups is a professional misconduct (in Clause 10 exception is given " In case of certain fund raising services, CA can charge fees on % basis", But these certain fund raising is not defined yet, so its not allowed yet)</p>
CS 15	<p>- <u>Stock worth Rs.30 crore to issue, Entry made by staff and approved by store manager &gt; But clerical error made i.e Only Rs. 29 crore materials issued &gt; Staff made changes in system and entry accepted without any approval by store manager</u></p> <ul style="list-style-type: none"> <li>• It is IT process &amp; Procedure risk in term of <b>un-authorized access</b> (NOT : Entity level governance risk of IT)</li> </ul> <p>- <u>Deficiency found in IT system (Wrong amount recorded) :</u></p> <ul style="list-style-type: none"> <li>• Auditor should Carry further procedure of inquiry, Obtain additional evidence, Discuss with management (Before deciding audit reporting requirement) &gt;&gt; Don't directly modify opinion</li> </ul>
CS 16	<p><u>CFS &gt; Temporary control :</u></p> <ul style="list-style-type: none"> <li>• CFS require by IND As 110</li> </ul> <p><u>(Wrong Option) : CFS Not require as per Sec 129 (3) of Co. act )</u></p>
CS 17	<p>An auditor did not checked content of prospectus himself; he delegated the same to assistant, Cannot be said to be acting with due skill and care.</p>

CS.18	<ul style="list-style-type: none"> <li>- Darshan (Accountant) is approving invoices on bulk basis, It was observed that Mr. Darshan's performance bonus was linked with number of invoices authorised by him : So Control is <b>not designed</b> appropriately.</li> <li>- Further many times Darshan itself do not check invoices, he rely on other 2 senior executives: So Control is <b>not "Implemented"</b> effectively</li> <li>- <b>Sampling</b> should be based on <b>frequency of functioning of control</b> for the purpose of verification of Internal Financial Control</li> <li>- Materiality decided by auditor is Rs.30 crore, 20 invoices of Rs.4 crore found some deficiency, So, report need to be qualify</li> </ul>								
CS.19	<ul style="list-style-type: none"> <li>- If auditor found non-compliance of L&amp;R (Even it is not material), Not able to rely on W.R, Then it can withdraw from engagement, Provided that not prohibited by L&amp;R</li> <li>- If L&amp;R prohibits to withdraw from engagement, Then Should report matter in "Other matter para" as its not material</li> </ul>								
CS.20	<ul style="list-style-type: none"> <li>- Because of the inherent consistency of IT processing, Auditor did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company, It was <b>AUTOMATED CONTROL</b> (Old Course, May not in New course)</li> <li>- There is general permission for CA's in practice to hold license of life insurance agent.</li> <li>- Auditor can narrow (Decrease) its testing for some balance sheet item to evaluate management point of estimate, But to what extent it can narrowed his range : <u>equal to or less than performance materiality in order to cover all reasonable outcomes</u> (Not all possible outcome)</li> <li>- In case any subsequent audit event found, and Financial statements are amended, THEN: :: Original Date of audit report will remain unchanged and additional date will be included. :: Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.</li> <li>- <u>For Leave encashment liability</u> : Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation.</li> </ul>								
CS 21	<ul style="list-style-type: none"> <li>- External auditor can take direct assistance of internal auditor (he inquired about the fraud risks in the organization from him)</li> <li>- If auditor appointed for 5 yrs, but he is not proposing himself in 2<sup>nd</sup> yr, then auditor should communicate with <b>BOD &amp; ICAI</b> (Further new auditor should not accept appointment before obtaining such communication)</li> </ul>								
CS 22	<ul style="list-style-type: none"> <li>- CARO applicability Paid up Share capital should be &gt; Rs.1crore, Calculated as follows: <table border="1" data-bbox="347 1482 1500 1640"> <tr> <td>Called up equity share capital</td> <td>+</td> </tr> <tr> <td>Called up Preference share capital</td> <td>+</td> </tr> <tr> <td>Calls in arrears</td> <td>-</td> </tr> <tr> <td>Share forfeited account</td> <td>+</td> </tr> </table> </li> <li>- CARO 2020 Clause (vi) should be reported irrespective of whether CG has ordered \to conduct cost audit or not.</li> </ul>	Called up equity share capital	+	Called up Preference share capital	+	Calls in arrears	-	Share forfeited account	+
Called up equity share capital	+								
Called up Preference share capital	+								
Calls in arrears	-								
Share forfeited account	+								
CS 23	<ul style="list-style-type: none"> <li>- <b>SA 265:</b> Communicating Deficiencies in IC to TCWG : <ul style="list-style-type: none"> <li>• For <b>listed entities</b> ,communicate ideally <b>before approval date of financial statements</b></li> <li>• For <b>unlisted entities</b>, <b>Before assembly of Audit file.</b></li> </ul> </li> </ul>								
CS 24	<ul style="list-style-type: none"> <li>- Auditor's expert reference in audit report was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation</li> </ul>								

	<ul style="list-style-type: none"> <li>- Item will not be treated as misstatement in case auditor not able to apply TOC &amp; TOD on it, such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation</li> <li>- In case positive confirmation not received, It can affect audit opinion</li> </ul>
<b>CS 25</b>  <b>(Old Course)</b>	<ul style="list-style-type: none"> <li>- For inspection under companies act, Central Government possesses discretion to reject such an application and Only Individual can be appointed as inspector (Not Firm/body corporate)</li> <li>- Inspector under companies act can keep books maximum for 180 days. After than can again call books for 180 days</li> <li>- Inspector can call following person for oath (<b>Without CG Permission</b>): <ul style="list-style-type: none"> <li>• Officer, employees, Agent (Former Officer, employees, Agent also)</li> </ul> <p><b>But require CG approval to call any person for Oath other than Abovementioned (Example : Supplier)</b></p> </li> <li>- Investigation was going on for ABC Ltd, but inspector also did investigation of its related company (XYZ Ltd), So it's not necessary to forward report of XYZ Ltd to Central Gov., only require to fwd report of ABC Ltd only</li> <li>- Fictitious sale invoice : Its ADVANCE BILLING fraud</li> <li>- Tribunal can order to re-open books of accounts of company for last 8 yrs, Further if application is made by CG to tribunal for reopening of BOA, its mandatory for tribunal to consider application</li> </ul>
<b>CS 26</b>	<ul style="list-style-type: none"> <li>- Excess remuneration paid to KMP, need to report in Other Legal and Regulatory Requirements (CARO).</li> <li>- Undisputed statutory dues overdue for more than 6 months <b>as on</b> Balance sheet date need to be reported by the Auditor i.e., Check from <u>Due Date to balance sheet date</u>, whether 6 months are completed or not (Ignore payment made on After B/s date i.e., 10<sup>th</sup> April 2021.... It need to be reported because till B/s date, 6 month was already overdue)</li> </ul>

### **SOME IMPORTANT POINTS FOR MCQ's:**

1. **SQC-1:** For listed entity's audit engagement partner should be rotated after a predefined period of **not more than 7 years**
2. **SQC-1 & SA 230:** Completion of assembly of final engagement files should be as per time limit or completed **within 60 days** after date of auditor's report
3. **SQC-1 & SA 230:** Engagement documentation should be retained for **not less than 7 years**
4. **PSU Audit:** C&AG term- **6 years or up to age of 65 years** whichever is earlier. Resignation submitted to President
5. **Section 143(12)- Fraud reporting:** Auditor has reason to believe that an offence involving fraud is being or has been committed against company by officers /employees of company -Immediately report matter to Audit Committee in **2 days of knowledge** (as amount < ₹1Crore)
6. The dividend declared are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes

7. **SA 299:** if one or more **joint auditor is not in agreement** over the opinion, each disagreed joint auditor may **submit his report on the disagreed point separately. make reference** to the audit report issued by other Joint Auditors under the heading **Other Matter Paragraph** as per SA 706.
8. “**sick unit**” shall mean a unit registered for **not less than five years**, which has at the end of any financial year accumulated **losses equal to or exceeding its entire net worth**.
9. **Professional Ethics: number of audit assignments :** 30 Audit assignments whether in respect of private Companies or other Companies, with the exception of one person Companies and dormant companies
10. **Professional Ethics:** Appointment of an auditor when he is indebted Limits fixed in the statute (₹ 5,00,000 in Section 141 Companies Act,2013 ) and in other cases for amount exceeding ₹ 100,000
11. **Professional Ethics:** In case of PSU, Govt Co, Listed co, Public Co TO > 50 crore, other services fees paid to Statutory auditor shall not exceed statutory audit fees
12. **SA 505:** Rest of assertions may be conducted by auditor indirectly however to **confirm existence**, auditor is required to perform **direct confirmation procedure** & cannot rely on indirect confirmations.
13. **SA 265:** Communicating Deficiencies in IC to TCWG :
  - Communicate on **Timely basis**
  - In case of Significant deficiency : **As soon as possible**
  - For **listed entities** ,communicate ideally **before approval date of financial statements**
  - For **unlisted entities** , **Before assembly of Audit file.**
14. There is an **INVERSE RELATIONSHIP** between materiality and degree of audit risk
15. **SA 530:** Increase in population will have **negligible effect** on sample size
16. **SA 570:** AUDITOR SHALL REQUEST MANAGEMNT TO EXTEND ITS **GOING CONCERN ANALYSIS TO ATLEAST 12 months**
17. **SA 701:** mandatory in case of audit of **listed entities**
18. **SA 580:** Date of WR should be as near as to the date of auditor’s report
19. As per Ind AS – 8, **Method of Depreciation is an accounting estimate & not an Accounting Policy**. In consolidation we are required to consolidate by harmonizing accounting policies not accounting estimates. Hence, **no adjustment is required as there can be different methods of calculation of depreciation** for its assets for group companies
20. **Audit documentation work** > Can-not be delegated to Internal auditor
21. Internal auditor should report the fact in audit report along with management comment even if mngt agrees to resolve it before yr end.
22. **Why Operation audit require :**
  - It is done by independent person
  - Mngt audit is qualitative in nature
  - Because internal audit is restricted to financial accounting & IC
23. **Professional Ethics :** Chartered Accountant as :Advisor or Consultant” to the Issue could be indicated under the caption “Advisor/Consultant to the Issue”. However, can-not show the name and address of such Chartered Accountant firm.
24. **Professional Ethics :**It is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him
25. **SA 220,** Technical reviewer should not currently be a member of quality review board or ICAI Central Council/ regional Council /branch level Management Committee
26. **Internal Audit:** Reporting to be done on **quarterly basis** to audit committee

27. **SA 620** auditor may involve his own expert for purpose of audit of fair valuation of forward contracts & property, plant & equipment. However as per SA 500 & SA 620 auditor cannot reduce his responsibility for audit opinion by referring to work of VALUER in his report
28. **SA 210** requires auditor to sign new engagement letter for each audit.
29. **Internal auditor** can deny to give his detailed working paper to statutory auditor for review, i.e. Stat auditor is not required to go to extent of review of detailed working paper of internal auditor
30. In **CFS** > Goodwill & Capital reserve can be shown after netting-Off (If FRF permits), However separate amount of both need to be disclosed in Notes to a/c's
31. As per **SA 700** para ,If auditor concludes that possible effects on financial statements of undetected misstatements, if any, could be both material & pervasive so that a qualification of opinion would be inadequate to communicate gravity of situation, auditor shall withdraw from audit, where practicable & possible under applicable law or regulation. If withdrawal from audit before issuing auditor's report is not practicable or possible, report matter to Registrar of Companies
32. Engagement letter can be signed without including fees clause.
33. Management must share Forensic audit report to statutory auditor also if they bear on financials.
- 37 **Due diligence: Location of office** should be check for evaluating business feasibility
34. **Due diligence:** Reviewer can demand working papers from tax consultant (Expert) of company and can declare his advice as wrong, Because reviewer need to have independent assessment of legal tax cases.
35. **SA 700:** Its mandatory to insert Auditors responsibility & management responsibility in auditors report
36. **SA 701:** Revenue can be KAM
37. If firm 1 partner gone outside India, then another partner can sign A.report.
38. **SQC -1: Engagement partner** is required to deploy in all the engagement, only management is not sufficient.
39. **SQC 1:** Atleast 1 engagement of each partner (Over 3 years) must be reviewed.
40. **SQC 1 (Not SA-220):** Atleast **annually** audit firm should have obtained a written confirmation from all of its firm personnel.
41. **Professional Ethics:** CA Can-not accept audit of company or subsidiary of company in which he was director without finishing of the cooling period (i.e. 2 years)
42. **SQC 1: Time Limit for of Docs:**

Time limit Assembly	P&P	P&P for engmnt teams to complete the assembly of engmnt files on a <b>timely basis after the engagement reports</b> have been finalized.
	Audit engmnt:	Files should be completed in <b>not more than 60 days after date of auditor's report</b>
	Other:	Other engmnt files within the limits <b>appropriate</b> to engagements. ( <b>timely basis after engmnt report</b> )
	2 or more different report	<ul style="list-style-type: none"> <li>Where 2 or more different reports are issued i.r.t. <b>same subject matter information</b> of entity, the <b>firm's P&amp;P relating to time limits</b> for assembly of final engmnt files should be <b>considered for each report as if it were for separate engmnt.</b></li> </ul>

Time limit for retention	<ul style="list-style-type: none"> <li>• <b>Audit Engagements: minimum 7 years</b> from the <ul style="list-style-type: none"> <li>✓ date of the auditor's report, or,</li> <li>✓ if later, the date of the group auditor's report</li> </ul> </li> </ul>
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43. **Quality review Board:** Select companies on the basis of **Risk based Approach**
44. **QRB:** Set up by **Central govt**
45. **Peer review board:** Set up by **ICAI Council**
46. **NFRA:** Sec 132(1) & Rule 3
47. **SQC 1 & SA 220:** In case of **Difference of Opinion:** Engagement team shall **follow the firm's policies and procedures** for dealing with and resolving differences of opinion.
48. **SQC 1 & SA 220:** Not to date audit report ... Unless EQCR completed its review
49. **SA 240:** Pre assumed High risk area: "Revenue recognition" & "mngt override control"
50. **SA 260: When All of TCWG Are Managing Entity:** Eg. small business where a single owner manages, matters need **not be communicated again with those same people(s)** in their governance role
51. **SA 260: Form of Communication:** in **Writing** for : Significant findings & Auditor Independence
52. There is **INVERSE Relationship** Between **ROMM & Acceptable Detection Risk**
53. For the **1<sup>st</sup> year** of engagements, issue of **questionnaire is necessary.**
54. For **subsequent years:** May request client to confirm whether any change in the nature and scope of business has taken place (however make practice to issue Questionnaires after specific time period even if no change, lets say 3 yrs)
55. **COSO:** 20 basic principles, 5 components
56. **SA 265 when to communicate:**
- **Listed Entities:** Before date of approval of FS
  - **Other entities:** Before assembly of audit file (60 days from the date of A.Report)
57. **Test of Control:** Auditor can test IC on a selective basis, but plan testing in such manner that all the important areas are covered in Period of **3 Yrs.**
58. **SA 530:** A Evaluate the sample result: Consider both **Qualitative & Quantitative** factors while evaluating samples
59. **SA 570 & 701:** Matters relating to **going concern** may be **determined to be key audit matters,**
60. **SA 570:** AUDITOR SHALL REQUEST Mngt TO EXTEND GC ANALYSIS to **ATLEAST 12 month**
61. **SA 580: Date of W.R:** Shall be **as near as practicable** to the date of A.report, **but not after,** the date of the auditor's report on the FS
62. **SA 580: Period covered by W.R:** The WR shall be for **all financial statements and period(s)** referred to in the auditor's report
63. **SA 705 & 701:** Unless required by law or regulation > **Not include a Key Audit Matters** as per SA 701 in case of Disclaimer of Opinion

64.

Withdrawal not possible: [LISTED Co.]	For Listed Companies: As per SEBI LODR, not permit withdrawing from engagement without issuing audit / review report:	
	<b>Case:</b>	<b>Then Auditor Shall Before such resignation,</b>
	If the auditor <b>resigns within 45 days</b> from the end of a quarter of FY:	<b>Issue the limited review/ audit report for such quarter</b>
	If the auditor resigns <b>after 45 days</b> from the end of a quarter of a FY:	<b>Issue the limited review/audit report for such quarter <u>as well as</u> the next quarter</b>
	if the auditor has <b>signed</b> the limited review/ audit report for the <b>first 3 quarters</b> of a FY:	<b>Issue the limited review/ audit report for the last quarter of such FY <u>as well as</u> the audit report for such FY</b>

65.

**Inclusion of EOM para will Not Affect Auditor's Opinion,**

An Emphasis of Matter paragraph is **not a substitute for:**

SA 705:	A <b>modified opinion</b> in accordance with SA 705, when required by the circumstances
SA 570:	Reporting in accordance with <b>SA 570, when a material uncertainty exists</b> relating to events or conditions that may cast significant doubt on an entity's ability to continue as a <b>GC</b>
FRF Disclosure:	<b>Disclosures in FS that the applicable FRF</b> requires management to make, or that are otherwise necessary to achieve fair presentation

**66. SRS 4410: Compilation engagement :**

Document File:	(it's not 60 days) Final engagement file should be <b>assembled on a timely basis after the engagement report</b> has been finalized in accordance with the <b>time limits set by the firm.</b>
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**67. SRE 2410:**

In case of Listed Co.	Presumed that users of IFI will <u>have access to</u> the latest audited financial statements
Other Case:	<ul style="list-style-type: none"> <li>Auditor <b>discusses with Mngt</b> &gt; to <b>include statement</b> &gt; <u>that IFI is to be read in conjunction with the latest audited FS.</u></li> <li><b>In Absence of such Statement</b> &gt; auditor may consider that whether IFI may be misleading &amp; <u>Implication for review report</u></li> </ul>

**68. Digital Audit:****More Risks arising use of IT when:**

- Volume or complexity of **automated application controls** is higher
- Mngt placing greater reliance on those controls** for effective processing of transactions or the effective maintenance of the integrity of underlying information

69 : **CFS: Goodwill arises due to consolidation** > Need to **test for impairment** at every B/s date

70 **CFS: Loss on Goodwill arise is on Foreign Currency** > Need to be **adjusted from currency translation reserve**

71 **CFS: In case Harmonization of A/cing policy** for CFS preparation is **Not Possible:**

- Under **AS 21: Adequate Disclosure** require
- Under **Ind-AS 110: Adjustment** require in CFS

72 **CFS: Difference Between CFS Date & Component FS Date**

<u>Difference between reporting dates</u> should <b>not be more than 6 months</b> in case of financial statements <b>under AS</b> and	And <b>3 months</b> in case of financial statements under <b>Ind AS</b>
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73 **PSU Audit: C&AG** shall hold office for a term of **6 years** or upto the **age of 65 years, whichever is earlier**

74 **Due Diligence: Review of FS** - the trading results for the **past 4 to 5 years** are compared and the trend of normal operating profit arrived at.

75 **Investigation** > On behalf of bank giving Loan: The **history of growth and development** of the company and its performance during the **past 5 years**

## Chapter 4: Points to Note (For MCQ's & Case scenerios)

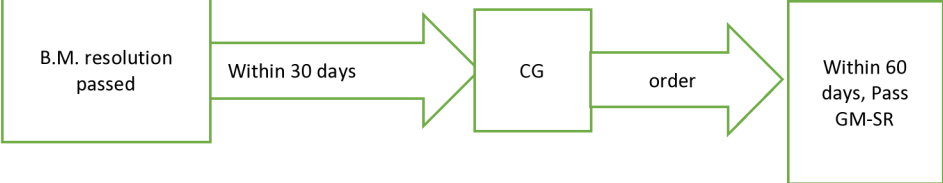
- An auditor's judgement of > **what is SAAE** > is affected by degree of risk of misstatement.
- Obtain **A. Evidence through TOC** > to support any assessment of control risk which is less than high
- The lower the assessment of control risk, > **more the evidence auditor should obtain** that accounting and **IC** systems are suitably designed and operating effectively.
- **Deviations** from prescribed controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in volume of transactions and human errors. When deviations are detected the **auditor makes specific inquiries regarding these matters**, particularly, the timing of staff changes in key internal control functions. The auditor then ensures that TOC appropriately cover such a period of change or fluctuation.
- **Based on TOC Result (If Deviation)**, evaluate whether IC's are designed & operating as contemplated in the preliminary assessment of control risk. > deviations may result in the auditor concluding that > **assessed level of control risk needs to be revised**. > In such cases, the auditor would **modify the NTE of planned substantive procedures**.
- **Different controls used at different times during the period** > whether the IC were in use throughout the period > the auditor would consider each separately > **breakdown in IC's for a specific portion of period requires separate consideration** of the NTE of the audit procedures to be applied to the transactions and other events of that period
- **When to review I.C:** Deciding the **point of time appropriate** for undertaking the review of the I.C. is a **matter for individual judgement** of the auditor (based on Size & complexity of operation), because of his continuing relationship he may just **review the changes** that have taken place in the **intervening period** > Can do comprehensive review in **3 Yrs**
- **I.C Operating Good assumption:** The auditor's preliminary evaluation of I.C should be made on the **assumption that the controls operate generally as described** and that they function effectively throughout the period of intended reliance.

## COMPANY AUDIT

(Not in New Syllabus > But Once Read)

- <b>Small Company</b>	other than a public company: (1) <b>Paid Up S/c ≤ Rs. 4 Crores</b> , AND (2) <b>Turnover ≤ Rs. 40 Crores</b> (Imm. preceding FY) (Further it should not be, Holding or Subsidiary of any company)
- <b>NFRA Return Due date</b>	30th November every year
- <b>Dividend</b>	<ul style="list-style-type: none"> <li>- After declaring dividend, within 5 days deposit it into schedule bank a/c</li> <li>- Dividend to pay within 30 days from Declaration date (Not Above schedule bank deposit date)</li> <li>- Dividend unpaid/unclaimed must be transferred to Unpaid Dividend account <b>within 7 days from expiry of 30 days if not paid within 30 days from date of declaration, Interest on late transfer 12%</b></li> </ul>

- <b>LLP Audit</b>	<ul style="list-style-type: none"> <li>Limit- If <b>Turnover exceeds ₹ 40 Lacs</b> or whose <b>contribution exceeds ₹ 25 Lacs.</b></li> <li>Annual Return in Form 11 – submitted to ROC <b>within 60 days</b> of closure of FY.</li> </ul>										
- <b>Sec 138 : Internal Audit</b>	<ul style="list-style-type: none"> <li>Listed company</li> </ul> <table border="1"> <thead> <tr> <th>Public Company</th> <th>Private company</th> </tr> </thead> <tbody> <tr> <td>- Paid up S/c Rs. 50 crore or more (During preceding FY)</td> <td></td> </tr> <tr> <td>- T.O Rs 200 crore or more (During preceding FY)</td> <td>- T.O Rs 200 crore or more (During preceding FY)</td> </tr> <tr> <td>- O/s Loan Rs.100 crore or more (any point of time during preceding FY)</td> <td>- O/s Loan Rs.100 crore or more (any point of time during preceding FY)</td> </tr> <tr> <td>- O/s deposit Rs. 25 crore or more (any point of time during preceding FY)</td> <td></td> </tr> </tbody> </table>	Public Company	Private company	- Paid up S/c Rs. 50 crore or more (During preceding FY)		- T.O Rs 200 crore or more (During preceding FY)	- T.O Rs 200 crore or more (During preceding FY)	- O/s Loan Rs.100 crore or more (any point of time during preceding FY)	- O/s Loan Rs.100 crore or more (any point of time during preceding FY)	- O/s deposit Rs. 25 crore or more (any point of time during preceding FY)	
Public Company	Private company										
- Paid up S/c Rs. 50 crore or more (During preceding FY)											
- T.O Rs 200 crore or more (During preceding FY)	- T.O Rs 200 crore or more (During preceding FY)										
- O/s Loan Rs.100 crore or more (any point of time during preceding FY)	- O/s Loan Rs.100 crore or more (any point of time during preceding FY)										
- O/s deposit Rs. 25 crore or more (any point of time during preceding FY)											
- <b>Rotation to auditors</b>	<ul style="list-style-type: none"> <li>Listed co.</li> <li>Unlisted co, P.U. S/C <math>\geq</math> Rs.10 Crore</li> <li>Any Company, Public Borrowing <math>\geq</math> Rs. 50 crore</li> <li>Private co. = P.u. S/c = Rs. 50 crore</li> </ul>										
- <b>141 (3) (g)</b>	- Max 20 audit audit Other than OPC, Small, Dormant co. & Private co. PU S/C $<$ Rs.100 crore										
- <b>Cost record</b>	- T.O $\geq$ Rs. 35 Crore										
- <b>Cost audit</b>	<table border="1"> <thead> <tr> <th></th> <th>Regulated</th> <th>Non Regulated</th> </tr> </thead> <tbody> <tr> <td><b>Aggregate T.o</b></td> <td><math>\geq</math> Rs. 50 Crore</td> <td><math>\geq</math> Rs. 100 Crore</td> </tr> <tr> <td><b>Individual T.O</b></td> <td><math>\geq</math> Rs. 25 crore</td> <td><math>\geq</math> Rs. 35 Crore</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>However if 75% turnover is from export, then cost audit is EXEMPTED</li> </ul>		Regulated	Non Regulated	<b>Aggregate T.o</b>	$\geq$ Rs. 50 Crore	$\geq$ Rs. 100 Crore	<b>Individual T.O</b>	$\geq$ Rs. 25 crore	$\geq$ Rs. 35 Crore	
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- <b>Audit committee</b>	<ul style="list-style-type: none"> <li>Listed</li> <li>Public co. <ul style="list-style-type: none"> <li>✓ T.O <math>\geq</math> Rs. 100 crore</li> <li>✓ O/s Loan <math>&gt;</math> Rs. 50 crore</li> <li>✓ Paid up S/c <math>\geq</math> Rs. 10 Crore</li> </ul> </li> </ul>										
- <b>IFC-FR</b>	NOT APPLICABLE to Private company <ul style="list-style-type: none"> <li>✓ T.O <math>&lt;</math> Rs.50 Crore (Last FY)</li> <li>✓ O/s loan <math>&lt;</math> Rs. 25 crore (During FY)</li> </ul>										
- <b>NFRA applicable</b>	<ul style="list-style-type: none"> <li>On Unlisted co. (Last FY) <ul style="list-style-type: none"> <li>✓ Turnover <math>\geq</math> 1000 cr</li> <li>✓ O/s Loan <math>\geq</math> 500 cr</li> <li>✓ Paid up S/c <math>\geq</math> 500 cr</li> </ul> </li> </ul>										
- <b>CSR</b>	<ul style="list-style-type: none"> <li>T.O <math>\geq</math> Rs. 1000 cr</li> <li>Net worth <math>\geq</math> Rs. 500 crore</li> <li>Net profit <math>\geq</math> Rs. 5 Crore</li> </ul> (Last FY)										

<p>- <b>1<sup>st</sup> Auditor appointment</b></p>	<p>- Other Companies</p> <table border="1" data-bbox="506 121 1341 191"> <tr> <td>BOD</td> <td>30 days</td> </tr> <tr> <td>Member</td> <td>90 days</td> </tr> </table> <p>- Govt co</p> <table border="1" data-bbox="506 247 1341 344"> <tr> <td>C&amp;AG</td> <td>60 days</td> </tr> <tr> <td>BOD</td> <td>30 days</td> </tr> <tr> <td>Member</td> <td>60 days</td> </tr> </table> <p>- In case of subsequent auditor &gt; Govt. company = within 180 days by C&amp;AG</p>	BOD	30 days	Member	90 days	C&AG	60 days	BOD	30 days	Member	60 days		
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<p>- <b>Casual vacancy</b></p>	<p>- By BOD within 30 days of resignation</p> <p>- If resign by auditor, within 3 months <b>from date of approval by BOD</b> (AGM approval)</p>												
<p>- <b>Removing auditor</b></p>	 <pre> graph LR     A[B.M. resolution passed] -- "Within 30 days" --&gt; B[CG]     B -- "order" --&gt; C[Within 60 days, Pass GM-SR]             </pre>												
<p>- <b>Resign</b></p>	<p>- Give intimation to ROC &amp; Company (C&amp;AG also in case of govt co), within <b>30 days (ADT-3)</b></p> <p>- Othetwise, Liable to a penalty of ₹ 50,000 or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with further penalty of ₹ 500 for each day after the first during which such failure continues, subject to a maximum of ₹ 2,00,000</p>												
<p>- <b>Fraud reporting u/s 143(12)</b></p>	<p>- Within 2 days report to BOD</p> <p>- BOD will reply within 45 days</p> <p>- After BOD reply, submit all info to CG within 15 days</p>												
<p>- <b>Sec 147(2): Contravene section 139, 143, 144, 145</b></p> <p><b>PENALTY ON AUDITOR</b></p>	<table border="1" data-bbox="412 1092 1003 1398"> <thead> <tr> <th>Not Willful</th> <th>Willful</th> </tr> </thead> <tbody> <tr> <td>Rs. 25000</td> <td>Rs. 50000</td> </tr> <tr> <td><b>To</b></td> <td><b>To</b></td> </tr> <tr> <td>Rs. 5 lacs OR 4 times of remuneration (W.E.L)</td> <td>Rs. 25 lacs OR 8 times of remuneration (W.E.L)</td> </tr> <tr> <td></td> <td>&amp;</td> </tr> <tr> <td></td> <td>Imprisonment &lt;= 1 yr</td> </tr> </tbody> </table>	Not Willful	Willful	Rs. 25000	Rs. 50000	<b>To</b>	<b>To</b>	Rs. 5 lacs OR 4 times of remuneration (W.E.L)	Rs. 25 lacs OR 8 times of remuneration (W.E.L)		&		Imprisonment <= 1 yr
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	&												
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<p>- <b>NFRA penalty on Auditors</b></p>	<p>- <b>Individual</b> = Rs. 1 lacs to 5 times of fees</p> <p>- <b>Firm</b> = Rs. 5 lacs to 10 times of fees</p> <p>- Can debar Practice from 6m to 10 yr</p>												
<p>- <b>Books of accounts shall be retained for</b></p>	<p>- <b>8 years</b></p>												

## NBFC

- Minimum net owned Funds of NBFCs- **₹ 10 crores**  
[However, for **NBFC-P2P, NBFC-AA, and NBFCs with no public funds and no customer interface**, the NOF shall continue to be **₹ 2 Crore.**]
- Company will be treated as NBFC if its financial assets is more than **50% of the total assets** (netted off by the intangible assets) and income from financial assets is more than **50 % of gross income**. Both criteria must be fulfilled.
- **Core Investment** Companies with
  - ✓ Asset size of < **₹ 100 crore**, Or
  - ✓ Asset size  $\geq$  **₹ 100 crore** but **not accessing public funds**
- **NBFC Base Layer:** NBFC – ND : **asset size < ₹1000 crore**
- **NBFC Middle Layer:** NBFC – ND, **with asset size  $\geq$  ₹1000 crore**
- **Upper Layer - The top 10 eligible NBFCs** in terms of their asset size
- Minimum Capital Adequacy Ratio – **15%**
  - Tier 1  $\geq$  10%
  - Tier 1 if gold lending  $\geq$  12%
- **Core Investment company: (All conditions to fulfill)**
  - Investment in (Equity + Preference + Debt + Loan)  $\geq$  90%
  - Invt in Equity  $\geq$  60%
- **Systematic imp Core Investment company:**  
CIC + Assets  $\geq$  Rs.100 crore
- **Infrastructure finance:**
  - Net owned fund  $\geq$  300 crore
  - 75 % investment in assets
  - Credit rating A or above
  - CRAR  $\geq$  15%
- **Infrastructure Debt fund:**
  - Net owned fund  $\geq$  300 crore
- **Annual return** to file before **30<sup>th</sup> June**
- **Quarterly return** of invest. In liquid assets : Within **30 days** of end of qtr.
- **Ind As Applicable**
  - On all LISTED companies or Companies in process of listing (Including all group companies)
  - From 01/04/2018 : All companies  $\geq$  500 crore net worth

**Asset Classification & Provisioning Norms:**

The asset classification & Provisioning norms as given below shall apply to **every applicable NBFC (except NBFC-MFIs)**:

**Note:** The class of assets referred to above shall **not be upgraded merely** as a result of **rescheduling**, unless it satisfies the conditions required for the upgradation

	Meaning	Provision										
<b>Standard Assets:</b>	No default in repayment of principal or payment of interest	NBFC-SI-ND & D : <b>0.4%</b> NBFC-NSI-ND : <b>0.25%</b>										
<b>Sub-Standard Assets:</b>	<ul style="list-style-type: none"> <li>NBFC - NSI- ND [BL] An asset which has been classified as NPA for a period <b>not exceeding 18 months</b></li> <li>NBFC - SI- ND &amp; D [ML or UL] An asset which has been classified as NPA for a period <b>not exceeding 12 m</b></li> </ul>	<b>10%</b> of total outstanding										
<b>Doubtful</b>	<ul style="list-style-type: none"> <li>NBFC - NSI- ND [BL] Remains a <b>sub-standard</b> asset for a period '<b>exceeding 18 months</b></li> <li>NBFC - SI- ND &amp; D [ML or UL] Remains a <b>sub-standard</b> asset for a period '<b>exceeding 12 months</b></li> </ul>	<ul style="list-style-type: none"> <li><b>100%</b> Provision: <b>Unsecured</b> or Non-Realizable securities</li> <li>For <b>Secured</b> Portion: <table border="1"> <thead> <tr> <th>Asset</th> <th>Provision</th> </tr> </thead> <tbody> <tr> <td>Doubtful for:</td> <td></td> </tr> <tr> <td>Upto 1 Yr</td> <td>20%</td> </tr> <tr> <td>1 to 3 Yr</td> <td>30%</td> </tr> <tr> <td>≥ 3 yrs</td> <td>50%</td> </tr> </tbody> </table> </li> </ul>	Asset	Provision	Doubtful for:		Upto 1 Yr	20%	1 to 3 Yr	30%	≥ 3 yrs	50%
Asset	Provision											
Doubtful for:												
Upto 1 Yr	20%											
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≥ 3 yrs	50%											
<b>Loss Assets:</b>	<ul style="list-style-type: none"> <li>An asset which has been <b>identified as loss asset</b> by the applicable NBFC or its <b>internal</b> or <b>external auditor</b> or by the Bank during the inspection</li> <li>an asset which is <b>adversely affected by a potential threat of non-recoverability</b> due to either <b>erosion in the value of security</b> or non-availability of security or due to any <b>fraudulent act</b> or omission on the part of the borrower</li> </ul>	<b>100%</b> Should be <b>Written Off</b> (If For any reason it remain in Books, provide for 100% provision)										

**Substandard Asset also include:** an asset where the **terms of the agreement** regarding **interest and / or principal** have been **renegotiated or rescheduled** or restructured after commencement of operations, **until the expiry of 1 year of satisfactory performance** under the renegotiated or rescheduled or restructured terms;

### ➤ What is NPA ?

		Other NBFC's (including NBFC ND NSI)	NBFC-NDSI or NBFC-D [ML or UL]
a)	For an Asset	<b>interest</b> has remained overdue for <b>≥ 6 months</b>	<b>≥ 3 months,</b>
b)	Term Loan	Interest or installment overdue for <b>≥ 6 months</b>	<b>≥ 3 months,</b>

c)	Demand or call loan	Interest or Loan from call date overdue for $\geq 6$ months	$\geq 3$ months,
d)	Bill	Remain overdue $\geq 6$ months	$\geq 3$ months,
e)	Short term loan/adv	Interest Remain overdue $\geq 6$ months	$\geq 3$ months,
f)	Any Due:	any dues on account of <u>sale of assets or services rendered or reimbursement of expenses</u> incurred, Remain overdue $\geq 6$ months	$\geq 3$ months,
g)	lease rental	lease rental and hire purchase instalment Remain overdue $\geq 12$ months,	$\geq 3$ months,
h)	Credit Facilities	in respect of <u>loans, advances and other credit facilities</u> (including bills purchased and discounted), the <b>balance outstanding under the credit facilities</b> (including accrued interest) <b>made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset.</b>  <b>But, for lease and hire purchase transactions &gt; Classify EACH ACCOUNT on basis of recovery</b>	

## BANK AUDIT

1. **LFAR date : 30<sup>th</sup> June**
2. **Copy of the LFAR** and the relative agenda note, **together with the Board's views** or directions, is **submitted to RBI within 60 days** of submission of LFAR by statutory auditors.
3. **Adhoc Limit** given, If not reviewed withing **180 days**, then it is NPA
4. **SLR verify : 12 Odd days (Except Fridays)**
5. **Sale and purchase of NPA : After 2 year** only
6. **Can again resale** above NPA after **15 months**
7. Bank should undertake **Half yearly review** of **investment portfolio**
8. Declared NPA in case of Short term crop = 2 session defaulter
9. Declared NPA in case of Long term crop = 1 session defaulter
10. Minimum CRAR :
  - **Public Banks = 9%**
  - **Private = 10%**
11. Tier 2 capital can not exceed tier 1
12. **Overall review of IT Environment & Computerised accounting system has to be taken care at HEAD OFFICE level**, as branch auditor do not have access to IT Policy & processes implemented by bank, Hence Central statutory auditor is responsible for it (i.e, Obtain understanding of IT Environment & evaluate that Controls are operating effectively, Hence based on the guidance from SCA, Branch auditor should perform data analysis & CBS review by TOC & substantive sample checking & share the results to SCA)
13. In case of **private banks**, the **processes of accounting are centralized** and there is **no concept of mandatory branch audit** in accordance with RBI guidelines
14. **Chief audit executive is responsible for RBIA - Risk-based Internal audit**
15. The **balances with banks outside India should also be verified in the manner described above**. These **balances should be converted** into the **Indian currency** at the exchange **rates prevailing on the balance sheet date**
16. Concurrent audit should be done of those branches to cover **50% risk exposure & 50% deposit**
17. Stock auditor can-not accept statutory audit during same year.
18. Appointment of bank statutory auditor:
  - ✓ Normal Banks : AGM (Shareholders) ... NOT BOD (RBI approval also require)
  - ✓ Nationalized banks : BOD (RBI approval also require)
  - ✓ SBI : C&AG
  - ✓ Subsidiary of SBI: SBI

✓ **4 or more auditors** shall be appointed jointly

**19. APPOINTMENT OF CONCURRENT AUDITOR'S:**

- At discretion of individual banks
- **MAXIMUM TENURE OF EXTERNAL CONCURRENT AUDITOR'S:** bank shall decide, Generally, tenure of external concurrent auditors with a bank shall not be more than 5 years on, However, no concurrent auditor shall be allowed to continue with a branch/business unit for a period of more than 3 years.

**20. As per RBI guidelines, the branch is required to either call the customer (Payer) or email him for any cheque received for the amount of ₹ 5 lakh and above** in respect of inward clearings.

**21. Additional temporary limit may be sanctioned, for a maximum of 20% of existing limit and 90 days maximum tenure**

**22. The operation (in each advance account) should be reviewed at least once every year.)**

**23. To classify a/c as temporary deficiency: Stock statements relied upon by the banks for determining drawing power should not be older than 3 months**

**24. Inoperative accounts** (both current and saving) are a high-risk area of frauds in banks (treated as inoperative/dormant if there are no transactions in the account for over a period of **2 years**)

**25. Term Deposit:** Verify in case of **bulk deposits (Rs.2 crore and above** for scheduled commercial banks presently), **correct rate of interest** has been offered

**26. Examine accounts identified to be problem accounts but which have not yet slipped into NPA category.** This can be done by obtaining list of **SMA1** (Special mention a/c i.e. Loan overdue between **30 to 60 days**) and **SMA2** (Loan overdue between **60 to 90 days**) borrowers from the bank and same can be considered for selection of problematic accounts

**27. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months**

The **outstanding** in the account based on drawing power calculated from stock statements **older than 3 months** are considered as irregular

**28. NPA Purchased from other bank:** assign that **100% risk weights**

**29. Asset Acquired:** prohibits a banking company from holding any immovable property, howsoever acquired (i.e., whether acquired by way of satisfaction of claims or otherwise), for a period exceeding **7 years** from the date of acquisition, **except such as is required for its own use.**

**30. Stress Testing:** RBI has required that all commercial banks (excluding RRBs and LABs) shall put in place a Board approved 'Stress Testing framework.

**31.**

<b>Auditor report address to:</b>	<ul style="list-style-type: none"> <li>• <b>Nationalised bank</b> &gt; Central Government</li> <li>• <b>State Bank of India</b> &gt; Central Government</li> </ul>
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**32. LFAR:** Applicable to all banks (including branches)

**33. Concurrent Audit system:** System such as selection of branches/coverage of business operations, appointment of auditors, rectification processes Etc. > bank should **Once in a year** review the effectiveness of the system

**34. Fraud Classification:**

However, the following cases where fraudulent intention is not suspected/ proved, at the time of detection, will be treated as fraud and reported accordingly:

(a) Cases of cash shortages > **₹10,000/-** and

(b) Cases of cash shortages > **₹5000/-** if detected by management/ auditor/ inspecting officer and not reported on the occurrence by the persons handling cash

35. A quarterly review containing key features brought out during the concurrent audits should be placed before the ACB
36. In Event of Downgrading of Credit rating: report the position **within 15 working days**, to the concerned Regional Office of the RBI where the NBFC is registered
37. Difference between S-II & III:  
Other Expenditure:
- ✓ An NBFC is required to **separately disclose** by way of a note any item of 'other income' or 'other expenditure' which **exceeds 1%** of the total income.
  - ✓ Division II, on the other hand, requires disclosure for any item of income or expenditure which **exceeds 1%** of the revenue from operations or **₹10 lakhs**, whichever is higher
38. ACB of the **bank shall decide the maximum tenure** of **external** concurrent auditors
- ✓ Shall **not be more than 5 years** on continuous basis **for Bank**
  - ✓ Shall **not be more than 3 years** on continuous basis **for a single branch**

## PROFESSIONAL ETHICS

NOCLAR Applicability	<b>In case of Professional Accountant in practice:</b> Applicable to <b>Audit of Listed Entities</b> assignments, Below all conditions must fulfill: ✓ Shares of which are listed on recognized stock exchanges(s) in India & ✓ Net worth >= <b>INR 250 crores</b>	
Fees Relative Size <b>[OLD Course]</b>	<b>When Auditee Is:</b>	<b>Limit</b>
	Non-Public Interest Entities (PIE):	<b>40%</b> of the total fees of the firm
	Public interest entities	<b>20%</b> of the total fees of the firm
	Exemption	total fees received by the firm does <b>not exceed Rs. 20 Lakhs</b> (Including fees for other services rendered)

**Free Free Free !!**

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**Available on Youtube Channel of**  
**"CA Hemant Somani | AIR 46"**