CA FINAL • PAPER 3 • ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

250+

MOST IMPORTANT QUESTIONS

CA FINAL AUDIT

CRISP · POINT-WISE
SUMMARY
EVERY QUESTION

NOVEMBER 2026 EXAMS

MAY COVER 70% PAPER

- Selected from the PARAM Question Bank
- 19 Chapters Full ICAI Answers

CA RAVI TAORI

VIDEO SOLUTIONS ON YOUTUBE
from 25 August 2026 or earlier

youtube.com/@ravitaori

Ravi Taori

CA FINAL · PAPER 3 · SUMMARY BOOKLET

Index

How to read every card

FOCUS — What the question is really testing — the issue and the trap.

APPLIES — The SA / SQC / Section / Clause that governs the answer.

CONCEPT — Key provisions that earn the concept marks — write these.

CASE — Concept applied to the facts of the question.

CONCLUSION — The final verdict — always end your answer with it.

Ch	Chapter / Part	Questions	Page
1	**Quality Control**	13	1
	Part 1 · SQC 1 - Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	8	1
	Part 2 · SA 220 - Quality Control for an Audit of Financial Statements	5	4
2	**General Auditing Principles and Auditor's Responsibilities**	10	6
	Part 1 · SA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	2	6
	Part 2 · SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements	1	7
	Part 4 · SA 299 - Joint Audit of Financial Statements	3	7
	Part 5 · SA 402 - Audit Considerations Relating to an Entity Using a Service Organisation	4	8
3	**Audit Planning, Strategy and Execution**	15	10
	Part 1 · SA 300 - Planning an Audit of Financial Statements	3	10
	Part 2 · SA 600 - Using the Work of Another Auditor	1	11
	Part 3 · SA 610 - Using the Work of Internal Auditors	4	11
	Part 4 · SA 620 - Using the Work of an Auditor's Expert	4	13
	Part 5 · SA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	2	15
	Part 7 · SA 450 - Evaluation of Misstatements Identified during the Audit	1	15
4	**Materiality, Risk Assessment and Internal Control**	11	16
	Part 1 · Materiality, Risk Assessment and Internal Control	8	16
	Part 2 · SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	1	19
	Part 5 · SA 320 - Materiality in Planning and Performing an Audit	2	19
5	**Audit Evidence**	11	20
	Part 1 · SA 500 - Audit Evidence	1	20
	Part 2 · SA 501 - Audit Evidence: Specific Considerations for Selected Items	3	21
	Part 3 · SA 505 - External Confirmations	4	22
	Part 4 · SA 510 - Initial Audit Engagements: Opening Balances	2	23
	Part 6 · SA 550 - Related Parties	1	24
6	**Completion and Review**	11	25
	Part 1 · SA 560 - Subsequent Events	3	25
	Part 2 · SA 570 - Going Concern	6	26
	Part 3 · SA 580 - Written Representations	2	28
7	**Reporting**	23	29
	Part 1 · SA 700 - Forming an Opinion and Reporting on Financial Statements	1	29
	Part 2 · SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report	2	29
	Part 3 · SA 705 - Modifications to the Opinion in the Independent Auditor's Report	8	30

Ch	Chapter / Part	Questions	Page
	Part 4 · SA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	4	33
	Part 5 · SA 710 - Comparative Information: Corresponding Figures and Comparative Financial Statements	3	35
	Part 7 · Company Audit - Reporting under the Companies Act, 2013	1	36
	Part 8 · CARO 2020 - Companies (Auditor's Report) Order, 2020	4	36
8	**Specialised Areas**	2	38
	Part 3 · SA 810 - Engagements to Report on Summary Financial Statements	2	38
9	**Audit-related Services**	5	39
	Part 1 · SRS 4400 - Engagements to Perform Agreed-Upon Procedures Regarding Financial Information	1	39
	Part 2 · SRS 4410 - Compilation Engagements	4	39
10	**Review of Financial Information**	6	41
	Part 1 · SRE 2400 - Engagements to Review Historical Financial Statements	3	41
	Part 2 · SRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity	3	42
11	**Prospective Financial Information and Other Assurance Services**	3	43
	Part 1 · SAE 3400 - The Examination of Prospective Financial Information	2	43
	Part 2 · SAE 3402 - Assurance Reports on Controls at a Service Organisation	1	44
12	**Digital Auditing and Assurance**	11	44
	Part 1 · Digital Auditing and Assurance	11	44
13	**Group Audits**	14	48
	Part 1 · Group Audits	14	48
14	**Special Features of Audit of Banks and Non-Banking Financial Companies**	31	54
	Part 1 · Special Features of Audit of Banks	23	54
	Part 2 · Audit of Non-Banking Financial Companies	8	62
15	**Overview of Audit of Public Sector Undertakings**	8	65
	Part 1 · Audit of Public Sector Undertakings	8	65
16	**Internal Audit**	6	68
	Part 1 · Internal Audit	6	68
17	**Due Diligence, Investigation and Forensic Accounting**	21	70
	Part 1 · Due Diligence	4	70
	Part 2 · Investigation	13	72
	Part 3 · Forensic Accounting and Investigation	4	77
18	**Emerging Areas - SDG and ESG Assurance**	13	78
	Part 1 · Sustainable Development Goals and ESG Assurance	13	78
19	**Professional Ethics and Liabilities of Auditors**	83	83
	Part 1 · Introduction and the Chartered Accountants Act, 1949	16	83
	Part 2 · Professional Ethics - First Schedule	47	89
	Part 3 · Professional Ethics - Second Schedule	13	104
	Part 4 · Council General Guidelines, 2008	7	109
20	**CA Inter based Standards on Auditing**	1	111
	Part 1 · CA Inter based Standards on Auditing	1	111

CHAPTER 01

1 Quality Control

PART 1 **SQC 1 – Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements**

1 Applicability of SQC 1

QNO 127.050 | CNO SQC.020 | SM

FOCUS
- CA firm asked to prepare FS and issue a **compilation** report — a non-audit, related service.
- Tests whether **SQC 1** (firm-level quality control) applies beyond audits.

APPLIES **SQC 1 — Quality Control for Firms (Audits, Reviews, Other Assurance & Related Services) · SA 220**

CONCEPT
- **SQC 1** applies to **all engagements** — audits, reviews, other assurance and **related services**.
- SQC 1 = quality at **firm level**; SA 220 = quality at **individual audit engagement** level.
- Firm & personnel must comply with professional standards, legal & regulatory requirements; reports must be appropriate.
- Supported by SAs, ICAI Code of Ethics, Companies Act; reviewed by Peer Review Board, QRB, NFRA.

CASE
- Compilation engagement falls under **related services** covered by SQC 1.

CONCLUSION **Yes — the firm is responsible to develop & implement a quality control system for this compilation engagement too.**

2 Importance of Policies & Procedures for Ethical Compliance

QNO 127.200 | TRICKY | CNO SQC.100 | S25 MTP · M25 MTP

FOCUS
- New EP of a **listed** company finds **no documented independence policies** in the firm — why needed, and how EP ensures independence?

APPLIES **SQC 1 — Quality Control for Firms · SA 220 — Quality Control for an Audit of FS**

CONCEPT
- SQC 1: firm must have policies giving **reasonable assurance** that firm, personnel, experts & network firm personnel stay **independent**.
- Policies enable firm to **communicate** requirements and **identify & evaluate threats** → safeguards or withdraw.
- SA 220: **EP forms a conclusion** on compliance with independence requirements.
- EP steps: obtain info from firm & network firms · evaluate **breaches** of firm policies · act via safeguards or withdraw (where law permits).
- EP must **promptly report** to firm any inability to resolve the matter.

CONCLUSION **Documented policies are necessary to give reasonable assurance of independence; CA Sunil must follow the SA 220 steps before proceeding.**

3 Acceptance & Continuance Case Study

QNO 127.460 | TRICKY | CNO SQC.140 | SM · M26 MTP · M25 MTP · M24 Exam

FOCUS
- Before acceptance letter: **IT search**, promoter's brother in **politics**, ex-senior manager serving an associate, **no auto-sector replacement** — what to consider for **continuance**?

APPLIES **SQC 1 — Acceptance & Continuance of Client Relationships · SA 220**

CONCEPT
- Before accepting/continuing, firm obtains info on: **integrity** of client, promoters & KMP · **competence** (capabilities, time, resources) · **ethical compliance**.
- If issues identified and firm accepts/continues → **document** how issues were resolved.

- SA 220: EP obtains info from firm & network firms to identify **threats to independence**.

CASE

- Political link → assess any **funding to political parties** and related risks; IT search → evaluate RMM and **non-disclosure of tax disputes/liabilities**.
- Ex-manager's accounting services to associate → assess **independence/ethical** impact; departure → secure **competent resource** before audit starts.
- Communicate scope clearly; **continually monitor** the relationship.

CONCLUSION **PQR Associates should follow firm's acceptance & continuance policies, address each issue and document resolution before issuing the acceptance letter.**

4 Examples of the matters to be considered with regard to the integrity of a client by the firm as per the requirements of SQC 1

QNO 127.500 | CNO SQC.160/SQC.140 | SM · N19 Exam · M19 RTP

FOCUS

- Prospective client with **ED search** (huge cash recovered), IT search on **bogus penny-stock gains**, criticises present auditor, offers **handsome fees**.
- Tests **integrity of client** factors before accepting engagement.

APPLIES **SQC 1 — Acceptance & Continuance of Client Relationships**

CONCEPT

- Firm obtains necessary info before accepting a **new client**; issues resolved must be **documented**.
- Integrity matters: **identity & business reputation** of owners, KMP, related parties, TCWG · nature of operations & business practices.
- Attitude towards **aggressive interpretation** of accounting standards and internal control environment.
- Client aggressively keeping **fees low** · indications of **scope limitation**.
- Indications of **money laundering** or other criminal activities.
- Reasons for appointing the firm and **non-reappointment of previous firm**.

CASE

- ED/IT searches and cash recovery indicate possible **money laundering / criminal activity**; reason for changing auditor needs evaluation.

CONCLUSION **CA M must evaluate the client's integrity per SQC 1 before accepting; knowledge of integrity grows over an ongoing relationship.**

5 Competence Issues During Audit

QNO 127.550 | CNO SQC.140/SQC.220 | SM · N24 MTP · N22 Exam

FOCUS

- 4-year auditor lacks expertise for client's new **e-commerce** segment & **European** geography; wishes to **withdraw**.
- Tests issues to address **before withdrawal** under SQC 1.

APPLIES **SQC 1 — Acceptance & Continuance of Client Relationships and Specific Engagements**

CONCEPT

- Firm continues engagements only where **competent** and has **capabilities, time & resources**.
- Withdrawal policies: **discuss** with mgmt & TCWG the appropriate action on facts.
- If withdrawing → discuss **withdrawal and reasons** with mgmt & TCWG.
- Consider any **professional, regulatory or legal** requirement to remain in place or to **report withdrawal** & reasons to regulators.
- **Document** significant issues, consultations, conclusions & basis.

CASE

- AP & Associates lacks expertise in the diversified business → withdrawal considered.

CONCLUSION **AP & Associates should address the above withdrawal issues before deciding to withdraw.**

6 Competence & Capabilities of Engagement Team

QNO 127.610 | TRICKY | CNO SQC.180 | S25 RTP

FOCUS
- Medium firm auditing a **listed pharma R&D** company; team lacks pharma expertise; **Big 4 withdrew** citing scope limitation; MP pushes to proceed.
- Tests **competence & capabilities** evaluation under SQC 1 / SA 220.

APPLIES SQC 1 — Quality Control for Firms · SA 220 — Quality Control for an Audit of FS

CONCEPT
- Consider: personnel know **relevant industry** · experience with **regulatory/reporting** requirements or ability to gain it.
- **Sufficient personnel** with competence · **experts** available · eligible **EQCR** reviewer available.
- Able to meet **reporting deadline** · SA 220: EP judges acceptance/continuance on integrity, competence, ethics, significant matters.

CASE
- No pharma R&D experience; previous auditor's withdrawal is a **warning sign**; MP pressure → proceeding would **violate SQC 1 & SA 220**.
- Actions: assess capability & engage **external experts** · understand **reason for previous auditor's withdrawal** · appoint qualified **EQCR** and complete review before report.

CONCLUSION CA Rashi **must not proceed** unless satisfied all SQC 1 / SA 220 conditions are met.

7 Engagement Performance, Consultation & EQCR – Listed Entity Case Study

QNO 127.630 | CNO SQC.280 | M26 RTP

FOCUS
- Listed EPC company: complex **Ind AS 115** revenue & impairment judgments; team disagreement; external consultation **undocumented**; **EQCR** only summary-level and **completed after report signed**.
- Tests compliance with **engagement performance, consultation & EQCR**.

APPLIES SQC 1 — Engagement Performance, Consultation & Engagement Quality Control Review

CONCEPT
- Engagement performance: briefing, supervision, training, review methods, **appropriate documentation**.
- **Consultation** on difficult/contentious matters, within or outside firm; firm lacking internal resources may consult externally.
- Consultation must be **fully documented** and conclusions implemented.
- EQCR: objective review of **significant judgments before report** is issued; extent depends on complexity & risk.
- EQCR **mandatory for listed entities**; does not reduce EP's responsibility.

CASE
- High-risk areas lacked evidenced supervision & documentation → engagement performance not complied.
- External consultation **not documented** → consultation non-compliance.
- EQCR superficial, judgments not evaluated, report issued **before EQCR completion** → EQCR non-compliance.

CONCLUSION The firm has **failed to comply** with SQC 1 requirements on engagement performance, consultation and EQCR.

8 Cross Referencing Missing & No Information on Source

QNO 127.690 | TRICKY | CNO Unique | SM · J26 RTP · M24 MTP

FOCUS
- Physical files **neither scanned nor cross-referenced** to electronic files; working papers **don't show source** (client vs team).
- Tests SQC 1 on **integrity & retrievability** of engagement documentation.

APPLIES **SQC 1 — Engagement Documentation (Confidentiality, Safe Custody, Integrity, Accessibility, Retrievability)**

CONCEPT
- Firm needs policies for **confidentiality, safe custody, integrity, accessibility & retrievability** of documentation.
- Risk: data altered, added, deleted without knowledge, or **permanently lost**; controls protect integrity at all stages.
- If scanned: copies reflect **entire content** (signatures, cross-refs, annotations) · **integrate** with indexing & sign-off · enable **retrieval & printing**.
- **Source** of documents/information must be identified to ensure **reliability** of evidence.

CASE
- No scanning/cross-referencing → no policies for **integrity**; hard to show completeness and assembly within **60 days**.
- Source not recorded → potential **non-compliance with SAs**.

CONCLUSION **Firm's quality control system is deficient — documentation policies required by SQC 1 are not established.**

PART 2 SA 220 - Quality Control for an Audit of Financial Statements

9 Responsibility of EQCR Reviewer in Listed Co & Resolving Difference of Opinion

QNO 4.500 | CNO SA220.160/SQC.360 | SM

FOCUS
- CA Giri is **EQCR** for a **listed** company audit; EP rejects his views on revenue recognition and onerous-contract provisions.
- Tests EQCR aspects for listed entities + resolving **difference of opinion**.

APPLIES **SA 220 — Quality Control for an Audit of FS · SQC 1 — Quality Control for Firms**

CONCEPT
- Listed-entity EQCR also considers: (i) team's evaluation of **firm's independence**.
- (ii) whether **appropriate consultation** took place on differences of opinion / contentious matters, and conclusions.
- (iii) whether documentation reviewed reflects work on **significant judgments** and supports conclusions.
- SQC 1: differences may arise within team, with consultees, or **EP vs EQCR**; report issued **only after resolution**.
- Unresolved → firm's established procedures, e.g. consult **another practitioner/firm** or **professional/regulatory body**.

CASE
- EP not accepting CA Giri's views → must be resolved via firm's procedures before report.

CONCLUSION **Difference between CA Giri and EP must be resolved as per SQC 1; audit report only after resolution.**

10 Change in Engagement Partner to Review Work

QNO 5.000 | CNO Unique | M25 RTP · M21 MTP · M18 MTP · N15 RTP +1

FOCUS
- Partner who did entire audit **dies**; another partner **signs without reviewing** his work.
- Tests SA 220 review on **change of engagement partner** + delegation principle.

APPLIES **SA 220 — Quality Control for an Audit of FS · Basic Principle of Delegation of Work**

CONCEPT
- On **takeover**, new EP must **review work** of old EP.
- Review: compliance with law & standards · significant matters raised · consultations · conclusions documented · evidence **sufficient & appropriate** · objectives achieved · need to revise **NTE**.
- Auditor can **delegate work but not responsibility**.

- May rely on others' work with **adequate skill & care**; must **direct, supervise & review** delegated work.

CASE
- CA Chandra signed relying solely on CA Suresh's work, **without review**.

CONCLUSION **CA Chandra may sign but is responsible for the opinion; signing without review is non-compliance with SA 220 — no adequate skill & due care.**

11 EQCR in Listed Company & Difference of Opinion

QNO 5.008 | CNO SA220.160 | J26 MTP · M24 Exam

FOCUS
- CA Giri is **EQCR** for a **listed** company audit; EP rejects his views on revenue recognition and onerous-contract provisions.
- Tests EQCR aspects for listed entities + resolving **difference of opinion**.

APPLIES **SA 220 — Quality Control for an Audit of FS · SQC 1 — Quality Control for Firms**

CONCEPT
- Listed-entity EQCR also considers: (i) team's evaluation of **firm's independence**.
- (ii) whether **appropriate consultation** took place on differences of opinion / contentious matters, and conclusions.
- (iii) whether documentation reviewed reflects work on **significant judgments** and supports conclusions.
- SQC 1: report issued **only after resolution** of differences (within team, with consultees, EP vs EQCR).
- Unresolved → firm's procedures: consult **another practitioner/firm** or **professional/regulatory body**.

CASE
- EP rejecting EQCR's views → difference must be resolved before issuing report.

CONCLUSION **Resolve the CA Giri–EP difference through SQC 1 procedures before the auditor's report is issued.**

12 Date of Signing, Only After Date of Completion of EQCR

QNO 5.010 | CNO SA220.160 | SM · J26 MTP · M24 MTP · M19 MTP +1

FOCUS
- Listed company: report dated **12 May**, but **EQCR completed 15 May** (EP review done 10 May).
- Tests whether report can be dated **before EQCR completion**.

APPLIES **SA 220 — Quality Control for an Audit of FS · SA 700 — Forming an Opinion and Reporting on FS**

CONCEPT
- Listed entities — EP shall: ensure **EQCR appointed** · discuss significant matters with EQCR · **not date report until EQCR completed**.
- SA 700: report dated **no earlier** than date sufficient appropriate evidence obtained; EQCR helps determine this.
- Timely EQCR lets **significant matters** be resolved on or before report date.

CASE
- Report dated 12 May 2018 vs EQCR completed **15 May 2018** → report dated before EQCR.

CONCLUSION **Signing the auditor's report on 12 May, before completion of EQCR, is not in order.**

13 Independence -- Firm's Policies & Procedures and Responsibility of Engagement Partner

QNO 5.020 | CNO SA220.080/SQC.100 | SM · N23 Exam · M22 RTP · N19 MTP +1

FOCUS
- New EP of a **listed** company finds **no documented independence policies** in the firm.
- Tests: why firm needs independence policies (SQC 1) + how EP ensures compliance (SA 220).

APPLIES **SQC 1 — Quality Control for Firms · SA 220 — Quality Control for an Audit of FS**

CONCEPT
- SQC 1: policies giving **reasonable assurance** that firm, personnel, experts & network firm personnel maintain **independence**.

- Enable firm to (i) **communicate** independence requirements; (ii) **identify & evaluate threats** → safeguards or withdraw.
- SA 220: **EP forms a conclusion** on independence compliance.
- EP: obtain info from firm & network firms · evaluate **breaches** of firm policies · eliminate/reduce threats or **withdraw** (where permitted).
- EP **promptly reports** to firm any unresolved matter.

CONCLUSION **Firm must have documented independence policies (SQC 1); Mr Q ensures compliance through the SA 220 steps.**

CHAPTER 02

2 General Auditing Principles and Auditor's Responsibilities

PART 1 SA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

14 Fraud Risk in Revenue Recognition

QNO 11.500 · TRICKY · CNO SA240.520 · SM · M24 MTP · M22 RTP

FOCUS
- Multi-stream hotel company with weak controls; team **rebutted revenue fraud risk** on past history — yet ₹35 cr unaccounted, part in **CFO's personal account**.

APPLIES **SA 240 — Auditor's Responsibilities Relating to Fraud · SA 315 · SA 330 · Sec 143(12), Companies Act 2013**

CONCEPT
- Identify & assess fraud RMM at **FS level** and **assertion level**.
- **Presumed fraud risk** in revenue recognition; evaluate which revenue types/assertions give rise to it.
- Presumption **may be rebutted** only e.g. single simple revenue (one rental property); complex revenue / weak controls → high fraud risk.
- Determine **overall responses** to assessed fraud risks (SA 330).

CASE
- Multiple streams + control deficiencies → rebuttal was **wrong**; should be treated as **significant risk**.
- Fraud above **₹1 crore** → report to **Central Government** under Sec 143(12) within prescribed time.

CONCLUSION **Auditors should not rebut the revenue fraud presumption; treat it as a significant risk, respond accordingly and report the ₹35 cr fraud u/s 143(12).**

15 Special Audit Report Not Provided

QNO 18.000 · CNO Unique · SM · S25 MTP · N18 MTP · M18 RTP +2

FOCUS
- Mgmt-commissioned **fraud investigation report** withheld despite reminders; mgmt also **silent on written representation**.
- Tests auditor's response under SA 240 / SA 580 and fraud reporting duties.

APPLIES **SA 240 — Fraud · SA 580 — Written Representations · Sec 143(12), Companies Act 2013 · CARO 2020 Clause 3(xi)**

CONCEPT
- SA 240: obtain **reasonable assurance** FS free from material misstatement due to fraud or error.
- SA 580: reps not provided → **discuss** with mgmt · **re-evaluate integrity** & reliability of evidence · determine **effect on opinion**.
- Sec 143(12): fraud **≥ ₹1 crore** → Central Government; **< ₹1 crore** → Audit Committee/Board.
- CARO 3(xi): report fraud noticed/reported, nature & amount · whether **ADT-4** filed.
- Exceptional circumstances → legal duties · consider **withdrawal** · discuss/report reasons.

CASE
- Both report and representation refused → **significant issues** may exist.

CONCLUSION CA Arvind / Mr N should apply **SA 580** steps, assess opinion impact, fulfil **143(12)** and **CARO** reporting, and consider withdrawal if warranted.

PART 2 SA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements

16 Non-Compliance

QNO 23.000 | CNO SA250.140 | SM · M22 RTP · M21 MTP · M20 MTP +5

FOCUS
- **Child labour** (11–12 yrs) found in textile co.; mgmt says other-law compliance is **outside audit scope** — tenable?
- OR variant: **DGGI notice** on fictitious invoices of ₹50 cr — bearing on auditor's responsibility for **non-compliance with laws**.

APPLIES SA 250 — Consideration of Laws and Regulations in an Audit of FS

CONCEPT
- Obtain S&A evidence on laws with **direct effect** on material amounts/disclosures — incl. **tax & labour laws**.
- Other-law non-compliance → fines, litigation, other consequences → cost may need **provision** in FS.
- On (suspected) non-compliance: understand **nature of act & circumstances**; evaluate possible effect on FS.
- Discuss with mgmt/TCWG → if unsupported & material → consider **legal advice**; still insufficient → **modify** opinion.
- Evaluate impact on risk assessment & **reliability of WR**.

CASE
- Major portion of labour is child labour — may have **material effect** on FS; mgmt's 'outside scope' plea fails.
- DGGI notice/search & IRDAI intimation = suspected non-compliance → same SA 250 procedures apply.

CONCLUSION Mgmt contention **not tenable**. Ensure provision/disclosure of fines & litigation costs; if not adequately reflected → **qualified or adverse** opinion.

PART 4 SA 299 – Joint Audit of Financial Statements

17 No Division of Work

QNO 27.100 | TRICKY | CNO SA299.060 | SM · J26 MTP · N24 MTP · M19 Exam +2

FOCUS
- Joint auditors; gross **understatement of revenue** (OR inventory) found in area handled by one JA.
- **No documentation** of division of work — who is responsible?

APPLIES SA 299 — Joint Audit of Financial Statements (Responsibility of Joint Auditors)

CONCEPT
- Divide work by **mutual discussion** — units · specified areas · assets/liabilities · income/expenditure · periods.
- Important areas **not divided** — covered by all JAs.
- Division & common areas must be **documented** & preferably communicated to entity — avoids disputes.
- Each JA **entitled to assume** others did their part per SAs; **no review/tests** of others' work needed.

CASE
- Revenue (OR inventory) handled by DEF & Co. (OR MN & Associates); ABC relied without review — permitted, but **no documentation** → violation of SA 299.

CONCLUSION Normally **DEF & Co. liable**; if it refuses, ABC & Co. must **prove by other evidence** the area was exclusively DEF's. Dice Ltd = combine 27.100 & 28.100.

18 Responsibility of Joint Auditors

QNO 28.070 | CNO SA299.100 / SA299.080 | SM · N18 Exam · N15 Exam · N04 Exam +1

FOCUS
- Listed co., 4 regions, two JAs dividing work — explain **responsibilities of joint auditors**.
- Tests split between **individual** vs **joint and several** responsibility.

APPLIES SA 299 — Joint Audit of Financial Statements

CONCEPT
- Each JA responsible **only for work allocated** incl. proper execution & info/explanations for own units.
- **Jointly & severally**: undivided work · common-area planning decisions · matters agreed · statutory compliance of FS · presentation & disclosure · audit report compliance.
- Matters relevant to others' areas → communicate **in writing** before completion.
- Each JA decides NTE & evaluates **internal control & risk** for own areas.
- Common areas: joint only for **appropriateness** of agreed NTE; execution is **individual**.

CASE
- AB & Co. and CD & Co. dividing 4 regions → each answerable for its regions; common areas & report jointly.

CONCLUSION **Responsibility is individual for allocated work and joint & several for common areas, compliance, disclosure and the audit report.**

19 Difference in Experts Reports Appointed by Join Auditors

QNO 28.100 | TRICKY | CNO SA620.140/SA299.120 | SM · N24 RTP · N19 Exam · N18 MTP +4

FOCUS
- 3 JAs use their own engineers for valuation; reports differ; R & P go with P's engineer by **majority**, S disagrees.
- If P's engineer's report proves **faulty** — who is liable?

APPLIES SA 620 — Using the Work of an Auditor's Expert · SA 299 · SA 500

CONCEPT
- Auditor has **sole responsibility** for opinion — not reduced by using an expert.
- Evaluate **adequacy** of expert's work — relevance, reasonableness, consistency with other evidence (SA 500).
- Check significant **assumptions & methods** and **source data** (relevance, completeness, accuracy).

CASE
- Engineers = auditor's experts; R & P used P's engineer's faulty report **without evaluating** it.
- S disagreed and gave a **separate report** on the valuation.

CONCLUSION **Mr R and Mr P liable for gross negligence; Mr S not liable due to his separate opinion — no 'majority' defence.**

PART 5 SA 402 - Audit Considerations Relating to an Entity Using a Service Organisation

20 Understanding Services Given by SO

QNO 52.000 | CNO SA402.140/SA 402.160 | SM · N24 MTP · N19 MTP · N18 MTP +10

FOCUS
- Entity **outsources** activities/accounting to a service organisation (SO) — what must the user auditor understand?
- Master answer: (a) understanding to obtain · (b) **sources of info** · (c) procedures if UE cannot give sufficient understanding.

APPLIES SA 402 — Audit Considerations relating to an Entity Using a Service Organisation · SA 315

CONCEPT
- (a) Services-related: **nature & significance** of services · effect on UE's internal control · nature & materiality of transactions/accounts affected.

- (a) SO-related: **nature of relationship** & contract terms · **degree of interaction** · design & implementation of UE controls over SO-processed transactions.
- (b) Understanding must be sufficient to identify & assess **RMM**.
- (b) Sources: contract/SLA · system overviews · technical & user manuals · SO reports · **service auditor reports** · internal auditor/regulator reports · mgmt letters · auditor's own experience.
- (c) If insufficient: contact SO **through UE** · obtain **Type 1/Type 2 report** · use another auditor · **visit SO**.

CONCLUSION **Answer only the part asked — understand how UE uses SO (SA 315 + SA 402) and, if UE cannot provide it, go to Type 1/2 report, SO, another auditor or a visit.**

21 Factors to decide relevance of SO Services

QNO 52.100 · CNO SA402.060 · SM · M23 MTP · N21 Exam · M18 Exam

FOCUS
- Accounting data processing outsourced to a third party — how to decide whether **SO services are relevant** to the audit?
- RT's mnemonic **ESCAPE**.

APPLIES **SA 402 — Audit Considerations relating to an Entity Using a Service Organisation**

CONCEPT
- Relevant when services & controls are part of UE's **information system** relevant to financial reporting (security/cleaning — not relevant); asset-safeguarding controls may also be relevant.
- **ESCAPE** — services affect: **E**stimates & disclosures · **S**ignificant classes of transactions · how system **C**aptures events other than transactions.
- **A**ccounting records & specific accounts · **P**rocedures (IT & manual) to initiate, record, process, report · journal **E**ntry controls incl. non-standard.

CASE
- FIN Ltd's recording & processing of transactions by SO → affects accounting records & procedures → **relevant** to audit.

CONCLUSION **If SO services touch any ESCAPE element, they are relevant — auditor must assess their effect on audit risk under SA 402.**

22 Using Type 2 Report As Audit Evidence

QNO 52.800 · TRICKY · CNO SA402.240 · SM · M26 MTP · M25 MTP · M24 Exam

FOCUS
- Hospital's patient/billing system run by **CT Contractors** (SO); auditor wants assurance that SO controls **operate effectively**.
- Which report to obtain, and what to check before using it as evidence?

APPLIES **SA 402 — Audit Considerations relating to an Entity Using a Service Organisation**

CONCEPT
- **Type 2 report** — opinion on system description, design **and operating effectiveness** of controls.
- Before relying, check: (a) **date/period** appropriate · (b) **complementary user entity controls** — understand & test.
- (c) Adequacy of **period covered** by tests & time elapsed · (d) tests & results **relevant to assertions** and sufficient.

CASE
- CA Z's concern is operating effectiveness → Type 1 insufficient; Type 2 from a practising CA needed.

CONCLUSION **CA Z should obtain a Type 2 report and evaluate points (a)–(d) before using it as audit evidence.**

23 Giving Reference of Type 1 & Type 2 report

QNO 53.050 · CNO SA402.280 · SM · M24 MTP · N22 MTP · N21 MTP +2

FOCUS
- Payroll (65% of cost) outsourced; Type 2 report (carve-out) obtained; draft **unmodified** report refers to **service auditor's work**.

- Is CA Raman right to remove the reference?

APPLIES SA 402 — Audit Considerations relating to an Entity Using a Service Organisation · SA 705

CONCEPT
- Unable to obtain S&A evidence on SO services → **modify opinion** per SA 705.
- **Unmodified** report shall **not refer** to service auditor's work — unless **required by law/regulation**.
- If law requires reference → report must state it **does not diminish** user auditor's responsibility.

CASE
- Assistant's draft unmodified report referred to service auditor's work — not required by law.

CONCLUSION **CA Raman is correct — in an unmodified report the user auditor cannot refer to the service auditor's work.**

CHAPTER 03

3 Audit Planning, Strategy and Execution

PART 1 SA 300 - Planning an Audit of Financial Statements

24 Overall Audit Strategy

QNO 30.100 | CNO APSE.180 | SM · M16 RTP · N13 RTP · M13 MTP +5

FOCUS
- Factors / steps in establishing the **overall audit strategy** (= overall audit plan) — airline, handloom exporter, first-year audit.
- RT's mnemonic **R-CRPF**.

APPLIES SA 300 — Planning an Audit of Financial Statements (CNO APSE.180)

CONCEPT
- **C**haracteristics — identify engagement characteristics that define its **scope**.
- **R**eporting objectives — plan timing of audit & nature of **communications** required.
- **F**actors — significant factors directing the **engagement team's efforts**.
- **P**reliminary work — results of preliminary engagement activities; relevant knowledge from partner's other engagements.
- **R**esources — **nature, timing & extent** of resources needed.

CONCLUSION **Overall audit strategy (latest term under SA 300) is the first step of planning — answer via R-CRPF; it guides the detailed audit plan.**

25 Audit Programme for Multiplex, Sale of tickets

QNO 153.000 | CNO Unique | SM · M25 MTP · M22 MTP · M21 MTP +6

FOCUS
- Cash-based ticket sales across **5 amusement centres** — internal controls to prevent fraud & **revenue leakage**.
- OR variants: audit programme for **multiplex / XLoud** revenue & expenditure.

APPLIES Internal Control & Audit Programme — Special Entities (Multiplex / Amusement Centre)

CONCEPT
- **Printing**: serially numbered pre-printed, forgery-proof tickets; separate series per denomination; no repeat in period.
- **Sales** from central ticket office, preferably machines; control over **machine keys**.
- **Daily reconciliation** of cash with tickets sold (serial nos.).
- **Daily banking** next working day; meanwhile **joint custody** & signed cash-in-hand report.
- Entrance tickets **cancelled at gate**; advance bookings ensured **paid for**.
- Discounts/free passes **authorised** with signed forms; **surprise checks** by internal audit — cash, banking, unsold tickets.

CASE
- Joy World: apply these controls uniformly at all 5 centres.

CONCLUSION **A serially-controlled, reconciled, daily-banked ticket system with surprise checks safeguards cash collections.**

26 Audit Strategy For Online Business

QNO 160.000 | CNO APSE.180 | SM · N17 MTP · N17 RTP · N16 MTP +2

FOCUS
- Garment manufacturer (audited 5 yrs) adds **online shopping** venture — factors in formulating **audit strategy**.
- Focus on understanding the **new information system**.

APPLIES **SA 300 — Planning an Audit of Financial Statements (CNO APSE.180 Overall Audit Strategy)**

CONCEPT
- Understand **significant classes of transactions** from online sales.
- Understand business & accounting **procedures** (IT & manual) — initiate, record, process, correct, transfer to GL, report.
- Understand related **accounting records** & specific accounts incl. corrections & ledger transfers.
- Understand how system **captures events & conditions** (other than transactions) significant to FS.
- Understand **journal entry controls**, esp. non-standard entries for unusual transactions.

CASE
- New online venture changes the IS & business processes — strategy cannot be carried over from earlier years unchanged.

CONCLUSION **Auditor should draft the overall audit strategy under SA 300 incorporating the above online-shopping factors.**

PART 2 SA 600 - Using the Work of Another Auditor

27 Division of Responsibility

QNO 103.500 | CNO SA600.120 | SM · S25 MTP

FOCUS
- Bank with **1034 branches** audited by branch auditors; NPA errors missed by one branch auditor (NIL **MOC**); not caught by statutory auditor.
- Is the statutory (principal) auditor liable? Precautions in reporting?

APPLIES **SA 600 — Using the Work of Another Auditor**

CONCEPT
- Principal auditor **not responsible** for work entrusted to other auditors — **except** where circumstances should have **aroused suspicion** about its reliability.
- When relying on other auditors' reports, his report must clearly state **division of responsibility**.
- Indicate extent of components audited by others — e.g. **number of branches**/divisions/subsidiaries.

CASE
- Overall review incl. **inspection & concurrent audit reports** showed no irregularity → nothing to arouse suspicion.

CONCLUSION **Statutory auditor not liable for branch auditor's lapse; precaution — state clearly in report that 1034 branches were audited by branch auditors.**

PART 3 SA 610 - Using the Work of Internal Auditors

28 How to use/rely on work/report of internal auditor-

QNO 103.250 | CNO SA610.120 | SM · N18 MTP · N16 MTP · N15 Exam +3

FOCUS
- Internal auditor's report on **physical verification** of inventory (OR fixed assets) handed to statutory auditor — can he rely on it?
- How to **evaluate specific work** of the internal auditor.

APPLIES **SA 610 — Using the Work of Internal Auditors**

CONCEPT
- Steps: **discuss & coordinate** with internal audit function before using its work.
- **Read internal audit reports** — nature, extent & findings of procedures.
- Perform **sufficient procedures** — planning, performance, supervision, review, documentation, evidence & appropriateness of conclusions.
- Principle: procedures respond to **judgment involved**, **RMM**, objectivity & **competence** of IA function.
- Principle: **re-evaluate** conclusions regularly & **reperform** at least some of the work.

CASE
- CA Kishor may use the PV report only after evaluating & reperforming part of the internal auditor's work.

CONCLUSION **Statutory auditor can use the internal auditor's PV work only after evaluation & reperformance under SA 610 — not blindly.**

29 Direct Assistance

QNO 103.300 | CNO SA610.140 | SM · S25 MTP · N24 RTP · M21 Exam +8

FOCUS
- Statutory auditor seeks **direct assistance** from internal auditor for **significant estimates & RMM** (OR receivables ageing; OR going concern).
- When is direct assistance **prohibited**; what to document?

APPLIES **SA 610 — Using the Work of Internal Auditors · SA 230**

CONCEPT
- No direct assistance for: **higher assessed RMM** with more-than-limited judgment · **significant judgments** · work IA already reported to mgmt/TCWG · SA 610 decisions on IA function.
- Significant judgments (**GRADES**): **G**oing concern · **R**MM assessment · **A**dequacy of disclosures · **E**stimates · sufficiency of tests.
- External auditor has **sole responsibility** for opinion → must make significant judgments himself.
- Documentation: objectivity threats & competence evaluation · basis for NTE of work · reviewer, date & extent (SA 230) · **written agreements** · IA's working papers.

CASE
- Anand: estimates & RMM = significant judgments → not allowed.
- SPOM (b): **going concern** evaluation = significant judgment → not allowed.

CONCLUSION **Mr Anand / CA Nitin cannot take the internal auditor's direct assistance for these areas.**

30 Nature of Work to be Assigned to Internal Auditor

QNO 103.400 | CNO SA610.140 | SM · N22 Exam · M18 Exam

FOCUS
- High-risk **receivables** — ageing accuracy & doubtful-debt provision assigned to internal auditor; where can't direct assistance be used?
- OR: factors weighing the decision to use IA's **direct assistance** (Moon Ltd).

APPLIES **SA 610 — Using the Work of Internal Auditors**

CONCEPT
- Nature & extent of work assignable — and level of **direction, supervision & review** — depend on:
- **Amount of judgment** in planning/performing procedures and evaluating evidence.
- **Assessed RMM**.
- Evaluation of **threats to objectivity** & **competence** of the internal auditors.
- Only if **not prohibited by law/regulation**; objectivity evaluation includes **inquiry of IA** on interests & relationships.

CASE
- ABC Ltd: receivables valuation assessed **high risk** — weigh judgment involved & RMM before assigning ageing/provision checks.

CONCLUSION Direct assistance is a judgment call weighed on **judgment involved, RMM and IA's objectivity/competence** — more risk/judgment ⇒ less assignment, more supervision.

31 Areas in which direct assistance should be taken & Activities pripr to taking direct assistance

QNO 103.450 **CNO SA610.140** M25 MTP · M24 MTP

FOCUS
- Senior team member wants internal audit head Mr. X to give **direct assistance** on substantive procedures designed for **unpredictability** (assertions not tested earlier).
- Tests which areas are **inappropriate** for direct assistance and the **pre-conditions** before using it.

APPLIES SA 610 — Using the Work of Internal Auditors · SA 240

CONCEPT
- External auditor must **limit** direct-assistance work to areas appropriate to be assigned.
- Not appropriate: discussion of **fraud risks**, determining **unannounced** audit procedures (SA 240).
- Persons familiar with usual audit procedures may better **conceal fraudulent** financial reporting.
- Before direct assistance → **2 written agreements**: (a) entity — IA will follow EA's instructions, entity won't intervene; (b) internal auditors — keep matters **confidential**, report threats to objectivity.

CASE
- Procedures were designed to add **unpredictability** → using Mr. X would be counter-productive and defeat their purpose.

CONCLUSION Decision to use Mr. X for direct assistance is **not proper** and not in accordance with SA 610; written agreements required before any direct assistance.

PART 4 SA 620 - Using the Work of an Auditor's Expert

32 Agreement (Need for Detailed agreement)

QNO 105.000 **CNO Unique** SM · M23 RTP · M21 MTP · N16 Exam

FOCUS
- Auditor uses an expert for derivative valuation for the first time — **no formal agreement** signed.
- Tests the factors needing a **more detailed / written agreement** with the auditor's expert.

APPLIES SA 620 — Using the Work of an Auditor's Expert

CONCEPT
- Level of detail and formality of agreement (incl. whether **in writing**) depends on circumstances.
- RT mnemonic: **Nuclear-DEAL** should have detailed agreement as they are **C**omplex.
- **N** — auditor has **Not** previously used that expert's work · **D** — roles/responsibilities **Different** from normal.
- **E** — greater **Extent** and significance of expert's work · **A** — **Access** to sensitive/confidential entity info.
- **L** — multi-jurisdictional **Legal**/regulatory requirements · **C** — matter is highly **Complex**.

CASE
- First-time association (N) + complex derivative valuation (C) → detailed written agreement needed.

CONCLUSION Auditor should have entered into a **detailed written agreement** with the expert; relying on good bonding is not enough.

33 Agreement With Expert (Matters Covered)

QNO 105.100 **CNO SA620.120** SM · J26 MTP · S25 MTP · M23 RTP **+3**

FOCUS
- X Ltd's derivatives (options, forwards, swaps) audited with help of an auditor's expert; both **new to each other**.
- Auditor signed **no formal agreement** — tests the **matters to be agreed** with the expert.

APPLIES SA 620 — Using the Work of an Auditor's Expert

CONCEPT
- Auditor shall agree, **in writing when appropriate**, with the expert on:
- **Nature, scope and objectives** of the expert's work.
- Respective **roles and responsibilities** of auditor and expert.
- Nature, timing and extent of **communication** incl. form of report — for **significant risk**: formal written report at end + oral reports as work progresses.
- Need for the expert to observe **confidentiality** requirements (same ethical provisions as auditor).

CASE
- **Complexity** and volume of derivative valuation + auditor and expert **new to each other**.

CONCLUSION **Auditor should have signed a formal agreement / engagement letter with the expert for the work assigned.**

34 Evaluating work of Expert

QNO 106.000 | CNO SA620.140 | SM · M23 MTP · M19 Exam · N18 Exam +3

FOCUS
- How to **evaluate the adequacy** of an auditor's expert's work (actuary / engineering consultant) before relying on it.
- Joint-auditor variant: actuaries' reports differ — majority vote cannot replace evaluation.

APPLIES **SA 620 — Using the Work of an Auditor's Expert**

CONCEPT
- **How to check** (procedures): enquiries of expert · review expert's working papers & reports · corroborative procedures.
- Corroborative: observe expert's work · examine published data · confirm with third parties · detailed analytical procedures · **re-perform** calculations.
- Also: discuss with **another expert** if findings inconsistent with other evidence · discuss report with mgmt.
- **What to check**: relevance & reasonableness of findings and **consistency** with other evidence · significant **assumptions & methods** · **source data** — relevance, completeness, accuracy.
- **If inadequate**: agree further work with the expert, or perform **further audit procedures**.

CASE
- Joint auditors: each must evaluate Mr. Y's actuary report under SA 620 rather than accept it by majority.

CONCLUSION **Auditor shall evaluate adequacy of the expert's work (how / what / if inadequate) before using it for audit purposes.**

35 Reference to Work of Expert in auditors report

QNO 106.100 | CNO SA620.160 | S25 MTP · M23 Exam · M19 MTP

FOCUS
- Auditor's expert's stock-take work **inadequate**, unresolved by further procedures → modification needed.
- Auditor instead gave a **clean report** naming the expert to **reduce responsibility** — is it allowed?

APPLIES **SA 620 — Using the Work of an Auditor's Expert · SA 705**

CONCEPT
- Expert's work inadequate + matter unresolved → may need **modified opinion** (SA 705) — lack of S&A evidence.
- **Unmodified** opinion: **no reference** to expert unless required by law/regulation; if required, state it does not reduce auditor's responsibility.
- **Modified** opinion: reference allowed if relevant to understanding the modification — must state it **does not reduce** auditor's responsibility.

CASE
- Clean report with expert's name to shift responsibility → **not permissible**.

CONCLUSION **Auditor is wrong — should have issued a modified report; any reference to the expert must state it does not reduce his responsibility.**

PART 5 SA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

36 Estimates (Risk Assessment)

QNO 81.000 | CNO SA540.120/SA540.140 | SM · M22 Exam · M21 MTP · M18 MTP +5

FOCUS
- Material assertions based on mgmt **estimates** (incl. fair value of unlisted complex instruments) — how to identify and assess RMM.
- RT's trap: auditor cannot 'minimise' RMM — he can only **identify and assess** it via risk assessment procedures.

APPLIES SA 540 — Auditing Accounting Estimates, Incl. Fair Value Accounting Estimates & Related Disclosures

CONCEPT
- Risk assessment = obtaining **understanding** that forms basis to identify and assess RMM for estimates.
- Requirements of applicable **FRF** relevant to estimates and disclosures.
- How mgmt **identifies TEC** needing estimates; enquire about changes needing new / revised estimates.
- **Estimation process**: relevant controls · use of **expert** · method incl. **model** · **assumptions**.
- Change from prior period in methods (and why) · how mgmt assessed **estimation uncertainty**.

CONCLUSION Auditor obtains this understanding of the **estimation process** as the basis to **identify and assess** RMM for accounting estimates.

37 Review of Prior period estimates

QNO 81.200 | CNO SA540.120 | SM · S25 MTP · M25 MTP · M23 Exam +2

FOCUS
- Construction / real-estate company refuses data on **outcome of prior-period estimates** — says prior judgments shouldn't be reviewed.
- Tests whether this review is **mandatory** under SA 540.

APPLIES SA 540 — Auditing Accounting Estimates, Incl. Fair Value Accounting Estimates & Related Disclosures

CONCEPT
- Auditor **shall review** outcome of prior-period estimates or their **re-estimation** — part of risk assessment.
- Benefits: judge effectiveness of mgmt's **estimation process** · evidence for current re-estimation · evidence on **estimation uncertainty** disclosures.
- Helps identify possible **management bias**; professional scepticism guides NTE of further procedures.
- Review is **not intended to question** prior-period judgments based on information then available.

CASE
- Mgmt's fear of second-guessing is misplaced — the review is for current-period risk assessment.

CONCLUSION Management's contention is **not correct**; it must provide the information.

PART 7 SA 450 – Evaluation of Misstatements Identified during the Audit

38 Effect of Uncorrected Misstatement & Reassessment of Materiality

QNO 55.500 | CNO SA450.100 | SM · N24 MTP · M24 RTP

FOCUS
- Materiality on Sales set on mgmt's **11-month extrapolation**; last month's actual sales only **25%** of estimate (stamp duty hike).
- Tests need to **reassess materiality** before evaluating uncorrected misstatements.

APPLIES **SA 450 — Evaluation of Misstatements Identified during the Audit · SA 320 — Materiality**

CONCEPT
- Before evaluating uncorrected misstatements, auditor shall **reassess materiality** (SA 320) on **actual** financial results.
- Initial materiality often based on **estimates** of results.
- Materiality may be **revised** during audit when info would have led to a different initial amount.
- If revised materiality is **lower** → reconsider **performance materiality** and NTE of further audit procedures.

CASE
- Actual sales far below estimate → materiality computed on estimate is no longer appropriate.

CONCLUSION **Mr. Sushil must re-assess materiality on actual results; if lower, revisit performance materiality and further procedures before evaluating misstatements.**

CHAPTER 04

4 Materiality, Risk Assessment and Internal Control

PART 1 Materiality, Risk Assessment and Internal Control

39 Audit Risk (Calculation)

QNO 32.000 | CNO MRI.040 | SM · S25 MTP · N20 MTP · M19 MTP +1

FOCUS
- Compute **overall Audit Risk**: 40% chance of defalcation, controls prevent 75%, auditor's procedures detect 60%.

APPLIES **SA 200 — Overall Objectives of the Independent Auditor**

CONCEPT
- **Audit Risk** = risk of inappropriate opinion when FS materially misstated.
- **AR = RMM × Detection Risk**; **RMM = Inherent Risk × Control Risk**.
- IR — susceptibility of assertion to material misstatement before controls.
- CR — misstatement not prevented/detected by controls · DR — misstatement not detected by auditor's procedures.

CASE
- IR = **40%** · CR = 100% − 75% = **25%** → RMM = 40% × 25% = **10%**.
- DR = 100% − 60% = **40%**.

CONCLUSION **Overall Audit Risk = 10% × 40% = 4%.**

40 ICS (Components)

QNO 40.000 | CNO MRI.360 | SM

FOCUS
- Theory — list the **five components** of an internal control framework.

APPLIES **SA 315 — Identifying and Assessing RMM through Understanding the Entity**

CONCEPT
- **Control Environment** — mgmt/TCWG attitude towards internal control.
- **Risk Assessment** (entity's process).
- **Information & Communication**.
- **Monitoring** (of controls).
- **Control Activities**.

CONCLUSION **Internal control framework has five components: CE · RA · I&C · Monitoring · Control Activities.**

41 Circumstances in which risks can arise or change-

QNO 40.150 | CNO MRI.400 | SM · M26 MTP · N20 Exam · N19 Exam

FOCUS

- Rishabh Ltd: new system, new foreign markets, new staff, smart products, rapid growth, policy changes.
- Tests **circumstances in which risks can arise or change** (entity's risk assessment process).

APPLIES SA 315 — Entity's Risk Assessment Process

CONCEPT

- Changes in **operating environment** → new competitive pressures, different risks.
- **New personnel** — different focus on internal control · **new/revamped IT** — rapid changes alter control risk.
- **Rapid growth** strains controls · **new technology** in production/IT changes risk.
- **New business models/products** with little experience · **corporate restructuring** — staff cuts, SoD changes.
- **Expanded foreign operations** — e.g. forex risks · **new accounting pronouncements** affect FS preparation risk.

CASE

- New integrated system · two **foreign markets** · new finance/IT staff · smart appliances (**new tech/products**) · rapid growth · policy changes.

CONCLUSION **Each development is a circumstance that can give rise to or change risks; mgmt must identify and respond as part of its risk assessment process.**

42 Risk Based Audit

QNO 162.000 | CNO MRI.180 | SM · M22 RTP · N20 Exam · N20 RTP +8

FOCUS

- Theory — meaning of **Risk Based Audit** and its general steps / phases.

APPLIES Risk Based Audit (RBA) — SA 315 / SA 330 framework

CONCEPT

- Objective: **reasonable assurance** that FS are free from material misstatement (fraud or error).
- 3 key steps: assess RMM → design & perform further procedures → issue appropriate report.
- 3 phases: **Risk Assessment · Risk Response · Reporting**.
- Assessment: acceptance/continuance · planning · understand business · relevant controls · RMM at **FS & assertion level** · **significant risks** · communicate weaknesses.
- Response: ToC + substantive (ToD, analytics) · mgmt override · significant risks · **unpredictability** · assertions where substantive alone insufficient.
- Reporting: assess evidence sufficiency, change in risk, conclusions · report findings to mgmt & TCWG · form opinion.

CONCLUSION **RBA allocates audit effort to high-risk areas through three phases — risk assessment, risk response and reporting.**

43 Control Objectives (Accounting Control System)

QNO 165.100 | CNO MRI.320 | SM · N23 MTP · M21 MTP · M16 MTP +4

FOCUS

- Auditor wants to **limit account balance tests** (substantive procedures) — needs reliable controls.
- Tests the **basic accounting control objectives** the system should achieve.

APPLIES Internal Control — Accounting Control System

CONCEPT

- Recorded transactions are **real** (occurrence).
- **All** transactions recorded (completeness) and recorded **timely**.
- Properly **classified** and properly **valued**.
- Properly **posted**, **summarised** and **disclosed**.

CONCLUSION **If the accounting control system meets these objectives (tested via ToC), the auditor can reduce substantive testing.**

44 Flow Chart Technique

QNO 168.000 | CNO MRI.580 | SM · M13 MTP · N09 Exam · N08 RTP +2

FOCUS
- Theory — **Flow Chart technique** for evaluating the internal control system.

APPLIES **Internal Control — Evaluation techniques (Flow Chart)**

CONCEPT
- **Graphic / diagrammatic** presentation of flow of documents and activities (sales, purchases, wages, production).
- Concise, comprehensive, **neat visual picture** of internal controls and evaluator's findings.
- Shows: point document raised/received · no. of **copies** · intermediate stages · distribution · checking/**authorisation** · filing · final disposal.
- Usually enclosed with a **questionnaire** — makes it self-contained for evaluation.
- Precautions: proper symbols & lines · not lengthy/cumbersome · neat · show complete flow incl. final disposal.

CONCLUSION **Flow chart is an effective way of presenting the state of internal controls for evaluation.**

45 Internal Check

QNO 171.000 | CNO MRI.480 | SM · S25 MTP · N24 RTP · M22 MTP +14

FOCUS
- Store/procurement staff with **complete control**, no **job rotation**, custody + records combined — are internal check conditions violated?
- Also tests objectives and **general conditions** of the internal check system.

APPLIES **Internal Control — Internal Check System**

CONCEPT
- **Internal check**: routine continuous check where one person's work is checked by another.
- Objectives: detect / prevent errors & frauds · fix **responsibility** · prevent misappropriation.
- Start: **no single control** · judicious **distribution of powers** · budgetary control.
- During: **job rotation** · annual **leave** · **segregation** — custody ≠ books · accounting control · cash control (mechanical devices).
- End: inventory taking by staff of several sections · periodic **record control**.

CASE
- ROPE: (i) store manager keeps inventory records → **segregation** violated; (ii) no rotation for 7+ years → **job rotation** violated; (iii) Mr. Sumit unreviewed full control → **no single control** violated.
- Hospital: inventory custody + purchases + records with one person → **internal check / maker-checker** violated.
- BSF: cash receipts not with sales-ledger official; challans verified by someone other than despatch officer → division of work **not proper**.

CONCLUSION **Yes — general conditions of internal check are violated; duties must be segregated so no one person completes a transaction start to finish.**

46 Internal Controls (Multiple Location Business)

QNO 174.000 | CNO Unique | SM · N18 MTP · M18 MTP · N17 MTP +5

FOCUS
- Five entertainment centres spread over 200–250 km; **cash collections** — design adequate internal control.

APPLIES **Internal Control — Cash collection (multiple locations)**

CONCEPT
- **Printing**: serially numbered pre-printed tickets; no repetition of serial no. for reasonable period.

- **Advance booking** paid for · sales from **central ticket office**, preferably by machines.
- **Discounts / free passes** properly authorised; authorisation preserved.
- **Daily cash reconciliation** with tickets sold (serial nos.) · **daily banking** next working day; joint custody; signed cash report.
- **Entrance tickets cancelled** at gate · internal audit **surprise checks** of cash, banking, reconciliation, unsold tickets.

CONCLUSION **A ticket-based system — printing to banking to surprise checks — ensures all cash collected at each centre is accounted and banked.**

PART 2 SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

47 Significant Deficiencies

QNO 27.000 **CNO SA265.020 /SA265.080** SM · M23 RTP · N22 MTP · N20 Exam **+1**

FOCUS
- Which **matters** decide whether a deficiency (or combination) is a **significant deficiency** to be told to TCWG?
- Trap: partner says only **actual** misstatements count — but **likelihood** of misstatement also matters.

APPLIES **SA 265 — Communicating Deficiencies in Internal Control to TCWG and Management**

CONCEPT
- **Significant deficiency** = deficiency or combination important enough, in auditor's judgment, to merit **TCWG attention**.
- Significance depends on actual misstatement **and** its **likelihood** & potential magnitude → may exist even if no misstatement found.
- Matters (**Very Amazing FLOSS**): Volume of activity · Amounts exposed · Frequency & cause of exceptions · Likelihood · Other deficiencies interacting · Susceptibility to loss/fraud · Subjectivity & complexity of estimates.
- Importance of controls (**POMPS**): Prevention/detection of fraud · Outside normal course & related party transactions · Monitoring · Period-end reporting · Significant accounting policies.

CASE
- Ineffective mgmt risk assessment missing a significant lease risk, combined with other deficiencies, can be significant even without actual misstatement.

CONCLUSION **CA Shreyansh's view is right — potential misstatements also count; communicate the significant deficiency to TCWG in writing.**

PART 5 SA 320 - Materiality in Planning and Performing an Audit

48 Benchmark

QNO 42.500 **CNO SA320.020** SM · M26 MTP · J26 MTP · S25 RTP **+1**

FOCUS
- Factors for choosing a **benchmark** for overall materiality, and which benchmark fits (i) a profit-making AC maker (ii) a loss-making infra company.

APPLIES **SA 320 — Materiality in Planning and Performing an Audit**

CONCEPT
- Materiality = **professional judgment**; a % applied to a chosen **benchmark** is the starting point.
- Factors: elements of FS · items users **focus** on (profit, revenue, net assets) · nature, **life cycle**, industry & environment · ownership & **financing** (debt-financed → assets) · relative **volatility** of benchmark.
- % on PBT from continuing operations normally **higher** than % on total revenue.

CASE
- (i) AC maker with regular profits → **Profit before tax / Earnings**.

- (ii) Infra company with 2 years' losses → **Revenue or Gross Profit**; alternatively total/net **cost** (public utility projects) or **assets** if it holds custody of assets.

CONCLUSION **(i) PBT / Earnings; (ii) Revenue / Gross Profit (or total/net cost, or assets where entity has custody of assets).**

49 Revision of Materiality

QNO 43.000 | CNO SA320.100 | SM · M25 MTP · N24 MTP · M19 MTP +6

FOCUS
- Can the auditor **re-evaluate / revise materiality** mid-audit after new information (import of machinery for a new product)?
- Planning-stage materiality may differ from evaluation-stage materiality.

APPLIES **SA 320 — Materiality in Planning and Performing an Audit**

CONCEPT
- Determine materiality for **FS as a whole** in overall audit strategy.
- Also set lower **specific materiality** for particular classes/balances/disclosures where smaller misstatements could influence users.
- **Revise** materiality if information found during audit would have led to a **different amount** initially.
- If lower materiality → reconsider **performance materiality** and NTE of further audit procedures.

CASE
- Import of machinery for new product (forex) draws attention to a **particular aspect** of business → may need specific materiality.

CONCLUSION **Deepti & Co. can re-evaluate materiality after considering the necessity of such revision.**

5 CHAPTER 05 Audit Evidence

PART 1 SA 500 - Audit Evidence

50 Evaluating the objectivity of the management expert

QNO 58.200 | CNO Unique | SM · N24 MTP · N23 RTP

FOCUS
- Entity re-appoints the same **management's expert** for 5 years; audit team says objectivity need not be questioned.
- Must the auditor still **evaluate objectivity** of an expert engaged by the entity?

APPLIES **SA 500 — Audit Evidence (management's expert)**

CONCEPT
- Evaluate **competence, capabilities and objectivity** of management's expert, to the extent necessary given significance of work.
- Threats: self-interest · advocacy · familiarity · self-review · intimidation; **safeguards** reduce but cannot eliminate them.
- Intimidation threat lower for **engaged** expert than for **employed** expert; employee threat always present.
- Discuss with mgmt & expert **interests/relationships**: financial interests · business & personal relationships · provision of other services; assess safeguards.

CASE
- Mr. Sheetal re-appointed by mgmt for 5 years as 'independent' expert → his **objectivity must still be evaluated**.

CONCLUSION **Audit partner is correct — objectivity of the entity's expert must be evaluated even if called independent.**

PART 2 SA 501 - Audit Evidence: Specific Considerations for Selected Items

51 Physical Verification & Cases it is Impractical

QNO 60.000 | CNO SA501.040/SA501.080 | SM · M25 MTP · N23 Exam · N22 MTP +11

FOCUS
- Inventory is material but auditor **cannot attend** count at border warehouses / misses count (or partner skips count relying on **written representation**).
- How to get S&A evidence on **existence and condition** of inventory?

APPLIES SA 501 — Audit Evidence: Specific Considerations for Selected Items · SA 705 · SA 200

CONCEPT
- (a) Step 1: **Attend** physical count unless impracticable → evaluate mgmt instructions · observe counting · inspect inventory · perform **test counts**.
- Step 2: audit procedures on **final inventory records** vs actual count results; may serve as ToC or substantive.
- (b) Impracticable due to **nature & location** (e.g. safety threat); **general inconvenience** is not enough.
- If impracticable → **alternative procedures** (e.g. documents of **subsequent sale**); if still no S&A evidence → **modify** opinion (SA 705).
- SA 200: difficulty, time or cost is **no valid basis** to omit a procedure or accept less persuasive evidence.

CASE
- Border warehouses: attend if possible; else alternative procedures.
- High Inventory Ltd: written representation **alone is not sufficient**; mgmt's 100% count doesn't replace attendance.

CONCLUSION **Auditor must attend counts or perform alternative procedures; else modify opinion — Engagement Partner's decision is not appropriate.**

52 Evaluating Mgt Instructions on Inventory Counting & Suggesting Modifications

QNO 60.052 | TRICKY | CNO Unique | SM · J26 RTP · M24 MTP

FOCUS
- Evaluate mgmt's **inventory count instructions** for a rice mill (paddy in heaps & silos, WIP, 3 brands) and suggest modifications.

APPLIES SA 501 — Audit Evidence: Specific Considerations (Inventory — evaluating mgmt's count instructions)

CONCEPT
- Supervisor from **finance**, not storage in-charge (storage staff only coordinate).
- **No inward/outward movement** during count.
- Teams from departments **not connected with storage**; separate counting & recording on **serially numbered** count sheets; tag counted areas; give **layout plans**.
- Count sheets: descriptions as per records; **signed** by each member.

CASE
- Paddy in open: count **bags × standard weight**; silos: use **strain gauges**, not capacity.
- WIP at **each stage**, not plant as whole; FG counted **brand-wise**; **damaged/obsolete** stock segregated.
- Responsible officer to ensure all areas counted and **distinctive marks** put.

CONCLUSION **Instructions are incomplete / inappropriate — modify as above for an effective count.**

53 Understanding methods used by management for determining segment information

QNO 60.060 | CNO SA501.140/SA501.160 | SM · M26 MTP · J26 MTP · N20 Exam

FOCUS
- Listed company's **segment information** — matters to consider when understanding mgmt's **methods** for determining segments.

APPLIES **SA 501 — Audit Evidence: Specific Considerations for Selected Items (Segment Information)**

CONCEPT
- Objective: S&A evidence that segment presentation & disclosure follow the **applicable FRF**.
- Matters: **inter-segment** sales, transfers, charges & their **elimination**.
- **Comparison** with budgets / expected results (e.g. operating profit % of sales).
- **Allocation** of assets and costs among segments.
- **Consistency** with prior periods and adequacy of disclosure of inconsistencies.

CONCLUSION **GHK Associates should examine these matters to judge whether mgmt's methods give segment disclosure per the FRF.**

PART 3 SA 505 - External Confirmations

54 External Confirmation (Use of Negative Confirmation Request Inappropriate)

QNO 63.000 | CNO SA505.060 | SM · M25 MTP · N22 Exam · M18 RTP +2

FOCUS
- **Negative confirmation** used for trade payables; one **old ₹25 lakh** balance gives no response — is that acceptable?

APPLIES **SA 505 — External Confirmations**

CONCEPT
- **Negative confirmation**: respond only if confirming party **disagrees**.
- Gives **less persuasive** evidence — non-response doesn't prove receipt or accuracy; parties reply mainly when info is **not in their favour**.
- Suited to many **small homogeneous** balances, not large ones.
- Non-response ≠ misstatement; may check **subsequent payments**, third-party correspondence, **GRNs**.

CASE
- Many small payables fine for NCR; the old **₹25 lakh** balance needs more evidence.

CONCLUSION **If doubts exist, obtain further audit evidence — e.g. send a positive confirmation for the ₹25 lakh balance.**

55 Mgt Refusal -- Is it KAM

QNO 65.100 | CNO SA505.100 | SM · M24 MTP

FOCUS
- Liabilities (₹3.50 cr + ₹2 cr) **written back unilaterally** to Other Income; mgmt **blocks external confirmations**.
- Is **KAM** the right reporting, or a **modified opinion**?

APPLIES **SA 505 — External Confirmations · SA 705 — Modified Opinion · SA 701 — KAM · Ind AS Conceptual Framework**

CONCEPT
- Liability continues until **settled, transferred or replaced** — unilateral write-back is against the Ind AS framework.
- Mgmt refusal of confirmations → **professional skepticism**; reasons not valid → **reassess risks**, perform **alternative procedures**, consider opinion.
- SA 705: modify if FS **materially misstated** or **unable to obtain S&A evidence** (scope limitation by mgmt).
- SA 701: a matter requiring **modified opinion** cannot be a KAM; KAM is **no substitute**.

CASE
- Write-back without settlement = misstatement; refusal = scope limitation.

CONCLUSION **Issue a modified opinion; including it as KAM is not proper.**

56 Write-back of Liabilities – Determining Type of Modification

QNO 65.150 | CNO SA505.100 | M26 MTP · J26 MTP

FOCUS
- Payables (₹4 cr components + ₹2.50 cr services) **written back** to Other Income without vendor settlement; mgmt **refuses confirmations**.
- KAM or **type of modification**?

APPLIES SA 505 — External Confirmations · SA 705 — Modified Opinion · SA 701 — KAM · Ind AS Conceptual Framework

CONCEPT
- Obligation exists until **settled, transferred or replaced** — unilateral write-back is **questionable** under Ind AS framework.
- Mgmt restraint on confirmations → **skepticism**; reasons invalid → **reassess risks**, **alternative procedures**, consider opinion impact.
- SA 705: modify if **material misstatement** (policy not per FRF) or **inability** to get S&A evidence (mgmt prevents confirmation).
- SA 701: matter needing **modified opinion** is **not a KAM**; KAM not a substitute.

CASE
- Write-back without release = misstatement + scope limitation by mgmt.

CONCLUSION CA Deepa must issue a **modified opinion**; disclosing as **KAM is not proper**.

57 Type of External Confirmation & What if there is no response

QNO 65.200 | TRICKY | CNO Unique | M25 RTP

FOCUS
- Identify confirmation type: debtor ₹15,50,000 (agree/disagree) and creditor ₹13,25,000 (reply only if disagree).
- Action on debtor's **difference** (₹14,90,000) and creditor's **non-response**.

APPLIES SA 505 — External Confirmations · SA 330

CONCEPT
- **Positive confirmation**: party replies agreeing/disagreeing or gives requested info.
- **Exception** = difference between entity's records and confirming party's info → analyse reason, assess for **entire population**.
- Evaluate exceptions with other procedures → decide if **further procedures** needed (SA 330).
- **Negative confirmation**: reply only if party **disagrees**.

CASE
- Debtor: positive request; ₹15,50,000 vs ₹14,90,000 = **exception** → company to **investigate & reconcile**.
- Creditor: negative request; **non-response** implies agreement.

CONCLUSION Debtor — investigate and reconcile the **₹60,000 exception**; creditor — **no action** required.

PART 4 SA 510 - Initial Audit Engagements: Opening Balances

58 No Change, Opening Balance Case

QNO 66.100 | CNO SA510.020 | S25 MTP · M25 MTP · N23 Exam · M20 MTP +4

FOCUS
- First audit: auditor skips verifying **₹150 lakh receivables** unchanged from last year, relying on mgmt's word and **predecessor's audit**.

APPLIES SA 510 — Initial Audit Engagements: Opening Balances · SA 580 — Written Representations · Code of Ethics

CONCEPT
- Objective: S&A evidence that **opening balances** have no material misstatement and **accounting policies** are consistently applied.

- May peruse predecessor's **audited FS**; ordinarily rely on prior closing balances unless misstatement indicated.
- Current assets: current-period procedures (e.g. **collections**) give evidence on opening balances.
- SA 580: **written representations** are necessary but **not sufficient on their own**.

CASE
- Mgmt **restrained** verification; CA Jack excluded receivables from audit programme.

CONCLUSION CA Jack should take written representation **and still audit** the closing receivables; he is **guilty** of professional misconduct for lack of **due diligence / gross negligence**.

59 Audit Procedures to examine Opening Balances & Reporting

QNO 66.600 | TRICKY | CNO SA510.040 / SA510.060 | S25 MTP

FOCUS
- Initial audit: (i) **procedures** for opening balances audited by predecessor; (ii) reporting if evidence **unavailable** or **misstatement** found.

APPLIES SA 510 — Initial Audit Engagements: Opening Balances

CONCEPT
- (i) Check prior closing balances **correctly brought forward** (or adjustments disclosed as prior period items).
- Check opening balances reflect **appropriate accounting policies**.
- Plus one or more: peruse predecessor's **audited FS** & documents · evaluate if **current-period procedures** give evidence · perform **specific procedures**.

CASE
- (ii) Unable to get S&A evidence → **qualified / disclaimer** of opinion.
- (ii) Material misstatement not properly accounted/disclosed → **qualified / adverse** opinion.

CONCLUSION Zora must perform SA 510 procedures; inability → **qualified/disclaimer**; misstatement → **qualified/adverse**.

PART 6 SA 550 - Related Parties

60 Related Parties under State Control

QNO 84.600 | TRICKY | CNO Unique | S25 MTP

FOCUS
- Govt company buys spares ₹700 cr via **PCDC**, also Govt-controlled; mgmt says **no RPT disclosure** needed between state-controlled entities.

APPLIES Ind AS 24 — Related Party Disclosures · SA 550 — Related Parties · SA 700

CONCEPT
- Ind AS 24 **exemption** for transactions with controlling **government** and entities under **same government** control.
- If exemption used, still disclose: **name of government** & nature of relationship (control / joint control / significant influence).
- Also: **nature and amount** of each individually significant transaction; for collectively significant ones, qualitative/quantitative indication.
- SA 550: evaluate whether RP relationships & transactions are **appropriately accounted & disclosed**.

CASE
- ₹700 cr purchase from PCDC (same Govt control) → even under exemption, Govt name, relationship and **nature & amount** of transaction must be disclosed.

CONCLUSION Mgmt's contention is **not tenable** — the specified **disclosures are required**.

CHAPTER 06

6 Completion and Review

PART 1 SA 560 - Subsequent Events

61 Subsequent Event (Responsibility of Auditor)

QNO 85.000 | CNO SA560.020/SA560.060 | SM · S25 MTP · N20 Exam · N09 Exam +2

FOCUS
- Auditor's **responsibility for subsequent events** — theory, or PQR Ltd (airline food supplier hit by **Covid** after 31.03.2020).

APPLIES SA 560 — Subsequent Events · AS 4 — Contingencies and Events Occurring after the Balance Sheet Date

CONCEPT
- **AS 4**: significant events, favourable/unfavourable, between BS date and **date of approval by Board**.
- Two types: evidence of conditions **existing at BS date** (adjust) · conditions **arising after** BS date (disclose if material).
- **SA 560**: events between FS date and **audit report date** + facts known after report date.
- Obtain **S&A evidence** that all events needing adjustment/disclosure are identified; extent per risk assessment.
- Procedures: understand mgmt's procedures · inquire mgmt/TCWG · **read minutes** · read latest **interim FS**.
- Event identified → check it is appropriately reflected in FS; if not → modify report.

CASE
- PQR: apply these procedures to inventory (₹75 cr) and airline receivables hit by post year-end Covid.

CONCLUSION **Auditor must perform SA 560 procedures till the report date and ensure every adjusting/disclosable event is reflected in FS; else modify the opinion.**

62 Adjusting Event

QNO 85.020 | TRICKY | CNO SA560.060 | SM · J26 MTP · N24 MTP

FOCUS
- Legal claim (1 June 2024) for injury from rugs shipped **Aug 2023**; mgmt agrees **₹4 cr** settlement; FS silent; audit not yet complete.
- Tests whether this is an **adjusting** subsequent event under SA 560.

APPLIES SA 560 — Subsequent Events · SA 580 — Written Representations

CONCEPT
- Event between FS date and **auditor's report date** → within auditor's active duty.
- Gives evidence of conditions **existing at FS date** → requires **adjustment** in FS.
- Obtain **written representation** (SA 580) that all subsequent events needing adjustment/disclosure are adjusted/disclosed.

CASE
- Defective goods shipped in FY 2023-24 → liability condition existed at year-end; ₹4 cr settlement must be provided.
- FS silent → misstatement unless corrected.

CONCLUSION **CA Shobit should ensure mgmt makes the adjustment and disclosure; if not, consider the impact and report accordingly (modify).**

63 Subsequent Event-- After Audit Report-- Financial Statements Amended

QNO 87.500 | CNO SA560.100 | SM · M24 MTP · N21 RTP

FOCUS
- Court case filed **after audit report** (4 Aug 2021) for incident before year-end; FS to be amended.

- Mgmt wants only a contingent-liability footnote, relying on auditor's **EoM paragraph** — tests SA 560 post-report duties.

APPLIES **SA 560 — Subsequent Events (facts known after report date, before FS issued)**

CONCEPT
- After report date: **no obligation** to perform procedures.
- But if a fact becomes known that would have caused the report to be amended → **discuss** with mgmt/TCWG · **determine** if FS need amendment · **inquire** how mgmt will address it.
- If mgmt does not amend FS (where auditor believes needed) or inform recipients → **notify** mgmt/TCWG that auditor will **seek to prevent reliance** on report.
- If still no action → take appropriate action to prevent reliance.

CASE
- Mr. Raj discussed with mgmt, FS amendment determined, inquired about treatment — all SA 560 steps done.

CONCLUSION **(a) Yes — Mr. Raj properly adhered to SA 560. (b) Treatment must be as auditor believes necessary in amended FS; if mgmt does not amend appropriately, auditor notifies and seeks to prevent reliance on report.**

PART 2 SA 570 - Going Concern

64 GC Inappropriate

QNO 90.090 · TRICKY · CNO SA570.060 · SM · M25 MTP

FOCUS
- Coal-block ban halts power generation; KMP leave; banks stop finance; **no mitigation plan**; nothing reflected in FS.
- Tests **inappropriate going concern** basis vs undisclosed material uncertainty.

APPLIES **SA 570 — Going Concern · SA 705 (Revised) · CARO 2020 Clause (xix)**

CONCEPT
- Auditor concludes on appropriateness of **GC basis** and whether a **material uncertainty** exists.
- GC basis used but **inappropriate** → **adverse opinion**.
- MU not adequately disclosed → **qualified/adverse** opinion; state MU and inadequate disclosure in Basis paragraph.
- CARO (xix): report whether company is capable of meeting liabilities due **within one year** of BS date.

CASE
- Indicators: coal ban · production halt · KMP exit · banks refuse finance · no action plan → GC basis **inappropriate**.

CONCLUSION **Issue an adverse opinion under SA 705 (Revised), state the material uncertainty and non-disclosure in Basis for Opinion, and report under CARO clause (xix).**

65 Evaluating Cash flow forecast.

QNO 90.600 · TRICKY · CNO SA570.040 · M26 RTP · N23 MTP

FOCUS
- Poultry company hit by pandemic & bird flu (turnover ₹80 cr → ₹18 cr); mgmt gives a **cash flow forecast**.
- Tests how to examine **GC via cash flow forecast** — test data and assumptions.

APPLIES **SA 570 — Going Concern**

CONCEPT
- Events/conditions identified → obtain S&A evidence on **material uncertainty** via additional procedures incl. **mitigating factors**.
- Cash flow forecast: evaluate **reliability of underlying data** · check **adequate support for assumptions**.

CASE
- New bird batches: how funded when **no fresh bank credit**? · verify loan **repayment start** from sanction letters.
- Longer **supplier credit** realistic in downturn? · vaccination/health-check/veterinary costs included?
- Villagers' **pollution allegation** — any expenditure or other cash effects provided?

CONCLUSION **CA Kanishka must critically test the forecast's data and assumptions before concluding on the going concern assumption.**

66 Going Concern (Case - Inappropriate)

QNO 94.000 | CNO SA570.060 | SM · M23 Exam · N17 MTP · N17 RTP +3

FOCUS
- Coal-block ban, production halt, KMP exit, banks stop finance, **no action plan**; FS do not reflect this (OR: S N Projects, similar facts).
- Tests reporting when **GC basis is inappropriate**.

APPLIES **SA 570 — Going Concern · SA 705 (Revised)**

CONCEPT
- Auditor concludes on appropriateness of **GC basis** and existence of **material uncertainty**.
- GC basis used but **inappropriate** → **adverse opinion**.
- MU not adequately disclosed → **qualified/adverse** opinion; Basis paragraph states MU exists and FS do not adequately disclose it.

CASE
- Indicators: coal ban · halt in generation · KMP leaving · no bank finance · no sound action plan → GC basis **inappropriate**.
- Circumstances not reflected in FS.

CONCLUSION **Express an adverse opinion under SA 705 (Revised) and state in Basis for Opinion that a material uncertainty exists and is not adequately disclosed.**

67 Drafting Opinion (Material Uncertainty & No Disclosure in FST)

QNO 94.500 | CNO Unique | J26 MTP · N24 MTP · M23 MTP · M22 MTP

FOCUS
- Earthquake (OR: expired financing, bankruptcy considered) creates **material uncertainty** on GC — but FS & notes **do not disclose** it.
- Tests choice of opinion and **drafting** Opinion + Basis paragraphs.

APPLIES **SA 570 — Going Concern · SA 705 (Revised)**

CONCEPT
- MU exists + **not disclosed** → FS materially misstated.
- Effect **material and pervasive** → qualified insufficient → **adverse opinion**.
- Adverse Opinion para: because of **omission of information** in Basis section, FS **do not present fairly** financial position, performance and cash flows per AS issued by ICAI.
- Basis para: describe event · inability to realise assets/pay liabilities · MU casts **significant doubt** · FS & notes do not disclose this.

CASE
- Shreyansh Ltd FY 2020-21 (and Pratibha Ltd) — MU undisclosed → adverse.

CONCLUSION **Statutory auditor should issue an adverse opinion, with a Basis for Adverse Opinion stating the undisclosed material uncertainty.**

68 Material uncertainty Not Disclosed

QNO 94.600 | CNO SA570.060 | S25 MTP · M23 RTP · N22 MTP

FOCUS
- Trade payables ageing shows creditors overdue, key ratios **in red**, bank stops CC debits due to **negative drawing power**; no disclosure in FS.
- Tests spotting **GC indicators** from Schedule III data and reporting when MU is **not disclosed**.

APPLIES **SA 570 — Going Concern · SA 705 — Modifications to the Opinion**

CONCEPT
- Material uncertainty exists + **adequate disclosure not made** → **qualified or adverse** opinion under SA 705.

CASE
- Ageing: **80%** of creditors (₹8 cr of ₹10 cr) outstanding 1 year+ → cannot pay on time.
- Key ratios adverse · CC debits refused (negative DP) · CC repayable on demand · no plan without bank finance; no major future contracts.
- No disclosure in FS or notes.

CONCLUSION **CA Prashant (CA K) shall give a qualified or adverse opinion under SA 705 — MU casting significant doubt on GC is not disclosed.**

69 Additional Procedures When EC-SD Identified & Reporting When There is Adequate Disclosure of MU

QNO 94.700 | CNO SA570.060 | SM · J26 MTP · N24 RTP

FOCUS
- Gym company: falling customers, delayed creditor & salary payments, ratios in red, bank reluctant on ₹1.5 cr.
- Tests (i) **additional procedures** when GC doubt arises (ii) reporting when MU is **adequately disclosed**.

APPLIES **SA 570 — Going Concern**

CONCEPT
- Events/conditions → additional procedures incl. **mitigating factors**:
- (a) ask mgmt to **make assessment** · (b) evaluate **mgmt's plans** & feasibility · (c) **cash flow forecast** → data reliability & assumption support.
- (d) consider **new facts** since assessment · (e) **written representations** on plans & feasibility.
- MU adequately disclosed → **unmodified opinion** + separate section **"Material Uncertainty Related to Going Concern"**: draw attention to note; state opinion not modified.

CASE
- Review mgmt assessment & forecasts · events after period · ratios & loan compliance.
- Efforts to secure finance & bank's reluctance · impact of falling customers and delayed payments.

CONCLUSION **CA M performs SA 570 additional procedures; if GC basis appropriate and MU adequately disclosed → unmodified opinion with MRGC section.**

PART 3 SA 580 - Written Representations

70 Date of and period covered by written representation.

QNO 97.100 | CNO SA580.040/SA580.060 | SM · J26 MTP · M21 MTP · M19 RTP

FOCUS
- Mgmt argues **verbal** representations, documented by auditors, suffice; confusion on **date and period** of WR.
- Tests SA 580 rules on **dating** and **periods covered**.

APPLIES **SA 580 — Written Representations**

CONCEPT
- WR are necessary audit evidence → report **cannot be dated before** WR date.
- Dated **as near as practicable to, but not after**, the auditor's report date (covers subsequent events).
- WR on a specific assertion during audit → may need **updated WR** at year-end.
- Cover **all periods** referred to in the report; mgmt reaffirms prior-period WR.
- **Change of management**: current mgmt must still give WR for whole period — responsible for FS as a whole.

CASE
- Verbal representations insufficient — WR mandatory under SA 580.

CONCLUSION PRSH & Co should obtain **written** representations dated close to (not after) report date, covering **all periods** in the report.

71 Seeking WR from Management, Form of WR & WR (Refusal)

QNO 98.000 **CNO SA580.020/SA580.040/SA580.080** M25 RTP · N13 RTP · M10 Exam · PM (Old)

FOCUS
- Mgmt claims **verbal confirmations** suffice and **refuses** WR letter despite requests.
- Tests (a) need for WR (b) **form** of WR (c) consequences of **refusal**.

APPLIES **SA 580 — Written Representations · SA 705 (Revised)**

CONCEPT
- WR required: mgmt fulfilled responsibility for **FS preparation** · provided **all information & access** · **all transactions recorded**.
- Form: **representation letter addressed to auditor**; matters in mandatory public statements by law need not be repeated.
- On refusal: **discuss** with mgmt · **re-evaluate integrity** & reliability of evidence · determine effect on opinion (SA 705).
- Integrity doubt or required WR not provided → **disclaimer of opinion**.

CONCLUSION **(a) Auditor's contention is justified. (b) WR = letter addressed to auditor. (c) Follow refusal steps; required WR not provided → disclaim opinion.**

7 CHAPTER 07 Reporting

PART 1 SA 700 - Forming an Opinion and Reporting on Financial Statements

72 Other Standards on Auditing in addition to Standard on Auditing issued by the ICAI

QNO 111.050 **CNO SA700.380** SM · N19 RTP

FOCUS
- JV company's auditor must comply with both **ICAI SAs and ISAs** — how should the report refer to both?

APPLIES **SA 700 (Revised) — Forming an Opinion and Reporting on FS (audits under SAs and ISAs/other standards)**

CONCEPT
- Report may refer to ISAs/other jurisdiction's standards **in addition to SAs** only if:
- (i) **No conflict** that would lead to a **different opinion** or omitting an **EoM/OM** paragraph required by SAs.
- (ii) Report includes, at minimum, each **element required by law**.
- Report must **clearly identify** both sets of standards, incl. **jurisdiction of origin** of the other standards.

CONCLUSION **Auditor of KPI Ltd may refer to both SAs and ISAs only if no conflict exists and all minimum elements are included, identifying the jurisdiction of origin.**

PART 2 SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report

73 Determining Key Audit Matters

QNO 112.100 **CNO SA701.100** J26 MTP · N19 MTP · M19 Exam · M18 MTP

FOCUS
- Audit Committee/mgmt object to reporting a tax dispute (OR: **revenue recognition**) as a **KAM**; OR theory on factors for determining KAMs.

- Tests KAM determination and when non-communication is allowed.

APPLIES SA 701 — Communicating Key Audit Matters · SA 315

CONCEPT
- From matters communicated with TCWG, select those needing **significant auditor attention**, considering:
- Higher assessed **RMM / significant risks** (SA 315) · significant judgments incl. **high estimation uncertainty** · effect of **significant events/transactions**.
- Matters of **most significance** in current period = **KAMs**.
- Each KAM must be described **unless extremely rare** — adverse consequences reasonably outweigh **public interest** benefits; not applicable if entity has **publicly disclosed** the matter.
- Communication with mgmt/TCWG helps understand their view of adverse consequences.

CASE
- Tax dispute / revenue required significant auditor attention → candidate KAMs.

CONCLUSION **Matters of most significance must be reported as KAMs; mgmt/AC objection alone does not justify omission — only in extremely rare cases.**

74 Whether Key Audit Matter Required - Case Study

QNO 112.150 | CNO SA701.100 | N24 MTP · N21 RTP

FOCUS
- Phased **ERP implementation** significantly affected audit strategy; EQCR says not a KAM as it is **not linked to FS disclosures**.
- Tests whether a KAM must relate to an FS-disclosed matter.

APPLIES SA 701 — Communicating Key Audit Matters

CONCEPT
- KAM factors: higher **RMM/significant risks** · significant judgments/estimates · significant events/transactions.
- Matters of **most significance** in current period = KAMs.
- Such matters are **often** linked to FS disclosures — but not always.
- Other matters needing significant attention may be KAMs, e.g. **new IT system** affecting overall **audit strategy** or a significant risk.

CASE
- ERP implementation had a significant effect on Mr. Hemant's **overall audit strategy** → can be a KAM.

CONCLUSION **Mr. Vishay's contention is not proper — a matter not linked to FS disclosures can still be a KAM if it required significant auditor attention.**

PART 3 SA 705 - Modifications to the Opinion in the Independent Auditor's Report

75 Types of Modification

QNO 113.000 | CNO SA 705.040 | SM · M25 MTP · N23 MTP · M19 MTP +4

FOCUS
- Audit evidence **inconsistent with FS affirmations** (e.g. related party / structured finance disclosures); mgmt disagrees.
- Tests **when to modify** under SA 705 and the **types of modification** available.

APPLIES SA 705 — Modifications to the Opinion in the Independent Auditor's Report · SA 700 (Revised)

CONCEPT
- Modify opinion when FS as a whole are **not free from material misstatement**, or S&A evidence cannot be obtained.
- Type depends on (i) **nature of matter** — materially misstated vs may be misstated (no S&A evidence).
- (ii) auditor's judgement on **pervasiveness** of effects / possible effects.
- Misstated, material not pervasive → **Qualified**; material and pervasive → **Adverse**.
- No S&A evidence: material not pervasive → Qualified; material and pervasive → **Disclaimer**.

CASE
- Evidence obtained contradicts FS affirmations → FS materially misstated → opinion must be modified.
- Give a **conditional answer**: depends on pervasiveness.

CONCLUSION **Modify per SA 705 — Qualified if material but not pervasive; Adverse if material and pervasive.**

76 Special Considerations for Various Opinions

QNO 113.010 | CNO SA 705.120 | SM · M20 RTP · N18 RTP

FOCUS
- Special wording the auditor must use in the opinion section for (a) **Qualified**, (b) **Adverse**, (c) **Disclaimer**.

APPLIES **SA 705 — Modifications to the Opinion in the Independent Auditor's Report · SA 700 (Revised) · SA 701**

CONCEPT
- (a) Qualified: "**except for the effects** of the matter(s) in Basis for Qualified Opinion" → FS present fairly / prepared in all material respects per framework.
- (a) If due to inability to obtain S&A evidence → "except for the **possible effects**…".
- (b) Adverse: "because of the **significance** of the matter(s)…" → FS **do not** present fairly / have not been prepared per framework.
- (c) Disclaimer: state auditor **does not express an opinion**; due to significance, S&A evidence not obtained to provide a basis.
- (c) Amend SA 700 statement to "auditor was **engaged to audit**" the FS.
- (c) Unless law requires, **no KAM section** (SA 701) in a disclaimer.

CONCLUSION **Each modified opinion has its own heading and prescribed wording — "except for", "do not present fairly", or "do not express an opinion".**

77 Audit evidence not consistent with the affirmation in the FST

QNO 113.030 | CNO SA705.040 | SM · N22 Exam

FOCUS
- CA Omkar obtains audit evidence **not consistent with the affirmations** made in the FS.
- Tests whether and how to **modify** the opinion under SA 705.

APPLIES **SA 705 — Modifications to the Opinion in the Independent Auditor's Report · SA 700 (Revised)**

CONCEPT
- SA 705: auditor's responsibility to issue appropriate report when modification is necessary.
- Type of modification depends on **nature of matter** (misstated / may be misstated) and **pervasiveness**.
- Modify when evidence shows FS as a whole are **not free from material misstatement**.
- Material but not pervasive → **Qualified**; material and pervasive → **Adverse**.

CASE
- Evidence contradicts FS affirmations → FS materially misstated → report must be modified.

CONCLUSION **CA Omkar should modify his opinion — Qualified or Adverse depending on pervasiveness in the circumstances.**

78 Limitation on Scope.

QNO 119.000 | CNO SA705.060 | S25 MTP · M22 MTP · N20 Exam · M19 Exam

FOCUS
- Mgmt restricts access to **key inventory records & supplier confirmations** after acceptance; refuses to lift even after TCWG.
- Tests consequences of a **management-imposed limitation** on scope and auditor's response.

APPLIES **SA 705 — Modifications to the Opinion (Management-imposed limitation after acceptance)**

CONCEPT
- Limitation likely to need Qualified / Disclaimer → **request mgmt to remove** it.

- If mgmt refuses → communicate to **TCWG** and perform **alternative audit procedures**.
- Still no S&A evidence: possible effects material, **not pervasive** → **Qualify**.
- Material and **pervasive** → **withdraw** where practicable and possible under law.
- If withdrawal not practicable → **Disclaimer of Opinion**.
- Before withdrawing, communicate to TCWG misstatements that would have led to modification.

CASE
- Restriction persists after TCWG; affects significant balances → evaluate pervasiveness of possible effects.

CONCLUSION **Kabir must qualify if not pervasive; if pervasive, withdraw or, where not possible, disclaim the opinion.**

79 Drafting Adverse opinion.

QNO 119.200 **CNO Unique** SM · N23 Exam · N23 RTP · M19 Exam

FOCUS
- Hary Ltd acquired **55%** of Sam Ltd but did **not consolidate** — fair values not ascertained, accounted on estimate basis.
- Tests choosing and **drafting** the opinion paragraph.

APPLIES **SA 705 — Modifications to the Opinion (Adverse Opinion) · Consolidated Financial Statements**

CONCEPT
- Non-consolidation of a subsidiary → CFS **materially misstated**.
- Misstatement is **pervasive** to CFS → **Adverse opinion**.
- Opinion: "because of the significance of the matter in Basis for Adverse Opinion… CFS **do not give a true and fair view**".
- Basis: subsidiary not consolidated as fair values not determined; should have been consolidated using **provisional amounts**.
- Effects of failure to consolidate **not determined**.

CASE
- 55% holding = subsidiary; estimate-basis accounting is not correct; many elements of CFS would be materially affected.

CONCLUSION **ALM Associates should issue an Adverse Opinion on the CFS with a Basis for Adverse Opinion paragraph.**

80 Draft Opinion (Not Given Agreement)

QNO 119.300 **CNO Unique** SM · M24 MTP · M23 MTP · N21 Exam

FOCUS
- Loan of **₹75 lakh** to Sriman Pvt Ltd — **no agreement** furnished; repayment, interest and terms unverifiable.
- Tests choice of opinion and **drafting** opinion + basis paragraphs.

APPLIES **SA 705 — Modifications to the Opinion (Qualified Opinion)**

CONCEPT
- **Loan agreement** is the key audit evidence for verifying loans and advances.
- Its absence = material issue, but **not pervasive** → **Qualified opinion**.
- Opinion: "**except for the effects** of the matter in Basis for Qualified Opinion… true and fair view".
- Basis: company unable to furnish loan agreement for ₹75 lakh → unable to verify repayment terms, interest chargeability, other terms.

CASE
- ₹75 lakh loan unverifiable → material but not pervasive.

CONCLUSION **CA Madhu should give a Qualified Opinion with a Basis for Qualified Opinion paragraph.**

81 Determining Type of Modification (Inventory Overstatement & Non-Disclosure)

QNO 119.400 | CNO SA710.060 | M26 RTP

FOCUS
- Inventory overstated **₹8.75 cr** (obsolete stock) and **₹12 cr** environmental litigation not disclosed; mgmt refuses both.
- Misstatements material, **not pervasive** — tests Basis section wording, reporting requirements and opinion type.

APPLIES SA 705 (Revised) — Modifications to the Opinion · SA 260 — Communication with TCWG

CONCEPT
- Amend heading "Basis for Opinion" to "**Basis for Qualified Opinion**".
- Describe the matter; for specific amounts → **quantify financial effects**.
- Omitted disclosure → **discuss with TCWG** · describe nature of omitted info · **include omitted disclosure** if practicable, S&A evidence obtained, not prohibited by law.
- Communicate matters to TCWG per **SA 260**.

CASE
- (a) Basis: inventory and PBT overstated by **₹8.75 cr**, quantified.
- (b) Describe omitted ₹12 cr pending litigation; include the disclosure since evidence obtained.

CONCLUSION (c) Issue a **Qualified Opinion** with a "Basis for Qualified Opinion" covering both matters.

82 Draft Opinion (Disclaimer)

QNO 119.500 | CNO Unique | SM · N24 MTP · N22 MTP

FOCUS
- JV investment in Dharma Ltd (**₹115 cr**, **over 91%** of group net assets) — no S&A evidence; effect **material and pervasive**.
- Tests **drafting** a Disclaimer of Opinion and its basis.

APPLIES SA 705 — Modifications to the Opinion (Disclaimer of Opinion) · Consolidated Financial Statements

CONCEPT
- Inability to obtain S&A evidence + possible effects **material and pervasive** → **Disclaimer**.
- Opinion: "We were **engaged to audit** the CFS…" → "We **do not express an opinion**…".
- "Because of the significance of the matter… not able to obtain S&A evidence to provide a basis for an audit opinion."
- Basis: no access to Dharma Ltd's **mgmt, auditors and audit documentation** → cannot determine adjustments to share of assets, liabilities, income, expenses, cash flows.

CASE
- Single element = 91% of net assets → pervasive possible effect.

CONCLUSION M/s PM & Associates should issue a **Disclaimer of Opinion** with a Basis for Disclaimer of Opinion paragraph.

PART 4 SA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

83 Inappropriate use of EMP

QNO 120.300 | CNO SA706.040 / SA580.020 | SM · J26 RTP · M25 MTP

FOCUS
- **₹500 cr** contractor claims treated as fully recoverable; auditor relied **only on mgmt representation**.
- Tests whether EMP can be used where audit evidence itself is **insufficient**.

APPLIES SA 706 — Emphasis of Matter & Other Matter Paragraphs · SA 580 — Written Representations · SA 705

CONCEPT
- EMP = matter **appropriately presented/disclosed**, fundamental to users' understanding.
- EMP allowed only if auditor would **not be required to modify** opinion under SA 705.
- Mgmt representations alone are **not S&A evidence**.

- Needed procedures: verify contracts with customers, status of **arbitration**, etc.

CASE
- No other procedures done; proper procedures may show modification is needed → EMP cannot substitute.

CONCLUSION **Decision not justified — first obtain S&A evidence; only if no modification is required may the matter go in an EMP.**

84 Case Study (EMP & Modification)

QNO 122.050 | CNO SA706.040 | SM · M24 MTP · N20 RTP

FOCUS
- Obs 1: **flood loss** at warehouse disclosed by mgmt. Obs 2: flood **destroyed records**, no duplicates — material, not pervasive.
- Tests EMP vs modified opinion — which heading for each.

APPLIES **SA 706 — Emphasis of Matter & Other Matter Paragraphs · SA 705 — Modifications to the Opinion**

CONCEPT
- EMP: matter **appropriately disclosed**, fundamental to users' understanding of FS.
- SA 705: unable to obtain S&A evidence, effect **material but not pervasive** → **Qualified opinion**.

CASE
- Obs 1: flood loss already disclosed in FS → report consequences of flood under **EMP**.
- Obs 2: records destroyed, no duplicates → **no S&A evidence**; material, not pervasive.

CONCLUSION **Obs 1 → Emphasis of Matter paragraph. Obs 2 → Qualified Opinion under SA 705. Both to be reported.**

85 EMP-Case study on impact of Change in LAW on Financial position

QNO 123.500 | CNO SA706.040 | M25 MTP · N22 MTP

FOCUS
- Change in law needs **production capacity licence** for API makers; impact appropriately disclosed by mgmt.
- Audit team wants to report it as an **Other Matter** paragraph — is that correct?

APPLIES **SA 706 — Emphasis of Matter & Other Matter Paragraphs · SA 705 · SA 701**

CONCEPT
- EMP: matter **presented or disclosed in FS**, fundamental to users' understanding.
- Conditions: (i) opinion **not required to be modified** under SA 705; (ii) where SA 701 applies, matter **not a KAM**.
- OMP is for matters **not presented/disclosed** in FS (relevant to understanding of audit).

CASE
- Disclosure already made and found appropriate and sufficient; matter is fundamental to users.

CONCLUSION **Team's decision is not in order — the matter should be reported in an Emphasis of Matter paragraph, not OMP.**

86 EMP Case Study - Going Concern Issue at Branch

QNO 123.600 | CNO SA706.040 | SM · M24 Exam

FOCUS
- Delhi Branch transferred to subsidiary; FS prepared on **non-going concern** basis, fully disclosed in **Note XX**.
- S&A evidence obtained — tests **drafting** opinion, basis and placement of Note XX.

APPLIES **SA 706 — Emphasis of Matter Paragraph · SA 700 (Revised) · Going concern disclosure**

CONCEPT
- Disclosure correct + S&A evidence → **Unmodified opinion**: FS give a **true and fair view**.
- Basis for Opinion: audit per SAs; independent per ICAI Code of Ethics & Companies Act; evidence sufficient & appropriate.
- Add **Emphasis of Matter**: "We draw attention to **Note XX**" — intention to close branch operations.

- EMP text: FS prepared on basis branch is **not a going concern**; provision for closure losses incl. realisability of current assets.
- End with: "Our opinion is **not modified** in respect of this matter."

CASE
- Mgmt's intention to close properly disclosed → fundamental matter → EMP after Basis for Opinion.

CONCLUSION **Issue an unmodified opinion with an Emphasis of Matter paragraph referring to Note XX.**

PART 5 SA 710 - Comparative Information: Corresponding Figures and Comparative Financial Statements

87 Written Representation About Comparatives

QNO 125.500 | CNO SA 710.040 | SM · S25 MTP · M25 MTP · M24 Exam

FOCUS
- Restated FS for **3 years** (IPO); MRL dated 1 Apr 2024 covers only **2023-24** — mgmt says it was not in place earlier.
- Tests whether representations must cover **all periods** and their dating.

APPLIES **SA 580 — Written Representations · SA 560 — Subsequent Events · SA 705**

CONCEPT
- Written representations are necessary evidence → report **cannot be dated before** the WR date.
- WR dated **as near as practicable to, but not after**, the report date (SA 560 link).
- WR needed for **all periods** referred to in the report — mgmt reaffirms prior-period WR.
- New mgmt not in place earlier → **does not diminish** their responsibility for FS as a whole.

CASE
- MRL dated 1 Apr 2024 vs report 5 Aug 2024 → updated WR needed.
- Must cover 2022-23 and 2021-22 too.

CONCLUSION **CA N should obtain WR for all three years; if refused → discuss, re-evaluate mgmt integrity, consider impact on opinion per SA 705.**

88 Comparatives (Previous Year Misstatements)

QNO 126.000 | CNO SA710.080 | SM · N24 MTP · M23 MTP · N20 MTP +10

FOCUS
- Prior-year report **qualified** (doubtful debts / diminution in investments / depreciation charged instead of capitalised).
- Tests reporting in current year when matter is (i) **unresolved** vs (ii) **resolved**.

APPLIES **SA 710 — Comparative Information: Corresponding Figures and Comparative FS**

CONCEPT
- PY modified opinion + matter **resolved** and properly accounted/disclosed → current opinion **need not refer** to previous modification.
- Matter **unresolved** → **modify** current period opinion.
- Material effect on CY → refer to **both CY and corresponding figures** in Basis for Modification.
- No material effect on CY → explain modification is due to effect on **comparability** of CY and corresponding figures.

CASE
- (i) No provision in CY → modify, referring to CY and PY figures.
- (ii) Adequate provision made → no reference to earlier modification.

CONCLUSION **(i) Unresolved → modified report; (ii) resolved → no need to refer to PY qualification. Same logic applies to investments and depreciation variants.**

89 Adverse Opinion on Comparatives & Predecessor Auditor

QNO 126.500 | TRICKY | CNO SA710.060 | S25 RTP

FOCUS
- PY (FY 2023-24) **Adverse** opinion by predecessor Gupta & Mehra LLP on trade receivables; misstatement **uncorrected** in CY.
- **Comparative FS** presented — tests CY modification and **Other Matter** disclosures.

APPLIES SA 710 — Comparative Information: Corresponding Figures and Comparative FS

CONCEPT
- PY modified opinion + matter **unresolved** → **modify** CY opinion.
- Basis for Modification: material effect on CY → refer to **CY and corresponding figures**; else explain effect on **comparability**.
- Comparative FS: opinion refers to **each period** presented.
- PY audited by **predecessor** → OMP stating: PY audited by predecessor · type of opinion & reasons if modified · **date** of that report.

CASE
- (a) Trade receivables misstatement still uncorrected → CY opinion must be modified.
- (b) OMP: PY audited by Gupta & Mehra LLP; adverse opinion due to receivables; date of report.

CONCLUSION **CA Roshan must modify the CY opinion and include an Other Matter paragraph on the predecessor's adverse opinion.**

PART 7 Company Audit - Reporting under the Companies Act, 2013

90 Sec 143 -- Fraud Reporting (Cost Accountant & General Manager Cases)

QNO 340.000 | CNO CA.040 | SM · N24 MTP · M19 RTP · M18 MTP +2

FOCUS
- Employee fraud / mgmt forged entries ₹50 lakh / retired GM fraud **over ₹100 lakh** / **cost auditor** skips ₹1.5 cr fraud.
- Tests manner, timing and threshold of fraud reporting.

APPLIES Sec 143(12), Companies Act 2013 r/w Rule 13, Companies (Audit and Auditors) Rules 2014 · Clause (xi), CARO 2020

CONCEPT
- Fraud by officers/employees **< ₹1 cr** → report to **Audit Committee/Board within 2 days**: nature, amount, parties.
- **₹1 cr or above** → report to **Central Govt**: to Board/AC within 2 days, seek reply in **45 days**.
- Forward report + reply + comments to CG **within 15 days**; no reply → send with note.
- To Secretary MCA in sealed cover (RPAD/Speed Post + e-mail), on letterhead, in **Form ADT-4**.
- Applies mutatis mutandis to **cost auditor** (Sec 148) and secretarial auditor (Sec 204).
- CARO Clause 11: report fraud noticed/reported, nature and amount.

CASE
- Cases 1 & 2: report under Sec 143(12) and CARO Clause 11.
- Case 3: GM fraud > ₹1 cr → report to **Central Govt** + CARO.
- Case 4: cost auditor's ₹1.5 cr fraud → must report to CG; **CARO not applicable** to him.

CONCLUSION **Report per Sec 143(12) by threshold; Mr. Suresh failed in his duty to report to the Central Government.**

PART 8 CARO 2020 - Companies (Auditor's Report) Order, 2020

91 Cl 2 --Discrepancy 10% or more

QNO 393.500 | TRICKY | CNO CARO.060 | M25 RTP

FOCUS
- Physical verification vs books for each **class of inventory** — any discrepancy of **10% or more**?
- Tests computing discrepancy class-wise, not on total.

APPLIES **Clause 3(ii)(a), CARO 2020 — Inventory physical verification**

CONCEPT
- Report whether discrepancies of **10% or more in aggregate for each class** of inventory were noticed.
- If so, whether they have been **properly dealt with** in the books of account.

CASE
- RM 1,160 vs 1,180 → 1.72%; WIP 410 vs 430 → 4.87% — below 10%.
- FG 2,500 vs 2,790 → **11.6%**; Stores 220 vs 180 → **18.18%** — exceed 10%.

CONCLUSION **Auditor should report discrepancies in finished goods and stores & spares under Clause 3(ii)(a).**

92 Cl 7 --Statutory Dues (Is sending objection letter a dispute?

QNO 400.500 · TRICKY · CNO CARO.160 · M25 RTP

FOCUS
- Income-tax dues ₹15 lakh unpaid since **July 2023**; mgmt only sent an **objection letter** — no response from dept.
- Tests whether a mere **representation** makes the dues 'disputed'.

APPLIES **CARO 2020 — Para 3 Clause (vii)(a) & (vii)(b) · Statutory Dues**

CONCEPT
- **Cl (vii)(a)**: regular in depositing **undisputed** statutory dues (GST, PF, ESI, income tax, customs, cess etc.)?
- If not → state arrears outstanding on last day of FY for **more than 6 months** from date payable.
- **Cl (vii)(b)**: dues not deposited due to **dispute** → amount involved + forum where pending.
- **Mere representation** to the Department is **not a dispute**.

CASE
- Objection letter = representation only → no formal dispute raised.
- Dues outstanding > 6 months as on 31.03.2024 → reportable arrears of undisputed dues.

CONCLUSION **Auditor must report the ₹15 lakh under Clause (vii)(a) of Para 3 of CARO 2020 (not under (vii)(b)).**

93 Cl 8 & 18 Case Study

QNO 402.500 · CNO CARO.180 · SM · J26 MTP · M24 Exam · N22 Exam

FOCUS
- Order u/s **148** (01.05.2023): tax ₹50 lakh on **undisclosed cash sales ₹150 lakh** (FY 2020-21) accepted & paid, but income **not recorded** in books in 2023-24.
- Previous auditor CA T **resigned** over this non-recording — reporting duty of new auditor?

APPLIES **CARO 2020 — Para 3 Clause (viii) Undisclosed Income · Clause (xviii) Resignation of Statutory Auditor**

CONCEPT
- **Cl (viii)**: transactions not recorded in books **surrendered/disclosed as income** in tax assessments under IT Act?
- If so → whether **previously unrecorded income** properly recorded in books **during the year**.
- **Cl (xviii)**: any **resignation** of statutory auditors during the year?
- If so → whether auditor considered **issues, objections or concerns** raised by outgoing auditor.

CASE
- Income disclosed & tax paid in 2023-24 but **not recorded** in books → report under Cl (viii).
- CA T resigned due to non-recording → report under Cl (xviii).

CONCLUSION **Auditor must report under Clause (viii) and Clause (xviii) of Para 3 of CARO 2020 for 2023-24.**

94 "Cl 13 & 15--Non Cash Transaction with Director & Cl 7-- Statutory Dues"

QNO 411.000 · CNO CARO.320 · SM · S25 RTP · N24 MTP · M23 Exam +5

FOCUS
- (i) Candy Ltd **exchanges** its larger plot for director Mr. Sidhant's adjacent land — a **non-cash transaction** with a director.

- (ii) TDS demand ₹25 lacs (assessee in default) **not deposited**; **appeal** filed with JCIT (Appeals) — disputed dues?

APPLIES CARO 2020 — Para 3 Clause (xv) (Sec 192) · Clause (xiii) (Sec 177 & 188) · Clause (vii)(b)

CONCEPT
- **Cl (xv)**: non-cash transactions with **directors** or connected persons → compliance with **Sec 192**?
- **Cl (xiii)**: related party transactions comply with **Sec 177 & 188**; details disclosed in FS as per AS.
- **Cl (vii)(b)**: statutory dues not deposited due to **dispute** → amount involved + **forum** where pending.

CASE
- (i) Property exchanged via deed with director = non-cash transaction + related party transaction.
- (ii) TDS = statutory dues; appeal filed against DCIT (TDS) order → **disputed** statutory dues.

CONCLUSION **(i) Report under Clauses (xv) and (xiii). (ii) Report ₹25 lacs and forum JCIT (Appeals) under Clause (vii)(b).**

8 CHAPTER 08 Specialised Areas

PART 3 SA 810 - Engagements to Report on Summary Financial Statements

95 Factors affecting acceptability of the applied criteria

QNO 810.100 | CNO SA 810.040 | SM · M24 Exam

FOCUS
- Auditor (Mr. BK) asked to report on **summary FS** derived from FS audited by him.
- Tests the factors for judging **acceptability of applied criteria** before accepting.

APPLIES SA 810 — Engagements to Report on Summary Financial Statements

CONCEPT
- **Applied criteria** = criteria applied by mgmt in preparing summary FS; mgmt decides info to be reflected.
- Summary FS = aggregated info, limited disclosure → **increased risk** of being misleading; higher when no established criteria.
- Factors (**NPI Not misleading**): **N**ature of entity · **P**urpose of summary FS · **I**nformation needs of intended users · result **not misleading**.
- Appropriate **title** discloses summarised nature & identity of audited FS, e.g. "Summary FS prepared from the audited FS for the year ended March 31, 20XX".

CONCLUSION **Mr. BK should accept only if applied criteria are acceptable — judged on nature, purpose, users' information needs and not misleading outcome.**

96 Impact Of Qualified Opinion on Complete Set on Report on Summary Financial Statement

QNO 810.400 | CNO SA 810.100 | SM · M24 MTP

FOCUS
- Report on audited FS is **qualified** — can auditor give an unmodified opinion on **summary FS**?
- Also: summary FS not a fair summary and mgmt refuses changes — effect on opinion.

APPLIES SA 810 — Engagements to Report on Summary Financial Statements

CONCEPT
- Qualified opinion on audited FS but summary FS **consistent / fair summary** → report on summary FS shall, in addition:
- (a) **State** that report on audited FS contains a **qualified opinion**.
- (b) **Describe** the **basis** for qualified opinion & that opinion, and its **effect** on summary FS, if any.
- Summary FS **not a fair summary** + mgmt does not agree to changes → **adverse opinion** on summary FS.

CASE
- CA Madhur may express opinion that summary FS are a fair summary, but must refer to and describe the qualification and its effect.

CONCLUSION Yes, if summary FS are a fair summary — but report must **disclose the qualified opinion**, its basis and effect; else **adverse opinion**.

9 CHAPTER 09 Audit-related Services

PART 1 SRS 4400 - Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

97 Precautions While Reporting in AUP Assignment

QNO 4400.350 | CNO SRS 4400.100 | SM · M24 RTP

FOCUS
- Mgmt wants ~1000 trade receivables (₹100 cr) verified; CA Karuna (**not statutory auditor**) to report factual findings.
- (a) Nature of engagement & propriety of acceptance · (b) reporting **precautions** on scope.

APPLIES SRS 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information

CONCEPT
- **AUP**: report of **factual findings** on specified procedures on specified elements / accounts / items.
- 'Auditor' in SRS 4400 does **not** mean the practitioner must be the entity's FS auditor.
- Precautions in report: procedures are **neither audit nor review** → **no assurance** expressed.
- Had additional procedures / audit / review been done, **other matters** might have been reported.
- Report **restricted** to parties who agreed to procedures; relates only to **specified elements**, not FS as a whole.

CASE
- Verification of receivables for mgmt = AUP under SRS 4400; she need not be statutory auditor.

CONCLUSION (a) **Proper** for CA Karuna to accept. (b) Include the four **scope statements** so readers don't misunderstand.

PART 2 SRS 4410 - Compilation Engagements

98 Compilation Vs Assurance & Applicability of SQC 1

QNO 4410.050 | CNO SRS4410.020 | SM · M24 Exam

FOCUS
- CA Lalit's team (audit-only exposure) handling a **compilation** engagement for MNC Ltd.
- Tests key issues, difference from **assurance** engagements and applicability of **SQC 1**.

APPLIES SRS 4410 — Compilation Engagements · SQC 1

CONCEPT
- **Compilation**: practitioner applies accounting & reporting expertise to **assist mgmt** prepare & present FI per applicable FRF; issues report.
- Purposes: **mandatory** periodic reporting under law · non-mandatory → internal use by mgmt/TCWG · external parties under contract (grant) · **transactional** (merger/acquisition).
- **Assurance engagement**: practitioner expresses a **conclusion** enhancing confidence of intended users.
- Compilation is **not assurance** — no need to verify accuracy/completeness or gather evidence for opinion/review conclusion.
- **SQC 1** applies to all Engagement & QC Standards → covers SRS 4410 (**Related Services**).

CASE
- Team must assist mgmt only; no verification or opinion as in audits.

CONCLUSION Compilation differs from assurance (**no opinion/conclusion**); **SQC 1 applies** to the firm for this engagement too.

99 Compilation Terms of Engagement

QNO 4410.150 | CNO SRS 4410.040 | SM · M26 RTP · J26 MTP · N24 MTP

FOCUS
- Practitioner must **agree terms** with mgmt (and engaging party, if different) **before accepting** a compilation engagement.
- Variants ask specifically for **mgmt's responsibilities** to be agreed.

APPLIES SRS 4410 — Compilation Engagements

CONCEPT
- (a) **Intended use & distribution** of FI, and restrictions on use/distribution.
- (b) Identification of applicable **FRF** · (c) **Objective & scope** of engagement.
- (d) **Practitioner's responsibilities** incl. compliance with relevant ethical requirements.
- (e) **Mgmt responsibilities**: FI & its preparation per acceptable FRF · internal control · **accuracy & completeness** of records/info provided · **judgments** in preparation.
- (f) Expected **form and content** of practitioner's report.

CONCLUSION Practitioner **shall not accept** the compilation engagement unless these terms are **agreed** with mgmt / engaging party.

100 Inaccurate Accounting Treatment

QNO 4410.300 | CNO SRS 4410.060 | SM · M24 MTP

FOCUS
- Compilation: theft loss ₹100 lacs, insurance claim **repudiated**, no appeal — still shown in **current assets**.
- OR: partners refuse to correct grossly understated inventory, saying it is outside scope. Tests practitioner's action.

APPLIES SRS 4410 — Compilation Engagements

CONCEPT
- Compilation gives **no opinion** → question of modifying opinion does not arise.
- If FI needs amendment to avoid **material misstatement** or is **misleading** → **propose amendments** to mgmt.
- Mgmt declines / does not permit → **withdraw** and inform mgmt & TCWG of reasons.
- Withdrawal not possible → determine **professional & legal responsibilities**.

CASE
- Claim repudiated, no appeal → it is a **loss**; showing as current asset is materially misstated.
- Same applies to Kings & Co.'s understated inventory / non-application of accounting standards.

CONCLUSION Propose **amendments**; if refused, **withdraw** from the engagement and communicate reasons to mgmt and TCWG.

101 Purposes & Elements of Practitioner's Report

QNO 4410.380 | TRICKY | CNO SRS4410.020 / SRS4410.080 | M25 RTP

FOCUS
- (i) **Purposes** for which compiled FI may be required. (ii) **Elements** of practitioner's compilation report.

APPLIES SRS 4410 — Compilation Engagements

CONCEPT
- (i) Purposes: **mandatory** periodic reporting under law · non-mandatory → internal use by mgmt/TCWG · external parties under contract (grant) · **transactional** (merger/acquisition).
- (ii) Report **in writing**: title · addressee · statement that practitioner **compiled FI based on info provided by mgmt**.
- Mgmt/TCWG responsibilities · applicable **FRF** (describe if special purpose) · identification of FI, its date/period.
- Practitioner's responsibilities (per SRS, ethical requirements) · what a compilation entails.

- Explanation: **not assurance** → no verification, **no audit opinion or review conclusion**.
- Special purpose FRF → explanatory para (purpose/users; may be unsuitable for other purposes) · date · signature · place.

CONCLUSION **Compiled FI serves statutory, internal, contractual or transactional purposes; report clearly states it is compiled, not assured.**

10 CHAPTER 10 Review of Financial Information

PART 1 SRE 2400 - Engagements to Review Historical Financial Statements

102 Factors Affecting Acceptance & Continuance of Review Engagement

QNO 2400.030 | CNO SRE2400.060 | M26 RTP

FOCUS
- CA Amar asked to do an **SRE 2400** review: key info may be **unavailable**, mgmt imposes **scope restrictions**, doubts on **integrity** & independence.
- Tests factors for acceptance and when **not to accept**.

APPLIES SRE 2400 — Engagements to Review Historical Financial Statements

CONCEPT
- Comply with **ethical requirements** incl. independence; engagement partner responsible for overall quality.
- Don't accept (unless law requires) if not satisfied of **rational purpose** (e.g. significant scope limitation, law requires audit) or that review is **appropriate** (may suggest audit/compilation).
- Reason to believe **ethical requirements / independence** will not be satisfied.
- Information likely **unavailable or unreliable**.
- Cause to **doubt mgmt integrity** affecting proper performance.
- Mgmt/TCWG **scope limitation** likely to result in **disclaiming a conclusion**.

CASE
- All three observations are listed grounds for non-acceptance.

CONCLUSION **CA Amar should not accept the review engagement unless required by law or regulation.**

103 Preconditions for accepting Review Engagement

QNO 2400.210 | TRICKY | CNO SRE2400.080 | M25 MTP

FOCUS
- CA Jai (Adboot & Co.) to review Mix Ltd's FS for FY 2023-24 — **preconditions** to evaluate and **mgmt agreement** to obtain.

APPLIES SRE 2400 — Engagements to Review Historical Financial Statements

CONCEPT
- (1) Determine **FRF is acceptable**; for special purpose FS, understand purpose & intended users.
- (2) Obtain **mgmt agreement** acknowledging responsibility for:
- (i) **Preparation of FS** per applicable FRF incl. fair presentation where relevant.
- (ii) **Internal control** necessary for FS free from material misstatement (fraud or error).
- (iii) Providing **access to all information** · **additional information** requested · **unrestricted access to persons**.

CASE
- CA Jai should accept only after these preconditions are met and mgmt's agreement is obtained.

CONCLUSION **Evaluate acceptable FRF and obtain mgmt's agreement acknowledging its three responsibilities before accepting.**

104 During Review Events or Conditions Which Create Significant Doubt Over Going Concern

QNO 2400.250 | CNO SRE2400.120 | SM · N24 MTP

FOCUS
- During an **SRE 2400** review, events/conditions cast **significant doubt** on **going concern** — practitioner's steps.

APPLIES **SRE 2400 — Engagements to Review Historical Financial Statements**

CONCEPT
- (i) **Inquire** mgmt about **plans** for future actions, their **feasibility**, and whether they will improve the situation.
- (ii) **Evaluate** responses → sufficient basis to continue going concern presentation, or conclude FS **materially misstated / misleading**.
- (iii) **Consider** mgmt's responses in light of all relevant information known from the review.

CONCLUSION **Three going-concern steps in a review: inquire → evaluate → consider mgmt's responses.**

PART 2 SRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity

105 Updating Understanding of Company

QNO 2410.100 | CNO SRE2410.040 | SM · S25 MTP

FOCUS
- CA Aditya Jain, auditor of a listed company, does **quarterly review** — five procedures to **update understanding** of entity.

APPLIES **SRE 2410 — Review of Interim Financial Information Performed by the Independent Auditor of the Entity**

CONCEPT
- Auditor **updates** understanding while planning interim review, incl. internal control over interim FI (may differ from annual).
- **Past records**: prior year audit & prior interim review documentation · latest annual/interim data · significant risks · corrected/uncorrected misstatements · continuing accounting matters.
- **Current year**: audit procedures performed · **materiality** for interim FI · internal audit results & mgmt actions.
- **Inquiries of mgmt**: assessment of **fraud risk** · changes in business activities · significant changes in **internal control** · process for preparing interim FI.

CONCLUSION **Even a well-versed auditor must update understanding through past records, current-year information and inquiries of mgmt.**

106 Key Elements of Review Report

QNO 2410.350 | TRICKY | CNO SRE2410.020 / SRE2410.160 | S25 RTP

FOCUS
- CA Tanvi to review interim FS (six months to 30.09.2024) for a JV due diligence.
- (i) Level of **assurance** in review vs audit · (ii) **elements** of SRE 2410 report and whether **UDIN** needed.

APPLIES **SRE 2410 — Review of Interim Financial Information · UDIN requirement**

CONCEPT
- (i) Review = **limited assurance** (inquiry + analytical procedures) vs audit = **reasonable assurance** (tests of controls + substantive).
- Audit gives positively worded **opinion**; review gives **negatively worded conclusion**.
- (ii) Report: title · addressee · identification of interim FI · mgmt responsibility · auditor responsible for **conclusion**.
- Review per **SRE 2410** (inquiries, analytical procedures) · substantially less than audit → **no audit opinion**.
- **Conclusion** (true & fair / prepared per FRF) · date · place · signature with **membership no.** · **FRN**.

CASE • Review is an assurance engagement → UDIN required.

CONCLUSION **Review gives limited assurance; report contains the SRE 2410 elements, and UDIN must be generated (SRE 2400 / 2410).**

107 Emphasis of Matter Paragraph

QNO 2410.400 | CNO SRE2410.180 | SM · M24 Exam

FOCUS
- GAK Ltd: losses for 3+ years, loan defaults, curtailed operations, no funding — **no disclosure** of material uncertainty in interim FI.
- Type of review report? If disclosed, can a **clean report** be given?

APPLIES **SRE 2410 — Review of Interim Financial Information · Going Concern**

CONCEPT
- Material uncertainty on going concern + **adequate disclosure** → modify review report by adding **Emphasis of Matter** para.
- Material uncertainty **not adequately disclosed** → **qualified or adverse conclusion**, as appropriate, with specific reference to the uncertainty.
- Uncertainty continuing from prior report & still disclosed → add para highlighting **continued** material uncertainty.

CASE
- No disclosure by GAK Ltd → **qualified/adverse conclusion** referring to the material uncertainty.
- If disclosed → not plain clean; report modified with **EOM** paragraph.

CONCLUSION **Not disclosed → qualified or adverse conclusion. Disclosed → no clean report; add Emphasis of Matter paragraph.**

11 CHAPTER 11 Prospective Financial Information and Other Assurance Services

PART 1 SAE 3400 - The Examination of Prospective Financial Information

108 Acceptance of PFI Engagement & Terms of Engagement

QNO 3400.020 | CNO SAE 3400.060 | SM · S25 MTP · N24 RTP

FOCUS
- Mr. Vineet asked to examine Qub Ltd's **prospective financial information** — acceptance factors, when to **decline/withdraw**, and terms of engagement.

APPLIES **SAE 3400 — The Examination of Prospective Financial Information**

CONCEPT
- Consider: **intended use** · **general or limited distribution** · nature of assumptions (**best estimate or hypothetical**) · elements included · **period** covered.
- **Don't accept / withdraw** when assumptions **clearly unrealistic** or PFI **inappropriate for intended use**.
- Consider extent to which reliance on entity's **historical FI** is justified.
- Formalise terms by sending an **engagement letter**, as in other engagements.

CONCLUSION **Accept only after evaluating use, distribution, assumptions, elements and period; decline if assumptions unrealistic; agree terms via engagement letter.**

109 Forecast vs Projection and Nature of Assurance

QNO 3400.050 | CNO SAE 3400.020/ SAE 3400.120 | SM · M26 MTP · J26 MTP · M24 MTP

FOCUS
- Differentiate **forecast** vs **projection** with examples, and the **nature of assurance** on PFI.

APPLIES **SAE 3400 — The Examination of Prospective Financial Information**

CONCEPT
- PFI may be forecast, projection or both (e.g. 1-year forecast + 5-year projection).
- **Forecast**: **best-estimate** assumptions — events mgmt expects & actions it expects to take. E.g. CFO expects 5% sales rise next quarter.
- **Projection**: **hypothetical** assumptions (start-up / major change) or mix of best-estimate & hypothetical. E.g. new product for expected market growth.
- PFI relates to events not yet occurred; evidence is **future-oriented & speculative**.
- Hence **no opinion** on whether results shown will be **achieved**.

CONCLUSION **Forecast = expected; projection = hypothetical; practitioner cannot opine that PFI results will be achieved.**

PART 2 SAE 3402 - Assurance Reports on Controls at a Service Organisation

110 Objectives of SAE 3402 and Opinion on SO ICS

QNO 3402.050 | CNO SAE3402.020 | SM · M24 RTP

FOCUS
- STAR Ltd outsourced **payroll** to Little Solutions (service org); user auditors want comfort on description, design & **operating effectiveness throughout the year**.
- (a) Why assurance report & which standard · (b) **Type 1 or Type 2** · (c) matters of opinion.

APPLIES **SA 402 — Audit Considerations Relating to an Entity Using a Service Organisation · SAE 3402 — Assurance Reports on Controls at a Service Organisation**

CONCEPT
- User auditor's objectives: **understand** nature & significance of services and effect on internal control → identify & assess **RMM**; **design & perform** responsive procedures.
- **SA 402** casts this responsibility on user auditors.
- **Type 1** = description & **design**; **Type 2** = description, design & **operating effectiveness**.
- Opinion (all material respects, suitable criteria): description **fairly presents** system · controls **suitably designed** · controls tested **operated effectively** — throughout specified period.

CASE
- (a) Late remittance risk affects STAR's liabilities → assurance report needed under SA 402.
- (b) Comfort needed on operating effectiveness throughout the year → **Type 2** report.

CONCLUSION **(a) Required by SA 402. (b) Type 2 report under SAE 3402. (c) Opinion on fair description, suitable design and effective operation over the period.**

12 CHAPTER 12 Digital Auditing and Assurance

PART 1 Digital Auditing and Assurance

111 Stages In Understanding the IT environment.

QNO DAA.200 | CNO DAA.080 | SM · M24 Exam

FOCUS
- Statutory audit of FMCG company with robust **ERP** and voluminous transactions.
- Tests the **key areas** an auditor (IT manager) must cover to **understand the IT environment**.

APPLIES **Digital Auditing & Assurance — Understanding the IT Environment**

CONCEPT
- **Flow of transactions** — IT applications relevant to flows; changes via program changes or direct data changes.
- **Significant systems** — identify IT applications & infrastructure as info on significant classes/balances/disclosures flows in, through, out.

- **Manual & automated controls** — mix varies with nature and complexity of IT use; relevant to RoMM assessment.
- **Technologies used** — emerging tech and its role; may need specialists / auditor's experts.
- **Complexity** of IT environment — automation, reliance on system reports, customisation, business model, significant changes, emerging tech.

CASE
- MNC's ERP, multi-state plants and district dealers → assess each application against these five areas.

CONCLUSION **Auditor should cover 5 key areas: flow of transactions, significant systems, manual/automated controls, technologies used and overall IT complexity.**

112 Types of IT Dependencies

QNO DAA.310 | CNO DAA.120 | J26 RTP

FOCUS
- Four situations at Long Ltd — identify the **type of IT dependency** in each.

APPLIES **Digital Auditing & Assurance — Types of IT Dependencies**

CONCEPT
- **Reports** — system-generated info used in manual controls or as source for tests (e.g. ageing report).
- **Security** — IT restricts access and enforces **segregation of duties**.
- **Automated controls** — enforce business rules: workflow, format, **existence**, reasonableness checks.
- **Calculations** — accounting procedures performed by IT instead of a person (e.g. SLM depreciation).

CASE
- (i) Customer ageing report → **Reports**.
- (ii) Attendance entry ≠ salary approval → **Security** (SoD).
- (iii) Duplicate vendor/GST rejected → **Automated controls**; (iv) SLM depreciation by ERP → **Calculations**.

CONCLUSION **(i) Reports · (ii) Security · (iii) Automated controls · (iv) Calculations.**

113 IT Dependencies -- System Generated Reports & Interfaces

QNO DAA.350 | CNO DAA.120 | SM · S25 MTP · M24 MTP

FOCUS
- How do **system-generated reports** and **interfaces** create IT dependencies?
- Why identifying IT dependencies matters for an **effective & efficient audit approach**.

APPLIES **Digital Auditing & Assurance — IT Dependencies**

CONCEPT
- IT dependencies arise when IT is used to **initiate, authorise, record, process or report** transactions/financial data.
- **Reports** — used in manual controls/business reviews or as source for sampling, tests of details, analytical procedures (vendor master, ageing).
- **Interfaces** — programmed logic **transferring data** between systems (e.g. payroll subledger → GL).
- Identifying them helps: know reliance on IT · how IT integrates into business · risks from IT · related **ITGCs**.

CONCLUSION **Consistent, clear identification of IT dependencies lets the auditor link risks to ITGCs and design an effective and efficient audit approach.**

114 Phishing & Its Types

QNO DAA.410 | TRICKY | CNO DAA.140 | M25 RTP

FOCUS
- Yuvi gets a fake bank **SMS** with a link asking to verify details — **identify the phishing type**.
- Also explain other types of phishing.

APPLIES **Digital Auditing & Assurance — Cyber Risk: Phishing & its Types**

CONCEPT
- **Smishing** — fraudulent **text messages** posing as reputable firms to extract passwords/card numbers.
- **Spear phishing** — targets **specific individuals/organisations**, usually via malicious emails; steal credentials or plant malware.
- **Whaling** — targets **senior / C-level executives** to steal money/info or access their computer.
- **Vishing** — **voice** phishing via phone calls/voice messages to obtain bank details, passwords.

CASE
- Attack came by **SMS** claiming to be from his bank → text-message phishing.

CONCLUSION **Yuvi fell victim to Smishing; other types are spear phishing, whaling and vishing.**

115 Impact of Cyber Risk

QNO DAA.500 | CNO DAA.160 | SM · M26 MTP

FOCUS
- Student says cyber risk is **only an IT issue** causing info loss and attacks don't pose **RoMM** — is she right?

APPLIES **Digital Auditing & Assurance — Impact of Cyber Risk**

CONCEPT
- Cyber risk is a **business risk**, not IT alone; affects reputation and whole organisation.
- Consequences: regulatory costs · business interruption · data/reputation loss & litigation · ransomware · IP theft (impairment) · incident response cost · privacy breach · fines.
- Even if not aimed at financial systems, access gained lets attackers **manipulate financial records**, modify **business rules** and **automated controls**.
- Auditor should consider whether cyber risk is a **RoMM** as part of risk assessment; understand risks and mgmt's actions.

CASE
- Her view ignores business-wide impact and indirect access to financial data.

CONCLUSION **Her view is not proper — cyber risk is a business risk and can cause material misstatement.**

116 Stages of Cyber Risks

QNO DAA.550 | TRICKY | CNO DAA.160 | M25 MTP

FOCUS
- Bank hit by cyber-attack; regulators want cyber-risk management assessed.
- Tests the **3 stages of cyber risk** organisations must focus on.

APPLIES **Digital Auditing & Assurance — Stages of Cyber Risk**

CONCEPT
- **Stage 1 — Assessing** cyber risk: no one is immune; consider common threats — **ransomware**, phishing/hacks for fraud, **insiders** (malicious/accidental).
- **Stage 2 — Impact**: varies by organisation and attack — regulatory costs, business interruption, data/reputation loss, ransomware, IP theft, incident cost, privacy breach, fines.
- **Stage 3 — Managing** cyber risk (strategic approach): holistic understanding of threats · assess IT/cyber programme vs regulatory requirements · align with strategic objectives · understand accepted risks & **compensating controls**.

CASE
- ABC Bank should assess, gauge impact and strategically manage cyber risk across all three stages.

CONCLUSION **Cyber risk handled in 3 stages: Assess → Impact → Manage.**

117 Advantages and disadvantages of remote audit

QNO DAA.700 | CNO DAA.220 | SM · N24 MTP

FOCUS
- Advantages and disadvantages of **remote audit** (video conferencing, cloud file sharing).

APPLIES **Digital Auditing & Assurance — Remote Audit**

CONCEPT

- Advantages (**No Selection FEE**): **No disruption** — evidence gathering spread over weeks · **Selection** — global pool of auditors.
- **First-hand evidence** directly from IT system (if access) · **Flexibility** — work from home · **Efficiency** — no travel cost/time.
- Disadvantages (**CVICS**): **Connectivity** issues · **Visualization** — no view of culture/body language; time zones.
- **Integrity** — risk of doctored documents/omissions; confidentiality · **Cultural & legal** challenges; physical verification/stock-taking impossible · **Security** of remote access.

CONCLUSION **Remote audit saves cost and time (No Selection FEE) but brings connectivity, integrity and security limits (CVICS).**

118 Internet Of Things

QNO DAA.910 | CNO DAA.260 | SM · J26 MTP · N24 RTP

FOCUS

- Manufacturer integrating **IoT** (equipment, security, inventory) — components, benefits, risks and **audit implications**.

APPLIES **Digital Auditing & Assurance — Emerging Technologies: Internet of Things**

CONCEPT

- IoT = connecting any device to the internet; **components**: data collection, analytics, connectivity, people & process.
- Changes business model, strategic objectives and **risk profile** (new laws/regulations).
- Benefits/examples: connected equipment · **predictive maintenance** · smart security · auto re-ordering · customer data.
- Risks: **device hijacking**, data siphoning, denial of service, data breaches, device theft.
- Audit: can't rely only on manual controls → **scope new systems**, upskill auditors on **automated controls**; new transaction paths/service providers.

CASE

- Company should address risks via controls and auditors must scope IoT systems and related transaction flows into the audit.

CONCLUSION **IoT brings efficiency but new risks — auditors must scope in new systems and test automated controls.**

119 Technological risks

QNO DAA.920 | CNO DAA.280 | SM · M25 MTP · M24 MTP

FOCUS

- Gravity Ltd implementing new digital system — examples of **technology risks** and **control considerations** to mitigate them.

APPLIES **Digital Auditing & Assurance — Technological Risks of Digital Systems**

CONCEPT

- Risks: inaccurate processing/data · **unauthorised access** to data · IT staff excess privileges → weak **SoD**.
- Unauthorised changes to **master files** / programs · failure to make needed changes · inappropriate manual intervention.
- Loss of / no access to data · **third-party service provider** risks · **cybersecurity** risks.
- Controls (1): holistic understanding of industry & IT changes to evaluate mgmt's transaction processes.
- Controls (2): consider risks of new tech vs **legacy systems**; (3) need for **digital upskilling / specialists** (cyber, IT).

CASE

- Mr. Ravi should test controls over these risks before relying on the digital system.

CONCLUSION Identify tech risks and respond through **holistic understanding, new-vs-legacy risk analysis and specialists**.

120 Key Steps for Auditors in a Changing Technology Environment

QNO DAA.930 | TRICKY | CNO DAA.300 | J26 MTP · S25 MTP

FOCUS
- Company underwent **digital transformation**; mgmt claims better accuracy and revised risk assessment.
- What should the auditor consider about technology's impact on business, ICFR and reporting?

APPLIES **Digital Auditing & Assurance — Key Steps for Auditors in a Changing Technology Environment**

CONCEPT
- Maintain **professional skepticism** when reviewing mgmt's risk assessment for new systems.
- Understand **direct and indirect effects** of new tech on auditor's overall risk assessment.
- Understand impact on **flow of transactions**, assess completeness of in-scope **ICFR systems**, design audit response.
- Assess mgmt's processes to select, develop, operate and maintain **controls over technology**.

CASE
- Mgmt's lowered risk claim must not be accepted at face value — skepticism applies.

CONCLUSION **Auditor applies skepticism and evaluates the technology's effect on transactions, ICFR and controls before relying on mgmt's view.**

121 Risks in Block Chain & Audit Implications

QNO DAA.982 | CNO DAA.260 | SM · M26 RTP · M24 RTP

FOCUS
- Banks moving to **Blockchain** — common risks and **audit implications**.

APPLIES **Digital Auditing & Assurance — Blockchain: Risks & Audit Implications**

CONCEPT
- Strengths are weaknesses: **irreversible** transactions and key-based access → risk of **lock-out**; need contingency plans.
- Network nodes expose to **cyber-attacks** and data hacks.
- Risks: insecure **APIs** with legacy systems/partners · data confidentiality & privacy · weak development protocols.
- Audit: assess **governance & security** around transactions; cross-border **data privacy laws** compliance.
- Ensure data management processes comply; **evolving regulation** — compliance managers must track developments.

CONCLUSION **Despite cryptography, blockchain carries security, API and regulatory risks — auditor focuses on governance, security and legal compliance.**

13 CHAPTER 13 Group Audits

PART 1 Group Audits

122 Applicability of Consolidated Financial Statement

QNO 435.000 | CNO GA.040 | SM · N23 Exam · N18 RTP · M17 MTP

FOCUS
- Unlisted Xcess Ltd has **two subsidiaries** but no holding company; CEO says CFS **not applicable** as it is unlisted.
- Tests the **three cumulative exemption conditions**.

APPLIES **Sec 129(3) & 129(4), Companies Act 2013 · Companies (Accounts) Rules 2014 · Schedule III**

CONCEPT
- **Sec 129(3)**: company with subsidiaries/associate/JV prepares **CFS** in addition to own FS; Board approval; laid at AGM; **AOC-1** attached.
- **Sec 129(4)**: preparation, adoption, audit provisions of holding co apply **mutatis mutandis** to CFS.
- Rules: consolidate per Schedule III & applicable AS; if AS doesn't require, comply with Schedule III.
- Exemption — **all three** needed: (1) wholly-owned / partly-owned sub with members not objecting · (2) **unlisted** · (3) ultimate/intermediate **holding co files CFS** with RoC.

CASE
- Xcess is itself a holding company, **not a subsidiary** → condition (1) fails, being unlisted alone is not enough.

CONCLUSION **CEO's contention not tenable — Xcess Ltd must prepare CFS.**

123 Temporary Holding (AS & IND AS - Combined)

QNO 436.000 | CNO GA.180 | SM · N19 Exam · M19 Exam

FOCUS
- R Ltd holds **51%** of S Ltd as **stock-in-trade**, for disposal in near future; wants S Ltd **excluded** from CFS.
- Tests **temporary control** exemption — AS 21 vs **Ind AS 110**.

APPLIES **Sec 129(3), Companies Act 2013 · Companies (Accounts) Rules 2014 · AS 21 · AS 13 · Ind AS 110**

CONCEPT
- Sec 129(3) requires CFS; Rules: per Schedule III & AS; if AS exempts, comply with Schedule III.
- **AS 21**: exclude subsidiary when control is **temporary** (held exclusively for disposal in near future) → account per **AS 13**.
- Auditor verifies intention to dispose **existed at acquisition** and reasons for exclusion are disclosed in CFS.
- **Ind AS 110**: **no exemption** for temporary control or severe long-term fund-transfer restrictions.
- Para 20: consolidation begins when control obtained, **ceases when control lost**.

CASE
- Under AS 21, temporary control → no CFS, only Schedule III disclosures.
- CFS here to be drawn under **Ind AS** → temporary-control exclusion **not available**.

CONCLUSION **R Ltd's representation not acceptable under Ind AS — S Ltd must be consolidated per Ind AS 110 till control is lost.**

124 Temporary Holding (IND AS)

QNO 436.200 | CNO GA.180 | SM · N24 MTP · M17 Exam

FOCUS
- Moon Ltd acquired **65%** of Sun Ltd (Oct 2016), sold 25% (Apr 2017); not consolidated for **31 Mar 2017**.
- Is temporary holding an excuse under **Ind AS**?

APPLIES **Sec 129(3), Companies Act 2013 · Companies (Accounts) Rules 2014 · Ind AS 110**

CONCEPT
- **Sec 129(3)**: company with subsidiaries must prepare **CFS** in same form and manner as own FS.
- Rules: consolidate per Schedule III & applicable AS; if AS doesn't require CFS, comply with Schedule III.
- **Ind AS 110**: **no exemption** for 'temporary control' or severe long-term fund-transfer restrictions.
- Para 20: consolidation begins when investor **obtains control**, ceases when it **loses control**.

CASE
- On **31 March 2017 control existed** (65%); sale happened only after year end.

CONCLUSION **Accountant's approach incorrect — under Ind AS 110 Moon Ltd must consolidate Sun Ltd for FY 2016-17.**

Exemption (Investment Company)

QNO 436.300 | CNO GA.040 | SM · M25 MTP · M25 RTP · N23 RTP +3

FOCUS
- **Investment company** (Ind AS) holds 25%, 50%, 60% in investees / pools investor money, measures at **fair value** — is CFS needed under Sec 129(3)?
- Tests the Ind AS 110 **investment entity** exemption.

APPLIES **Ind AS 110 — Consolidated Financial Statements · Sec 129(3), Companies Act 2013 · Companies (Accounts) Rules 2014**

CONCEPT
- Sec 129(3) requires CFS; Rules: if AS/Ind AS doesn't require CFS, complying with **Schedule III** is sufficient.
- **Investment entity** need not present CFS if required to measure all subsidiaries at **FVTPL**.
- Investment entity: obtains funds from investors for investment mgmt services · invests solely for **capital appreciation/income** · measures performance on **fair value** basis.
- Ind AS 110 exemptions: investment entities · intermediate subsidiaries (conditions) · Ind AS 19 benefit plans; AS 21's temporary/fund-restriction exemptions **not** in Ind AS.

CASE
- H Ltd / Jambu & Sudharma meet investment-entity features — funds from investors, return-based, fair value measurement.

CONCLUSION **Not required to prepare CFS under Ind AS 110; comply with Schedule III CFS provisions and disclose non-consolidated subsidiaries with reasons.**

126 Control Over Composition of Board

QNO 437.000 | CNO GA.160 | SM · M21 MTP · N17 RTP · M15 Exam +1

FOCUS
- ALFA Ltd holds only **10%** voting power but **controls composition of Board** of GAMA Ltd.
- What should the auditor consider while planning ALFA's audit?

APPLIES **Consolidation (control over Board) · AS 18 · SA 550 — Related Parties**

CONCEPT
- Control over Board → ALFA is **parent**; GAMA consolidated as **subsidiary**.
- **Obtain understanding** of accounting policies of parent, subsidiaries, associates, JVs; plan nature, timing, extent.
- **Control over Board** — verify via Board minutes, shareholder agreements, technology/know-how agreements, statute.
- **Adjustments** — consolidation adjustments per AS made and authorised by parent's mgmt (permanent & current period).
- **SA 550** — identify related parties; evaluate RPT accounting/disclosure for true and fair view.

CASE
- No **10% rule** — control comes from power to appoint majority directors by law/contract, even below 50%.

CONCLUSION **Treat GAMA as a subsidiary; verify basis of Board control, consolidation adjustments and RPT disclosures before forming opinion.**

127 Consolidation Methods

QNO 437.500 | CNO GA.200 | SM · M24 Exam

FOCUS
- R Ltd (Ind AS) consolidated **all components** — subsidiaries, JV, associates, common-control entities, joint operation — **line by line**.
- Is uniform line-by-line treatment correct?

APPLIES **Companies (Ind AS) Rules 2015 · Ind AS 110 · Ind AS 103 · Ind AS 28 · Ind AS 111**

CONCEPT
- **Subsidiaries** — line-by-line per **Ind AS 110**; goodwill/capital reserve & NCI per Ind AS 103.
- **Common control** combinations — **pooling of interest** method (Ind AS 103).
- Intra-group transactions, balances, unrealised profits, deferred tax eliminated per Ind AS 110.

- **Associates & JVs** — **Equity Method** (Ind AS 28).
- **Joint operation** — share of assets, liabilities, revenue, expenses in separate FS (**Ind AS 111**).
- Business combination in stages — remeasure previously held interest at fair value; gain/loss in P&L/OCI.

CASE
- Line-by-line correct only for the **2 subsidiaries**; JV, associates, common-control entities and joint operation treated wrongly.

CONCLUSION **Treatment correct for subsidiaries only; other components must follow equity method, pooling of interest and Ind AS 111.**

128 Permanent Consolidation Adjustment

QNO 438.000 | CNO GA.220 | SM · N16 MTP · M16 RTP · N15 Exam +4

FOCUS
- Short note on **Permanent Consolidation Adjustments** and the auditor's verification.

APPLIES **Audit of Consolidated Financial Statements — Consolidation Adjustments**

CONCEPT
- Made on **first occasion** or when **shareholding changes** in a consolidated entity.
- Include: **goodwill / capital reserve** determination · equity attributable to **minority / NCI**.
- Auditor verifies calculations, especially **pre-acquisition reserves** — date(s) of investment matter; allocation between parent and NCI.
- Verify changes due to **subsequent acquisition or disposal** of shares in components.
- **Netting** goodwill and capital reserve allowed if framework permits → gross amounts disclosed in notes.

CONCLUSION **Permanent adjustments (goodwill/capital reserve, NCI) need careful check of pre-acquisition reserves and gross disclosure when netted.**

129 Current Consolidation Adjustment

QNO 439.000 | CNO GA.240 | SM · M21 Exam · M16 RTP · M14 Exam +4

FOCUS
- Which **current period consolidation adjustments** must the CFS auditor take into account?

APPLIES **Audit of Consolidated Financial Statements — Current Period Consolidation Adjustments**

CONCEPT
- Made every period CFS is prepared; mainly **elimination of intra-group transactions & balances**.
- Auditor reviews **memorandum records** to verify adjustment entries and spot differences in elimination.
- Intra-group income/expense (interest, mgmt fees) · **stock reserve** (unrealised intra-group profit) · intra-group balances.
- **Harmonising accounting policies** of parent and components.
- **Subsequent events** up to CFS report date; significant events where component FS have a different BS date.
- **Foreign component** → convert local GAAP to group GAAP · movement in **minority / NCI** since acquisition.
- **Deferred tax** on temporary differences from intra-group eliminations and undistributed profits (Ind AS).

CONCLUSION **Auditor must verify all these current period adjustments (via memorandum records) while auditing the CFS.**

130 Responsibility of Parent & Permanent Consolidation Adjustment

QNO 440.000 | CNO GA.060 | SM · N21 RTP · N18 MTP · N17 MTP

FOCUS
- Responsibility of the **parent's management** for preparing CFS — what it includes.

- RT: one-line theory often turned into a long case — same concepts apply.

APPLIES **Audit of Consolidated Financial Statements — Responsibility of Parent**

CONCEPT

- Preparation & presentation of CFS is responsibility of **parent's management**.
- Identify **components** · obtain accurate & complete financial info from them.
- **GAAP conversion** where applicable · **harmonise accounting policies** and framework.
- Include components' financial info · make appropriate **consolidation adjustments**.
- Identify **reportable segments**, related parties & RPTs for reporting.
- Issue **instructions to components** — accounting policies, disclosure requirements, segments, RPTs, reporting timetable.

CONCLUSION **CFS responsibility lies with parent management, which also issues instructions to component management.**

131 Relevance of SA 600 -- Materiality in CFS & Component Auditor's Observations

QNO 442.000 | CNO GA.120 | SM · N24 MTP · M22 Exam · N18 Exam +2

FOCUS

- Group materiality in CFS audit and whether **component auditor's modification / EOM** must appear in CFS report.
- Also: relevance of **SA 600** in CFS audit.

APPLIES **SA 600 — Using the Work of Another Auditor · SA 705/706**

CONCEPT

- **SA 600** applies when principal auditor uses another auditor's work on components; must comply if he uses it.
- Standalone materiality → component-wise; CFS → compute **materiality for group as a whole**.
- Group materiality used to assess **permanent & current period consolidation adjustments**.
- Also used to judge which components are material → scope in components / use other auditors.
- Component auditor's observations go into CFS report **only if material to the group** — whether or not same auditor.

CASE

- RT mistake point: ICAI earlier said materiality is **"not"** considered; word removed — materiality **is** considered.

CONCLUSION **CA H applies group-level materiality; includes component auditors' modifications/EOM in CFS report only if material for the group.**

132 Reporting

QNO 443.000 | CNO GA.340 | SM · N24 RTP · N23 MTP · M22 RTP +1

FOCUS

- How to draft the CFS report in 5 situations: parent auditor = all components' auditor, not all, different accounting framework, different auditing framework, unaudited components.

APPLIES **SA 600 · SA 706 · SA 705 — Reporting on Consolidated Financial Statements**

CONCEPT

- (a) Same auditor → report whether CFS prepared per AS; disclose deviations; opine **true & fair** on CFS BS, P&L, cash flow.
- (b) Different auditors → follow **SA 600**; if material, disclose **magnitude** audited by others (₹/% of assets, revenues, cash flows, before consolidation adjustments).
- (b) Such reference = **divided responsibility**, not a qualification.
- (c) Different **accounting framework** → parent mgmt converts; principal auditor **audits conversion adjustments**, or component uses **group accounting manual**.
- (d) Different **auditing framework** → component FS should be audited under framework corresponding to **Indian GAAS**.
- (e) **Unaudited components** → consider possible modification using **SA 705** (qualitative & quantitative).

CASE • OR (C Ltd 55% in D Ltd, other auditor): AB & Associates follow situation (b) — SA 600 + disclose portion audited by other auditor.

CONCLUSION **Reporting differs per situation; reference to other auditors shows divided responsibility, unaudited components may lead to modified opinion.**

133 Checking Completeness of the components in consolidation

QNO 443.050 | CNO GA.140 | SM · M23 RTP · N21 MTP · N20 Exam

FOCUS • How CFS auditor checks **completeness of components** in the list given by parent management.

APPLIES **Audit of Consolidated Financial Statements — Completeness of Components · Sec 186, 190 Companies Act 2013**

CONCEPT
- Parent must consolidate **all components** except those excluded under relevant AS.
- Obtain list of components; verify all included unless exclusion criteria met.
- Procedures: review **prior-year working papers** · parent's identification procedures · **inquire mgmt** on new/exiting components.
- Review **investments** of parent & components · JVs / joint arrangements · other arrangements not consolidated.
- Review **statutory registers** u/s 186, 190 · identify **changes in shareholding** during the period.

CASE • CA Vimal verifies Excellent Ltd's list against these procedures.

CONCLUSION **CA Vimal must perform the above procedures to ensure all components are included in the CFS.**

134 Including only Relevant Notes to accounts of Standalone FST in Consolidated FST

QNO 443.060 | CNO GA.300 | J26 MTP · N22 Exam

FOCUS • Mgmt copied **all notes** of standalone FS into CFS — which disclosures **need not** be included in CFS?

APPLIES **Ind AS 110 · Sec 129(4), Companies Act 2013 · MCA circular**

CONCEPT
- Ind AS 110 gives no list; per **Sec 129(4)** & MCA circular, only disclosures **relevant to CFS** are given.
- Not needed: **source of bonus shares** · **unutilised issue monies** & where invested · **MSMED Act** disclosures.
- Not needed: statement of **investments** (trade/other, bodies corporate) · **CIF value of imports**.
- Not needed: **foreign currency expenditure** (royalty, fees, interest) · imported vs indigenous **consumption %**.
- Not needed: **dividends remitted** in foreign currency · **foreign exchange earnings** (FOB exports, royalty, interest etc.).

CASE • Principal auditor's view is correct — only group-relevant notes form part of CFS.

CONCLUSION **Principal auditor is right; any five of the above standalone disclosures need not be included in CFS.**

135 Management Representation for CFS Not Provided by Parent

QNO 443.070 | CNO GA.320 | J26 RTP

FOCUS • Subsidiaries gave representations but **parent mgmt gave no written representation** and no evidence it **approved the CFS**.

APPLIES **SA 580 — Written Representations**

CONCEPT • Auditor must obtain written reps from mgmt / TCWG.

- CFS auditor needs evidence parent mgmt **acknowledges responsibility** for true & fair CFS and has **approved** the CFS.
- Reps on matters material to CFS: **completeness of components** · reportable segments · related parties & RPTs.
- Appropriateness & completeness of **permanent & current period consolidation adjustments** incl. intra-group eliminations.

CASE
- Subsidiaries' representations do not replace **parent's** own representation on CFS.

CONCLUSION **Auditor should request written representations from TRP Ltd mgmt acknowledging responsibility and approval; if not provided, express opinion accordingly.**

CHAPTER 14

14 Special Features of Audit of Banks and Non-Banking Financial Companies

PART 1 Special Features of Audit of Banks

136 Peculiarities which may necessitate special audit consideration-

QNO 447.001 | CNO BA.020 | SM · M19 Exam

FOCUS
- Peculiarities of banks that need **special audit consideration**.

APPLIES **Bank Audit — Special Audit Considerations**

CONCEPT
- RT shortcut: **New DONS**.
- **N**ew products/services & practices not matched by accounting/auditing development (cashbacks, reward points).
- **D**ependence on IT (cards, online payments) → huge operational & financial risk.
- **O**perations' scale → significant exposures in short time.
- **N**ature of risks (cash, lockers, investments, interest rates).
- **S**tatutory & regulatory requirements (CAR, NPA norms).

CONCLUSION **Auditor must factor these in his audit approach; branch auditors & SCAs need detailed knowledge of products & risks.**

137 Bank unable to check the work and records being small branch with shortage of manpower -

QNO 447.006 | CNO Unique | SM · M23 MTP · N21 MTP

FOCUS
- Small branch: **peon (S1) opens mail** without signature book; **S2 holds all bank forms** unchecked — mgmt cites **manpower shortage**.

APPLIES **Bank Audit — Internal Controls (General)**

CONCEPT
- Banks must implement & maintain **internal controls** to mitigate risk, ensure governance and meet regulatory requirements.
- Mail should be opened by a **responsible officer**; signatures checked by an officer with **signature book**.
- Bank forms (cheque books, DD/PO books, TCs, forex cards) in custody of an officer; **another officer verifies** issue & stock.

CASE
- S1 (peon) opening mail without signature book → control violated.
- S2 alone holds forms; record good but **no independent check** → violated.
- Manpower shortage plea **not tenable** — lapses pose **risk of fraud**.

CONCLUSION **Internal controls violated; auditor should report the lapses in his report.**

138 NPA(Cash Credit Branch wise Sub Limits)

QNO 447.050 | CNO BA.400 | S25 MTP · M23 RTP

FOCUS
- CC limit sanctioned at Mumbai with **sub-limits** at other branches; Solapur sub-limit has no credits for 90+ days — NPA?

APPLIES **Bank Audit — Asset Classification (NPA) · Sub-limits at multiple branches**

CONCEPT
- NPA status decided at **limit-sanctioning branch** on **overall** limit / drawing power, not by each sub-limit branch.
- Auditor checks sanctioning branch receives particulars of **all transactions** at sub-limit branches.
- Status determined on **total position** of operations at all branches.
- Sub-limit branches **follow classification** of the sanctioning branch.

CASE
- No credits at Solapur for 90+ days alone is **irrelevant**.

CONCLUSION **CA Muni classifies on total position across branches; Solapur branch must follow the Nariman Point classification.**

139 Verification of Current Account & Saving Account (CASA)

QNO 447.500 | CNO BA.500 | SM · N24 MTP

FOCUS
- Audit procedures for **CASA** (current & savings accounts) at a bank branch.

APPLIES **Bank Audit — Deposits (Current & Savings Accounts) · RBI guidelines**

CONCEPT
- Sample-check new accounts for **KYC**; savings a/c only for individuals, HUF, approved institutions — **not business** concerns.
- Verify sample balances · test-check **interest** (generally none on current a/c).
- Check **balance confirmation** procedure and confirmations received.
- **Debit balances** in current a/c shown under **advances**, not netted off.
- **Inoperative** a/c (no transactions > **2 years**) = fraud-prone → check revival/closure authority; examine big balance reductions.

CONCLUSION **CA J should apply these procedures, with special focus on KYC and inoperative accounts.**

140 NPA Classification – Stock Statement Overdue & DP Issues

QNO 449.055 | CNO BA.400 | J26 MTP

FOCUS
- Stock statement **> 3 months old**, outstanding over DP, renewal overdue — but excess **temporary**. Is it NPA?

APPLIES **RBI IRAC Norms — NPA Classification (Cash Credit)**

CONCEPT
- Account **not NPA** merely for **temporary deficiencies**: no DP from latest stock statement, temporary excess over limit, **non-renewal** on due date.
- Stock statements for DP should **not be older than 3 months**.
- Outstanding based on DP from stock statements older than 3 months = **irregular**.

CASE
- Account is irregular (old stock statement), but deficiencies are **temporary**.
- Bank must obtain **updated stock statement** promptly and monitor.

CONCLUSION **Bank should not classify as NPA at this stage.**

141 (Consortium)NPA

QNO 451.000 | CNO BA.400 | SM · N24 RTP · M18 MTP · N17 RTP +4

FOCUS
- **Consortium** member bank classifies account as performing based on **lead bank's certificate**, though own recoveries fall short.

APPLIES Bank Audit — NPA Classification Norms (Consortium Advances)

CONCEPT
- Consortium: banks lend jointly under a **lead bank** on same terms with proportionate rights.
- Each bank classifies its share per **its own recovery** experience and other factors.
- Lead bank's status/certificate does **not** decide our classification; if NPA → **interest reversed**.

CASE
- Interest debited ₹1.75 cr vs credits ₹1.25 cr in last **two quarters** → amount remains outstanding.
- Bank's own share ₹10 cr of ₹50 cr facility.

CONCLUSION **Classification as performing is wrong — interest to be reversed and account shown as NPA, despite lead bank certificate.**

142 NPA (Multiple Cases)

QNO 454.500 | CNO BA.400 | M25 RTP · N21 RTP

FOCUS
- Five audit queries at TCB Bank — reason for each and **corrective action**.

APPLIES RBI IRAC Norms — Income Recognition, NPA, Sale of NPA · Forex position

CONCEPT
- (1) **State Govt guaranteed** advance overdue > 90 days = NPA → interest taken to income only on **realisation**.
- (2) **Ad hoc limit** not reviewed within **180 days** → NPA.
- (3) NPA sold above NBV → **no profit**, excess provision **retained** for other NPA sale losses.
- (4) Additional temporary limit max **20%** of existing limit, max **90 days**.
- (5) **Net position** in each foreign currency should be **squared**, not uncovered substantially.

CASE
- Actions: (1) reverse unrealised interest · (2) reclassify as **NPA** from due date · (3) cancel reversal entry, retain provision.
- (4) Revise to **20% / 90 days** (from 25% / 120) · (5) square off net position of the currency.

CONCLUSION **All five are non-compliances; bank must correct each as above.**

143 NPA Classification – Cash Credit Account Review

QNO 454.800 | CNO BA.400 | M26 RTP

FOCUS
- CC ₹4 cr: ₹10 lakh excess for **15 days**, stock statement **31 Jan 2025**, renewal pending, interest regular — NPA?

APPLIES RBI IRAC Norms — NPA Classification (Cash Credit)

CONCEPT
- Not NPA merely for **temporary deficiencies**: DP issues, temporary excess over limit, **non-renewal** on due date.
- Stock statements for DP should **not be older than 3 months**; else outstanding = irregular.
- NPA → account **out of order > 90 days**.

CASE
- Excess only 15 days · stock statement within 3 months · renewal under process · nothing overdue > 90 days.

CONCLUSION **Account not NPA; branch's Standard Asset treatment is per RBI IRAC norms.**

144 Sale of NPA

QNO 455.000 | CNO BA.400 | SM · N22 MTP · N20 Exam · M18 Exam +1

FOCUS
- Audit points on **sale / purchase of NPAs** (e.g., DEF Ltd ₹10 cr NPA sold to ARC).

APPLIES **Bank Audit — Sale / Purchase of NPAs (RBI Guidelines)**

CONCEPT
- Examine **Board policy** on procedures, valuation & delegation of powers.
- Sale: NPA for **at least 2 years** · **cash basis** only · **without recourse** · no residual legal/operational risk · removed from books.
- Sale below NBV → shortfall to **P&L**; above NBV → **no profit**, excess provision **retained**.
- Purchase: not an NPA **originally sold** by it · provisioning per own classification.
- Purchase: recovery first against **acquisition cost**, excess = profit · **100% risk weight** for capital adequacy.

CONCLUSION **CA K should check the DEF Ltd sale against these sale-side conditions and the Board policy.**

145 Sale of NPA - Case Study

QNO 455.100 | CNO BA.400 | SM · M24 MTP · N23 Exam

FOCUS
- First-time sale of 5 NPAs in **April 2023** — which can be sold? Tests the **2-year NPA** condition.

APPLIES **Bank Audit — Sale of NPAs (RBI Guidelines)**

CONCEPT
- **Board policy** on procedures, valuation, delegation, norms & accounting policy.
- Only NPA held as NPA for **at least 2 years** can be sold.
- **Without recourse**; no residual risk · **cash basis**, full consideration **upfront**, no contingent price.
- Removed from books · shortfall below NBV → **P&L** · excess over NBV → provision **retained**, not reversed.
- Bank must not repurchase an NPA it originally sold.

CASE
- NPAs prior to April 2021 qualify: S Store, V Pvt, AV Fab, DG & Associates.
- **MN Iron Works** (NPA since 2021-22) < 2 years.

CONCLUSION **All may be sold except MN Iron Works (₹45.30 lakh).**

146 Investment (Income, Mutual Fund)

QNO 458.020 | CNO Unique | SM · M22 MTP · N18 MTP · N18 RTP +4

FOCUS
- Bank accrued **dividends on securities & MF units** at year end, though declared **after year end**.

APPLIES **RBI Circulars — Income Recognition on Investments**

CONCEPT
- Interest on Govt securities, bonds, debentures → **accrual** if rates predetermined & serviced regularly.
- Govt-guaranteed securities of corporates/PSUs → accrual if interest not in arrears.
- **Dividend on shares** → accrual only when **declared at AGM** and right to receive is established.
- **Dividend on MF units** → **cash basis**.

CASE
- Dividends declared **after** year end → right not established on BS date; MF income not on cash basis.

CONCLUSION **Bank's treatment is inappropriate — such dividends cannot be accrued at year end; MF dividend only on cash basis.**

147 Advances (Audit) -- Issues, ICS Evaluation & Recoverability

QNO 462.000 | CNO BA.380 | SM · N23 MTP · M19 RTP · M18 Exam +7

FOCUS
- Issues / areas to check in **concurrent audit of advances** of a bank branch.

APPLIES **Bank Audit — Concurrent Audit of Advances**

CONCEPT
- Loans **sanctioned properly** and within **delegated authority**; LCs within powers & genuine trade.
- Instances of **exceeding delegated powers** promptly reported; check their frequency & genuineness.

- **Securities & documents** received and properly charged/registered.
- Proper **post-disbursement supervision** · check **misuse / diversion** of funds.
- Classification per **RBI directions** · follow up overdue bills · timely **DICGC / ECGC** claims · guarantees properly recorded.

CONCLUSION **Guide assistant on these areas; RT: common combined answer for advances audit / ICS / LFAR given after QNO 466.000.**

148 Advances – Review of Credit Appraisal & Sanctioning Authority

QNO 465.500 | CNO BA.380 | M26 MTP

FOCUS
- Bank branch audit of advances — five observations on **appraisal, documentation, securities and margin**.
- Tests whether you can identify each **lapse** against the internal controls over loans & advances.

APPLIES **Bank Audit — Internal Controls over Loans & Advances · RBI directives**

CONCEPT
- Advance only after checking **creditworthiness** + sanction by **proper authority**.
- All documents (agreements, DPN, letter of hypothecation) **executed before** disbursement.
- Securities needing registration → registered in **bank's name** or title documents held.
- Securities in **joint custody** of two responsible officers.
- Sufficient **margin** against securities to cover fall in value, per RBI directives.

CASE
- (i) ₹12 cr CC on officer's recommendation, no appraisal/sanction on file → **lapse**.
- (ii) Disbursed before DPN/hypothecation executed → **procedural lapse**. (iii) Securities not registered, no title papers → **lapse**.
- (iv) Single-officer custody → **IC weakness**. (v) Prescribed margin not kept → **non-compliance** with lending norms.

CONCLUSION **All five observations are audit lapses — each must be reported as a weakness in controls over advances.**

149 Non-Banking Assets Acquired in Satisfaction of Claims

QNO 465.700 | CNO BA.440 | J26 MTP

FOCUS
- Bank holds a property taken in satisfaction of a loan since **FY 2016-17**; title disputed in court, not disclosed, FMV much lower.
- Tests **Sec 9 BR Act** (7-year limit), the **balance sheet head** and the valuation/disclosure checks.

APPLIES **Section 9, Banking Regulation Act 1949 · AS 29 — Provisions, Contingent Liabilities & Contingent Assets**

CONCEPT
- **Sec 9**: bank cannot hold immovable property (even acquired for claims) beyond **7 years** from acquisition, unless for own use.
- Head: **Other Assets** → "Non-Banking Assets Acquired in Satisfaction of Claims".
- Only assets **held for disposal**; vouch settlement terms / court order / arbitration award.
- Check ownership **legally vested** in bank; dispute → consider provision or contingent liability disclosure (**AS 29**).
- Record at **lower of** NBV of advance or **NRV** of asset on acquisition date.

CASE
- Held since 2016-17 → check the **7-year** limit under Sec 9.
- Undisclosed title suit, FMV far below book → examine disclosure and **NRV** valuation.

CONCLUSION **(i) Verify Sec 9 compliance · (ii) show under Other Assets – Non-Banking Assets · (iii) verify title, dispute disclosure and lower of NBV/NRV valuation.**

150 Credit Card (ICS)

QNO 473.000 | CNO BA.260 | SM · S25 MTP · N22 Exam · M22 RTP +6

FOCUS
- Unissued **credit cards went missing** and applications are rising — how to evaluate **internal controls** over credit card operations.

APPLIES Bank Audit — Internal Control System: Credit Card Operations

CONCEPT
- **Storage** — strict control over storage and issue of cards.
- **Screening** — applications screened with good credit assessment before issue.
- **Available limit** — merchant confirms unutilised limit with bank when amount exceeds a set % of limit.
- **Settlement** — prompt reporting by merchants; **reimbursement** only after verifying validity of acceptance.
- **Charge to customer** — reimbursement (gross of commission) charged immediately; **statements** sent regularly.
- **Monitoring** — follow up payments, periodic review of limits, provide for doubtful amounts; stop credit on long overdues via merchant bulletins.

CASE
- Missing unissued cards → weak **storage/issue control**; growing applications → test **screening** rigour.

CONCLUSION Evaluate the full cycle: **Storage → Screening → Limit → Settlement → Reimbursement → Charge → Statements → Monitoring.**

151 Loans & Advances (ICS)

QNO 473.500 | TRICKY | CNO BA.260 | S25 RTP

FOCUS
- Branch shows no appraisal, weak documentation, **single-officer custody** and limits exceeded without HO intimation.
- Manager claims reliance on the **internal control framework** — what controls are expected?

APPLIES Bank Audit — Internal Controls over Loans & Advances · RBI directives

CONCEPT
- Advance only after **creditworthiness** check + sanction by proper authority.
- Execute all documents (agreements, **DPN**, hypothecation) **before** disbursement.
- Keep sufficient **margin** against securities as per RBI/bank policy.
- Securities received/returned by responsible officer, kept in **joint custody** of two; registered in bank's name.
- Accounts within **DP and sanctioned limit**; temporary limit max **20%** of limit, **90 days**.
- Irregular accounts reported to **HO** regularly; each account **reviewed at least yearly**.

CASE
- Observed lapses show controls exist on paper but **not executed in practice**.

CONCLUSION Manager's reliance on the framework is **not substantiated** — bank must strictly enforce these controls to mitigate credit risk.

152 SLR

QNO 475.000 | CNO BA.300 | SM · M18 MTP · N17 MTP · M17 RTP +1

FOCUS
- As SCA, what special points to check when auditing compliance with **SLR** requirements.

APPLIES RBI requirement — SCA report on SLR compliance (12 odd dates)

CONCEPT
- Verify SLR on **12 odd dates** in different months, **not Fridays**; report to top mgmt and **RBI**.
- Report covers two aspects: correctness of **DTL** compilation and **maintenance of liquid assets**.

- Branch auditors verify Friday **trial balances** and **cash** on selected dates; review returns of unaudited branches.
- **Exclude** from DTL: recoveries on bad debts · import-bill money in sundry deposits · unadjusted link-branch balances · margins for funded facilities.
- **Include**: net credit in branch adjustment a/c · reversed half-year interest · adverse **Nostro mirror** balances (gross); scrutinise Nostro reconciliation.
- Include **interest accrued** but not booked; test-check approved securities and their **RBI-compliant valuation**.
- State number of **unaudited branches** relied upon.

CONCLUSION **SLR audit = verify DTL computation + liquid assets held on selected dates, and disclose reliance on unaudited branches.**

153 Concurrent Audit(Scope)-

QNO 478.010 | CNO BA.680 | SM · M09 RTP · N06 Exam · PM (Old)

FOCUS
- Scope of **concurrent audit** of a bank as per **RBI guidelines** — who fixes it and what it covers.

APPLIES **RBI Guidelines on Concurrent Audit of Banks**

CONCEPT
- Scope fixed **uniformly** for the whole bank by the bank's **Inspection & Audit Dept** in consultation with the **Audit Committee of Board (ACB)**.
- Detailed scope approved by the **ACB**.
- Focus on **high-risk, large-value** transactions rather than small amounts.
- RBI guidelines cover all key branch activities; most banks have an **Audit Manual**.
- RT's key: **A to I without B, E, G** → Advances · Cash · Deposits · Forex · Housekeeping · Investments.

CONCLUSION **Concurrent audit scope = uniform, ACB-approved, risk-focused coverage of all key branch areas.**

154 Foreign Exchange Transaction-

QNO 479.010 | CNO BA.700 | SM · M25 MTP · N21 Exam · N19 Exam +1

FOCUS
- Concurrent auditor of a **forex branch** — discrepancies in remittances and unusual **Nostro** balances.
- What are the **focus areas** for checking foreign exchange transactions?

APPLIES **RBI Guidelines on Concurrent Audit — Foreign Exchange Transactions**

CONCEPT
- Check foreign bills negotiated under **letters of credit**.
- **FCNR** and other non-resident accounts — debits/credits permissible under rules.
- Inward/outward **remittances** properly accounted.
- Extension/cancellation of **forward contracts** authorised; charges recovered.
- **Nostro** balances within bank's limits; **overbought/oversold** position reasonable.
- Adherence to RBI/HO guidelines on **dealing room** operations; reconcile **Nostro & Vostro** accounts.

CASE
- Remittance discrepancies and Nostro swings → focus on **remittance accounting**, Nostro limits and **reconciliation**.

CONCLUSION **Concurrent auditor must cover LC bills, NR accounts, remittances, forward contracts, Nostro/Vostro and dealing room compliance.**

155 Contingent Liabilities

QNO 485.000 | CNO BA.560 | SM · N19 RTP · M17 RTP · PM (Old)

FOCUS
- Bank disclosed contingent liabilities as a **lump sum** — management seeks the required **break-up**.

APPLIES **Third Schedule, Banking Regulation Act 1949 — Contingent Liabilities (Notes to Accounts)**

CONCEPT
- Lump-sum disclosure **not permitted** — item-wise break-up required.
- **Guarantees** given on behalf of constituents — **in India** and **outside India** separately.
- **Acceptances, endorsements** and other obligations.
- Outstanding **forward exchange contracts**.
- **Partly paid investments**; **claims** against bank not acknowledged as debts.
- Other items for which bank is contingently liable.
- **Bills for collection** shown separately below — not part of contingent liabilities.

CONCLUSION **Management must replace the lump sum with the prescribed item-wise disclosure of contingent liabilities.**

156 Audit of Gurantee Issued

QNO 485.010 | CNO BA.500 | J26 RTP

FOCUS
- Pending supplier cases ₹2.5 cr, ex-employee claims ₹1.2 cr, tax litigation ₹3 cr.
- Audit procedures to verify **'Claims Not Acknowledged as Debts'**.

APPLIES **Bank Audit — Contingent Liabilities: Claims against the bank not acknowledged as debts**

CONCEPT
- Examine **correspondence** with lawyers, claimants, workers/officers and their **unions**.
- Review **board/committee minutes**, contracts, agreements, **list of pending legal cases**, tax/duty correspondence.
- Ascertain from **management** status of claims at year-end.
- Review **subsequent events** for completeness and valuation of claims.

CASE
- Supplier, employee and tax claims → vouch each against lawyers' letters, case list and tax correspondence.

CONCLUSION **CA Riya should apply these procedures to establish completeness and valuation of all three claims.**

157 SMA - Internal Controls System

QNO 488.650 | CNO Unique | SM · M24 RTP

FOCUS
- Bank system tags overdue the **next day**, SMA-1 on 1 May, SMA-2 on 31 May, NPA on 30 June.
- Tests the RBI rule that classification is done in the **day-end process of the due date**.

APPLIES **RBI Prudential Norms — SMA & NPA classification (day-end process)**

CONCEPT
- Amount **overdue** if not paid on the due date — flagged in **day-end process** of the due date itself.
- SMA/NPA date = calendar date for which the **day-end process** is run.
- SMA-1 after **30 days** continuously overdue; SMA-2 and NPA follow at further 30-day intervals.

CASE
- Due date 31 Mar 2023 → overdue **31 Mar 2023** (not 1 Apr).
- SMA-1 → **30 Apr 2023**; SMA-2 → **30 May 2023**; NPA → **29 Jun 2023**.

CONCLUSION **The control design is not in accordance with regulatory guidelines — each tag is applied one day late.**

158 Gross NPA and Net NPA- Case

QNO 488.700 | CNO Unique | SM · M24 MTP · N23 RTP

FOCUS
- Meaning of **Gross NPAs** and **Net NPAs**; KNO Bank's Net NPA ratio **3.97%** vs peers 1.72%–2.65%.
- What inference should the joint auditor draw at **risk assessment** stage?

APPLIES **Bank Audit — NPA disclosures (RBI Prudential Norms) · Risk assessment procedures**

CONCEPT
- **Gross NPAs** = opening NPAs + fresh NPAs – upgradations, recoveries and write-offs.
- **Net NPAs** = Gross NPAs – provisions held – interest suspense balance – certain other adjustments.
- Higher Net NPA to Net advances ratio → **risk of under-provisioning**.

CASE
- KNO's **3.97%** is the highest among peers → provisions may not meet **RBI guidelines**.

CONCLUSION **Auditor should treat NPA provisioning as a high-risk area and tailor audit procedures towards its examination.**

PART 2 Audit of Non-Banking Financial Companies

159 Identification of Company as NBFC -- Case Study

QNO 513.900 | CNO NBFC.020 | SM · N24 MTP · N22 RTP · N21 Exam

FOCUS
- Company in lending and investments wants to register as **NBFC** under **Sec 45-IA** — does it pass the **50-50 test**?

APPLIES **Section 45-IA, RBI Act 1934 — Principal Business Criteria (50-50 test)**

CONCEPT
- Judged on **last audited balance sheet** — both asset and income pattern.
- **Financial assets > 50%** of total assets (netted off by **intangible assets**).
- **Income from financial assets > 50%** of gross income.
- Both criteria met → qualifies as NBFC; must register with RBI.

CASE
- Financial assets 55.90 + 344.47 = **₹400.37 cr** vs total assets 530 – 3 = **₹527 cr** → >50%.
- Financial income **₹52 cr** vs gross income **₹102.57 cr** → >50%.

CONCLUSION **ABC Ltd qualifies as an NBFC and can apply under Sec 45-IA in the prescribed form.**

160 Types of NBFC-

QNO 514.000 | CNO NBFC.080 | SM · M13 RTP · M11 RTP · N05 Exam +1

FOCUS
- What is an NBFC and what are the **types of NBFCs** registered with **RBI**.

APPLIES **Section 45-I(f) read with Section 45-I(c), RBI Act 1934 (as amended 1997)**

CONCEPT
- NBFC = company under **Companies Act 2013**; may receive deposits; principal business lending, investments, leasing, HP, insurance, chit etc.
- **Recent amendment**: Asset Finance Co., Loan Co. and Investment Co. merged into **ICC**.
- RT's key: **IFFI inaugurated by CM**.
- **ICC** · **NOFHC** · **NBFC-Factors**.
- **IFC** & **IDF-NBFC** (infrastructure finance / infra debt fund).
- **CIC** & CIC-ND-SI (core investment) · **NBFC-MFI** (micro finance).

CONCLUSION **Types registered with RBI: ICC, NOFHC, Factors, IFC/IDF, CIC, MFI.**

161 Computation of Tier I & II Capital & Capital Adequacy Ratio

QNO 514.700 | TRICKY | CNO NBFC.160 | M25 MTP

FOCUS
- NBFC under SBR must keep **15%** capital ratio — compute **Tier 1, Tier 2** and **CAR**.
- Tests deductions, the **55% discount** on revaluation reserves, **1.25% cap** on general provisions, Tier 2 ≤ Tier 1.

APPLIES **RBI Master Directions — Capital Adequacy for NBFCs (Scale-Based Regulation)**

CONCEPT

- **Tier 1** = Owned Fund – investments in group/NBFCs + eligible perpetual debt (limit **15%** of previous year Tier 1).
- **Tier 2** = preference shares + revaluation reserves at **55% discount** + general provisions (max **1.25% of RWA**) + hybrid debt + subordinated debt.
- Tier 2 **cannot exceed** Tier 1. CAR = Total capital ÷ RWA × 100.

CASE

- Tier 1 = 1,000 – 150 + 120 = **₹970 cr**.
- Tier 2 = 80 + 90 (200 – 110) + 50 (< ₹100 cr cap) + 90 + 140 = **₹450 cr** (within Tier 1).
- CAR = 1,420 ÷ 8,000 = **17.75%**.

CONCLUSION CAR **17.75% > 15%** → Qura Capital **meets** the capital adequacy requirement.

162 NBFC-Investment & Credit Company-

QNO 520.050 | CNO NBFC.240 / NBFC.260 | SM · N19 MTP · N19 RTP

FOCUS

- Verification procedures for audit of an **NBFC – Investment and Credit Company (ICC)**.
- Combines investment-company and loan-company points.

APPLIES NBFC Prudential Norms Directions (RBI) · AS 13 — Accounting for Investments

CONCEPT

- **Investments**: Board minutes for buy/sell, current vs long-term; test broker notes vs market price; group-company purchases and pricing.
- Unquoted debentures/bonds treated as **term loans** for IRAC; **dividend** on cash basis (accrual only if declared and right established).
- **Physical verification**, depository/bank confirmations; valuation per Directions and **AS 13**; check securities lending/borrowing.
- **Loans**: no loans against **own shares**; appraisal and recovery trend; proper **sanction** and conditions; **single/group borrower** limits.
- Verify **security, agreements** and borrower net worth; **IRAC classification** and provisioning; balance confirmations; **bill discounting** records.

CONCLUSION Audit of NBFC-ICC = **investment-company checks + loan-company checks**, all tested against the **Prudential Norms Directions**.

163 Report to BOD-

QNO 522.000 | CNO NBFC.320 | SM · M17 Exam · M16 Exam · N07 Exam **+1**

FOCUS

- Matters the auditor must state in the **report to the Board** of an NBFC — all NBFCs, deposit-taking, non-deposit-taking and those not needing CoR.

APPLIES RBI NBFC Auditor's Report (Reserve Bank) Directions · Chapter III B, RBI Act 1934

CONCEPT

- **(A) All NBFCs**: holds valid **CoR** · still meets **principal business criteria** at 31 March · meets **NOF** requirement; plus Statutory Auditor's Certificate on eligibility to hold CoR.
- **(B) Deposit-taking**: excess deposits regularised · **credit rating** in force and **MIGR** · deposits within rating limit and admissible limits · **CAR** correct · **liquid assets** (Sec 45-IB) · no interest/principal **default** · prudential norms · returns (NBS-1, quarterly) filed · **new branches/agents** compliance.
- **(C) Non-deposit-taking**: **Board resolution** for non-acceptance · no deposits accepted · correct **MFI** classification · for SI-ND: **CAR** in NBS-7 correct and filed in time · prudential norms.
- **(D) CoR not required**: complies with conditions advised by RBI.
- Reasons for any **unfavourable/qualified** statement; if unable to opine, state so with reasons.

CASE

- Karma Pvt Ltd (ND, non-SI) → report items under **(A) + (C)**.

CONCLUSION Report **(A) for all** plus (B), (C) or (D) by category, with **reasons** for adverse remarks.

164 Exception Report

QNO 523.000 | CNO NBFC.320 | SM · N22 MTP · N21 MTP · M21 Exam +2

FOCUS
- When must an NBFC auditor send an **exception report** to RBI, and what may it contain?

APPLIES RBI NBFC Auditor's Report Directions — Exception Report · Chapter III B, RBI Act 1934

CONCEPT
- Trigger: any statement in the Board report is **unfavourable or qualified**, or non-compliance with:
- → **Chapter III B** of RBI Act · NBFC **Acceptance of Public Deposits** Directions 2016 · NBFC (ND-NSI / SI-ND & D) Directions 2016.
- Report sent to the **Regional Office, Dept of Non-Banking Supervision** having jurisdiction over the NBFC's **registered office**.
- Duty is to report **only contraventions** — no statement on compliance.

CONCLUSION Exception report is **mandatory** for adverse/qualified items or contraventions and must report **only the contraventions**.

165 NBFC -Applicability & differences in the presentation requirements between Division II & Division III of Schedule III

QNO 525.000 | CNO NBFC.380 | SM · N23 Exam · N23 MTP · M23 Exam +3

FOCUS
- Which NBFCs follow **Ind AS**, and how does **Division III** (NBFCs) of Schedule III differ from **Division II**.

APPLIES Schedule III, Companies Act 2013 — Division III (MCA notification 11 Oct 2018) · Ind AS roadmap for NBFCs

CONCEPT
- **From 1 Apr 2018**: NBFCs (listed/unlisted) with net worth **≥ ₹500 cr** + their holding/subsidiary/JV/associates.
- **From 1 Apr 2019**: all other listed NBFCs; unlisted with net worth **₹250–500 cr** + group cos; net worth as on **31 Mar 2016**.
- Balance sheet in **order of liquidity**; classify **financial vs non-financial** (not current/non-current).
- Separate note for other income/expense item **> 1% of total income** (Div II: > 1% of revenue or ₹10 lakh, higher).
- Separately disclose: receivables from **LLP** of director · receivables with significant increase in credit risk/credit-impaired · restrictions on **statutory reserves**.
- Revenue from operations and OCI items on the **face** of P&L.

CASE
- LMP/DK Finance must prepare FS in the **Division III** format if Ind AS applies.

CONCLUSION Division III mirrors Division II except **liquidity order, financial/non-financial split, 1% of total income** test and NBFC-specific disclosures.

166 NBFC CARO Reporting

QNO 525.500 | CNO Unique | SM · N24 MTP

FOCUS
- NBFC accepting **public deposits** since 2015 with NOF ₹1.5 cr, **no RBI registration** (applied only on 30 March).
- Tests auditor's procedures and **CARO 2020** reporting on NBFC registration.

APPLIES CARO 2020 — Para 3 **Clause (xvi)** · Section 45-IA, RBI Act 1934

CONCEPT
- Clause (xvi): report whether company **required to register u/s 45-IA** and, if so, whether registration obtained.
- Registration needed where **financing is principal business**; RBI bars NBFI business without CoR.
- Examine transactions vs RBI Act & NBFC directions.
- **50-50 test**: financial assets > 50% of total assets and financial income > 50% of gross income.

- Check **NOF** meets registration requirement; if not registered → seek & document mgmt reasons.
- Report: (1) registration required? (2) obtained? (3) if not, **reasons**.

CASE
- NOF ₹1.5 cr is **below prescribed ₹2 cr**; operating without CoR, only applied for it.

CONCLUSION **Mr. Kabra must report under Clause (xvi) that registration was required but not obtained, with reasons.**

CHAPTER 15

15 Overview of Audit of Public Sector Undertakings

PART 1 Audit of Public Sector Undertakings

167 Committee on Public Sector

QNO 597.500 | CNO PSU.040 | SM · M25 MTP

FOCUS
- Parliamentary committee examining PSU's **physical & financial performance** and pending action on **C&AG findings**.
- Tests identification of the committee and its functions.

APPLIES **Financial Committees of Parliament — Committee on Public Undertakings (COPU)**

CONCEPT
- Examine **reports and accounts** of public undertakings.
- Examine **C&AG reports** on public undertakings.
- Examine **autonomy and efficiency** — managed on sound business principles and prudent commercial practices?
- Other functions of **PAC and Estimates Committee** not covered above, as allotted by the **Speaker**.
- Examination = **comprehensive appraisal** of performance — policies, programmes and financial working.

CASE
- BNPC Ltd's performance review and C&AG findings fall within COPU's remit.

CONCLUSION **The matter is dealt with by the Committee on Public Undertakings (COPU).**

168 Comprehensive Audit

QNO 599.000 | CNO PSU.120 | SM · M26 RTP · M25 MTP · N23 Exam **+24**

FOCUS
- C&AG appoints CA firm for **comprehensive audit** of a PSU (Metro / Solar project with cost overrun & delay).
- Tests the **areas / issues examined** in comprehensive audit.

APPLIES **Audit of Public Sector Undertakings — Comprehensive Audit (C&AG)**

CONCEPT
- C&AG assists legislature: **efficiency-cum-performance audit** beyond internal / professional audit; locates **weakness and extravagance**.
- Areas vary by enterprise: investment decisions · project formulation · capacity utilisation · production · materials · labour productivity · idle capacity · costs & prices · sales & credit · budgetary & internal control.
- Issues: **R&D programmes** · project planning · formulation & implementation · **actual vs approved capital cost**.
- Outputs achieved? **under-utilised capacity** · cost control & wastage · unproductive men/machine time.
- Effective & economical? **planned rate of return** · repairs & maintenance system.
- **Profit is not key criterion** — economical, efficient use of public funds and achievement of objectives.

CASE
- Metro/Solar: compare actual vs approved project cost, reasons for **delay & cost overrun**, underutilisation.

CONCLUSION **Comprehensive audit appraises how far the PSU's objectives have been served with economy and efficiency.**

169 Performance Audit & Methods to execute it

QNO 599.100 · TRICKY · CNO PSU.160 · M25 RTP

FOCUS
- C&AG reports delay in thermal power plant — late decision on water treatment, layout changes, soil re-testing.
- Tests identifying the **type of audit** and its **methods**.

APPLIES **Audit of PSUs — Performance Audit (C&AG)**

CONCEPT
- Performance audit = objective, systematic examination giving **independent assessment of performance** → public accountability & decision-making.
- **Analysis of procedures** — planning, checking, monitoring systems; budgets, manuals, guidelines.
- **Case studies** — descriptive analysis of an issue within the whole area.
- **Use of existing data** — test entity data for correctness & completeness.
- **Surveys** — information from population on predetermined parameters.
- **Analysis of results** (output-input) · **Quantitative analysis** — use **sampling** for high volumes.

CASE
- Delays due to poor decision-making and execution → performance of project assessed.

CONCLUSION **It is a Performance Audit, executed through the above methods.**

170 Performance Audit Planning

QNO 599.200 · CNO PSU.175 · SM · M22 RTP · M18 MTP · N17 RTP +2

FOCUS
- Audit of State Electricity Distribution Co — cost recovery via SERC, tariff orders, metering/billing/collection, controls.
- Tests identifying the audit type and **planning steps**.

APPLIES **Audit of PSUs — Performance Audit (planning)**

CONCEPT
- Objectives (cost recovery, tariffs, billing & collection, controls) → **performance audit**.
- Step (A): **Understanding the entity/programme** = starting point of planning.
- Sources: **entity documents** (policy files, budgets, minutes, IA reports, MIS, RTI) · **legislative documents** (PAC, COPU, Estimates Committee reports).
- **Policy documents** (Planning Commission, Ministry of Finance) · **academic/special research** · **past audits**.
- **Media coverage** · **special focus groups** (Audit Advisory Committee, World Bank, RBI, NGOs).

CONCLUSION **Performance audit is referred; planning begins with understanding the entity from the above sources.**

171 Performance Audit - Audit Report Rejected

QNO 600.005 · CNO Unique · SM · J26 RTP · S25 MTP · M24 RTP +2

FOCUS
- C&AG appointed firm for **performance audit**, but firm only checked expenses conform to **public interest & accepted customs**.
- Tests distinction: that is **propriety audit**, not performance audit.

APPLIES **Audit of PSUs — Performance Audit (C&AG, IAAD)**

CONCEPT

- Performance audit = objective, systematic **independent assessment of performance** for accountability & decision-making.
- Conducted by C&AG through **IAAD** offices, guided by C&AG manuals and auditing standards.
- Objectives: evaluate **economy, efficiency and effectiveness** of policy, programmes, organisation, mgmt.
- Promotes **accountability** and **transparency**; focuses on areas adding value.
- Govt depts/heads must set **measurable objectives & performance indicators**, outputs/outcomes, unit cost benchmarks.

CASE

- Checking expenses against public interest/customs ≠ 3E evaluation.

CONCLUSION C&AG's **rejection of the report is in order** — the work done was **not a performance audit** in all aspects.

172 C&AG (Audit Report)-

QNO 604.000 | CNO PSU.240 | SM · N21 Exam · M19 Exam · N17 Exam

FOCUS

- Theory: **contents of C&AG's audit report** on PSUs presented to Parliament / State legislature.

APPLIES Audit of PSUs — **C&AG Audit Report** (Commercial)

CONCEPT

- Central PSU report in parts: (1) **Introduction** — general review of working results of Govt / deemed Govt companies & corporations.
- (2) Results of **comprehensive appraisals** by **Audit Board**.
- (3) **Resume of company auditors' reports** under C&AG directions + comments on accounts.
- (4) **Significant results** of audit of undertakings **not taken up** by Audit Board (either 2nd or 4th part).
- States: **separate commercial report** or a **commercial chapter** in main report.
- State reports: appraisal of selected companies + **financial irregularities, wasteful expenditure, system deficiencies**, general review.

CONCLUSION C&AG report = general review + appraisal / significant results + auditors' resume, with state-wise irregularity reporting.

173 Draft Audit Criteria

QNO 605.000 | CNO PSU.220 | SM · M24 MTP · N21 MTP

FOCUS

- C&AG performance audit of **DBT** pension & scholarship schemes — likely **objectives** and **audit criteria**.
- OR: sources to **draft audit criteria** after setting objectives.

APPLIES Audit of PSUs — **Performance Audit: Objectives & Audit Criteria**

CONCEPT

- Objectives: proper **planning & process to capture beneficiary data**?
- Steps for DBT implementation — preventing **payment delay, pilferage, duplication**?
- **Infrastructure, organisation & management** of DBT adequate and effective?
- **Audit criteria** = standards to judge if programme meets/exceeds expectations; context for results.
- Reasonable, attainable standards to assess **economy, efficiency, effectiveness**.

CASE

- Sources: GoI & State **circulars, instructions, SOP manuals, scheme guidelines** on beneficiary identification/authentication; general mgmt & subject literature.

CONCLUSION Criteria are drawn from **government scheme documents** and literature — the **benchmark** against which DBT performance is judged.

174 "Government Company" definition-

QNO 605.500 | CNO Unique | SM · N24 MTP

FOCUS
- Wholly govt-owned company **disinvests 40%** to public and **lists on BSE**; FM says C&AG now has **no role**.
- Tests **Government Company** definition — listing irrelevant.

APPLIES Section **2(45)**, Companies Act 2013 — Government Company

CONCEPT
- Govt company: **≥ 51% paid-up capital** held by Central / State Govt(s) (or jointly), incl. its **subsidiary**.
- Auditors are CA firms **appointed by C&AG**, who issues **directions** on conduct of audit.
- **Listing** on stock exchange is **irrelevant** for this purpose.

CASE
- Govt still holds **60%** (> 51%) → BT Ltd remains a Government Company.

CONCLUSION **Sam's opinion is not correct — C&AG continues to appoint auditors and give directions.**

16 CHAPTER 16 Internal Audit

PART 1 Internal Audit

175 Sec 138--Applicability (Average Turnover of Past 3 Years)

QNO 352.000 | CNO IA.025 | SM · S25 RTP · N23 MTP · N22 MTP +5

FOCUS
- (i) Pvt co with preceding-year turnover **₹260 cr** has no internal auditor. (ii) **Listed** co, turnover > ₹5 cr, no IA. (iii) Pvt co, segment turnovers FY 20-21 vs FY 21-22.
- Tests **Sec 138 thresholds** — only **preceding FY** matters.

APPLIES Section **138**, Companies Act 2013 r/w **Rule 13**, Companies (Accounts) Rules 2014

CONCEPT
- **Every listed company** — no limit.
- **Unlisted public**: paid-up capital **≥ ₹50 cr** · turnover **≥ ₹200 cr** · bank/PFI loans **> ₹100 cr** · deposits **≥ ₹25 cr** (preceding FY).
- **Private**: turnover **≥ ₹200 cr** · bank/PFI loans **> ₹100 cr** (preceding FY).
- Only **preceding year turnover** counts — 3-year average no longer relevant.

CASE
- (i) JKH: preceding FY turnover ₹260 cr > ₹200 cr → **IA mandatory**.
- (ii) PQR: **listed** → IA mandatory; turnover limit irrelevant.
- (iii) ABC: FY 20-21 turnover 140 + 25 + 65 = **₹230 cr** ≥ ₹200 cr → IA required for FY 21-22.

CONCLUSION **All three companies must appoint an internal auditor; non-compliance to be reported by the auditor.**

176 Applicability of Internal Audit & Scope of Internal Audit

QNO 352.500 | CNO IA.025 | SM · J26 MTP · N24 MTP

FOCUS
- Group companies — Listed XYX, Unlisted public MNM (capital ₹60 cr), Private GFG (₹70 cr / ₹180 cr / ₹80 cr loans).
- Tests applying **Sec 138 thresholds** company type-wise.

APPLIES Section **138**, Companies Act 2013 r/w **Rule 13**, Companies (Accounts) Rules 2014

CONCEPT
- **Every listed company**.
- **Unlisted public**: paid-up capital **≥ ₹50 cr** · turnover **≥ ₹200 cr** · loans **> ₹100 cr** · deposits **≥ ₹25 cr**.

- **Private**: turnover **≥ ₹200 cr** · loans **> ₹100 cr** (capital limit not applicable).
- All limits tested on **preceding financial year**.

CASE
- XYX: **listed** → required.
- MNM: capital ₹60 cr > ₹50 cr → required.
- GFG: turnover ₹180 cr < 200, loans ₹80 cr < 100 → **not required**.

CONCLUSION **XYX and MNM must appoint** internal auditors; **GFG need not**.

177 Critical Activities of Internal Audit Function

QNO 614.050 · TRICKY · CNO IA.040 · S25 MTP

FOCUS
- Chief Internal Auditor plans **review of performance / training of staff** and **acquiring fresh talent**.
- Tests whether this is a **critical activity** of the IA function under its charter.

APPLIES **SIA 210** — Managing the Internal Audit Function

CONCEPT
- Define overall **plan, scope and methodology** periodically.
- Oversee & monitor assignments — planning, execution, reporting, **closure of observations**.
- **Plan, acquire, engage and review performance, training & development** of professional staff & resources.
- Identify & manage **external experts** and technical solutions.
- **Communicate** with key stakeholders on progress.
- Maintain a **quality evaluation & improvement program**.

CASE
- Staff performance review, training and talent acquisition = critical activity (iii).

CONCLUSION **Yes** — it falls within the **critical activities** of the Chief Internal Auditor to achieve charter objectives.

178 Internal Controls Required for Audit Trail

QNO 614.900 · CNO IA.220 · SM · M24 Exam

FOCUS
- Management wants a list of **internal controls** to show **audit trail (edit log)** was functional and **not disabled**.
- Tests **Rule 11(g)** audit trail controls.

APPLIES **Rule 11(g)**, Companies (Audit and Auditors) Rules 2014 — Audit Trail

CONCEPT
- Company must design & implement specific (mainly **IT**) controls, evaluated by auditors.
- Audit trail feature **not disabled or deactivated**.
- **Unique User IDs** per individual — **not shared**.
- **Configuration changes** authorised and logged.
- Access to audit trail (and backups) **restricted**, with **access logs** maintained.
- **Periodic backups** archived for the **statutory period**.

CONCLUSION CA J should advise these **IT controls** to demonstrate audit trail was **functional, operated and not disabled**.

179 Attrition Rate

QNO 619.000 · CNO Unique · SM · M20 MTP · N18 MTP · N17 MTP **+5**

FOCUS
- MD worried about **high employee attrition**; internal auditor asked to analyse causes.
- Tests factors to consider.

APPLIES Internal Audit — **Employee Attrition** analysis

CONCEPT

- **Training & work culture**: training facilities to keep staff updated? outdated culture.
- **Timings**: job stress, **work-life imbalance**.
- **Seniors**: qualified, experienced personnel at each level? **unbearable behaviour** of seniors.
- **Colleagues**: excess staffing or **understaffing** straining a few.
- **Salary & schemes**: **low monetary benefits**, lack of welfare schemes.
- **Safety**: remote, unsafe office location.

CONCLUSION **Attrition analysis covers Training, Timings, Seniors, Colleagues, Salary and Safety.**

180 Internal Controls Required for Audit Trail

QNO 619.100 · CNO IA.220 · M26 RTP · J26 MTP

FOCUS

- ERP with **shared User IDs**, unclear if audit trail always active, **access/config logs not reviewed**.
- Tests **purpose of audit trail** and controls to prove it was enabled throughout.

APPLIES **Rule 11(g), Companies (Audit and Auditors) Rules 2014 — Audit Trail (Edit Log)**

CONCEPT

- Audit trail = **chronological record of data changes** — create, update, delete — traceable to source.
- Records **when** (timestamp) · **who** (User ID) · **what** changed.
- Can be enabled at **software level** or captured in **database**.
- Controls: feature **not disabled** · **unique User IDs, not shared** · config changes **authorised & logged**.
- Access to trail & backups **restricted, logs kept** · **periodic backups** archived for statutory period.

CASE

- Shared IDs and unreviewed logs weaken **accountability and data integrity**.

CONCLUSION **Auditor/CA M should ensure the above controls are implemented to demonstrate audit trail was enabled and untampered.**

17 CHAPTER 17 Due Diligence, Investigation and Forensic Accounting

PART 1 Due Diligence

181 Financial Due Diligence

QNO 623.000 · CNO DD.060 · SM · M21 MTP · N17 Exam · M16 RTP +5

FOCUS

- Buying a **proprietary speciality-chemicals business** — points for **due diligence**.
- OR: check **cash generating ability** / meeting cash needs internally.

APPLIES **Due Diligence — Financial Due Diligence**

CONCEPT

- **Historical background**: history, promoters, turning points, market share, regulatory impact.
- **Financial projections**: 5-year projections; unrealistic assumptions → valuation impact.
- **Accounting policies**: appropriateness, recent changes, differences from acquirer.
- **Review of FS**: extraordinary items · actual vs budget · 4-5 yr trend of normal profit · **net worth** after asset/liability revaluation.
- **Cash flow**: honour payables, banks, govt · turnover of receivables/inventory · fund deployment · **idle funds**.
- **Statutory compliance**: list of laws, compliance checklist, quantify violations.
- **Human resources**: retention, job profiles, **PF/gratuity/ESI funded**, key pay packages.

CASE

- Cash requirement variant → answer only the **cash flow** point.

CONCLUSION **If DD type is unspecified, write financial due diligence; answer only the specific part asked.**

182 DD (Under / Over Valuation)

QNO 627.000 | CNO DD.100 | SM · M25 MTP · N24 MTP · N22 MTP +14

FOCUS
- Acquirer worried about **hidden liabilities** and **overvalued assets** of target (₹4,000 cr deal / bank takeover).
- Tests areas to examine — answer only what is asked.

APPLIES Due Diligence — **Hidden Liabilities & Overvalued Assets**

CONCEPT
- Not apparent from books; part of **review of FS**.
- **Govt**: show cause notices not shown as contingent · tax liabilities · pending sales tax / customs assessments.
- **Shareholders**: buy-back agreements · **Financers**: **letters of comfort** (not guarantees, undisclosed).
- **Subsidiaries sold** with indemnity · **Employees**: unfunded gratuity/leave · expired wage agreements.
- **Customers**: product, warranty, LD claims, litigation · **Others**: environmental claims, future lease, unrecorded contingencies.
- **Overvalued assets**: obsolete/impaired/litigated **fixed assets** · investments at cost > realisable value · obsolete or above-NRV **inventory** · uncollectable **receivables**, unreconciled group balances.

CONCLUSION Examine the above areas; answer **hidden liabilities, overvalued assets, or both** — as the question asks.

183 Due Diligence Report

QNO 628.000 | CNO DD.060/DD.160 | SM · N21 RTP · M19 MTP · N18 MTP +6

FOCUS
- Japanese co. acquiring a listed Indian industrial-gas co. (65%+ market share) — CA appointed for **due diligence**.
- Tests (a) **key areas** of financial DD review and (b) **contents of the DD report**.

APPLIES Due Diligence — Financial Due Diligence & DD Report

CONCEPT
- (a) **Historical background** — promoters, turning points, market share, regulatory impact.
- (a) **Financial projections** — next 5 years, assumptions; unrealistic → impact on valuation.
- (a) **Significant accounting policies** — recent changes, differences vs acquirer, statutory compliance of FS.
- (a) **Review of FS** — extraordinary items, trend of normal operating profit, benchmark peers, net worth after over/under valuation.
- (a) **Cash flow** (meets commitments, turnover of receivables/inventory, idle funds) · **Statutory compliance** · **Human resources** (retention, PF/gratuity funded, key pay).
- (b) Report: terms of reference & scope · objective · history & shareholding · legal (litigation, indemnities, licences/patents) · operating results · environment · mgmt structure.
- (b) Asset valuation & charges · liabilities (group interlocking) · net worth · tax · IT · suggestions · **executive summary**.

CONCLUSION Cover the 7 key DD areas; report runs from scope → legal, operational, financial, tax, IT → **suggestions & executive summary**.

184 SWOT Analysis

QNO 628.500 | CNO Unique | SM

FOCUS
- Bank credit officer, on a fresh term loan + CC request from a 2-year-old garment unit, jots down positives, negatives, export plans and competition.
- Tests identifying the **DD tool** being used.

APPLIES Due Diligence — SWOT Analysis of Borrower

CONCEPT
- CA Y is performing **SWOT analysis** — Strengths, Weaknesses, Opportunities, Threats of the borrower — as part of due diligence.

CASE
- **Strengths**: sales up ₹25 cr → ₹45 cr, cash profits, timely debt servicing.
- **Weakness**: lack of well-paid qualified staff for domestic/foreign customers · **Opportunity**: entering export market.
- **Threats**: many competitors in NOIDA/Delhi area and demand slump in US market.

CONCLUSION **He is carrying out a SWOT analysis of the borrower as part of due diligence.**

PART 2 Investigation

185 Investigation - Overstocking & Irregular Supplier Payments

QNO 624.800 | CNO Unique | M26 RTP

FOCUS
- Overstocking of raw materials and irregular supplier payments; records incomplete, approvals bypassed, vouchers missing.
- Tests (a) **steps of investigation** and (b) **considerations while drafting the report**.

APPLIES **Investigation — Steps & Investigation Report**

CONCEPT
- (a) No standard procedure, but steps in sequence: **objectives & scope** → **investigation programme** → examine records with evidence → **analyse & interpret** findings → report & conclusions.
- (b) Nothing irrelevant; words chosen to avoid **different interpretations**; facts & conclusions **linked with evidence**.
- (b) **Bases & assumptions** stated and reasonable — e.g. don't assume bin-card ordering levels are fair guidance in overstocking cases; assume only when unavoidable.
- (b) State nature, objective, scope & **limitations / client restrictions** (with reasons & impact); paragraphs with headings, data in **annexures**.
- (b) Investigator's **opinion in the final paragraph**.

CONCLUSION **SPY & Co. should follow the 5-step sequence and issue a factual, evidence-linked report ending with its opinion.**

186 Investigation (Incoming Partner)

QNO 625.000 | CNO INTG.100 | SM · S25 MTP · M23 MTP · M20 MTP +4

FOCUS
- Mr. Jain to be admitted as **1/4th partner**; CA appointed by the **incoming partner** to investigate the firm.
- Tests the **purpose and areas** of investigation on behalf of an incoming partner.

APPLIES **Investigation — On behalf of Incoming Partner**

CONCEPT
- **Purpose**: whether offered terms are **reasonable** (business, profits, capital, partners' capability) and whether his **capital will be safe** and usefully applied.
- **Reasons & history**: why new partner admitted — coincides with retirement of a key senior partner? · history & growth since inception.
- **Present & deed**: key personnel · orders & clientele · deed terms (capital, drawings, goodwill) · concessional-admission clause.
- **FS analysis**: return on capital vs alternatives · **goodwill** · loan terms · incomplete contracts · profit record · asset backing · **contingent & tax liabilities**.

CONCLUSION **Mr. Ankit's investigation tells Mr. Jain whether the terms are reasonable and whether his capital will be safe.**

Audit Vs Investigation

187 QNO 632.000 CNO INTG.020 SM · N19 RTP · N18 Exam · M17 RTP +4

FOCUS
- Theory: distinguish **audit** (true & fair view) from **investigation** (systematic, critical, special examination for a specific purpose).

APPLIES **Investigation — Audit vs Investigation**

CONCEPT
- **Objective**: investigation establishes a fact/assesses a situation · audit verifies **true & fair** view.
- **Legal**: investigation voluntary (sometimes by law) · audit mandatory for companies. **Who**: any person · audit only a **CA**.
- **Time frame**: investigation may cover several years · audit periodic (quarterly/half-yearly/yearly).
- **Nature**: detailed examination · audit uses **test checks/sampling**; investigation analytical, no focus on accounting principles.
- **Evidence**: investigation seeks **conclusive** · audit **persuasive** (prima facie).
- **Reporting**: to person who appointed, no fixed format · audit to owners, fixed format. **Limitations**: none · audit has inherent limitations.
- **Pre-condition**: investigation starts with **pre-conceived notion** · audit not based on suspicion.

CONCLUSION **Audit is a periodic opinion on FS on persuasive evidence; investigation is a purpose-specific, exhaustive fact-finding exercise seeking conclusive evidence.**

188 Embezzlement of Cash- Areas

QNO 633.000 CNO INTG.160 SM · N18 MTP · N17 MTP · M16 MTP +4

FOCUS
- Suspected **embezzlement in cash receipts** — investigator must list areas to verify (methods of fraud).

APPLIES **Investigation — Embezzlement of Cash Receipts**

CONCEPT
- Showing **larger cash discount** than actually allowed.
- Full amount on receipt to payee but **part on counterfoil**.
- **Fictitious credit** to customer for goods returned · cash sale shown as **credit sale**.
- Writing off a **good debt as bad** to cover collection.
- **Short debiting** customer's account to withdraw difference later.
- **Under-casting** receipts side / **over-casting** payments side of Cash Book.

CONCLUSION **Verify discounts, counterfoils, returns, credit sales, bad-debt write-offs, customer ledger and Cash Book casting.**

189 Fraud in Cash Disbursement

QNO 633.500 CNO INTG.140 J26 MTP

FOCUS
- Red flags: year-end cash withdrawals, **bearer cheques**, plain-paper vouchers, altered receipts, **dummy workers**, unsupported refunds.
- Tests audit procedures to detect **inflated cash payments / disbursement fraud**.

APPLIES **Investigation — Fraud in Cash Disbursements**

CONCEPT
- Scrutinise all evidence of payments incl. **parties' acknowledgements**.
- Altered/erased receipts and **plain-paper** acknowledgements → **confirm actual amount** with the party.
- Examine all **bearer cheque** payments; check bank withdrawals with **pass book**.
- Review wage system for **over-totalling** and **dummy workmen**; mgmt confirmation that salary/wages paid to persons actually in service.
- Review ordering & receiving to ensure no payment for **goods not received**.
- Confirm payments to partners/directors · vouch & total **Petty Cash Book** · check Bills Books.

CASE
- Plain-paper vouchers & altered receipts → confirm with parties; names not in HR master → dummy-worker check.

CONCLUSION **Perform detailed vouching and confirmations to detect inflated cash payments.**

190 Fraud (Supplier Ledger)

QNO 635.000 | CNO INTG.160 | SM · N19 Exam · N16 MTP · M11 Exam +2

FOCUS
- Short note / investigation of **frauds through supplier ledger** — major areas to verify.

APPLIES **Investigation — Supplier Ledger Fraud**

CONCEPT
- Suppressing **credit notes** from suppliers and withdrawing amounts not claimed.
- Accepting invoices at **higher than market prices** and collecting the excess back in cash.
- Adjusting **fictitious/duplicate invoices** as purchases and misappropriating payments.
- Withdrawing **unclaimed amounts** by showing them as paid.
- Procedure: verify bought journal with **Goods Inward Book** and supplier invoices.
- Obtain **statements of account** from all suppliers to confirm balances, allowances and rebates.

CONCLUSION **Verify credit notes, prices, invoices and unclaimed balances; match purchases with Goods Inward Book and confirm with supplier statements.**

191 Investigate Frauds of Inventory defalcation - Areas of Verification & Procedure

QNO 637.010 | CNO Unique | SM · M25 RTP · M24 MTP · N19 Exam +2

FOCUS
- Inventory shortages, manual stock adjustments, **inflated wastage**, materials issued but missing, despatches not invoiced.
- Tests inventory fraud methods and **verification procedure for defalcation of inventory**.

APPLIES **Investigation — Defalcation of Inventory**

CONCEPT
- Frauds: employees **remove goods** · theft concealed as **damaged goods** · records manipulated so book = physical.
- Thefts often by **collusion** → review the entire system of **receipt, storage & despatch** to localise weakness.
- First step: establish items & quantities defalcated — **physical count vs Inventory Book**.
- Mgmt may divert production and **inflate wastage / issues** → take an **engineer's** help; compare past wastage.
- Use **machine per-hour capacity** and cycle time to judge excess issues.

CASE
- Manual adjustments, abnormal wastage, missing issues → apply above procedure.

CONCLUSION **Investigate by system review, physical verification and engineer-assisted wastage analysis to quantify and fix the defalcation.**

192 Investigation (Future Maintainable Turnover)-

QNO 639.000 | CNO INTG.080 | SM · N22 Exam · M19 MTP · M18 MTP +3

FOCUS
- H Ltd. acquiring S Ltd.; valuation depends on **future maintainable sales** — factors to assess.

APPLIES **Investigation — Future Maintainable Sales (Business Valuation)**

CONCEPT
- **Past — Trend**: sales consistently rising or fluctuating?
- **Present — Political & economic**: Govt policies extending export markets; home-market economic trends.
- **Present — Competition**: new entrants, cheaper substitutes, demand for competing products, company's **market share** stable or fluctuating.

- **Future — Marketability**: scope for new markets or fully exploited; **product-wise** estimation.

CONCLUSION Assess sales on **Past (trend) → Present (politico-economic, competition) → Future (marketability)**.

193 Investigation of Borrower

QNO 643.000 · CNO INTG.120 · SM · M24 Exam · M20 RTP · N18 RTP +6

FOCUS
- Bank asks CA to **investigate a borrower** (export co. / ₹150 cr term loan) before sanction — profitability, repayment schedule and security.
- Tests the points to cover in a **borrower investigation**.

APPLIES Investigation — On behalf of Bank (Prospective Borrower)

CONCEPT
- **Purpose**: reason for loan · **sources of repayment** · **security** if borrower defaults.
- **Information**: directors' standing · 5-year history · **MoA/AoA authority** to borrow · use of loan · **repayment schedule** assumptions (cash profits).
- **FS examination**: 5-year P&L — gross/net profit, taxes → strength of profitability; product-wise sales trend.
- **Ratios**: equity to FA / long-term loans · sales to FA, inventory, debtors · current & quick ratio · **ROCE**.
- **Assets**: existence, ownership, valuation, insurance · **Liabilities**: present/future obligations, completeness.

CONCLUSION CA P should cover purpose, borrower information, **repayment assumptions**, FS & ratio analysis and **asset/liability (security)** review before reporting.

194 Investigation of Borrower (Due Diligence)

QNO 643.030 · CNO Unique · SM · S25 MTP · N24 RTP · M23 MTP +1

FOCUS
- Bank credit manager checks history, promoters, financials, SWOT, net worth, **CIBIL**, RBI defaulter list, discreet enquiries.
- Tests (i) naming the activity, (ii) whether a **non-CA** can do it, (iii) other areas of use.

APPLIES Due Diligence — Nature & Scope

CONCEPT
- **Due diligence** = measure of prudence ordinarily exercised by a reasonable, prudent person; no absolute standard, depends on facts.
- Careful study of **financial and non-financial** possibilities; verifies material facts before investment/loan.
- Ensures timely, sufficient, accurate disclosure; conditions of business conform to what is presented.

CASE
- (i) CA Rajul is performing **due diligence** of the prospective borrower.
- (ii) **No difference** — DD is a general duty of care; **can be performed by any person**, not only a CA.
- (iii) Other areas: **venture capital financing** · **corporate restructuring** · **public offerings**.

CONCLUSION (i) Due diligence; (ii) a **non-CA can perform** it — answer unchanged; (iii) VC financing, restructuring, public offerings.

195 Investigation (Propriety Business) –

QNO 643.050 · CNO INTG.180 · SM · M04 Exam · PM (Old)

FOCUS
- Mr. Clean buying Mr. Perfect's **proprietary business** — areas an investigating accountant covers.

APPLIES Investigation — Purchase of Proprietary Business

CONCEPT
- **Overall picture**: product lines, dependence on imported materials/ancillaries, labour intensity & union relations, distribution method.

- Adequacy of fixed & working capital · future **sales & profit trend** · monopoly/competition risk · return on capital employed.
- **P&L**: columnar comparison for 5–7 years.
- **Fixed assets**: **age analysis**, obsolete assets, values not above service value · **Inventories**: consistent valuation, no profit element, obsolete allowance.
- **Liquid assets** readily realisable (bank in liquidation → only DICGC-insured part) · **idle assets**.
- **Liabilities**: suppressed or overstated, long outstanding · **Taxation**: adequate provision, reopened assessments; ignore temporary tax benefits.

CONCLUSION **Cover overall business position plus accountant's areas (P&L, assets, liabilities, tax). RT's note: if asked as due diligence of a prop. business, answer as financial DD (QNO 623.000).**

196 Special issues in investigation

QNO 644.020 | CNO INTG.060 | SM · N24 MTP · N23 RTP · M21 Exam +1

FOCUS
- Investor's adviser to check valuation of Milk Ltd. shares based on **audited FS** — can the investigator **rely on audited accounts**?

APPLIES **Investigation — Special Issues: Reliance on Audited FS**

CONCEPT
- Accounts **not audited** by a qualified accountant → duty to get figures **checked and verified**.
- Specially prepared by a professional knowing the purpose → may accept (**liability to third parties**), if prepared with **objectivity**, no bias.
- Investigation launched due to **doubt in audited accounts** → **no reliance**.
- For valuation of business/shares or goodwill → **ordinarily may rely**, unless audit found **casual** on test verification or terms require fresh testing.

CASE
- Mr. X's mandate is share valuation → reliance on audited FS ordinarily permitted, subject to test checks.

CONCLUSION **Investigator can rely on audited FS for valuation, unless doubt in them triggered the investigation, audit appears casual or terms demand re-testing.**

197 Fraud Diamond

QNO 644.060 | CNO INTG.170 | J26 MTP · J26 RTP

FOCUS
- Frequent changes in estimates, delays, **altered documents**, mismatches with confirmations at Sky Ltd.
- Tests (1) **fraud indicators** and (2) the four elements of the **Fraud Diamond**.

APPLIES **Fraud Indicators & Fraud Diamond (Forensic / Investigation)**

CONCEPT
- **Discrepancies in records** — non/partial/incorrect/delayed recording, misclassification.
- **Conflicting or missing evidence** — missing/altered documents, unexplained reconciliation items, mismatch with confirmations.
- **Unacceptable mgmt responses** — denial of access, undue time pressure, delays, refusal of CAATs.
- **Other** — policies at variance with industry norms, **frequent changes in estimates**.
- Fraud Diamond: **Incentive** (need) · **Opportunity** (system weakness) · **Rationalization** (worth the risk) · **Capability** (traits to pull it off).

CASE
- Altered documents, record discrepancies and mgmt's delayed cooperation clearly indicate possible fraud.

CONCLUSION **Situation shows classic fraud indicators; fraud rests on Incentive, Opportunity, Rationalization and Capability.**

198 Forensic Accounting Vs Audit

QNO 629.000 | CNO FA.025 | SM · N22 Exam · M22 RTP · M18 Exam +1

FOCUS
- Building-material purchase irregularity in a ₹20 cr expansion; mgmt plans a **forensic auditor**.
- Tests how **forensic audit differs from financial audit** (assurance engagement).

APPLIES Forensic Accounting vs Financial Audit

CONCEPT
- **Objective**: true & fair opinion · forensic → **whether fraud has taken place**.
- **Techniques**: substantive & compliance, **sample based** · forensic → investigative, **in-depth checking**.
- **Period**: particular accounting period · forensic → **no such limitation**.
- **Stock/realisable values/provisions**: relies on **mgmt representation** · forensic → independent verification of suspected items.
- **Off-BS items**: arithmetic & procedure compliance · forensic → **regulatory & propriety** aspects examined.
- **Adverse findings**: qualified/adverse opinion · forensic → **legal determination of fraud impact** and perpetrators.

CONCLUSION **Forensic audit is unlike other audits — an in-depth, unlimited-period hunt for fraud and perpetrators, not a true & fair opinion.**

199 Forensic Audit Steps

QNO 630.000 | CNO FA.060 | SM · N23 MTP · N21 Exam · N18 MTP

FOCUS
- Suspected fraud in building-material purchases — advise the forensic auditor on the **steps of the forensic audit process**.

APPLIES Forensic Accounting — Steps in Forensic Audit

CONCEPT
- **1. Initialisation**: clarify purpose · meet client · **conflict check** · preliminary investigation.
- **2. Develop plan**: set objectives & methodology.
- **3. Obtain evidence**: documents, economic info, assets, persons, experts; based on nature of fraud — prove **identity of fraudster, mechanics, amount**; **clear chain of custody**, usable in court.
- **4. Perform analysis**: summarise transactions, economic damages, PV, regression/sensitivity, spreadsheets, charts, **tracing of assets**.
- **5. Reporting**: nature, scope, approach, limitations, findings; how fraud was set up, controls circumvented, improvements; based on **facts, not opinions**.
- **6. Court proceedings**: present evidence and testify.

CONCLUSION **Follow Initialise → Plan → Evidence → Analyse → Report → Court — with evidence kept court-admissible.**

200 Forensic Audit - Clear Chain of Custody

QNO 630.050 | CNO FA.060 | SM · M24 MTP

FOCUS
- Forensic team collected ERP, e-mail and system-log evidence but kept **no record of who collected it, when, and how it was stored**.
- Tests the implication of breaking the **chain of custody**.

APPLIES Forensic Accounting — Evidence & Clear Chain of Custody

CONCEPT
- Forensic accounting examines transactions so that evidence is **suitable in a Court of Law** and can withstand **cross-examination**.

- Team must collect court-usable evidence and keep a **clear chain of custody** till it is presented in court.
- **Gaps in chain of custody** → evidence may be **challenged** or become **inadmissible**.

CASE
- No record of persons gathering evidence, date/time of collection and storage → **chain of custody not maintained**.

CONCLUSION **Failure can defeat the objective of the forensic engagement — evidence may be challenged by the defence and held inadmissible.**

201 Areas of Information (Content) of Forensic Audit Report

QNO 631.500 | CNO FA.080 | SM · S25 RTP · M21 Exam

FOCUS
- Forensic auditor has investigated **substandard material** vs **high payments** at a construction company — now drafting his report.
- Tests the **broad areas of information** a forensic audit report must contain.

APPLIES **Forensic Accounting & Investigation — Forensic Audit Report**

CONCEPT
- Report = **final step** of fraud audit; details the fraudulent activity found.
- Contents: **findings** · summary of evidence · **amount of loss** · persons involved.
- Sections: nature of assignment · **scope** · approach · scope limitations · findings/opinions.
- Schedules & graphics to support and explain findings.
- How the **fraud scheme** was set up and which **controls were circumvented**.
- Recommend **control improvements** to prevent recurrence.
- Auditor needs active listening skills; report based on **facts**, not writer's opinion.

CONCLUSION **Forensic report must be a fact-based account of the fraud — scope, evidence, loss, fraudsters, controls bypassed and recommendations.**

18 CHAPTER 18 Emerging Areas - SDG and ESG Assurance

PART 1 Sustainable Development Goals and ESG Assurance

202 ESG Reporting

QNO SDG.050 | CNO SDG.020 | SM · M24 RTP

FOCUS
- SEBI's **BRSR** as an evolutionary step in ESG reporting.
- Asks the **nature of ESG reporting** and how corporates contribute to **SDGs**.

APPLIES **ESG Reporting · BRSR (SEBI) · UN Sustainable Development Goals**

CONCEPT
- ESG reporting = disclosure of information, data, metrics explaining value added in **E, S, G**.
- **Environment**: climate policies, energy use, waste, pollution, resource conservation, treatment of animals.
- **Social**: relationships & reputation with people, communities, value chain · labour relations · diversity & inclusion.
- **Governance**: internal practices, controls, procedures to govern, invest, comply with law, meet stakeholder needs.
- Nature: **qualitative** (strategy/policy) + **quantitative** (metrics, KPIs) — **mixed approach** adds most value.
- SDGs: UN blueprint — end poverty with health, education, less inequality, growth, tackling **climate change**.

CONCLUSION Corporates contribute to SDGs through their capacity to provide **solutions** and lead in **innovation**.

203 Three Pillars – Environmental Pillar (Effluent Treatment)

QNO SDG.095 | CNO SDG.020 | J26 MTP

FOCUS
- Listed company discharging **untreated chemical water** into a river; plans an **effluent treatment plant**.
- Identify the ESG pillar and list its **key elements**.

APPLIES ESG — Environment Pillar

CONCEPT
- **Environment** pillar: climate policies, energy use, waste, pollution, resource conservation, treatment of animals.
- Entity absorbs resources (coal, electricity, water) and leaves wastes (emissions, **water discharges**, e-waste).
- **Climate Change**: carbon emissions · product carbon footprint · financing environmental impact · climate vulnerability.
- **Natural Resources**: water stress · biodiversity & land use · raw material sourcing.
- **Pollution & Waste**: toxic emission & waste · packing material & waste · e-waste.
- **Environment Opportunity**: clean tech · green building · renewable energy.

CASE
- Untreated discharge harming aquatic life → **pollution & waste / water** issue under Environment pillar.

CONCLUSION The **Environment pillar** is involved; the ETP addresses its **Pollution & Waste** element.

204 Essential Components/6 C's of Integrated reporting

QNO SDG.200 | CNO SDG.080 | SM · M25 MTP

FOCUS
- Board unfamiliar with **Integrated Reporting** — explain its essential components.
- Really asks the **6 Cs (6 capitals)** of Integrated Reporting.

APPLIES Integrated Reporting — 6 Capitals

CONCEPT
- **Financial**: pool of funds from debt, equity, grants or generated by operations/investments.
- **Manufactured**: human-created production assets — buildings, equipment, infrastructure.
- **Natural**: water, land, minerals, forests, biodiversity, ecosystem health — impacted positively/negatively.
- **Human**: people's skills, experience, motivation; alignment with governance & ethics; ability to implement strategy.
- **Social**: relationships within communities & stakeholders · trust & loyalty · **social licence to operate**.
- **Intellectual**: R&D, innovation, knowledge — drives future earnings & competitive advantage.
- Mnemonic (RT): **MONA FISH**; capital = capability.

CASE
- Research → Intellectual · employee skills → Human · supplier relationships → Social · eco-infrastructure → Manufactured/Natural.

CONCLUSION Integrated Reporting covers all **six capitals** — not just financial performance — to show long-term **value creation**.

205 Identification of Capitals in Integrated Reporting

QNO SDG.250 | CNO SDG.080 | SM · M26 MTP · N24 MTP

FOCUS
- Identify which **Integrated Reporting capital** each initiative refers to.

- Two variants: Omega (R&D, training, supplier ties, community) and Trustworthy (digital app, CSR beneficiaries).

APPLIES Integrated Reporting — 6 Capitals (Intellectual & Social)

CONCEPT
- **Intellectual Capital**: R&D, innovation, human resources & external relationships → future earnings, **competitive advantage**.
- **Social Capital**: institutions & relationships with communities and stakeholders for collective well-being.
- Social includes common values · trust & loyalty with customers, suppliers, partners · **social licence to operate**.

CASE
- Omega (i) patents/AI R&D, (ii) training & university tie-ups → **Intellectual Capital**.
- Omega (iii) supplier/customer relations, (iv) community engagement → **Social Capital**.
- Trustworthy (i) digital app, 100% rise in digital collection → **Intellectual**; (ii) CSR beneficiaries 10,000 → 75,000 → **Social**.

CONCLUSION (i)/(ii) = **Intellectual Capital**; (iii)/(iv) = **Social Capital**. OR: [i] Intellectual, [ii] Social.

206 Nine principles of BRSR

QNO SDG.300 | CNO SDG.170 | SM · M24 Exam

FOCUS
- List the **nine principles of BRSR** (NGRBC); OR case — principle on **open, accessible business decisions**.
- RT: exams target individual principles; skip the SDG-linking table.

APPLIES BRSR (SEBI) — 9 Principles of National Guidelines on Responsible Business Conduct

CONCEPT
- **P1** Ethics, Transparency & Accountability · **P2** Safe & sustainable goods/services · **P3** Employee well-being.
- **P4** Stakeholder interests & responsiveness · **P5** Human rights · **P6** Protect & restore environment.
- **P7** Responsible influence on public & regulatory policy · **P8** Inclusive growth · **P9** Value to consumers responsibly.
- Principles grouped into **E, S, G** and interlinked.
- P1 elements: ethical policies & practices · share with stakeholders · transparent disclosure of **adverse effects**.
- P1 contd: encourage **value chain** to adopt · respond to outside entities violating principles.

CASE
- SU Ltd: open, accessible decisions → **Principle 1**.

CONCLUSION Know all nine by name; the OR case is **Principle 1 — Ethics, Transparency & Accountability**.

207 BRSR - Sections of Reporting

QNO SDG.304 | TRICKY | CNO SDG.160 | S25 MTP

FOCUS
- Map XYZ Ltd's disclosures to **BRSR sections**.
- Trap: **life-cycle assessment & biodiversity** omitted — does that breach minimum mandatory disclosure?

APPLIES BRSR (SEBI) — Sections A, B, C · NGRBC

CONCEPT
- **Section A** – General Disclosures: company details, products, operations, employees, holding/subsidiaries.
- **Section B** – Management Process: policies, governance, leadership, oversight.
- **Section C** – Principle-wise performance: KPIs across nine NGRBC principles.
- Section C **Essential indicators** = **mandatory** (training, energy, emissions, water, waste).
- Section C **Leadership indicators** = **optional** (life-cycle assessment, biodiversity, supply chain).

CASE
- Workforce, gender diversity, subsidiaries → **A**; ethics/diversity/human-rights policies → **B**.
- Energy, emissions, sustainability training → **C (Essential)**; LCA & biodiversity are Leadership → optional.

CONCLUSION **All three sections covered; omission of leadership indicators is permissible — XYZ has complied with minimum mandatory BRSR disclosures.**

208 BRSR - Principle 1 - Case Study

QNO SDG.308 | TRICKY | CNO SDG.160 | S25 MTP

FOCUS
- BRSR principle that business decisions should be **open to disclosure** and accessible to interested parties.
- Identify it and give its **core elements**.

APPLIES **BRSR — Principle 1: Ethics, Transparency & Accountability (NGRBC)**

CONCEPT
- Governing structure develops **policies, procedures, practices** so ethics is not compromised.
- Policies, practices & performance made available to **stakeholders**.
- **Adverse effects** → extra care for transparent disclosure.
- Encourage **value-chain** entities to adopt the principles.
- Proactively respond to outside entities **violating** the principles — suppliers, distributors, sub-contractors, regulatory officers.

CASE
- Echo Ltd's described principle = **Principle 1**.

CONCLUSION **It is Principle 1 — Ethics, Transparency and Accountability; Echo must disclose against these core elements.**

209 BRSR - Principle 3 - Case Study

QNO SDG.316 | TRICKY | CNO SDG.160 | M25 RTP

FOCUS
- Employees complain of **delayed salaries**, excessive hours, poor **factory safety**.
- Identify the BRSR principle and its core elements.

APPLIES **BRSR — Principle 3: Promote Well-being of All Employees incl. Value Chain**

CONCEPT
- Comply with all **regulatory requirements** for employees.
- Respect dignity; allow **freedom of association**, unions, collective bargaining.
- Prevent child, bonded and involuntary labour.
- Protect **work-life balance**; ensure **timely payment** of wages.
- **Living wages** for basic needs and economic security.
- **Safe, hygienic**, comfortable workplace · skill & career development · harassment-free workplace.

CASE
- Delayed salaries, long hours, inadequate safety → breach of timely wages, work-life balance, safe workplace.

CONCLUSION **Principle 3 applies — Sukaran Ltd. must take corrective action to align with it.**

210 BRSR - Principle 7 - Case Study

QNO SDG.350 | CNO SDG.160 | SM · M24 MTP

FOCUS
- Fintech is member of **industry chambers**, gave inputs on a draft bill and digital public infrastructure.
- Where disclosed in BRSR, and is it **mandatory**?

APPLIES **BRSR — Section C, Principle 7: Influencing Public & Regulatory Policy**

CONCEPT
- **Principle 7**: policy advocacy within statutory framework, using **trade groups & chambers**.

- Each principle reported under **Essential indicators (mandatory)** and **Leadership indicators (optional)**.

CASE
- Membership of chambers/associations → **Essential indicator** → mandatory.
- Inputs to Ministry on draft bill & chamber taskforce on DPI → **Leadership indicators** → optional.

CONCLUSION **Disclosed under Principle 7: membership is mandatory; policy inputs are optional leadership disclosures.**

211 BRSR - Principle 9 - Case Study

QNO SDG.370 · TRICKY · CNO SDG.160 · M26 RTP · M25 MTP

FOCUS
- Complaints of **misleading advertisements** and no transparent **grievance redressal**.
- Identify the BRSR principle and key consumer-protection aspects.

APPLIES **BRSR — Principle 9: Provide Value to Consumers in a Responsible Manner**

CONCEPT
- Purpose: useful products/services for **reasonable profits**.
- Reduce negative impacts on consumers, environment, society.
- Do not prevent **freedom of choice** and fair competition.
- Disclose all **adverse impacts** transparently · protect **customer data privacy**.
- Inform safe use, reuse, recycling, disposal; curb over-consumption.
- No **misleading advertising** · transparent, accessible **grievance redressal**.
- Essential goods/utilities: **universal, non-discriminatory access**.

CASE
- Misleading ads and missing grievance mechanism breach P9 core elements.

CONCLUSION **Pink Ltd. must adhere to Principle 9 — focus on truthful advertising and an accessible grievance redressal system.**

212 BRSR - Principle 9 - Case Study

QNO SDG.375 · TRICKY · CNO SDG.160 · S25 RTP

FOCUS
- Cream sold as **"100% natural, chemical-free"** but contains fragrance & preservatives; **no complaint form/helpline**.
- Identify BRSR principle and state its core elements.

APPLIES **BRSR — Principle 9: Provide Value to Consumers in a Responsible Manner**

CONCEPT
- Purpose: useful products/services for **reasonable profits** (as on company website).
- Reduce negative impacts · do not prevent freedom of choice & fair competition.
- Transparently disclose **adverse impacts** · maintain **data privacy**.
- Inform safe use, reuse, recycling, disposal; avoid over-consumption.
- No **misleading/confusing advertising**.
- Transparent, accessible **grievance redressal** & feedback system · universal access for essential services.

CASE
- Misrepresented contents → **misleading advertising**; no complaint mechanism → grievance redressal failure.

CONCLUSION **Principle 9 is breached — Skin Glow must take corrective measures for responsible consumer practices.**

213 Methodology of providing assurance in BRSR

QNO SDG.400 · CNO SDG.180 · SM · N24 RTP

FOCUS
- Auditor appointed to give **assurance on BRSR** — what methodology to follow?

APPLIES **BRSR Assurance — Methodology**

CONCEPT
- Understand BRSR **principles & parameters** (RT).
- **Preliminary review** of ESG report & parameters.
- **On-site assessment / verification** — enquiries, documents, physical observation.
- Submission of **findings** of on-site assessment & document review.
- Review of responses & clarifications on findings.
- Preparation of assessment/verification report with final results & recommendations.
- Issuance of **Assessment Report & Assessment Statement**.

CONCLUSION **Kapil should move from preliminary review → on-site verification → findings & clarifications → final assessment report/statement.**

214 Benefits of sustainable Reporting

QNO SDG.800 | CNO Unique | SM · J26 MTP · M24 MTP

FOCUS
- Non-top-1000 listed company voluntarily adopting **GRI-based sustainability reporting**.
- Explain **sustainability reporting** and its **expected benefits**.

APPLIES **Sustainability Reporting — GRI framework**

CONCEPT
- Public reporting on **economic, environmental, social impacts** — positive or negative — towards sustainable development.
- Regular, structured disclosure of sustainability data with **performance indicators** & management disclosures.
- Benefit: stakeholders understand performance; links **financial & non-financial** performance.
- Focus on **long-term value creation** by addressing ESG issues.
- Investors use **ESG performance** for investment decisions (risks & opportunities).
- Better business continuity; stronger position with **B2B customers** and new ones.

CONCLUSION **Sustainability reporting = structured ESG disclosure; benefits are stakeholder trust, investor appeal and long-term value.**

19 CHAPTER 19 Professional Ethics and Liabilities of Auditors

PART 1 Introduction and the Chartered Accountants Act, 1949

215 Points to be Considered Before Disclosing Confidential Information

QNO 653.500 | CNO PE.200/PE.220 | SM · M24 Exam

FOCUS
- Principle of **confidentiality** (subsection 114, Revised Code of Ethics).
- When may/must confidential information be disclosed, and what to weigh before disclosing?

APPLIES **Code of Ethics — Subsection 114: Confidentiality**

CONCEPT
- Confidentiality serves **public interest** — enables free flow of information to the accountant.
- Disclosure: (1) **required by law** · (2) permitted by law and **authorised by client**/employer.
- (3) Professional duty/right (not prohibited by law): **Peer/Quality Review** · regulatory inquiry · own legal defence · technical & ethics standards.
- Consider: could any party, incl. third parties, be **harmed** even with consent?
- Consider: is all relevant info **known & substantiated**?
- Consider: proposed **type of communication** and whether recipients are **appropriate**.

CONCLUSION **Disclose only in the three permitted circumstances, after weighing harm, substantiation, mode and recipients.**

216 Regulation 191 – Practicing CA Acting As Secretary

QNO 653.990 | CNO PE.760 | SM · M24 Exam

FOCUS
- Practising CA appointed **Secretary** by Central Govt for a Metro project, 2 years, **not salary-cum-full-time**.
- Is it 'other occupation' needing Council permission?

APPLIES **Sec 2(2)(iv), CA Act 1949 · Clause (11), Part I, First Schedule · Regulation 191, CA Regulations 1988**

CONCEPT
- Sec 2(2)(iv): deemed in practice when rendering services Council considers CA services.
- Clause (11): misconduct to engage in **other business/occupation** without Council permission.
- **Regulation 191**: may accept appointment by Central/State Govt, court or legal authority, or act as **secretary** in professional capacity…
- …provided employment is **not salary-cum-full-time**.

CASE
- CA Raj: professional capacity, Central Govt, not salary-cum-full-time → within Reg 191.

CONCLUSION **CA Raj is not guilty of misconduct — appointment permitted under Regulation 191 read with Clause (11).**

217 Sec 2 --MCS (Portfolio Management Services)

QNO 654.000 | CNO PE.790 | SM · N18 RTP · M18 MTP · N15 Exam +6

FOCUS
- Practising CA doing management consultancy also **manages clients' portfolios** (PMS).
- Is **portfolio management** within permitted MCS?

APPLIES **Sec 2(2)(iv), CA Act 1949 — Council resolution on Management Consultancy & Other Services**

CONCEPT
- Council resolution under Sec 2(2)(iv) permits **Management Consultancy & Other Services**.
- CA may advise on **issue of securities** — prospectus drafting, SEBI filings, publicity budgets, broker selection.
- Specifically **not permitted**: **broking, underwriting, portfolio management services**.

CASE
- P (OR Mr. Sam) advised on PMS **and managed portfolios** of clients → prohibited activity.

CONCLUSION **P / Mr. Sam is guilty of professional misconduct under the CA Act, 1949.**

218 Sec 2 --MCS (Recruitment Services)

QNO 655.000 | CNO PE.790 | SM · M15 Exam · M11 RTP · N07 Exam +1

FOCUS
- Practising CA agrees to **select and recruit personnel** and conduct **training programmes** for a client.
- Is this a permitted MCS?

APPLIES **Sec 2(2)(iv), CA Act 1949 — Management Consultancy & Other Services**

CONCEPT
- Council resolution under Sec 2(2)(iv) permits the **entire range of MCS**.
- MCS includes **personnel recruitment & selection**.
- Covers HR development — **designing & conducting training**, work study, job description, job & workload evaluation.

CASE
- Mr. A's recruitment and training services fall squarely within MCS.

CONCLUSION **Mr. A is not guilty of professional misconduct.**

219 Sec 2 -- MCS (Registered Valuer)

QNO 655.055 | TRICKY | CNO PE.790 | SM · M24 MTP

FOCUS
- Practising CA, also an **engineer**, wants to do registered valuer course and value **plant & machinery**.
- Trap: course is allowed, but P&M valuation is not.

APPLIES **Sec 2(2)(iv), CA Act 1949 (MCS) · Companies (Registered Valuers & Valuation) Rules 2017 · Regulation 190A**

CONCEPT
- MCS includes valuation of shares/business and acting as **Registered Valuer** under Companies Act 2013.
- Rules qualify CAs for **securities or financial assets only** — **not plant & machinery**.
- So P&M valuation is **not** part of permitted MCS.
- **Regulation 190A** resolution: members in practice may attend classes & appear for exams — **no prior permission**.

CASE
- Doing the RV course → **permissible**.
- Working as engineer/valuer of P&M while in practice → **not permissible**.

CONCLUSION **CA Gyan may take the course but cannot practise as a registered valuer for plant & machinery simultaneously.**

220 Regulation 191 - Acting as Representative in Tax Matters

QNO 655.080 | CNO PE.760 | N24 MTP

FOCUS
- Practising CA (no assurance work) to file and **plead a GST appeal** at Tribunal for ₹3,50,000 fee.
- Is tax representation a permitted practice activity?

APPLIES **Sec 2(2)(iv), CA Act 1949 · Regulation 191, CA Regulations 1988**

CONCEPT
- Sec 2(2)(iv): deemed in practice when rendering services the Council considers CA services.
- **Regulation 191**: deemed in practice if, in **professional capacity**, he acts as **representative for taxation matters**.

CASE
- DEF Ltd is a non-audit client; appeal against ₹6 crore GST demand; fee ₹3,50,000 → valid **tax representation**.

CONCLUSION **CA Ram is not guilty of professional misconduct.**

221 Sec 6 --Certificate Issued Without COP by CA

QNO 655.100 | CNO PE.700 | SM · M24 MTP · M19 RTP · M18 RTP +2

FOCUS
- CA issues a **raw-material consumption certificate** as a CA in practice **without CoP**, applies next day.
- Does a later CoP application cure the breach?

APPLIES **Clause (1), Part II, Second Schedule, CA Act 1949 · Section 6 (Certificate of Practice)**

CONCEPT
- Clause (1): misconduct if member **contravenes the Act**, regulations or Council guidelines.
- **Section 6**: no member may practise unless he holds a **CoP** from the Council.
- Non-practising member cannot accept engagements normally prescribed for a CA (Author's note — include Sec 6).

CASE
- Certificate issued before CoP → **Sec 6 contravened**; applying the next day does not cure it.

CONCLUSION **CA Vineet is guilty of professional misconduct under Clause (1), Part II, Second Schedule.**

222 Sec 6 --Practice during Suspension

QNO 655.200 | CNO PE.700 | SM · N23 MTP · N11 Exam · PM (Old)

FOCUS
- CA **suspended for 6 months**, CoP surrendered, still appears before **income-tax authorities** as a CA.
- Can he practise in another capacity during suspension?

APPLIES Section 6, CA Act 1949 — Certificate of Practice

CONCEPT
- Suspended member without CoP cannot take up practice in **any other capacity**.
- Membership binds him to the **CA Act & Regulations**.
- CA-domain work (accounting, audit, tax, finance) only **as a CA** — not as CS/lawyer (Author's note).

CASE
- Appearing before IT authorities is done **as a CA**; he cannot set regulations at naught during suspension.

CONCLUSION He is **not allowed** to represent before income-tax authorities while **suspended**.

223 Sec 21 --Examples of Other Misconduct

QNO 656.000 | CNO PE.1440 | SM · N16 Exam · M08 RTP · N04 Exam +1

FOCUS
- Short note: meaning of **other misconduct** under **Sec 21** with illustrative examples.

APPLIES Sec 21, CA Act 1949 · Part IV, First Schedule · Part III, Second Schedule

CONCEPT
- **Sec 21**: member liable to disciplinary action if guilty of professional or **other misconduct**.
- **Part IV, First Schedule** (member in practice or not): held guilty by court for offence punishable with imprisonment **not exceeding 6 months** · or, in Council's opinion, **brings disrepute** to profession/Institute, whether or not related to professional work.
- **Part III, Second Schedule**: held guilty by court for offence punishable with imprisonment **exceeding 6 months**.
- Empowers Council to enquire into misconduct even if not professional misconduct.

CASE
- Examples: retaining client's books without reasonable cause · material misrepresentation · using articled/audit clerk for non-professional purposes · conviction for offence u/s 8(v) · RC office-bearer misappropriating funds · not replying to public authorities · client's IT assessment records in CA's bedroom almirah · coercing bank for own loan.

CONCLUSION Other misconduct covers acts **outside professional work** that render the member unfit — Council can act on them.

224 Sec 27 --Sec 27 (Separate branch in charge) / ITO

QNO 658.000 | CNO PE.880 | SM · M19 Exam · M17 MTP · N15 Exam +2

FOCUS
- Second office ~**80 km** away run by **retired ITOs** (OR: Chennai suburb office run by retired IT Commissioner) — **Sec 27** separate charge.
- Trap: distance is measured from **municipal limits** of the city, not from the existing office.

APPLIES Sec 27, CA Act 1949 — More than one office

CONCEPT
- More than one office in India → each in **separate charge of a member** of the Institute.
- Exemptions: second office in **same premises** · in **same city** · within **50 km of municipal limits** of the city of first office.

CASE
- Mumbai: assume 80 km = beyond 50 km of municipal limits → exemption lost; retired ITOs are **not members** of ICAI.
- Chennai variant: distance not given ('suburbs' undefined) → give **conditional answer**: within 50 km → no violation; beyond 50 km → violation.

CONCLUSION **Mr. G is guilty of professional misconduct under Sec 27; in the Chennai case K is guilty only if the office is beyond 50 km.**

225 Sec 27 --Sec 27 (Separate branch In charge) No Intimation

QNO 659.000 · TRICKY · CNO PE.880 · M25 MTP · M18 Exam

FOCUS
- Sole proprietor opens a 'facilitation centre' **26 km** away, manages both himself, but gives **no intimation to ICAI**.
- Trap: distance is fine — the miss is the **intimation** requirement.

APPLIES **Sec 27 (incl. 27(2)), CA Act 1949 · Regulation 189**

CONCEPT
- More than one office → each in **separate charge of a member**.
- Exemption: same premises / same city / within **50 km of municipal limits** → one member can manage both.
- Opening & closing of an office must be **intimated to the Institute** — Sec 27(2), within **1 month** (Reg 189).

CASE
- Facilitation centre = a **second office**; 26 km → within 50 km → proprietor can be in charge of both.
- But no intimation sent to ICAI.

CONCLUSION **M & Co. is guilty of professional misconduct for not intimating the second office to ICAI (not for the distance).**

226 Sec 27 (Separate branch In charge) Same Board at Residence

QNO 660.000 · CNO PE.880 · SM · N22 MTP · N21 MTP · N07 Exam +1

FOCUS
- Two-partner firm puts the **firm's name-board** at both offices and also at the partners' **residences**.

APPLIES **Sec 27, CA Act 1949 · Council decision on name-boards**

CONCEPT
- No bar on a name-board at a member's **residence** with designation 'chartered accountant'…
- …provided it is the name-plate of the **individual member**, **not of the firm**.

CASE
- Firm's name-board at residences → not permitted.
- 80 km distance is **irrelevant** (each office has a partner in charge).

CONCLUSION **Partners are guilty of misconduct — the firm's name-board cannot be put up at a residence.**

227 NOCLAR Vs SA 250

QNO 660.700 · CNO PE.500 · SM · M24 Exam

FOCUS
- Auditor finds tax notices and **child labour**; claims **SA 250** and **NOCLAR** are one and the same — do you agree?

APPLIES **SA 250 — Consideration of Laws & Regulations · NOCLAR, Revised Code of Ethics**

CONCEPT
- (i) **Scope**: SA 250 → **audit only**; NOCLAR → professional accountants **in service and in practice**.
- (ii) **Laws**: SA 250 → laws with **direct effect** on FS + laws **fundamental to operations**; NOCLAR goes further → non-compliance causing **substantial harm**.
- (iii) **Stakeholders**: not defined in SA 250; NOCLAR covers investors, creditors, employees, general public.
- (iv) **Imminent breach**: NOCLAR permits disclosure to an **appropriate authority** after considering discussion with mgmt/TCWG — absent in SA 250.

CONCLUSION **Do not agree — SA 250 and NOCLAR are not the same; NOCLAR is wider.**

228 NOCLAR

QNO 660.800 | CNO PE.440 | SM · M25 MTP · N24 MTP · M23 Exam

FOCUS
- CA Rahul, **Director-Finance** of a listed co., finds pollution clearance obtained by **unfair means** (₹10.25 lakh booked as recycling expense); matter not reached TCWG.
- Tests NOCLAR responses of a **senior professional accountant in service**.

APPLIES NOCLAR — Responses under Code of Ethics (Senior Professional Accountants in Service)

CONCEPT
- NOCLAR applies to accountants **in service and in practice**; incl. **senior professional accountants** (incl. **directors**) of listed entities.
- Covers non-compliance causing **substantial harm** — financial or non-financial.
- **Imminent breach**: after considering discussion with mgmt/TCWG, may **disclose to appropriate authority**; disclosure is permitted.

CASE
- Ongoing breach of pollution laws + unlawful payment → NOCLAR applies to CA Rahul as Director-Finance.

CONCLUSION CA Rahul should: **understand** the matter · **address** it · decide **further action** · **seek advice** · decide **disclosure** to authority · act on **imminent breach** · **document**.

229 First Schedule, Part I,Cl,10 Fees on Percentage of Tax Reduced

QNO 709.500 | TRICKY | CNO PE.1260 | SM · M24 Exam

FOCUS
- Tax-litigation CA (no assurance services) quotes fee: higher of ₹5,00,000 or **10% of tax demand reduced** — contingent fee allowed?

APPLIES Clause (10), Part I, First Schedule, CA Act 1949 · Regulation 192

CONCEPT
- **Cl 10**: guilty if fees based on **% of profits** or **contingent** on findings/results — except as permitted by regulations.
- **Reg 192** permits such fees for **non-assurance services to non-audit clients**; fees may be based on **% of tax demand reduced**.

CASE
- CA Kumar gives no assurance services; XYZ Ltd is a **non-audit client**; appeal work = non-assurance service.

CONCLUSION CA Kumar is **not guilty** — fee permitted under **Reg 192** read with Cl 10.

230 Disciplinary Procedure

QNO 780.100 | TRICKY | CNO PE.960 | J26 MTP · M25 RTP

FOCUS
- If CA Yash is guilty under **Clause 8, Part I, First Schedule** — which authority hears it and what punishment?

APPLIES Board of Discipline — CA Act 1949 (First Schedule misconduct)

CONCEPT
- First Schedule misconduct (Cl 8, Part I) → matter placed before the **Board of Discipline**.
- Punishments: (i) **reprimand** · (ii) **remove name** up to **3 months** · (iii) **fine** up to **₹1,00,000**.

CONCLUSION **Board of Discipline** — reprimand / removal up to 3 months / fine up to ₹1 lakh.

231 First Schedule, Part I,Cl,1-Working on behalf of CA or CA firm

QNO 660.100 | TRICKY | CNO PE.1040 | S25 MTP · M23 MTP · N22 Exam · M22 MTP +1

FOCUS
- CA Sant (with COP) sits in CA Pant's office, independently advises the firm's clients, files returns and **represents the firm** — not a partner, not an employee; gets only expense reimbursement + ₹3 lakh gratitude sum.

APPLIES Clause (1), Part I, First Schedule, CA Act 1949

CONCEPT
- Guilty if CA **allows any person to practise in his name**, unless that person is a **CA in practice** and his **partner or employee**.
- Purpose: protect public from unqualified persons practising under cover of qualified CAs; work done under the CA's **control & supervision**.

CASE
- CA Sant worked independently for firm's clients and before tax authorities on firm's behalf — neither partner nor employee.
- No salary/profit share → **Clause 2 not attracted** (RT).

CONCLUSION CA Pant is **guilty** under **Clause (1)** — allowed CA Sant to practise in his name.

232 First Schedule, Part I,Cl,2 -- Sale of Goodwill

QNO 661.000 | CNO PE.1040 | SM · M22 Exam · N17 RTP · N12 Exam +3

FOCUS
- Widow of a deceased **proprietor** CA sells the practice **with right to use firm name** — permissible?
- OR (Roohi): death 15 Sep 2020, sale 30 Sep 2021 — **after one year**.

APPLIES Clause (2), Part I, First Schedule, CA Act 1949 · Council decision on sale of goodwill

CONCEPT
- **Cl 2**: no sharing of fees/profits except with member · partner · retired partner · **legal representative of deceased partner** · other professional body member · prescribed persons.
- Council: **goodwill** of a proprietary firm can be sold to an eligible member (death after 30.08.1998).
- Institute's **permission within 1 year** of death; firm name not removed for 1 year.
- Dispute over legal heir (informed within a year) → name kept in abeyance till 1 year from settlement.

CASE
- Sale of practice = sale of **goodwill** to another member → allowed with firm name.
- Roohi variant: sold **beyond one year** of death → not as per the 1-year rule (RT).

CONCLUSION Widow's sale is **permissible**. Roohi variant: sale after one year is **not valid**, so Balwan cannot use the name (RT's view).

233 First Schedule, Part I,Cl,2 –Sharing with of Fees

QNO 662.000 | TRICKY | CNO PE.1040 | SM · M26 MTP · J26 MTP · N22 MTP +7

FOCUS
- CA offers articled clerk **1% of firm profits** over stipend (OR 60% audit fee to non-CA as 'office allowance'; OR CA P receives 20% fees from a registered valuer).

APPLIES Clause (2), Part I, First Schedule, CA Act 1949

CONCEPT
- **Cl 2**: guilty if he pays/allows/agrees to pay **share, commission or brokerage** in fees/profits to anyone other than:
- member · partner · retired partner · legal representative of deceased partner · member of other professional body · persons with **prescribed qualification**.
- **Articled clerk / employee** is **not** in the permitted list.

CASE
- Mr. X: helping a weak articled clerk is **no defence** — ICAI objection correct.

- CA Ciya: Mr. Suhas is not a CA → profit sharing in disguise.
- CA P: he **receives** a share → governed by **Clause 3**, not Cl 2 (RT).

CONCLUSION **Mr. X is guilty under Clause (2); same for CA Ciya.**

234 First Schedule, Part I,Cl,2 --Sharing with Digital Marketer

QNO 662.005 **CNO PE.1040** SM · N23 MTP · M22 RTP

FOCUS
- New CA seeks clients via **phone calls** to friends/family, pushes website on social media **tagging 40 traders**, and pays a **digital marketer 8% commission**.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · ICAI website guidelines · Clause (2)**

CONCEPT
- **Cl 6**: no soliciting clients/work directly or indirectly — circular, advertisement, personal communication, interview or any other means.
- Website allowed if per ICAI guidelines — **not in push mode**; **client names** prohibited.
- **Cl 2**: fee sharing only with permitted persons — a **digital marketer** is not one (RT).

CASE
- Phone calls to family/friends → soliciting.
- Sharing website on social media and **tagging traders** = push mode → contravenes guidelines.
- 8% commission to digital marketer → sharing of fees.

CONCLUSION **Mr. Avi is guilty under Clause (6) (and the commission falls foul of Clause 2).**

235 First Schedule, Part I,Cl,6 – (Multiple Issues)

QNO 666.050 **CNO PE.1140** SM · M26 MTP · N20 Exam

FOCUS
- New CA solicits via **phone calls**, promotes website on social media **tagging 30 traders**, pays digital marketer **5% commission**.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · ICAI website guidelines**

CONCEPT
- **Cl 6**: no soliciting clients/work directly or indirectly — circular, advertisement, personal communication, interview or any other means.
- Creating a website is fine if per ICAI guidelines — **not in push mode**; **client names** not allowed.

CASE
- Seeking clients through family & friends → wrong.
- Sharing website address on all social media + **tagging traders** (mentioning clients) → complete contravention.

CONCLUSION **CA A is guilty of professional misconduct under Clause (6).**

236 First Schedule, Part I,Cl,6 Advertisement (Opening Ceremony)

QNO 667.000 **CNO PE.1140** SM · M10 Exam · PM (Old)

FOCUS
- Newspaper ad with CA's **photograph** congratulating him on **opening of his office**.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949**

CONCEPT
- **Cl 6**: no soliciting directly or **indirectly** by circular, **advertisement**, personal communication, interview or any other means.
- Soliciting impairs **independence and forthrightness** of a CA.

CASE
- Prominent advertisement with photograph → indirect soliciting.
- Even if given by **relatives/friends** — still guilty (RT).

CONCLUSION **Mr. X is guilty under Clause (6).**

237 First Schedule, Part I,Cl,6 Clarification (Books)

QNO 668.000 | CNO PE.1140 | SM · M13 MTP · M09 RTP · N05 Exam +1

FOCUS
- CA author mentions **professional experience** and partnership in **M/s RST** in the book's author details.

APPLIES Clause (6), Part I, First Schedule, CA Act 1949 · Clause (11)

CONCEPT
- Cl 6 bars **indirect methods** of advertising practice to gain publicity.
- Council: member may indicate **association with a CA firm** in a book/article…
- …but **highlighting professional attainments** is still **not allowed**.
- RT: Cl 11 → CA can author any book; Cl 6 → name + firm name allowed.

CASE
- Firm name → allowed; mentioning **professional experience** → highlights attainments.

CONCLUSION Mr. S is **guilty** under **Clause (6)** for mentioning professional experience.

238 First Schedule, Part I, Cl, 6 Clarification (Speech)

QNO 673.000 | CNO PE.1140 / PE.1180 | SM · M22 Exam · M21 MTP · N19 MTP +3

FOCUS
- CA at a national conference calls himself '**Management Expert**', advertises firm's tax & audit services at **reasonable rates**, asks audience to approach, distributes **business cards**.

APPLIES Clause (6), Part I, First Schedule, CA Act 1949 · Sec 7 r/w Clause (7), Part I, First Schedule

CONCEPT
- **Cl 6**: no soliciting directly/indirectly — protects independence of judgment.
- **Sec 7 r/w Cl 7**: no advertising professional attainments/services; no designation other than **'chartered accountant'** unless a **university degree** or recognised professional membership.
- Lectures/TV/radio: may describe self as CA and relevant specialisation, but **no reference to firm** name, address or services; view must be objective, not promotional.

CASE
- 'Management Expert' — neither university degree nor recognised membership → **Cl 7**.
- Promoting firm's services & rates, distributing cards → **Cl 6**.

CONCLUSION Mr. Nigal is **guilty** under both **Clause (6) and Clause (7)**.

239 First Schedule, Part I,Cl,6 Clarification (Public Interview) [TV Interview Case]

QNO 674.000 | CNO PE.1140 | SM · N08 RTP · PM (Old)

FOCUS
- During a **TV interview**, partner hands over firm's **bio-data** (international affiliation, his achievements, 'tax expert') which is read out.

APPLIES Clause (6), Part I, First Schedule, CA Act 1949 — Public Interview

CONCEPT
- **Cl 6** bars soliciting directly/indirectly incl. by **interview**.
- RT: 'interview' → Cl 6: firm name allowed but **no highlighting/publicity**; TV/radio/film **programme appearance** → firm name not allowed.

CASE
- Bio-data read out → **promotion and publicity** of the firm and partner → cannot be approved.

CONCLUSION Partner is **guilty** of professional misconduct under **Clause (6)**.

240 First Schedule, Part I, Cl,6 Clarification (Representation by CA Under Company Act seeking publicity)

QNO 676.000 | TRICKY | CNO PE.1140 | SM · M24 MTP · N19 Exam

FOCUS
- Auditor facing removal makes a **Sec 140(4)(iii)** representation listing his **contributions to controls** + willingness to continue — solicitation?

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · Sec 140(4)(iii), Companies Act 2013**

CONCEPT
- Cl 6: no soliciting — except from another CA in practice and responding to tenders.
- Sec 140(4)(iii): retiring auditor may make written **representation**, circulated to members / read at meeting.
- Content must be **dignified** — how he acted **independently & conscientiously**; may state **willingness to continue**.

CASE
- Willingness to continue → allowed.
- Highlighting **contributions in strengthening controls** → seeks publicity = **canvassing**.

CONCLUSION **CA Anoop is guilty under Clause (6).**

241 First Schedule, Part I,Cl,6 Solicitation (Another CA Firm)

QNO 678.000 | CNO PE.1140 | SM · M23 MTP · N13 Exam · PM (Old)

FOCUS
- CA writes letters to **other CA firms** asking them to allot professional work — is it soliciting?

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 — Proviso**

CONCEPT
- Cl 6 bars soliciting clients/work directly or indirectly.
- **Proviso**: not prohibited to apply/request/invite/secure professional work **from another CA in practice**.

CASE
- Letters only to CA firms M/s XY and M/s ABC → covered by the proviso.

CONCLUSION **Mr. Honest is not guilty — soliciting work from fellow CAs is permitted.**

242 First Schedule, Part I,Cl,6 Solicitation (Tender) Land Revenue

QNO 681.000 | CNO PE.1140 | SM · N20 Exam · N18 MTP · M14 RTP +6

FOCUS
- CA firm responds to State Govt **tender** for **computerisation of land records** and pays **₹50,000 earnest deposit**.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 — Council guidelines on tenders**

CONCEPT
- Services **other than audit** → members can respond to any tender.
- Allowed where **minimum fee** is prescribed in the tender, or area is **open to other professionals** too.
- **Non-exclusive area** → reasonable **earnest money / security deposit** permitted.

CASE
- Computerisation of land records is **not an exclusive area** of CAs.

CONCLUSION **M/s LMN can respond and pay ₹50,000 deposit — no misconduct.**

243 First Schedule, Part I,Cl,6 --Tender Specifies Maximum Fees

QNO 682.600 | TRICKY | CNO PE.1140 | SM · N24 RTP

FOCUS
- CA firm responds to a PF Office tender for **e-TDS returns** — tender open for **all categories** with a **maximum fee** of ₹7,500/quarter.
- Tests the tender restriction under Clause 6 — does a maximum (not minimum) fee matter?

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · Council Guidelines on Tenders**

CONCEPT
- Clause 6: CA in practice must not **solicit** clients/work by circular, advertisement, personal communication, interview or any other means.
- Proviso: may **respond to tenders** or enquiries issued by users of professional services.
- Council Guidelines: no tender response in areas **exclusively reserved** for CAs (audit & attestation).
- Restriction lifted if **minimum fee** prescribed in tender **or** area open to other professionals too.

CASE
- e-TDS filing tender is **open for all categories** → not exclusive to CAs; maximum fee is irrelevant.

CONCLUSION Sanjeev & Associates **can respond** to the tender — no misconduct.

244 First Schedule, Part I,Cl,6 -Website (Bio Data & Photographs)

QNO 684.000 | CNO PE.1140 | SM · M05 Exam · PM (Old)

FOCUS
- CA firm's website shows firm details, **bio-data** of partners and **photographs** of all partners.
- Tests the ICAI website guidelines under Clause 6.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · ICAI Website Guidelines**

CONCEPT
- CA firm may create its own website in **any format**, subject to guidelines.
- Website must not **solicit** clients/work or amount to direct/indirect **advertisement**.
- Guidelines allow details of the firm, **bio-data of partners** and a **passport-style photograph**.

CASE
- Firm details, bio-data and partners' photographs (assumed **passport style**) — all permitted.

CONCLUSION **Guidelines complied — no violation of the CA Act, 1949 by M/s XYZ.**

245 First Schedule, Part I,Cl,6 -Website (Push Technology)

QNO 687.000 | CNO PE.1140 | SM · M20 RTP · M17 RTP · PM (Old)

FOCUS
- Firm website in **bright green**, run on **push technology**, displaying partners and **major clients** without any regulator's requirement.
- Tests three website guidelines — colour, push vs pull, client names.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · ICAI Website Guidelines**

CONCEPT
- **No restriction on colours** used in the website.
- Website must run on **pull** technology, not **push** technology.
- **Names of clients / fees** not to be given — except where required by a **regulator**, only to that extent.
- Such regulator-driven disclosure must carry an italic note naming the regulator and the rule/directive.

CASE
- Bright green → fine · push technology → violation · client names without regulator obligation → violation.

CONCLUSION **Firm fails two guidelines → guilty of professional misconduct under Clause 6 (soliciting work by advertisement).**

246 First Schedule, Part I,Cl,6 --Online Coaching

QNO 688.500 | CNO PE.1140 | M26 RTP · N22 MTP

FOCUS
- CA Ajit's coaching **hoardings** also advertise audit/attestation work; **pamphlets** invite appointment as statutory auditor.
- He also responds to a **statutory audit tender** with **no minimum fee** (area reserved for CAs).

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · Council Guidelines (Advertisement / Tenders)**

CONCEPT
- Clause 6 prohibits **soliciting** work directly or indirectly — circular, advertisement, personal communication, interview, any other means.
- Coaching advertisement linked to audit services = **indirect solicitation**.
- Signboard at coaching premises (institute name, contact, subjects) allowed; **large hoardings** promoting services not allowed.
- Tenders: no response in **exclusively reserved** areas unless **minimum fee** prescribed or open to other professionals.

CASE
- Hoardings + pamphlets = **direct solicitation** by advertisement and circular.
- Statutory audit tender — reserved for CAs, no minimum fee → violates Council Guidelines.

CONCLUSION **CA Ajit is guilty of professional misconduct under Clause (6) — for hoardings, pamphlets and the tender response.**

247 First Schedule, Part I,Cl,6 Registration on Government Portal to Render Services

QNO 688.550 · TRICKY · CNO PE.1140 · SM · M24 MTP

FOCUS
- Can a CA firm **register on GeM portal** (Govt e-Marketplace, run by a 100% govt Sec 8 company) to serve govt departments?
- Tests whether GeM = **aggregator listing** or empanelment (both restricted).

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · Council Guidelines for Advertisement, 2008**

CONCEPT
- Members cannot list with online **aggregators** that also list businessmen, technicians, event organisers etc.
- Panels: may request inclusion if panel known; **roving enquiries** not proper; may quote fees / respond to tenders.
- GeM is neither empanelment nor aggregator — aggregator run by **third party**, GeM run by the **client itself**.
- Registration is a **pre-requirement** for govt work — ancillary to rendering services.

CASE
- No ethical norm violated by registering on GeM; ICAI has made an announcement on this.

CONCLUSION **Yes — CA firms can register on GeM, but must follow ICAI tender guidelines when bidding through it.**

248 First Schedule, Part I, Cl,6 - Solicitation via YouTube (Firm Name & Contact)

QNO 688.560 · CNO PE.1140 · J26 RTP

FOCUS
- CA Puran's educational **YouTube videos** introduce him as partner of his **firm** and show the firm's **website and contact details**.
- Tests the Council's clarification on educational videos.

APPLIES **Clause (6), Part I, First Schedule, CA Act 1949 · Council clarification on Educational Videos**

CONCEPT
- Clause 6: no **solicitation** of clients/work directly or indirectly by any means.
- Educational videos on the internet are **permitted**.
- But **no reference to the CA firm** in which member is partner/proprietor.
- No **contact details or website address** in the video.

CASE
- Firm name, website and contact details in videos/description = **solicitation** of professional work.

CONCLUSION **CA Puran is guilty of professional misconduct under Clause (6).**

249 First Schedule, Part I,Cl,7 Designation

QNO 689.000 · CNO PE.1180 · SM

FOCUS
- Practising CA's visiting card describes him as Chartered Accountant **and Cost Accountant**.
- Tests permitted designations on professional documents.

APPLIES **Section 7 · Clause (7), Part I, First Schedule, CA Act 1949**

CONCEPT
- CA in practice cannot use any designation **other than Chartered Accountant**.
- May use letters/descriptions indicating **membership** of accountancy bodies approved by the Council.
- Council: letters indicating membership of the **Institute of Cost and Works Accountants** allowed — not the **designation "Cost Accountant"**.

CASE
- Visiting card uses the designation "Cost Accountant" — not permitted.

CONCLUSION **Improper** — he may show letters indicating ICWA **membership**, but not the designation "Cost Accountant".

250 First Schedule, Part I,Cl,7 --Description Insolvency Professional (IP)

QNO 692.100 · TRICKY · CNO PE.1180 · SM · M22 MTP · M19 Exam · N18 RTP

FOCUS
- CA in practice, empanelled as **Insolvency Professional**, mentions "IP" on visiting cards and letterheads; a neighbour complains.
- Tests whether IP is a permitted title under Clause 7.

APPLIES **Clause (7), Part I, First Schedule, CA Act 1949**

CONCEPT
- Misconduct if CA **advertises professional attainments** or uses designation other than "Chartered Accountant".
- Covers professional documents · visiting cards · letter heads · sign boards.
- Exceptions: **university degree** (law in India / recognised by CG) or title of membership of ICAI / institution **recognised by CG** or Council.

CASE
- "Insolvency Professional" is a title **recognised by the Central Government**.

CONCLUSION **CA can mention IP — not guilty; the neighbour's complaint is not valid.**

251 First Schedule, Part I,Cl,7 Visiting Card (Name of Multiple Firms)

QNO 694.000 · TRICKY · CNO PE.1180 · SM · N17 MTP · N15 Exam · M12 MTP +4

FOCUS
- CA Naman, partner in **4 firms**, prints names and addresses of all 4 firms on his **personal letter heads**.
- Tests Clause 7 — is this advertisement?

APPLIES **Clause (7), Part I, First Schedule, CA Act 1949**

CONCEPT
- Misconduct if CA **advertises** attainments/services or uses designations other than "Chartered Accountant" on documents, cards, letter heads, sign boards.
- Exceptions: recognised university degree; membership title of ICAI / CG- or Council-recognised institution.
- **No prohibition** on printing names of firms in which the member is a **partner** on personal letter heads.

CASE
- Names of all 4 firms where he is partner — permitted.

CONCLUSION **CA Naman is not guilty of professional misconduct under Clause (7).**

252 First Schedule, Part I,Cl,6 and 7 Professional Achievements (Offer Documents)

QNO 695.010 · CNO PE.1140 / PE.1180 · SM · M21 Exam · N18 Exam · M09 RTP +1

FOCUS
- Offer document of a listed company mentions practising CA Mr D as **director** with his **professional attainments** and specialisation.
- Tests the Council's view on prospectus descriptions of CA-directors.

APPLIES **Clauses (6) & (7), Part I, First Schedule, CA Act 1949**

CONCEPT
- Council: prospectus/announcement describing a CA-director's **expertise, specialisation, knowledge** violates **Clauses 6 & 7**.
- Member must ensure such communications do not **advertise attainments** or amount to **solicitation**.
- On appointment as director, alert mgmt to these provisions; get material about him **approved** before issue.

CASE • Offer document carries Mr D's attainments and specialisation.

CONCLUSION **Mr D is guilty of professional misconduct and liable for disciplinary action.**

253 First Schedule, Part I, Clause 7 -- Common CA Logo

QNO 695.050 | TRICKY | CNO PE.1200 | S25 MTP

FOCUS
- CA Ramesh alters the **CA India logo** — grey background, shrunk size, "India" replaced with firm initials, gradient on "CA".
- Tests the Council's **logo guidelines**.

APPLIES **Clause (7), Part I, First Schedule, CA Act 1949 · Chapter XVI (Logo), Council General Guidelines 2008**

CONCEPT
- Clause 7: no advertising attainments; no designation other than CA on documents, cards, letter heads, sign boards.
- No alteration of **font** (colour, bold, size), spacing or dimensions.
- No change in **design and colours**, including the **white background**.
- No rotating/tilting; no **shrinking or distorting** original proportion.

CASE
- Every change — background, size, wording, gradient — breaches the logo guidelines; "minor branding" is no defence.

CONCLUSION **CA Ramesh is guilty of professional misconduct under Clause (7) and the Council General Guidelines.**

254 First Schedule, Part I,Cl,8 --Communication (Certificate of Posting)

QNO 698.000 | CNO PE.1220 | SM · N16 RTP · PM (Old)

FOCUS
- Incoming auditor W writes to the previous auditor only **under certificate of posting** before starting audit.
- Tests what counts as valid communication under Clause 8.

APPLIES **Clause (8), Part I, First Schedule, CA Act 1949**

CONCEPT
- Incoming auditor must **communicate in writing** with previous auditor **before accepting** the position.
- Council: **certificate of posting** alone is not sufficient — need evidence the letter **reached** him.
- Positive evidence: **RPAD** (Registered Acknowledgement Due) or by hand against written acknowledgement.

CASE
- W relied solely on certificate of posting (simple post) — communication not proved.

CONCLUSION **W is guilty of professional misconduct under Clause (8).**

255 First Schedule, Part I, Cl --Communication (Previous Auditor of Govt. Co)

QNO 704.550 | CNO PE.1220 | J26 MTP · M25 RTP

FOCUS
- Auditor of a **government company** (CG holds 72% / 74%) gets very limited time; writes to previous auditor but accepts **before reply**.
- Gives a **conditional acceptance** and starts work — tests the govt-audit relaxation under Clause 8.

APPLIES **Clause (8), Part I, First Schedule, CA Act 1949**

CONCEPT
- Must communicate **in writing** with previous auditor (CA / Restricted Certificate holder) before accepting.
- Applies uniformly to govt and non-govt audits; if time permits, comply before accepting.
- Govt companies/banks: if no time to await reply → **conditional acceptance** and start urgent work after sending communication.

- Acceptance letter: subject to **professional objections** of previous auditor; final decision after his reply.

CASE
- CG holding 72% / 74% → **government company**; communication sent, conditional acceptance given.

CONCLUSION CA Yash / CA Sunny is **not guilty** — has **complied** with Clause (8).

256 First Schedule, Part I,Cl,9 Improper Appointment (Declined to Accept)

QNO 706.000 | TRICKY | CNO PE.1240 | SM · M21 Exam · M15 Exam · N12 MTP +3

FOCUS
- Appointed auditor **declines** to accept; **Board** appoints another CA firm, which accepts.
- Tests Clause 9 — duty to verify Companies Act compliance before accepting.

APPLIES Clause (9), Part I, First Schedule, CA Act 1949 · Sections 139, 140, 141, Companies Act 2013

CONCEPT
- Clause 9: misconduct to accept audit **without ascertaining** compliance with Sec **139, 140 r/w 141**.
- Board can fill only a **casual vacancy** — Sec 139(8)(i) / 139(6).
- Non-acceptance is **not a casual vacancy** → deemed **no auditor appointed** at AGM.
- Sec 139(10): no appointment at AGM → **existing auditor continues**.

CASE
- Board's appointment of GDC & Co / CA Y is **defective in law**.

CONCLUSION M/s GDC & Co / CA Y is **guilty of professional misconduct** under Clause (9) — accepted without verifying statutory requirements.

257 First Schedule, Part I, Cl,10 -- Charging Percentage by Valuer under Direct Tax

QNO 706.600 | CNO PE.1260 | SM · M24 RTP

FOCUS
- CA Pankaj, acting as **valuer under direct taxes**, charges fees as a **percentage of property value**.
- Tests the exception to the percentage/contingent fee bar.

APPLIES Clause (10), Part I, First Schedule, CA Act 1949 · Regulation 192

CONCEPT
- Clause 10: no fees based on **% of profits** or **contingent** on findings/results — except as permitted by Regulations.
- **Regulation 192** exempts certain services.
- Valuer for **direct taxes and duties** — fee may be a % of the **value of property** valued.

CASE
- Pankaj's fee falls within Regulation 192.

CONCLUSION CA Pankaj is **not guilty** of professional misconduct.

258 First Schedule, Part I,Cl,10 Fees on Percentage Basis (Liquidator)

QNO 709.000 | CNO PE.1260 | SM · M20 MTP · N18 MTP · N17 MTP +3

FOCUS
- CA M, appointed **liquidator**, charges fees as a **percentage of realisation** of assets.
- Tests the Regulation 192 exception for receivers/liquidators.

APPLIES Clause (10), Part I, First Schedule, CA Act 1949 · Regulation 192

CONCEPT
- Clause 10: no fees based on **% of profits** or **contingent** on results, except as permitted by Regulations.
- Exception: **receiver or liquidator** — fee may be % of **realisation or disbursement** of assets.

CASE
- CA M as liquidator charges % of realisation — covered by the exception.

CONCLUSION CA M is **not guilty** of professional misconduct.

259 Accepting Position of MD (Management Consultancy Co.)

QNO 712.500 · TRICKY · CNO PE.1280 · SM · N24 MTP · M21 Exam

FOCUS
- CA R (IS Audit expert) becomes **MD of a management consultancy company** without Institute's prior permission.
- Friend says he loses **full-time COP**, attest function and articles — is that right?

APPLIES Clause (11), Part I, First Schedule · Section 2(2)(iv), CA Act 1949

CONCEPT
- Clause 11: no other business/occupation unless **permitted by Council**.
- Council allows members in practice to be **MD / WTD / Manager** of a company engaged **exclusively** in **Management Consultancy** & permitted services (Sec 2(2)(iv)).
- Company name to be **approved** by and company **registered** with the Institute.
- Member **retains full-time COP** — no equity limit; can do **attest function** and **train articles**.

CASE
- HKC Ltd renders management consultancy → covered by the Council's permission.

CONCLUSION CA R's action is **valid** — CA S's view is incorrect.

260 First Schedule, Part I,Cl,11 Business Occupation (Trading in Derivative)

QNO 713.000 · CNO PE.1280 · SM · N21 MTP · M18 RTP · M17 Exam +6

FOCUS
- CA Raj, tax practitioner, spends ~**50% of his time** trading in **commodity derivatives** without any permission.
- Tests Clause 11 — general vs specific permission.

APPLIES Clause (11), Part I, First Schedule, CA Act 1949

CONCEPT
- Clause 11: no business/occupation other than CA profession unless **permitted by Council**.
- Council has given **general permission** for certain specific occupations.
- All other occupations need **specific permission** of the Institute.

CASE
- Trading in **commodity derivatives** is **not** under general permission; none taken.

CONCLUSION CA Raj is **guilty of professional misconduct** under Clause (11) unless specific permission is obtained.

261 First Schedule, Part I,Cl,6 Trading in Equity Options & Commodities Trading

QNO 713.550 · TRICKY · CNO PE.1280 · SM · J26 MTP · N24 MTP · M24 MTP

FOCUS
- CA Z shows income from **equity F&O** as business income in ITR uploaded for bank branch audit empanelment (MEF).
- Would **currency** or **commodity derivatives** make a difference?

APPLIES Clause (11), Part I, First Schedule, CA Act 1949 · Ethical Standards Board announcement

CONCEPT
- Clause 11: no other business/occupation unless permitted; may be non-MD/WTD director unless he/partner is its auditor.
- ESB: derivatives allowed in **personal capacity**, not professional capacity (for clients).
- **Equity and currency** derivatives allowed — **no Council permission** needed.
- **Commodity derivatives** — **not permissible** for members in practice.

CASE
- Equity F&O → no violation · currency derivatives → **no difference** · commodity derivatives → violation.

CONCLUSION Not guilty for equity/currency derivatives; **guilty** under Clause (11) if income is from **commodity derivatives**.

262 First Schedule, Part 1,Cl,11--Business Occupation(Multiple Points)

QNO 713.600 | TRICKY | CNO PE.1280 | SM · M26 MTP · M24 MTP · M23 RTP

FOCUS
- Mr S (CA in Chennai) does **equity research** advising non-clients, school **paper-setting**, and **agriculture**.
- Becomes insolvent from farm losses; later **discharged** with court certificate of **misfortune** — Section 8 impact?

APPLIES Clause (11), Part I, First Schedule · Regulation 190A · Section 8, CA Act 1949

CONCEPT
- ESB: CA in practice may be an **equity research adviser** but cannot publish a **retail report**.
- Reg 190A **general permission**: paper-setter / examiner / moderator · owning **agricultural land** & farming.
- Sec 8: discharged insolvent **without** court certificate (misfortune, no misconduct) is debarred from Register.
- Non-disclosure of a Sec 8 disability = misconduct; Council may remove name.

CASE
- (A) Equity research, no retail report → **not guilty**.
- (B) Paper-setting and agriculture → generally permitted → **not guilty**.
- (C) Discharged insolvent **with** misfortune certificate → **not debarred**.

CONCLUSION Mr S has **not violated** Clause 11 or Section 8 — he can remain on the Register of Members.

263 First Schedule, Part I, Clause 11 Sale of Domain

QNO 713.700 | TRICKY | CNO PE.1280 | S25 MTP · N23 RTP

FOCUS
- CA Sumati **sells a domain name** (cap.net) to XYZ Ltd for **royalty** of ₹2,25,000.
- Claims no permission needed as it is unrelated to professional work — tests Clause 11.

APPLIES Clause (11), Part I, First Schedule, CA Act 1949 · Regulation 190A

CONCEPT
- Clause 11: no business/occupation other than CA profession unless **permitted by Council**.
- Reg 190A: CA in practice not to engage in other business except with permission per **Council resolution**.
- Domain sale is under **neither** general nor specific permission → needs **approval**.

CASE
- Selling a domain for royalty = **"other business/occupation"**; done without approval.

CONCLUSION CA Sumati is **guilty of professional misconduct** under Clause (11) — her defence fails.

264 First Schedule, Part I,Cl,11 Lectureship

QNO 717.000 | CNO PE.1280 | SM · M13 MTP · PM (Old)

FOCUS
- Practising CA with **4 articled clerks** becomes a **full-time college lecturer** and a **partner in business** with his brother.
- Tests Clause 11 — which activities need **specific prior approval**.

APPLIES Clause (11), Part I, First Schedule, CA Act 1949 · Regulations 190A & 191, CA Regulations 1988

CONCEPT
- Clause 11 debars other business/occupation unless **permitted by Council**.
- Regulations **190A & 191** — basis for considering permission applications.
- **Full-time lectureship** needs **specific & prior** Council approval.
- **Partnership in business** also needs specific permission.

CASE
- No approval taken for either activity.
- Business partnership with brother — Clause 4, Part I may also apply.

CONCLUSION CA is **liable for professional misconduct** under Clause (11) for both activities.

265 First Schedule, Part I,Cl,11 --Specific Permission (After Accepting Job)

QNO 719.000 | CNO PE.1280 | SM · N18 MTP · M18 MTP · N17 MTP +3

FOCUS
- CA in practice becomes **executive chairman** of a company and applies to Council for permission only **after** taking charge.
- Tests whether a **later application** cures engaging in other occupation without prior permission.

APPLIES Clause (11), Part I, First Schedule, CA Act 1949 · Regulation 190A, CA Regulations 1988

CONCEPT
- **Cl (11)**: CA in practice guilty if he engages in any business/occupation other than CA profession **unless permitted by Council**.
- **Reg 190A**: no other business/occupation except with permission granted by **Council resolution**.
- **Specific permission** needed to hold office of **MD / whole-time director** of a body corporate.

CASE
- Took over as executive chairman on 01.04.2016; applied later → engaged in other occupation **without permission** in the interim.

CONCLUSION CA Aman **is guilty** of professional misconduct under **Clause (11), Part I, First Schedule**.

266 First Schedule, Part I,Cl,11 --Specific Permission (Promoter Director & Involvement in Family Business)

QNO 721.500 | CNO PE.1280 | M25 MTP · N20 Exam

FOCUS
- CA in practice is (a) **promoter director** of a Pvt Ltd and (b) **sleeping partner** in family garments firm.
- Tests which roles are freely allowed and which need **specific & prior approval** of Council.

APPLIES Clause (11), Part I, First Schedule, CA Act 1949

CONCEPT
- **Cl (11)**: no other business/occupation unless **permitted by Council**.
- **Promoter / signatory** to MoA & AoA and **director simpliciter** → no bar, even if objects cover CA-profession areas → **no permission** needed.
- **Interest in family business** (incl. by inheritance/succession/partition) where **no active part** in management → allowed only with **specific & prior approval** of Council.

CASE
- (a) Promoter director of ABG Pvt Ltd → permitted without approval.
- (b) Sleeping partner in family firm → prior approval required but **not obtained**.

CONCLUSION (a) As promoter director — **not guilty**. (b) As sleeping partner — **guilty** of professional misconduct (no prior Council approval).

267 First Schedule, Part I,Cl,12 -Signing (Multiple Matters)

QNO 723.000 | CNO PE.1300 | SM · M25 MTP · M24 RTP · N21 MTP +7

FOCUS
- Proprietor abroad; **CA employee (not partner)** acts in firm's name — which acts can be **delegated**?
- Tests the line between **routine documents** and those needing **professional opinion / authentication**.

APPLIES Clause (12), Part I, First Schedule, CA Act 1949 · Council clarification

CONCEPT
- **Cl (12)**: guilty if he allows a person **not a member in practice** or a **member not his partner** to sign on his/firm's behalf any BS, P&L, report or FS.
- Council: power to sign **routine documents** (no opinion/authentication) **may be delegated** — e.g. audit queries, questionnaires, routine tax matters (subject to **Sec 288** IT Act).

CASE
- (i) Audit queries → routine → **no misconduct**.
- (ii) **Production certificate** under Central Excise Act → not routine, outside authority → **CA A guilty**.

- (iii) Income-tax proceedings as authorised representative → routine tax matter (Sec 288) → **no misconduct**.

CONCLUSION **Only (ii) attracts Clause (12) — CA A guilty for it; (i) and (iii) are permissible delegation. OR variants apply the same routine-vs-authentication test.**

268 First Schedule, Part I,Cl,12 --Signing (Power of Attorney)

QNO 724.000 | CNO PE.1300 | SM · N13 RTP · M09 RTP · N08 RTP +2

FOCUS
- Practising CA gives **power of attorney** to an **employee CA** to sign reports and FS on his behalf.
- Tests whether a non-partner member can sign in a professional capacity.

APPLIES **Clause (12), Part I, First Schedule · Section 26 · Clause (1), Part II, Second Schedule, CA Act 1949**

CONCEPT
- **Cl (12)**: only a **member in practice who is his partner** may sign BS, P&L, report or FS on his/firm's behalf.
- **Sec 26**: only a member may sign documents on behalf of a CA in practice / CA firm in professional capacity.
- **Cl (1), Part II, Sch II**: guilty if he contravenes the Act, regulations or Council guidelines — cite whenever a **section** is breached.
- RT: **standard answer** for all Cl (12) questions.

CASE
- Power of attorney to employee CA (not partner) to sign reports & FS → not permitted.

CONCLUSION **S is guilty under Clause (12), Part I, First Schedule and Clause (1), Part II, Second Schedule (contravening Sec 26).**

269 First Schedule, Part I,Cl,12 – Delegation of works to his articles and staff

QNO 724.500 | CNO PE.1300 | SM · J26 MTP · N24 MTP · N21 MTP

FOCUS
- Auditor delegates several tasks to **articles & staff** — which are permissible?
- Tests the Council's list of **routine documents** vs signing of **FS**.

APPLIES **Clause (12), Part I, First Schedule, CA Act 1949 · Council clarification**

CONCEPT
- **Cl (12)**: only member in practice who is his **partner** can sign BS, P&L, report or FS.
- Council: routine documents (no opinion/authentication) **may be delegated**:
- Audit queries · questionnaires · letter forwarding draft observations/FS · initialling/stamping vouchers & schedules · routine correspondence
- Memo of cash/physical verification · acknowledgements for records · bills & money receipts · routine tax matters (Sec 288) · office administration.

CASE
- Mr S: items (i)–(iv) routine → allowed; (v) **signing FS** by staff → not allowed.
- OR (Mr Vijay): questionnaires, stamping vouchers/schedules, routine correspondence → all in Council's list → eligible.

CONCLUSION **Mr S is correct for the first four tasks but guilty under Clause (12) for letting staff sign FS. In the OR case, Mr Vijay's acts are permissible routine delegation.**

270 First Schedule, Part II, Cl 2 -- Share of Fees from Lawyer / Commission from Agents

QNO 729.000 | CNO PE.1340 | SM · S25 MTP · N23 MTP · N19 Exam +3

FOCUS
- CA (holding COP, also in employment) recommends a lawyer to employer and takes a **referral fee** out of lawyer's fees.
- OR: same act by an **employed CA not holding COP**.

APPLIES **Clause (2), Part II, First Schedule, CA Act 1949**

CONCEPT
- **Cl (2), Part II**: member (other than in practice) **employed** by a company/firm/person is guilty if he accepts any part of fees, profits or gains from a **lawyer, CA or broker** engaged by employer, or **agent / customer** of employer, by way of **commission or gratification**.
- RT shortcut: **AABCC** — Advocate, Agent, Broker, CA, Customer.

CASE
- Mr C, as an employee (COP or not), took referral fee from the lawyer engaged by his employer.

CONCLUSION **Mr C is guilty of professional misconduct under Clause (2), Part II, First Schedule.**

271 First Schedule, Part III, Cl,2 --Not Responding to ICAI (Date of Leaving Services of the Firm)

QNO 730.000 | CNO PE.1380 | SM · M24 RTP · M22 MTP · M10 Exam +1

FOCUS
- Member **fails to reply** to ICAI despite reminders — date of leaving service / appointment date & membership certificate.
- Tests the 'not supplying information called for' clause — write **all 8 authorities**.

APPLIES **Clause (2), Part III, First Schedule, CA Act 1949**

CONCEPT
- **Cl (2), Part III**: member, in practice or not, guilty if he **does not supply information** called for or does not comply with requirements of:
- ICAI hierarchy: **Institute · Council · its Committees · Quality Review Board**.
- Discipline hierarchy: **Director (Discipline) · Board of Discipline · Disciplinary Committee · Appellate Authority**.
- RT: students lose marks by not writing all **8 authorities**.

CASE
- Mr X ignored ICAI letters asking date of leaving as paid assistant (OR: CA Anita — appointment date & membership certificate).

CONCLUSION **Mr X (and CA Anita) guilty of professional misconduct under Clause (2), Part III, First Schedule.**

272 First Schedule, Part I, Cl,7 - Improper Use of FCA Designation by Associate Member

QNO 730.500 | CNO PE.1180 | M26 MTP

FOCUS
- Associate member uses **'FCA'** designation and ignores ICAI letters; partner whose **name was removed** trains an articled assistant and ignores ICAI.
- Tests two Part III clauses on two persons.

APPLIES **Clauses (1) & (2), Part III, First Schedule, CA Act 1949**

CONCEPT
- **Cl (1), Part III**: member, in practice or not, **not being a fellow**, acts as a fellow → guilty.
- **Cl (2), Part III**: guilty if he **does not supply information** called for by Institute, Council, Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, QRB or Appellate Authority.

CASE
- Rohan: ACA using 'FCA' on visiting cards/correspondence + no reply to ICAI.
- Arjun: trained articled clerk after removal from Register + no reply to ICAI's explanation request.

CONCLUSION **Mr Rohan guilty under Cl (1) & (2), Part III; Mr Arjun guilty under Cl (2), Part III, First Schedule.**

273 Clause (2) of Part III of First Schedule -- Did Not Fill Columns

QNO 731.100 | CNO PE.1380 | SM · M25 MTP · M14 Exam · PM (Old)

FOCUS
- While applying for **COP**, member deliberately leaves blank the column on **other occupation/business** though engaged in business.
- Tests whether non-disclosure in an ICAI form = not supplying information called for.

APPLIES **Clause (2), Part III, First Schedule, CA Act 1949**

CONCEPT
- **Cl (2), Part III**: member, in practice or not, guilty if he **does not supply information called for** or does not comply with requirements of Institute, Council, Committees, Director (Discipline), BoD, DC, QRB or Appellate Authority.
- Details of engagement in business **must be disclosed** in the COP application — it is information called for by the Institute.

CASE
- Hitesh / Mr G left the column blank while actually engaged in business → information withheld.

CONCLUSION **Hitesh / Mr G guilty of professional misconduct under Clause (2), Part III, First Schedule.**

274 First Schedule, Part IV,Cl,2 --Disrepute to the Institute (Use of Influence to Get Loans)

QNO 737.000 | CNO PE.1440 | SM · M19 MTP · N10 Exam · PM (Old)

FOCUS
- **Concurrent auditor** of a bank uses his **influence** to get cheques purchased, then fails to repay the loan/overdraft.
- Tests 'other misconduct' — disrepute, even outside pure professional work.

APPLIES **Clause (2), Part IV, First Schedule, CA Act 1949**

CONCEPT
- **Cl (2), Part IV**: member, in practice or not, guilty of **other misconduct** if, in Council's opinion, he **brings disrepute** to the profession or Institute, whether or not related to professional work.
- CA must maintain **highest standards of integrity** even in **personal affairs**; deviation calls for disciplinary action.

CASE
- YKS misused his position as concurrent auditor to obtain funds and did not repay the bank.

CONCLUSION **YKS & Co guilty of other misconduct under Clause (2), Part IV, First Schedule — act brings disrepute, not pardonable.**

275 First Schedule, Part IV,Cl,2 --Disrepute to the Institute (Other Work by Article)

QNO 737.010 | CNO PE.1440 | S25 MTP · M22 RTP · N19 RTP · N18 RTP

FOCUS
- CA contesting **Central Council elections** uses his **articled assistant** for election campaigning.
- Tests use of articles for purposes **other than professional practice**.

APPLIES **Part IV, First Schedule & Part III, Second Schedule, CA Act 1949 — Other Misconduct**

CONCEPT
- **Other misconduct** is defined in Part IV, First Schedule and Part III, Second Schedule.
- Council empowered to act **even if not arising out of professional work** — CA must keep highest integrity in personal affairs too.
- Using articled assistant for non-professional purposes → other misconduct.
- RT: ICAI cited **both schedules** here; else give standard answer — **Sec 21/22 + Cl (2), Part IV, First Schedule**.

CASE
- Articled assistant engaged in CA Kumar's own election campaign.

CONCLUSION **CA Kumar is guilty of 'Other Misconduct'.**

276 First Schedule, Part IV, Cl 2 -- Disrepute to the Institute (Forgery)

QNO 737.020 | TRICKY | CNO PE.1440 | M25 MTP

FOCUS
- Practising CA **forges his late uncle's will** in a family property dispute — act in **personal capacity**.
- Trap: misconduct can arise even when **not related to professional work**.

APPLIES **Clause (2), Part IV, First Schedule, CA Act 1949**

CONCEPT
- **Cl (2), Part IV**: member, in practice or not, guilty of **other misconduct** if, in Council's opinion, he **brings disrepute** to the profession or Institute, **whether or not related to his professional work**.

- CA expected to keep **highest standards of integrity** even in **personal affairs**.

CASE
- Forged will presented as genuine in legal proceedings for undue advantage → brings disrepute to the profession.

CONCLUSION **CA Chetan guilty of other misconduct under Clause (2), Part IV, First Schedule — personal capacity is no defence.**

277 Recent Decision of ESB - PCA as Independent Director in Bank

QNO 776.020 | CNO PE.1820 | J26 MTP

FOCUS
- Practising CA invited as **honorary independent director** of a **co-operative bank**; his **partner** is offered its **statutory audit**.
- Tests the recent **Ethical Standards Board** decision.

APPLIES **Recent decision of Ethical Standards Board (ICAI) — CA Act 1949**

CONCEPT
- Member in practice may be a **non-executive / independent director** in a **co-operative bank**, provided:
- (1) **not involved in day-to-day activity** of the bank; and
- (2) **neither he nor any of his partners** is interested in the bank **as auditor**.

CASE
- Honorary role, no daily involvement → condition (1) met.
- Partner CA Mihir accepting statutory audit → condition (2) breached.

CONCLUSION **Both cannot be held together — if Mihir accepts the audit, Ratan cannot be/continue as independent director; if Ratan accepts directorship, the firm must decline the audit.**

PART 3 Professional Ethics - Second Schedule

278 Second Schedule, Part I, Cl,1 --Confidentiality Breached While giving Information to Bank

QNO 738.000 | CNO PE.1460 | SM · N20 Exam · M14 RTP · N10 RTP +1

FOCUS
- Bank (lender) asks the company's **auditor** for opinion and **detailed info** from his **working papers**.
- Tests **confidentiality** and ownership of working papers.

APPLIES **Clause (1), Part I, Second Schedule, CA Act 1949 · SA 200**

CONCEPT
- **Cl (1), Part I, Sch II**: guilty if he **discloses information** acquired in professional engagement to anyone other than client **without client's consent** or otherwise than **as required by law**.
- **SA 200**: respect confidentiality; no disclosure to third party without **specific authority** or **legal/professional duty**.
- **Working papers = property of the auditor**; extracts may be given to client at his discretion.
- RT mistake point: always cite **SA 200** in confidentiality questions.

CASE
- Bank's request is not a legal requirement; client's permission not obtained → cannot disclose.

CONCLUSION **Auditor should decline — no duty to divulge working-paper information to an outside agency without client's specific permission or legal requirement.**

279 Second Schedule, Part I, Cl,1 - Confidentiality

QNO 738.500 | CNO PE.1460 | S25 MTP · M25 MTP · M23 Exam

FOCUS
- Auditor **removed** after dispute over proposed remarks; then writes to **ROC** listing issues — non-existent fixed assets, bogus creditors.
- Tests whether **voluntary disclosure** after removal breaches confidentiality.

APPLIES **Clause (1), Part I, Second Schedule, CA Act 1949 · Code of Ethics**

CONCEPT
- **Cl (1), Part I, Sch II**: guilty if he discloses information acquired in professional engagement to anyone other than client **without consent** or otherwise than **as required by law**.
- Client information is **highly confidential** — given only to perform professional duties.
- **Code of Ethics**: duty of confidentiality **continues after completion** of the assignment.

CASE
- Letter to ROC was a **voluntary disclosure** — no client consent and **no legal requirement** to disclose.

CONCLUSION **SR & Associates guilty of professional misconduct under Clause (1), Part I, Second Schedule.**

280 Second Schedule, Part I, Cl,1 --Confidentiality Breached While Presenting Paper

QNO 739.000 | CNO PE.1460 | SM · M24 RTP · M22 MTP · N16 RTP +3

FOCUS
- CA reveals **vital client information** in a seminar/symposium (OR: shows actual client data with full identification) — 'for the nation' / for clarity.
- Trap: **good intention** is no defence.

APPLIES **Clause (1), Part I, Second Schedule, CA Act 1949 · Code of Ethics · SA 200**

CONCEPT
- **Cl (1), Part I, Sch II**: disclosing client's business information to others **without consent** or otherwise than **required by law** = breach of confidence.
- **Code of Ethics**: duty continues **even after the assignment**; disclosure allowed only as part of professional duties.
- **SA 200**: no disclosure to third party without **specific authority** or legal/professional duty.

CASE
- Mr Parekh / Mr Shreyansh disclosed client information to an audience **without client consent**; no legal requirement.

CONCLUSION **Guilty of professional misconduct under Clause (1), Part I, Second Schedule.**

281 Second Schedule, Part I, Cl 4 -- Resigned as Director and accepted the Statutory Auditor position

QNO 747.070 | CNO PE.1520 | SM · N21 Exam

FOCUS
- Practising CA, a **director simpliciter**, resigns after one year and **immediately becomes statutory auditor** of the same company.
- Tests the Council's **cooling-off period** after directorship.

APPLIES **Clause (4), Part I, Second Schedule, CA Act 1949 · Sec 141(3)(f), Companies Act 2013 · Council clarification**

CONCEPT
- **Cl (4)**: guilty if he expresses opinion on FS of an enterprise in which he, his firm or partner has **substantial interest**.
- **Sec 141(3)(f)**: officer or employee of a company cannot audit it; independence principle applies to other audits too.
- Council: no audit of a company for **2 years** from completion of tenure / **resignation as director**.

CASE
- Mr D resigned and accepted audit within the 2-year cooling period.

CONCLUSION **Mr D cannot be auditor until 2 years after resignation — guilty under Clause (4), Part I, Second Schedule.**

282 Second Schedule, Part I, Cl 5 --Loan from PF Fund

QNO 749.000 | CNO PE.1540 | SM · N21 MTP · M04 Exam · PM (Old)

FOCUS
- Company took a **₹10 lakh loan from Employees' PF**, not reflected in books; auditor knew but **ignored it** in his report.
- Tests failure to disclose a **material fact** (omission).

APPLIES Clause (5), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Cl (5)**: guilty if he fails to disclose a **material fact known to him**, not disclosed in FS, whose disclosure is necessary to make FS **not misleading**.
- Loan from PF is a **contravention of rules** → material fact.
- RT: under SAs misstatement includes omission, but in CA Act **omission = Cl (5)**, misstatement = Cl (6).

CASE
- Mr Joe knew of the unrecorded PF loan and did not report it.

CONCLUSION Mr Joe **guilty** of professional misconduct under **Clause (5), Part I, Second Schedule**.

283 Second Schedule, Part I, Cl 6 --False information to Tax Authorities

QNO 753.000 | TRICKY | CNO PE.1560 | SM · N18 Exam · N13 RTP · M11 RTP +2

FOCUS
- CA as **authorised representative** submits client's information to **tax authorities**, later found **false and misleading**.
- Trap: CA only **submitted** client's data on instructions — is he liable?

APPLIES Clauses (5) & (6), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Cl (5)**: guilty for failing to disclose a **material fact known to him**, necessary to make FS not misleading.
- **Cl (6)**: guilty for failing to report a **material misstatement known to him** in FS he is professionally concerned with.
- Both require the CA's **knowledge**.

CASE
- Statements based on **mgmt's data**; CA submitted them on client's instructions as authorised representative.

CONCLUSION CA **not liable** for professional misconduct — assuming he was **not aware** the facts were false (RT: alternative answer possible on another assumption).

284 Second Schedule, Part I, Cl,7 –Audit Report Not Filed Within Time

QNO 755.000 | CNO PE.1580 | SM · N20 MTP · N19 RTP · N18 RTP +3

FOCUS
- Auditor **did not complete audit** and **did not submit report in time**, so company could not meet statutory requirements.
- Tests delay as **gross negligence**.

APPLIES Clause (7), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Cl (7)**: guilty if he does **not exercise due diligence** or is **grossly negligent** in professional duties.
- Vital clause to judge if CA **honestly and reasonably** discharged duties; negligence ranges from **frontiers of fraud** to collateral minor negligence.
- Decided case: not completing audit / not submitting report in time for statutory compliance → **guilty under Cl (7)**.

CASE
- CA Dev's delay meant the company could not comply with statutory requirements.

CONCLUSION CA Dev **guilty** of professional misconduct under **Clause (7), Part I, Second Schedule**.

285 Second Schedule, Part I,Cl,7 -- Failed to Discover Fraud

QNO 756.000 | CNO PE.1580 | M25 MTP · N21 Exam · M18 Exam · M14 RTP +2

FOCUS
- **Cashier fraud & absconding** during the year undetected by auditor; investigation shows auditor worked in a **desultory, haphazard** manner.
- Tests auditor's position in **disciplinary proceedings** (gross negligence + SA 240).

APPLIES Clause (7), Part I, Second Schedule, CA Act 1949 · SA 240

CONCEPT
- **Cl (7)**: auditor must apply **reasonable care, skill and caution** honestly and reasonably; test = did he use all information he came across.
- **SA 240**: auditor did not plan/perform audit with **professional scepticism**.
- Cashier leaving **without notice** should have alerted auditor to probe the cash book.

CASE
- Fraud actually occurred; absconding cashier was a **red flag** → prima facie case of **gross negligence**.

CONCLUSION Auditor **grossly negligent** — professional misconduct under **Clause (7)**; matter referred to the **Disciplinary Committee** (post-2007, no High Court reference needed).

286 Second Schedule, Part I,Cl,7 --Putting Digital Signature on Resignation Letter of Previous Auditor

QNO 756.500 | CNO PE.1580 | SM · J26 MTP · N24 MTP · N22 RTP

FOCUS
- CA **digitally signs** a director's **resignation form** for ROC; the director's signature was **copy-pasted** (forged) by another director.
- Tests due diligence while certifying e-forms.

APPLIES Clause (7), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Cl (7)**: guilty if he does **not exercise due diligence** or is **grossly negligent** in professional duties.

CASE
- CA Sheetal signed without verifying **genuineness** of the resignation letter.
- Forged letter led to Mr Rohit's resignation being effected; no step taken that anyone would take normally.

CONCLUSION CA Sheetal **liable** for professional misconduct under **Clause (7), Part I, Second Schedule**.

287 Second Schedule, Part I, Cl 8 --MIS, Internal Inspection Report, Photos Instead of Attending Physical Verification

QNO 757.500 | CNO PE.1600 | N24 MTP · N20 Exam

FOCUS
- Stock auditor (for bank) **never visits the site** — relies on **MIS, internal inspection reports and dated photos** from client's employees.
- Tests whether such reliance = due diligence.

APPLIES Clause (7), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Cl (7)**: guilty if he does **not exercise due diligence** or is **grossly negligent**; negligence ranges from frontiers of fraud to minor negligence.
- Stock audit essentials: ascertain **existence & physical condition** · cross-tally with **stock statement** to bank · correct **classification** for valuation.
- Report without **physical verification** = gross negligence.

CASE
- Relying on client-generated MIS/photos (even date-stamped) instead of site visit → incorrect.

CONCLUSION Nam & Co. **guilty** of professional misconduct under **Clause (7), Part I, Second Schedule**.

288 Second Schedule, Part I, Cl 8 Circulation Certification

QNO 758.000 | CNO PE.1600 | SM · M23 MTP · N22 MTP · N12 MTP +7

FOCUS
- CA certified **circulation figures** of a newspaper/periodical from the **MIS report** only — without examining books, bank records, printer's bills or copies sold.
- Tests: is certifying without proper evidence **gross negligence**?

APPLIES Clause (7), Part I, Second Schedule, CA Act 1949 (also refer Cl. (2) & (8))

CONCEPT
- **Clause (7)**: guilty if he **does not exercise due diligence** or is **grossly negligent** in professional duties.
- Paid copies verified via **agents' remittances**, credit for **unsold returns**, and **books of account**.
- Certifying from statistical info **without cross-verification with financial records** = gross negligence.
- RT: certification without proper evidence → quote **Cl. 7, 8 and 2** of Part I, Second Schedule.

CASE
- Figures certified on MIS report alone; no financial records, bank statements or printer's bills examined.

CONCLUSION CA ZZ / CA Prakash **is guilty** of professional misconduct under **Clause (7)**, Part I, Second Schedule.

289 Second Schedule, Part I, Cl,8 –No Checking as No Change in Balance (Investments)

QNO 759.000 | CNO PE.1600 / PE.1540 | SM · J26 MTP · N24 MTP · M24 MTP +4

FOCUS
- Investments shown at ₹10 lakh — **same as last year**, so auditor did not verify; actual value only ₹25,000 (inflated to get a higher bank loan).
- Tests auditor's duty to verify **existence & valuation** of investments.

APPLIES Clauses (2), (7) & (8), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Cl. (2)**: certifies a report on FS not examined by him / partner / employee / another practising CA.
- **Cl. (7)**: no **due diligence** / **grossly negligent** in professional duties.
- **Cl. (8)**: fails to obtain **sufficient information** necessary to express an opinion.
- Verification & valuation = mgmt's primary duty, but auditor must verify **documentary evidence** of value and existence at year-end.
- Must **not blindly rely** on mgmt representation.

CASE
- Non-verification for **two years**; value not confirmed from any proper source — mere reliance on mgmt.

CONCLUSION Mr. A **is guilty** of professional misconduct under **Clauses (2), (7) and (8)**, Part I, Second Schedule.

290 Second Schedule, Part I,Cl,10 --Did not keep money is separate bank account (No Investment Made)

QNO 763.000 | CNO PE.1640 | SM · S25 RTP · M04 Exam · PM (Old)

FOCUS
- Charitable institution gave auditors ₹10 lakh to invest; firm kept it in **its own savings account** and made **no investment for 3 months**.
- Tests handling of **client money**.

APPLIES Clause (10), Part I, Second Schedule, CA Act 1949

CONCEPT
- **Clause (10)**: guilty if he fails to keep client moneys in a **separate bank account** or fails to use them for the **intended purpose**.
- Client funds received must be deposited in a **separate banking account**.
- Use only per client's instructions / for purposes intended (RT: within **reasonable time**).
- Fees / remuneration / short-term expense money may be kept in the general account.

CASE
- Client money put in firm's own savings account and not invested for 3 months → both limbs breached.

CONCLUSION **M/s Ram & Co. is guilty of professional misconduct under Clause (10), Part I, Second Schedule.**

PART 4 Council General Guidelines, 2008

291 Audit Fees Progressive Basis

QNO 771.000 | CNO PE.1760 | SM · S25 MTP · N23 Exam · M11 RTP +2

FOCUS
- Audit fee received in **quarterly instalments** after each limited review; 3rd instalment delayed, paid in March with balance (OR: tax audit fee received **progressively** before signing report).
- Does progressive fee = **indebtedness** to the client?

APPLIES **Chapter X, Council General Guidelines 2008 · Sec 141(3) Companies Act 2013 + Rule 10, Companies (Audit and Auditors) Rules 2014**

CONCEPT
- **Council Guidelines**: no appointment as auditor while **indebted** to the concern beyond statutory limit; in other cases above **₹1,00,000**.
- **Sec 141(3) + Rule 10**: disqualified if he/relative/partner indebted **> ₹5 lakh** to company, subsidiary, holding, associate or fellow subsidiary.
- ICAI **Research Committee**: fee recovered on **progressive basis** as work is done ≠ indebtedness at any stage.

CASE
- Mr. R's fee per agreed terms, paid instalment-wise as work progressed → progressive basis.
- Same logic covers D's progressive tax audit fee.

CONCLUSION **Fee structure valid — Mr. R (and D) not guilty of misconduct; progressive fee is not indebtedness.**

292 Previous Audit Fees Unpaid, Sick Unit

QNO 772.000 | CNO PE.1760 | SM · N16 Exam · N05 Exam · PM (Old)

FOCUS
- Mr. C accepted statutory audit though previous auditor's **tax audit fee ₹15,000 unpaid**.
- Trap: company has **negative net worth** — is the **sick unit** exception available?

APPLIES **Council General Guidelines 2008 — Appointment in case of non-payment of undisputed fees**

CONCEPT
- Guilty if he accepts appointment as auditor where **undisputed audit fee** of another CA for statutory audit (Companies Act / other statutes) is **unpaid**.
- **Proviso**: prohibition not applicable to a **sick unit**.
- Sick unit = entity whose **net worth is negative**.
- RT: also mention Cl. (8), Part I, First Schedule (communication with previous auditor).

CASE
- M/s PSU Ltd. had **negative net worth** for the preceding year → sick unit.

CONCLUSION **Mr. C is not guilty — though undisputed fees are unpaid, the sick-unit exception applies.**

293 Council General Guideline 2008--Fees from Other Assignments

QNO 773.000 | CNO PE.1760 | SM · M09 RTP · M07 Exam · PM (Old)

FOCUS
- Auditor of Z Ltd. (turnover ₹200 cr, audit fee ₹50 lakh) offered **management consultancy** for ₹1 crore.
- Tests the **non-audit fee ≤ audit fee** ceiling.

APPLIES **Council General Guidelines 2008 — Appointment as Statutory Auditor (non-audit fee limit)**

CONCEPT
- Applies to statutory auditor of **PSU / Govt co. / listed co.** and other public cos with **turnover ≥ ₹50 cr**.

- Other work for same undertaking must not exceed, in total, the **statutory audit fee**.
- Other work **includes** management consultancy & all permitted professional services.
- **Excludes** audit under other statute, **certification** by statutory auditor, **representation** before an authority.
- RT: count fees of own firm **and associate concerns**.

CASE
- Turnover ₹200 cr ≥ ₹50 cr → applies; consultancy fee **₹1 cr > audit fee ₹50 lakh**.

CONCLUSION **A should not accept — accepting the ₹1 crore consultancy would be professional misconduct.**

294 Council General Guidelines 2008 -- Record of Audit Assignments & Not Maintaining Books of Accounts

QNO 776.000 | CNO PE.1760 | SM · M24 MTP · N22 Exam · N18 Exam +6

FOCUS
- CA not maintaining **books of account** for professional earnings — income below Sec 44AA limits / fees noted in **mobile** / return on **presumptive basis (44ADA)**.
- Also: short note on **Record of Audit Assignments**.

APPLIES **Council General Guidelines 2008 — Chapter V (Maintenance of books of accounts) · Chapter VIII (Specified number of audit assignments)**

CONCEPT
- **Ch. V**: member/firm in practice shall keep proper books for professional practice — at least a **Cash Book** and a **Ledger**.
- Applies **irrespective** of income level, tax limits or presumptive taxation; mobile notes / Excel jottings not enough (RT).
- **Ch. VIII**: maintain **record of audit assignments** accepted (ceiling on audits).
- Record particulars: name of company/assignment · Regn. No. · date of appointment · date of acceptance · date of **Form ADT-1** filing.

CASE
- L: income below 44AA limit is **no valid ground**.
- CA Elegant (mobile notes) and Mr. X (44ADA, no books) — same requirement breached.

CONCLUSION **Mr. L is guilty of professional misconduct; on the same principle, CA Elegant and Mr. X's defence fails.**

295 Recent ESB Decisions - Skill Development

QNO 776.010 | CNO PE.1820 | J26 RTP

FOCUS
- CA firm asked by **Skill Development Council (GoI)** to do **assessment / performance audit** of training centres — efficiency, fund use, training quality, improvements.
- Is it a **prohibited** service for a member in practice?

APPLIES **Recent decisions of Ethical Standards Board, ICAI · Sec 2(2)(iv), CA Act 1949 (Management Consultancy & other services)**

CONCEPT
- As per **ESB decisions**, assessment / performance audit of **skill development council** centres is **permissible**.
- Covered under **Management Consultancy and other services** u/s **2(2)(iv)**, CA Act 1949.

CASE
- Scope (operational efficiency, utilisation of funds, training quality, suggestions) fits permitted services.

CONCLUSION **Aditya & Co. can accept — the assignment is not a prohibited service.**

296 Decisions of Etical Std. Board (BRSR Study & Assurance on BRSR Core)

QNO 777.000 · TRICKY · CNO PE.1820 · S25 RTP

FOCUS
- Statutory auditor of a top-1000 listed company agrees to **prepare BRSR study** AND give **assurance on BRSR Core**.
- Tricky: one role allowed, one not.

APPLIES Recent decisions of Ethical Standards Board, ICAI · CA Act 1949

CONCEPT
- Statutory auditor **cannot prepare BRSR study** for an audit client.
- He **may** provide **advisory services** on BRSR.
- He **may** act as **Assurance provider of BRSR Core** for the same client.

CASE
- Preparing BRSR & drafting disclosures → not permissible.
- Assurance on BRSR Core → permissible.

CONCLUSION CA Sahil **is guilty** of professional misconduct for **preparing the BRSR study**; BRSR Core assurance role is **permissible**.

297 Decisions of Etical Std. Board (Trademark Attorney)

QNO 777.005 · TRICKY · CNO PE.1820 · S25 MTP

FOCUS
- CA in practice agrees to file applications and act as **Trademark Attorney** before the Registrar of Trademarks.
- Distinguish **acting as attorney** vs **IPR advice**.

APPLIES Recent decisions of Ethical Standards Board, ICAI · CA Act 1949

CONCEPT
- Member in practice **cannot act as Trademark or Patent Attorney** (ESB).
- Professional **advice on IPR** = routine professional work → **permissible**.

CASE
- Rohan to represent client as Trademark Attorney before Registrar → prohibited activity.

CONCLUSION Senior partner **is correct** — acting as Trademark Attorney would amount to **professional misconduct**; only IPR advice is allowed.

20 CHAPTER 20 CA Inter based Standards on Auditing

PART 1 CA Inter based Standards on Auditing

298 Mandatory matters in engagement letter CA Inter MEA Limited is a listed company having its operation across India. MEA Limited appointed Mr. X, Mr. Y

QNO 2.010 · SM · M23 RTP · N22 MTP · N21 MTP +3

FOCUS
- (a) Engagement letter to joint auditors of MEA Ltd. — spot the **missing mandatory term**.
- (b) AKJ Ltd. mgmt: what must an audit engagement letter contain (statutory audit too)?

APPLIES SA 210 — Agreeing the Terms of Audit Engagements

CONCEPT
- Auditor shall agree terms with **mgmt / TCWG**; record in **engagement letter** or other suitable written agreement.
- Contents: **objective & scope** of audit · **responsibilities of mgmt** · **responsibilities of auditor** · identification of applicable **FRF**.
- Reference to expected **form & content of reports**, and statement that report may **differ** from expected form.

CASE

- (a) MEA letter covers objective/scope, auditor's responsibilities, FRF and report form — but **omits mgmt's responsibilities**.

CONCLUSION **(a) Discrepancy: responsibilities of management not specified, as SA 210 requires. (b) AKJ's letter must include all five SA 210 contents listed above.**