

**PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS**

**PART – I ACADEMIC UPDATE**

**RELEVANT AMENDMENTS FOR NOVEMBER 2023 EXAMINATION**

**(Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by  
Regulating Authority)**

**Chapter – 5: Company Audit**

As per Companies (Specification of definition details) Amendment Rules, 2022 dated 15 September 2022 the following amendments were made in the Companies (Specification of definition details) Rules, 2014.

In rule 2, in sub-rule (1), for clause (t), the following clause shall be substituted, namely: -

*“(t) For the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed rupees four crore and rupees forty crore respectively”.*

Hence, small company” means a company, other than a public company whose (i) paid-up share capital of does not exceed four crore rupees, and (ii) turnover as per profit and loss account for the immediately preceding financial year does not exceed forty crore rupees. [Page 5.77]

**Chapter 7 Audit Committee and Corporate Governance (SEBI (LODR) Regulations, 2015)**

1. Insertion of word At least before two-thirds in point no. 1. The Audit Committee shall have minimum three directors as members. **At least** two-thirds of the members of audit committee shall be independent directors, however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors. (Refer para 4.1 Qualified and Independent Audit Committee [Regulation 18(1)]– Page no.7.4).
2. Deletion of information on **Statement of significant related party transactions (as defined by the Audit Committee), submitted by management under** mandatorily review by Audit Committee as per Part C(B) OF Schedule II. (Refer para 7 Review of Information by Audit Committee on Page no.7.13)
3. Deletion of point no. (iv) The auditor shall ensure that the Chairperson of the board of the top 500 listed entities is - (a) a non-executive director; (b) not related to the Managing Director or the Chief Executive Officer as per the definition of the term “relative” defined under the Companies Act, 2013. It may be noted that this provision shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges. It may also be noted that the top 500 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year. However, as per clause D of Schedule II, in Pat E The listed entity may appoint separate persons to the post of the Chairperson and the Managing Director or the Chief Executive Officer, such that the Chairperson shall (a) be a non-executive director;

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and (b) not be related to the Managing Director or the Chief Executive Officer as per the definition of the term "relative" defined under the Companies Act, 2013. **(Refer Para 8.5 Verification regarding Composition of Board [Regulation 17 & 17A on Page no. 7.16])**

3.1. Insertion in Para 8.5 Verification regarding Composition of Board i.e., Regulations 17:

- The listed entity shall ensure that approval of shareholders for appointment of a person on the Board of Directors [or as a manager] is taken at the next general meeting or within a time period of three months from the date of appointment, whichever is earlier.
- Provided that the appointment or a re-appointment of a person, including as a managing director or a whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, shall be done only with the prior approval of the shareholders:
- Provided further that the statement referred to under sub-section (1) of section 102 of the Companies Act, 2013, annexed to the notice to the shareholders, for considering the appointment or re-appointment of such a person earlier rejected by the shareholders shall contain a detailed explanation and justification by the Nomination and Remuneration Committee and the Board of directors for recommending such a person for appointment or re-appointment. **(Refer Para 8.5 Verification regarding Composition of Board [Regulation 17 & 17A on Page no. 7.17])**

4. Meaning of Independent Director given on Page no. 7.18 to be read as: Independent director" means a non-executive director, other than a nominee director of the listed entity:

- (i) who, in the opinion of the board of directors, is a person of integrity and possesses relevant expertise and experience;
- (ii) who is or was not a promoter of the listed entity or its holding, subsidiary or associate company [or member of the promoter group of the listed entity];
- (iii) who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company;
- (iv) who, apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the **three** immediately preceding financial years or during the current financial year;
- (v) none of whose relatives— (A) is holding securities of or interest in the listed entity, its holding, subsidiary or associate company during the three immediately preceding financial years or during the current financial year of face value in excess of fifty lakh rupees or two percent of the paid-up capital of the listed entity, its holding, subsidiary or associate company, respectively, or such higher sum as may be specified; (B) is indebted to the listed entity, its holding, subsidiary or associate company or their

promoters or directors, in excess of such amount as may be specified during the three immediately preceding financial years or during the current financial year; (C) has given a guarantee or provided any security in connection with the indebtedness of any third person to the listed entity, its holding, subsidiary or associate company or their promoters or directors, for such amount as may be specified during the three immediately preceding financial years or during the current financial year; or (D) has any other pecuniary transaction or relationship with the listed entity, its holding, subsidiary or associate company amounting to two percent or more of its gross turnover or total income: Provided that the pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company or their promoters, or directors in relation to points (A) to (D) above shall not exceed two percent of its gross turnover or total income or fifty lakh rupees or such higher amount as may be specified from time to time, whichever is lower.]

- (vi) who, neither himself /herself, nor whose relative(s) — (A) holds or has held the position of a key managerial personnel or is or has been an employee of the listed entity or its holding, subsidiary or associate company or any company belonging to the promoter group of the listed entity, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed: Provided that in case of a relative, who is an employee other than key managerial personnel, the restriction under this clause shall not apply for his / her employment. (B) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of — (1) a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or (2) any legal or a consulting firm that has or had any transaction with the listed entity, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm; (C) holds together with his relatives two per cent or more of the total voting power of the listed entity; or (D) is a chief executive or director, by whatever name called, of any nonprofit organisation that receives twenty-five per cent or more of its receipts or corpus from the listed entity, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the listed entity; (E) is a material supplier, service provider or customer or a lessor or lessee of the listed entity;
- (vii) who is not less than 21 years of age.
- (viii) who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.

**(Refer Page no.7.18)**

5. Deletion of word “the immediate next Board meeting or” and “whichever is later” in Regulation 25(6) i.e., sub-point no (ix) An independent director who resigns or is removed from the Board of Directors of the listed entity shall be replaced by a new independent

director at the earliest but not later than three months from the date of such vacancy. **(Refer para 10 Obligations With respect to employees including Senior management, key managerial persons, directors and promoters on Page no. 7.22)**

6. The Board of Directors of every listed public company shall constitute the Nomination and Remuneration Committee which shall comprise of at least three directors, all of whom shall be non-executive directors and at least **two-thirds** shall be independent directors. Deletion of condition i.e., in case of a listed entity having outstanding SR equity shares, two thirds of the committee shall comprise of independent directors. Chairperson of the committee shall be an independent director. **(Refer Para 14 Nomination and Remuneration Committee- Regulation 19 and Part D of Schedule II, on Page No. 7.26)**
- 6.1 Insertion in the role of the Nomination and Remuneration Committee :(1A). For every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may: a. use the services of an external agencies, if required; b. consider candidates from a wide range of backgrounds, having due regard to diversity; and c. consider the time commitments of the candidates. **(Refer Para 14 Nomination and Remuneration Committee- Regulation 19 and Part D of Schedule II, on Page No. 7.27)**
7. The provisions of regulation 21 shall be applicable to:(i). the top 1000 listed entities, determined on the basis of market capitalization as at the end of the immediate preceding financial year; and, (ii). a 'high value debt listed entity'.
- 7.1 The role of the Risk Management Committee shall, inter alia, include the following:
  - (1) To formulate a detailed risk management policy which shall include: (a) A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee. (b) Measures for risk mitigation including systems and processes for internal control of identified risks. (c) Business continuity plan.
  - (2) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
  - (3) To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
  - (4) To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
  - (5) To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;

- (6) The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee. The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

**(Refer Para 16 Risk Management Committee- Regulation 21 and Part D of Schedule II, on Page No. 7.29)**

**8. Para 18 Information to Shareholders [Regulation 36] to be read as:**

- (1) The listed entity shall send the annual report in the following manner to the shareholders: (a) Soft copies of full annual report to all those shareholder(s) who have registered their email address(es) either with the listed entity or with any depository; (b) Hard copy of statement containing the salient features of all the documents, as prescribed in Section 136 of Companies Act, 2013 or rules made thereunder to those shareholder(s) who have not so registered; (c) Hard copies of full annual reports to those shareholders, who request for the same.
- (2) The listed entity shall send annual report referred to in sub-regulation (1), to the holders of securities, not less than twenty-one days before the annual general meeting.
- (3) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information: (a) a brief resume of the director; (b) nature of expertise in specific functional areas; (c) disclosure of relationships between directors inter-se; (d) names of listed entities in which the person also holds the directorship and the membership of Committees of the board along with listed entities from which the person has resigned in the past three years; and (e) shareholding of non-executive directors in the listed entity, including shareholding as a beneficial owner; (f) In case of independent directors, the skills and capabilities required for the role and the manner in which the proposed person meets such requirements.

The auditor should ascertain from the communications sent, whether in the case of appointment of a new director or re-appointment of a director, the shareholders have been provided with the information stipulated above. **(Refer Para 18 Information to Shareholders [Regulation 36] on Page no. 7.30)**

9. The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within twenty one (21) days from the end of each quarter.

The listed entity is also required to formulate a policy on materiality of related party transactions and on dealing with related party transactions. This policy should also include clear threshold limits duly approved by the board of directors. Further, such policy shall be reviewed by the board of directors at least once every three years and updated accordingly.

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A related party transaction shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower. **[Regulation 23(1)]**

All related party transactions and subsequent material modifications shall require prior approval of the independent directors in audit committee of the listed entity **[Regulation 23(2)]**

Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject certain conditions **[Regulation 23(3)]**.

The listed entity shall submit to the stock exchanges disclosures of related party transactions in the format as specified by the Board from time to time, and publish the same on its website **[Regulation 23(8)]**.

Provided that a 'high value debt listed entity' shall submit such disclosures along with its standalone financial results for the half year.

Provided further that the listed entity shall make such disclosures every six months within fifteen days from the date of publication of its standalone and consolidated financial results.

Provided further that the listed entity shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results with effect from April 1, 2023. **(Refer Para 22.3 Related Party Disclosures given on Page no. 7.35)**

9.1 As per Schedule V - Annual Report, the annual report shall contain the following additional disclosures relating to Related Party:

1. The listed entity which has listed its non-convertible securities] shall make disclosures in compliance with the Accounting Standard on "Related Party Disclosures".
2. The disclosure requirements shall be as follows:

Sr. no.	In the accounts of	Disclosures of amounts at the year end and the maximum amount of loans/ advances/ Investments outstanding during the year.
1.	Holding Company	<ul style="list-style-type: none"><li>□ Loans and advances in the nature of loans to subsidiaries by name and amount.</li><li>□ Loans and advances in the nature of loans to associates by name and amount.</li><li>□ Loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount.</li></ul>
2.	Subsidiary	Same disclosures as applicable to the parent company in the accounts of subsidiary company.

3.	Holding Company	Investments by the loanee in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan.
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For the purpose of above disclosures directors' interest shall have the same meaning as given in Section 184 of Companies Act, 2013.

(2A) Disclosures of transactions of the listed entity with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the listed entity, in the format prescribed in the relevant accounting standards for annual results.

3. The above disclosures shall not be applicable to listed banks.

(Refer Para 22.3 Related Party Disclosures given on Page no. 7.35)

#### Chapter – 11: Audit of Non-Banking Financial Companies

Pursuant to the announcement of *Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs* on 22 October 2021 to be effective from 01 October 2022, RBI has revised different facets of existing NBFC Classification and regulation like Capital Requirements, Governance Standards, Prudential Regulations, etc. based on four layers that are defined based on their size, activity, and perceived riskiness.

These four layers are NBFC – Base Layer (NBFC-BL), then NBFC- Middle Layer (NBFC-ML), NBFC Upper Layer (NBFC-UL) and lastly NBFC – Top Layer (NBFC-TL). The Top layer is ideally expected to be empty and will be filled by RBI based on required need.

Details of NBFCs populating the various layers is mentioned below:

##### Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface.

##### Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

##### Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring

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methodology as provided in the Appendix to this circular. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

### Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

### Categorisation of NBFCs carrying out specific activity

As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the NBFCs :

- a) NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.
- b) NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.
- c) The remaining NBFCs, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.
- d) Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

### References to NBFC-ND, NBFC-ND-SI & NBFC-D - From October 01, 2022:

All references to NBFC-ND shall mean NBFC-BL and all references to NBFC-D and NBFC-NDSI shall mean NBFC-ML or NBFC-UL, as the case may be.

### Chapter – 16 : Unit 3: Forensic Accounting (Earlier Forensic Audit)

The word “*Forensic Audit*” in this Chapter including the name of Unit 3 stands changed to “*Forensic Accounting*”. All the references to “*Forensic Audit*” throughout the study material shall stand changed to “*Forensic Accounting*”. Similarly, ‘Forensic Auditor’ should also be read as ‘Forensic Accountant’.

### Unit I Peer Review -- Chapter – 17: Peer Review & Quality Review

The Word “*Statement*” or “*Statement on Peer Review*” used throughout the chapter shall be substituted as “*Guidelines*” or “*Peer Review Guidelines, 2022*” respectively.

#### 1. In Para-1 Introduction,

- a. the words “*Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and*” shall be substituted with “*Technical, Professional and Ethical Standards as applicable including Audit Quality Maturity*”

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*Model wherever applicable or any other regulatory requirements as may be prescribed by the Council or any Committee and”*

- b. At the end of the explanation of term Peer Review the following reference to guidelines shall be added “[sub-clause 14 of clause 2 of Peer Review Guidelines, 2022]”
  - c. For term Reviewer the following definition shall be substitute  
**“Reviewer”** - means a member duly approved and empanelled by the Board on fulfilling the qualifications prescribed for a Reviewer as per Guideline 26 of these Guidelines [sub-clause 19 of clause 2 of Peer Review Guidelines, 2022]”
  - d. Insertion of Branch Peer Reviewer definition :  
**“Branch Peer Reviewer”** – means a Reviewer appointed to conduct the Peer Review of the Branch of a Practice Unit. The qualifications and other obligations and duties of the Branch Peer Reviewer shall be the same as that of the Reviewer [sub-clause 5 of clause 2 of Peer Review Guidelines, 2022]”
  - e. After the definition of Practice Unit, the following definition of New Unit shall be inserted **“New Unit** - means a firm whose date of establishment is less than 12 months immediately preceding the date of receipt of application of Peer Review and which may or may not have rendered any assurance service during the said period or a Practice Unit in existence for a period exceeding 12 months but not rendering any assurance services. [sub-clause 12 of clause 2 of Peer Review Guidelines, 2022]”
  - f. Revised definition of the term Peer Review Board is **“Peer Review Board** - means the Board constituted by the Council in terms of these Guidelines from time to time. [The expression “Peer Review Board” is hereinafter referred to as “Board] [sub-clause 13 of clause 2 of Peer Review Guidelines, 2022]”  
*“The Peer Review Guidelines, 2022 issued by Council are covered under clause (1) of Part II of Second Schedule to the Act and it is obligatory for the Practice Unit to comply with the provisions contained in this Guidelines.” [Page17.3]*
2. In **sub-para 2 of Para 3: Scope of Peer Review** the following clause shall be added after clause (iii) and accordingly all the clauses shall stand re-numbered “(iv) Self-evaluation under Audit Quality Maturity Model or any other guideline issued by the Centre for Audit Quality”. [Page 17.5]
  3. In **definition of Technical, Professional and Ethical Standards of Para 3: Scope of Peer Review** the following clause shall be added after clause (vi) “(vii) Any other Technical, Professional, Ethical Standards and other Standards issued by any authority governing the profession of Chartered Accountancy. [sub-clause 23 of clause 2 of Peer Review Guidelines, 2022]” [Page 17.6]
  4. In **definition of Assurance Engagement of Para 3: Scope of Peer Review** the following clause shall be added after clause (viii) “(ix) Any other service rendered, or function

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performed by practitioner not prescribed by the Council to be 'Assurance Engagement [sub-clause 2 of clause 2 of Peer Review Guidelines, 2022]' [Page 17.6]

5. Whole Para 4 Applicability on Page 17.7 shall stand substituted with the below Paragraph:

**“Practice Units subject to Review:** Earlier practice units were classified under Level -I and Level-II category. However, under Peer Review Guidelines this has been replaced with Peer Review Mandate implementation. As per Clause 5 of Peer Review Guidelines, 2022, criteria of Peer Review are defined on following basis:

i.	<b>Mandatory</b> - Peer Review can be mandated for such Practice Units as may be decided by the Council. Or,
ii.	<b>Voluntary</b> - Any Practice Unit may, suo motu, apply to the Board for the conduct of its Peer Review. Or,
iii.	<b>Special Case</b> - The Board, based on specific information received from Secretary, ICAI or Disciplinary directorate or any other Regulator, which in the opinion of the Board requires a special Peer Review of the Practice Unit, may conduct a special Peer Review of the Practice Unit for such a period determined by the Board.

For Mandatory category the Council at its 407th Meeting of the Council held from 7th– 9th January 2022 decided to mandate the Peer Review process for coverage of more firms under Peer Review process i.e. the Peer Review Mandate.

Also, it was clarified that holding a valid Peer Review certificate by Practice Units should be a prerequisite for undertaking audit of all entities falling under phase I; II; III and IV of the mandate from respective dates of mandate becoming operative.

Accordingly, the Peer Review Mandate (Revised), operative from April 1, 2022, has been made in following four stages:

Phase	Category of firms covered for Mandatory Peer Review	Date from which Peer Review is Mandatory
I(*)	Practice Units which propose to undertake Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: For these Practice Units, there is a pre-requisite of having Peer Review Certificate.	1st April 2022
II	Practice Units which propose to undertake Statutory Audit of unlisted public companies having	1st April 2023

	<ul style="list-style-type: none"><li>▫ paid-up capital of not less than rupees five hundred crores or</li><li>▫ having annual turnover of not less than rupees one thousand crores or</li><li>▫ having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores</li></ul> <p>as on the 31<sup>st</sup> March of immediately preceding financial year: For these Practice Units, there is a pre-requisite of having Peer Review Certificate.</p> <p><b>OR</b></p> <p>Practice Units rendering attestation services and having 5 or more partners: For these Practice Units, there is a pre-requisite of having Peer Review Certificate before accepting any Statutory audit.</p>	
III	<p>Practice Units which propose to undertake the Statutory Audit of entities which have raised funds from public or banks or financial institutions of over Fifty Crores rupees during the period under review or of anybody corporate including trusts which are covered under public interest entities : For these Practice Units, there is a pre-requisite of having Peer Review Certificate.</p> <p><b>OR</b></p> <p>Practice Units rendering attestation services and having 4 or more partners: For these Practice Units, there is a pre-requisite of having Peer Review Certificate before accepting any Statutory audit.</p>	<b>1st April 2024</b>
IV	<p>Practice Units which propose to undertake audits of branches of Public Sector banks : For these Practice Units, there is a pre-requisite of having Peer Review Certificate.</p> <p><b>OR</b></p> <p>Practice Units rendering attestation services and having 3 or more partners: For these Practice Units, there is a pre-requisite of having Peer Review Certificate before accepting any Statutory audit.</p>	<b>1st April 2025</b>

(\*) for auditors from this category, Peer Review is already mandatory by SEBI; this mandate is a further requirement stipulated by the ICAI.

Thus, at each phase, before undertaking statutory audit, the concerned Practice Unit should possess Peer Review Certificate.

**For example:**

- i) for the Practice Units, from 1st April, 2023, there is a pre-requisite of having Peer Review Certificate for undertaking Statutory Audit of unlisted public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores or having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores as on the 31st March of immediately preceding financial year or
- ii) From 1st April, 2024, Practice Units rendering attestation services and having 4 or more partners should have a Peer Review Certificate before undertaking any statutory audit.

On the date, Peer Review becoming mandatory for a Practice Unit, if it is in possession of Peer Review Certificate, there is no need of once again subjecting the Practice Unit to Peer Review, till conclusion of the validity period of the said Certificate. It is necessary for such a Practice Unit to possess a new Peer Review Certificate on conclusion of validity of Peer Review Certificate that was available at the time Peer Review becoming mandatory.”

6. Insertion of minimum of 6 members requirement and in Para 5 Peer Review Board which should be read as under:

***“The Board shall consist of a minimum of six and a maximum of twelve members to be appointed by the Council, of whom not less than fifty per cent shall be from amongst the members of the Council.”***

7. In Para 5 Peer Review Board, Meeting Requirements to be read as :

*“Provisions related to the time, place and quorum of Meetings of the Peer Review Board as well as procedure for transaction of business shall be governed by the Chartered Accountants Regulation, 1988.”*

8. In **Para 5.1 Eligibility to be a Reviewer**, in point 1, ‘7 year audit experience’ to be read as ‘7 years of assurance practice experience’.
9. In para 5.3 Confidentiality para (b) ‘unless’ word to be read as ‘**except**’ and last para to be read as **“A Declaration of Confidentiality (Form 4) shall be signed by all members of the Board and the Board’s Secretariat.”**

10. Whole **Para 7.1 Selection of Practice Unit & appointment of Reviewer and 7.2 Planning on Pages 17.14 and 17.15** shall stand substituted with the below Paragraph:

**“Procedure for initiating Peer Review:**

- (1) Practice Units which desire to get Peer Reviewed shall make an application for Peer Review in the Application cum Questionnaire in Form 1.

- (2) In case the Peer Review is initiated by the Board, the Application cum Questionnaire in Form 1 should be submitted by the Practice Unit on the request of the Peer Review Board Secretary.
- (3) The Application mentioned under clauses 6(1) and 6(2) above received by the Board shall be duly numbered.
- (4) On receipt of the said Application cum Questionnaire, names of three Reviewers shall be recommended by the Board to the Practice Unit within three working days.
- (5) The Practice Unit shall select one out of the three recommended Reviewers and intimate to the Board within one working day of receipt of the names.
- (6) The Board shall appoint the Peer Reviewer selected by the Practice Unit in accordance with these Guidelines.
- (7) The Board shall intimate the Reviewer so selected to submit a Declaration of Confidentiality in Form 2 to the Practice Unit within two working days from the receipt of choice of name of the Reviewer from the Practice Unit.
- (8) The Practice Unit shall also provide a copy of the Application cum Questionnaire in Form 1 submitted to the Board as per clause 6 (1) or 6(2) above to the Reviewer within two working days of the appointment of the Reviewer.

**Peer Review Procedure to be followed by the Peer Reviewer:**

- (1) Before commencement of Peer Review, the Peer Reviewer shall ensure that the Declaration of confidentiality is furnished to the Practice Unit and acknowledgement of receipt thereof is obtained by him.
- (2) On receiving the Application cum Questionnaire in Form 1 from the Practice Unit, the Peer Reviewer shall initiate the Peer Review by intimating the Practice Unit of proposed visit and the proposed samples selected to be kept ready by the Practice Unit. The proposed samples selected are to be intimated by the Peer Reviewer in Form 5 prescribed by the Board.
- (3) The Reviewer may seek further/ additional clarification in Form 6 from the Practice Unit on the information furnished/ not furnished by the Practice Unit in the Questionnaire. The Practice Unit shall provide this additional information to the Reviewer within one working day.
- (4) The Reviewer shall, within two working days of receiving the information from the Practice Unit, select assurance service engagements that he would like to review and intimate the same to the Practice Unit and the Peer Review Board in Form 5.
- (5) The Reviewer shall plan for an “on–site review” visit for initial meeting in consultation with the Practice Unit. The Reviewer shall give the Practice Unit at least two working days to keep ready necessary records of the selected assurance services in Form 5.

- (6) The Reviewer and Practice Unit shall mutually co-operate and ensure that the entire review process is completed within twenty working days from the date of receipt of application from the Practice Unit for being Peer Reviewed or from the date of notifying the Practice Unit about its selection for Review as the case may be.
  - (7) In case of Peer Review of a New Unit, the Reviewer and Practice Unit shall mutually co-operate and ensure that the entire review process is completed within seven working days from the date of receipt of application cum questionnaire from the Practice Unit for being Peer Reviewed”.
11. In **point (i) of Para 7.3 Execution** the words “seven working days” should be substituted with “six working days”. **[Page 17.15]**
  12. In **Para 7.3 Execution** the following paragraphs shall be added:  
**“Procedure for Peer Review of a New Unit :**
    1. Peer Review of a New Unit is to be conducted based on the antecedents of partners and policy parameters announced by the Practice Unit for conduct of attest function. The Reviewer has to verify the same from the Application cum Questionnaire submitted by the Practice Unit in Form 1 as well as an onsite visit to the Practice Unit which shall be restricted to one day.
    2. The Reviewer shall thereafter submit a Report to the Board in the formats as prescribed by it.” **[Page 17.15]**
  13. **Para 7.4 Reporting to be read as Reporting by the Peer Reviewer**

After completing the on-site review, the Reviewer, shall submit the Peer Review Report to the Board along with Form 9 if in his opinion, the Practice Unit has adequate systems and procedures in compliance with the Technical, Professional and Ethical Standards. A copy of the report shall also be forwarded to the Practice Unit.

    - (1) In case, in the opinion of the Peer Reviewer, the systems and procedures of the Practice Unit are deficient or non-compliant with reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification, he shall communicate his findings to the Practice Unit, in a Preliminary Report issued by him.
    - (2) The Practice Unit shall, within two working days of the date of receipt of the findings, make its submissions or representations, in writing to the Reviewer.
    - (3) If the Reviewer is satisfied with the reply received from the Practice Unit, he shall submit an unqualified Peer Review Report to the Board along with Form 9. A copy of the report shall also be forwarded to the Practice Unit.
    - (4) In case the Reviewer is of the opinion that the response submitted by the Practice Unit under clause 9(4) above is not satisfactory, the Reviewer shall submit a Qualified Report to the Board incorporating his reasons for the same along with Form 9. A copy

of the report shall also be forwarded to the Practice Unit.

- (5) The Peer Review Report should state that the system of quality control for the assurance services of the Practice Unit for the period under Review has been designed so as to carry out the assurance services in a manner that ensures compliance with Technical, Professional and Ethical Standards.
- (6) The Peer Reviewer shall ensure to submit the following documents along with the Peer Review Report:
  - (i) Annexures to the Report as prescribed by the Board
  - (ii) Copy of Questionnaire as received from the Practice Unit
  - (iii) List of samples selected by him in accordance with the criteria prescribed by the Board
  - (iv) Preliminary Report, if issued, along with Practice Unit's submissions on the same.
- (7) The Practice Unit as well as the Reviewer shall ensure that all documents submitted to the Board are duly dated, signed and complete in all aspects.
- (8) The Reviewer and Practice Unit shall mutually co-operate and ensure that the entire review process is completed within twenty working days from the date of receipt of application from the Practice Unit for being Peer Reviewed or from the date of notifying the Practice Unit about its selection for Review as the case may be.
- (9) In case of Peer Review of a New Unit, the Reviewer and Practice Unit shall mutually co-operate and ensure that the entire review process is completed within seven working days from the date of receipt of application cum questionnaire from the Practice Unit for being Peer Reviewed." **[Page 17.17]**

**14. Review of report by the Peer Review Secretariat under the supervision and directions of Peer Review Board Secretary**

- (1) The Peer Review Board Secretary shall ensure that the Peer Review report is accompanied by all the documents as mentioned under Clause 9 (7) of the Guidelines. It shall also ensure that the documents are complete in all aspects.
- (2) All reports shall be placed before the Board or its Sub-Committee for its consideration and issuance of Peer Review Certificate.
- (3) In case of a qualified report, the Peer Review Board Secretary shall place the report before the Board for consideration. The Board may decide for a "Follow On" Review after a period of one year from the date of issue of report by the Peer Reviewer. If the Board so decides, the period of one year may be reduced but shall not be less than six months from the date of issue of the report.

**15. Issuance of Peer Review Certificate**

- (1) In case of an unqualified report issued by the Peer Reviewer, the Peer Review Board Secretary shall place the report before the Board or its Sub-Committee for consideration and issuance of Peer Review Certificate to the Practice Unit, but only after the Peer Reviewer confirms the fee receipt from the Practice Unit by him.
- (2) A Peer Review Certificate shall be issued to New Units subject to the Procedures followed by the reviewer as prescribed under Clause 8 of these Guidelines and other clauses of these Guidelines, as the case may be.
- (3) The Certificates so issued by the Board or the Sub-Committee shall be noted by the Board at its meeting.
- (4) The Certificate shall be duly signed by the Chairman, Vice Chairman and Secretary of the Board mentioning the validity period.
- (5) The Peer Review Board Secretary shall serve the Peer Review Certificate upon the Practice Unit.
- (6) The Peer Review Board Secretary shall update the List of Practice Units having a valid Peer Review certificate incorporating the names of Practice Units to whom the Peer Review certificates have been issued on the ICAI website.
- (7) In cases where a Qualified Report has been issued by the Reviewer and has been considered by the Board, the Peer Review Board Secretary shall inform the Practice Unit that a Peer Review certificate cannot be issued along with the reasons therefor as well as inform about the due date for conducting a follow-on review as may be decided by the Board.

16. In **Para 7.6 Validity of Peer Review Certificate** the following shall be added at the end of the paragraph:

“The Peer Review Certificate issued to a Practice Unit shall be valid for a period of three years or such other period as may be decided by the Board commencing from the date of receipt of Peer Review report by the Board. The validity of the Peer Review Certificate issued to New Units shall be decided by the Board.

The Council may for such reasons as may be prescribed by it extend the validity of existing Peer Review certificate granted to a Practice Unit. The Practice Unit shall make an Application in Form 8 requesting for extension of validity”.

**Chapter – 18: Professional Ethics**

The Council at its 413<sup>th</sup> meeting held in August, 2022 decided the above-mentioned deferred provisions contained in Volume-I of Code of Ethics, 2019 which have been deferred from 1st July, 2020 till 30th September, 2022 will be made applicable **from 1st October 2022 with certain amendments.**

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The significant amendments are as under: -

S. No.	Existing provision	Revised provision
<b>Fees - Relative Size</b> [Paragraphs 410.3 to R410.6]		
1.	Disclosure is required where for two consecutive years, the gross annual professional fees from audit client represent more than 15% of the total fees of the firm.	Differentiated disclosure requirements:- <b>For non Public Interest Entities (PIE)-</b> Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 40% of the total fees of the firm.  <b>For public interest entities-</b> Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 20% of the total fees of the firm.
2.	Exemption from applicability of the provision where total Fees received by Firm does not exceed 5 lacs of rupees.	Exemption from applicability of the provision where total Fees received by Firm does not exceed 20 lacs of rupees.
3.	Exemption from the applicability of the provision in the case of audit of government Companies, public undertakings, nationalised banks, public financial institutions or where appointments of auditors are made by the Government.	In addition to these categories, 'Regulators' has been added.
4.	Disclosure to Those Charge with Governance of audit client	Disclosure to the Institute
5.	Pre-Issuance review or Post issuance Review: Action to be taken to address the threat created due to fees dependency as aforesaid.	Repealed

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<b>Tax Services to Audit Clients</b> <b>[Subsection 604]</b>		
6.	In case of Assistance in the resolution of Tax disputes, the term “Court” is explained as under: - “What constitutes a “Court” depends on how tax proceedings are heard in India”	In case of Assistance in the resolution of Tax disputes, the term “Court” is explained as under: - “For the purpose of this subsection, “Court” does not include a Tribunal”.
<b>Responding to Non-Compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in service</b> <b>(Section 260)</b>		
7.	Applicable to all employees of listed entities	Applicable to Senior Professional Accountants in service, being employees of listed entities.
8.	Senior professional accountants in service (“senior professional accountants”) are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization’s human, financial, technological, physical and intangible resources.	No Change.  It is further explained that the senior professional accountants refer to key managerial personnel.
<b>Responding to Non-Compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in public practice</b> <b>(Section 360)</b>		
9.	Applicable to Audit engagement of all listed entities	Applicable to Audit engagements of entities the shares of which are listed on recognized stock exchange(s) in India and have net worth of 250 crores of rupees or more.  The applicability of Section 360 will subsequently be extended to all listed entities, at the date to be notified later.

10.	The term “Audit Engagement” defined in Glossary as applicable to entire Code: - “A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation”	No change in definition with respect to rest of the Volume-I of Code of Ethics. “For the purpose of Section-360 “Audit” or “Audit engagement” shall mean a reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements give a true and fair view in accordance with an applicable financial reporting framework”.
11.	Measures to be taken in case of imminent breach.	Repealed

**Note:** Students are also advised to refer RTP of Paper 1 Financial Reporting (for AS, Ind AS and other updates) and Paper 4 Part A -Corporate Laws (for academic updates relating to Company Law).

## PART – II : QUESTIONS AND ANSWERS

### QUESTIONS

#### PART A: MULTIPLE CHOICE QUESTIONS

##### Integrated Case Scenario 1.

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

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<i>Financial Year</i>	<i>Net Owned Funds</i>
FY19-20	₹ 12 crore
FY20-21	₹ 5 crore
FY21-22	₹ 3 crore
FY22-23	₹ 2.5 crore

Rainbow Non-Bank Limited appointed Tirthankara & Company as their statutory auditor for FY 2022-23. Rainbow Non-Bank was involved in re-financing of accounts payables of other companies (i.e., paying to accounts payables on behalf of the company on the due date and allowing additional credit period by charging interest).

To test for understatement in existence or valuation of accounts payable, Mr. Abhinandan (Engagement Partner) decided to test recorded & refinanced accounts payables on a sample basis. He also decided to verify refinanced accounts payable against signed contracts. Mr. Abhinandan did not identify any misstatements.

While performing audit procedures in the month of March 2023 itself, it was noticed by Mr. Abhinandan that Senior Sales Manager from Rainbow Non-Bank agreed to refinance the accounts payables of Opal Stones India Limited, but on the due date, he issued payment to his personal account instead of issuing payments to Accounts Payables of Opals Stones India Limited, The matter was flagged by him to audit committee and amount was subsequently recovered. Due to this Opal Stones had to pay an additional amount of ₹ 4 crore over and above amount of accounts payables of ₹ 25 crore embezzled by the Senior Sales Manager. As Opal Stones had to shell out extra funds due to above, it was proposing to file a suit against the company. However, negotiations were still going on between two companies to settle the matter. There was no disclosure in financial statements regarding these negotiations.

No other observation was identified by Mr. Abhinandan. He is considering to express an unmodified opinion in above situation. He has also approached EQCR to review working papers and documentation.

**On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:**

**QUESTIONS:**

1. While reviewing working papers of Mr. Abhinandan, the Engagement Quality Control Reviewer (EQCR) identified that the audit procedure followed to test for understatement in existence or valuation of accounts payable refinanced is not relevant. However, Mr. Abhinandan did not understand the comments provided by his EQCR. Kindly guide Mr. Abhinandan with respect to the “relevance of the audit procedure” by selecting the appropriate option from below:
  - (a) Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the

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current case, testing accounts payable by following stated audit procedure will be relevant for testing overstatement in existence or valuation of accounts payable and not their understatement.

- (b) Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. In the current case, testing accounts payable will give comfort on completeness and valuation but not on existence.
  - (c) The relevance of the information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.
  - (d) The relevance of audit evidence is increased when it is obtained from independent sources outside the entity.
2. During the review of Mr. Abhinandan's working papers, the External Conformity and Quality Review (EQCR) observed that Rainbow Non-Bank Limited's performance was subpar, with the Net Owned Funds (NOF) standing at ₹2.5 crore at the close of FY22-23. The EQCR believed that Mr. Abhinandan was expected to include the NOF in the auditor's certificate for the year-end. However, Mr. Abhinandan disagreed with the same. Can you please provide guidance on the accurate reporting obligation in the current case.
- (a) Every NBFC is required to submit a certificate from the Statutory Auditor that it is engaged in business of NBFC requiring it to hold certificate of registration and it is eligible to hold it. Certificate with reference to the position of the company as of the end of the financial year ended March 31 is required to be submitted.
  - (b) Non-banking financial company whose NOF falls below ₹ 200 Lakh shall submit a certificate from its Statutory Auditor.
  - (c) A certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision. However, the same is not mandatory.
  - (d) Only for NBFC - MFI, a certificate from the Statutory Auditor with reference to the position of the company as of the end of the financial year ended March 31 should be submitted to the Regional Office of the Department of Non-Banking Supervision.
3. Regarding the issue involving the embezzlement by the Senior Sales Manager, what is the most appropriate compliance action for Mr. Abhinandan under the provisions of the Companies Act, 2013? Please select the most suitable option from the choices below:
- (a) As per section 92 of the Companies Act 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors

or officers and details of compounding of offences and appeals made against such penalty or punishment.

- (b) As per Section 143(12) of the Companies Act 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.
  - (c) As per Section 143(12) of the Companies Act 2013 read with Rule 13, If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees ten crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.
  - (d) As per section 92 of the Companies Act 2013, every auditor shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year regarding penalty or punishment imposed on the company, its Directors or officers, which involves or is expected to involve individually an amount of rupees ten crore or above, and details of compounding of offences and appeals made against such penalty or punishment.
4. Considering the overall materiality of ₹ 2 crore, EQCR believes that Mr. Abhinandan should not issue an unmodified opinion. Mr. Abhinandan, however, argues that he has not identified any material misstatement. To guide Mr. Abhinandan appropriately, the following option is the most suitable:
- (a) If the auditor has expressed an unmodified opinion on the financial statements, then the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.
  - (b) If there is a material misstatement in the financial statements that relate to the non-disclosure of information that should be disclosed, then the auditor shall discuss the non-disclosure with those charged with governance, and where the impact of non-disclosure is material but not pervasive, then the auditor should issue a qualified opinion.
  - (c) When evaluating the outcome of litigation, the Auditor should record in the audit report the interests and relationships of management that may create threats in the litigation and any applicable safeguards to save the company from outcomes of litigation, whether legal or not.
  - (d) If the auditor has expressed an unmodified opinion along with the “Emphasis of Matter” Paragraph, then the auditor shall describe in the “Basis for Emphasis of

Matter” section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.

5. On noticing the issue, Mr. Abhinandan reported the fraud to Audit Committee within two days of his knowledge of the fraud, seeking their reply or observations within forty-five days. However, neither the audit committee nor management replied to the auditor till the 45th day. Kindly guide what the auditor is expected to do in the case when he has not received any reply from the audit committee or management.
- (a) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall wait for the next 45 days, and he shall send a reminder to Audit Committee and Management to reply on the matter reported by him to them.
  - (b) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall report the matter to shareholders and should seek their reply on observations within the next thirty days.
  - (c) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.
  - (d) In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the CFO along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations.

**Independent MCQs**

6. You are tax auditor of a manufacturing firm. Net profit before tax of firm is ₹15 lacs arrived at after debiting all expenditures including salary to partners. The partnership deed of firm stipulates payment of salary to working partners of firm as under: -

Particulars	Salary per month
Partner A	₹1.00 lac
Partner B	₹1.00 lac
Partner C	₹ 0.50 lac

Which is correct regarding your reporting duty while uploading Form 3CB-3CD on e-filing portal?

- (a) The whole of partners salary is allowable and no inadmissible amount is to be reported under clause 21(c) of Form 3CD.

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- (b) The partners salary is not fully allowable and inadmissible amount of ₹2.10 lac is to be reported under clause 21(c) of Form 3CD.
  - (c) The partners salary is not fully allowable and inadmissible amount of ₹15 lac is to be reported under clause 21(c) of Form 3CD.
  - (d) The partners salary is not fully allowable and inadmissible amount of ₹20.10 lac is to be reported under clause 21(c) of Form 3CD.
7. CA. Vishudh is auditor of a company having 15 inventory locations in the country. In view of multiple inventory locations and logistics issues involved, he decides not to attend physical inventory count process of the company. The company management also sends him digital evidence comprising of videos of inventory counting process at different locations as on reporting date with date and time stampings. Besides verifying inventory records, he also performs alternative audit procedures like examining details of subsequent sales of specific inventory items acquired prior to physical inventory counting. Which of following statements is most appropriate in this regard?
- (a) The procedure adopted by auditor is in accordance with Standards on Auditing as the auditor has obtained digital evidence with date and time stampings and also performed alternative audit procedures.
  - (b) The procedure adopted by auditor is in accordance with Standards on Auditing. However, type of digital evidence obtained, and kind of alternative audit procedures performed do not constitute sufficient appropriate audit evidence.
  - (c) The procedure adopted by auditor is not in accordance with Standards on Auditing as auditor can skip attendance at inventory counting only when attending it is unfeasible.
  - (d) The procedure adopted by auditor is in accordance with Standards on Auditing as auditor can skip attendance at inventory count due to time, difficulty and logistics issues involved.
8. Guru Private Limited uses in-house developed application system for accounting. The auditor observed that user id and password is mandatory to access the application system and felt that this is a good control. What type of control is this?
- (a) IT General Control.
  - (b) Application Control.
  - (c) Detective Control.
  - (d) Preventive Control.



**PART B : DESCRIPTIVE QUESTIONS**

**Standards on Auditing, Statements and Guidance Notes**

9. Mr. Shreyansh, while performing the audit of Red Rock & Silver Sand Limited which was involved in phosphorus mining, decided to appoint an auditor's expert for the valuation of environmental liabilities and site clean-up costs. Red Rock & Silver Sand Limited re-appointed Mr. Sheetal as an independent expert for this engagement. For the last five years, management has been re-appointing Mr. Sheetal. Mr. Sheetal calculated the environmental liabilities pertaining to completed mining sites and the sites which will be discarded in the near future and a provision for clean-up costs. This provision was accepted by management. Mr. Shreyansh, after performing the inquiries with management, was of the opinion that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. Hence, there is no need to raise a question on the objectivity of Mr. Sheetal or on his work performed for the company. However, the audit partner was of the opinion that the audit team needs to evaluate the objectivity of an expert engaged by the entity, irrespective of the fact that he was appointed as an independent expert. Kindly guide the audit partner and Mr. Shreyansh with respect to requirements pertaining to evaluating the objectivity of the management expert.
10. CA Paras has been appointed as the Chief Financial Officer (CFO) of Prashanth Limited. In this role, CA Paras is tasked with the responsibility of ensuring that the company's entity's operations are conducted in accordance with relevant laws and regulations. As part of his duties, CA Paras is emphasising the importance of adhering to all applicable laws and regulations that could impact the entity's specific disclosures in its financial statements. Additionally, he is focusing on compliance with laws and regulations that dictate the appropriate financial reporting framework for the company. CA Paras is also highlighting the significance of avoiding any non-compliance, as certain laws and regulations may impose penalties in the event of violations. Now CA Paras wants to implement policies and procedures in an entity that can assist in the prevention and detection of non-compliance with the laws and regulations. Help CA Paras by citing examples of such policies and procedures.

**The Company Audit**

11. CA. F has been appointed as the Statutory Auditor of XYZ Limited for the financial year 2022-23. XYZ Limited has one subsidiary, namely AT Private Limited, whose statutory auditor is CA. B for the same financial year i.e., 2022-23.  
  
CA. B issued a qualification in CARO 2020 for AT Private Limited, stating that short-term funds raised were utilised for long-term purposes. When consolidating the financial statements, CA. F decided to include the aforementioned qualification in the audit report of the Consolidated Financial Statements for the financial year 2022-23. The management of XYZ Limited argued that CA. F is not obligated to take into account and report the

qualification given by CA. B in the audit report of the subsidiary company in the consolidated financial statements for the financial year 2022-23.

Discuss the reporting requirement as per CARO, 2020.

**Audit Report**

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

Statement of Average Revenue Per Booking (ARPB) and Comparative

(in ₹ or otherwise stated)

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

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

13. (a) In the financial year 2022-23, MOKSH Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of MOKSH Ltd. issue in such circumstances?
- (b) How does the inclusion of Emphasis of Matter (EOM) paragraphs in the Auditor's Report differ from the disclosure of Key Audit Matters (KAM)?

**Audit of Consolidated Financial Statements**

14. Subahu Limited is an Investment Company preparing its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits

its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need to consolidate accounts of any such investee companies with those of Subahu Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your views.

**Audit Committee and Corporate Governance**

15. AB Limited is a listed entity ranking in top 500 listed entities as per SEBI for the financial year 2022-23. You are required to comment in the following circumstances in light of provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:
- (i) The Board of Directors of AB Limited comprises of total five directors.
  - (ii) The Independent Directors of AB Limited did not hold any meeting in financial year 2022-23 without the presence of non-independent directors and members of the management.
  - (iii) Risk Management Committee of AB Limited devised a policy on Board diversity.
  - (iv) The Chairperson of Stakeholders Relationship Committee of AB Limited is an Executive Director.
  - (v) AB Limited submitted quarterly compliance report on corporate governance for the quarter ending 30<sup>th</sup> September, 2022 on 25<sup>th</sup> October, 2022.
16. SPS Limited, a listed entity, has constituted various committees instrumental in robust corporate governance practices, as necessitated by prevailing legal and regulatory obligations. Over the course of the financial year 2022-23, several significant matters emerged, which were deliberated upon during their respective committee meetings:
- (i) Complaints and requests received for non-receipt of refund amount relating to subscription to the rights issue of company and actions taken on these were reviewed periodically.
  - (ii) Various measures taken by the company to enable security holders to claim hitherto unclaimed dividends due for transfer to Investor Education and Protection Fund (IEPF) were reviewed periodically.
  - (iii) Upgraded evaluation criteria for the Board, its committees and directors were approved.
  - (iv) Omnibus approvals for transactions with related parties were granted on an annual basis.

Identify names of committees which would have likely discussed these issues, along with reasons for the same.

**Audit of Banks & Insurance Companies**

17. PQS & Associates are one of the joint auditors of KNO Bank for the year 2022-23. While auditing KNO Bank, they are analysing industry data relating to NPAs in select public sector banks as part of risk assessment procedures: -

<b>Name of Bank</b>	<b>Gross NPAs (in ₹ crore)</b>	<b>Net NPAs (in ₹ crore)</b>	<b>Ratio of Net NPAs to Net advances</b>
BBI Bank	55,000	13,000	1.72%
DAB Bank	45,000	10,000	2.34%
CNI Bank	55,000	18,000	2.65%
KNO Bank	28,000	6,500	3.97%
BRB Bank	35,000	8,800	2.27%

In the above context, what do you understand by “Gross NPAs” and “Net NPAs” as on reporting date in the context of financial statements of a Bank? As an auditor of KNO Bank, what inference would you draw by comparing the “Ratio of net NPAs to net advances” with other public sector banks?

18. CA. Sundaram is an engagement partner conducting a statutory audit of a nationalised bank. The bank operates on the CBS platform, and the identification of NPAs is system based in accordance with RBI guidelines on asset classification. He wants to be assured of satisfactory operation of internal control in this respect. He wants to be sure that there exists an internal control system in the bank which not only prevents and reduces the risk of loan assets becoming non-performing at the initial stages but also sends out timely signals to the bank subsequently. He is putting considerable importance on effective credit appraisals due to their role in preventing NPA slippages.

While carrying out a walk-through of internal control over advances of banks especially in areas of “credit appraisals” and “credit monitoring”, identify any four specific controls which you may be looking for.

19. Plus Insurance Ltd agreed to insure a large commercial client. Due to the size of this client's operations, there is a potential risk that it could suffer a substantial loss. It would be financially difficult for Plus Insurance Ltd to pay the entire claim itself. To spread this risk, it contacted Minus Insurance Ltd to cover a portion of the risk. Minus because it on the condition that it receives its portion of the premium the client has paid to Plus Insurance Ltd. Briefly explain the insurance arrangement in the present case and its types.

**Audit under Fiscal Laws**

- 20 During the tax audit of a company, it is noticed by you that the company is deducting ESI and PF from the remuneration of its employees in accordance with the requirements of applicable laws and regulations. The contributions as stated below, together with the

company's share as an employer, are paid in accordance with applicable laws to concerned authorities.

The following further information is provided as extracted from the payroll records of the company: -

<b>Applicable law</b>	<b>Nature of contribution</b>	<b>Amount</b>	<b>Due date for payment</b>	<b>Actual date of payment</b>
ESI Act, 1948	Employee contribution for March 2023	₹ 50,500	15.4.2023	14.4.2023
The Employees Provident Fund and Miscellaneous Provisions Act, 1952	Employee contribution for March 2023	₹ 3,50,000	15.4.2023	18.4.2023
ESI Act, 1948	Employer's contribution for March 2023	₹ 2,01,000	15.4.2023	14.4.2023
The Employees Provident Fund and Miscellaneous Provisions Act, 1952	Employer's contribution for March 2023	₹ 3,70,000	15.4.2023	18.4.2023

Discuss how you would deal with the above matters as a tax auditor while uploading Form 3CA-3CD on e-filing portal? Also, describe reasons for the manner of treatment/reporting adopted by you.

#### Liabilities of Auditor

21. PKS & Associates are auditors of a listed company having an aggregate debt burden of ₹ 10000 crore. The company defaulted due to the failure of corporate governance across all its group companies and window-dressed its financial statements. Further, upon receipt of a report from the Registrar of Companies in this regard, the Ministry of Corporate Affairs (MCA) directed Serious Fraud Investigation Office (SFIO) to investigate into affairs of the company and its subsidiaries.

SFIO report highlighted failure on the part of the audit firm to report fraud in the company to the Central Government, siphoning off and diversion of funds and many other lapses, including collusion in fraud by auditors themselves. MCA filed a petition before NCLT for the removal of auditors, and the final order was passed by NCLT, highlighting collusion between management and auditors for falsifying books of accounts.

Comment on the above situation with reference to consequences for auditors under the Companies Act 2013.

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**Internal Audit, Management and Operational Audit**

22. M/s Manidhari & Co., Chartered Accountants have been approached by Rajul Ltd., a company engaged in iron and steel manufacturing industry. The company has been facing following operational issues:

- (a) Penal interest for delayed payments to the overseas vendors despite having enough cash flows; and
- (b) Despite having regular production and enough inventory, delays in shipping the final goods to the customers leading to its deteriorating vendor rating.

As a partner of M/s Manidhari & Co., through detailed discussion with the Senior Manager of Rajul Ltd., you have concluded that all these delays are because of long decision-making cycles in the company. As a consultant to the Company, would you recommend Management Audit or Operational Audit?

**Due Diligence, Investigation and Forensic Accounting**

23. CA. Kushal has been appointed as an Investigator by M/s. XYZ and Associates. While undertaking this assignment of investigation, the subordinate staff of CA. Kushal inquired about the following issues:

- (i) Whether an investigator is required to undertake the cent per cent verification approach or whether he can adopt selective verification?
- (ii) Whether an investigator necessarily requires assistance of expert?
- (iii) Whether an investigator can retain working papers or not?

Guide CA. Kushal in solving the queries raised by his sub-ordinate staff.

**Peer Review and Quality Review**

24. (a) XYZ Ltd. is a practicing chartered accountant firm specialises in providing management advisory services to various industries. They have been approached by ABC Manufacturing Company, a leading manufacturer of consumer electronics, to conduct a quality review of their recent cost optimization project. The project aims to streamline production processes and reduce operational expenses. To ensure the effectiveness and quality, XYZ Ltd. is appointed to conduct a quality review. Outline the key stages that are typically involved in conducting a quality review assignment, from the initiation of the review process to the final evaluation and decision-making.
- (b) What are the consequences if the Quality Review Board notices major non-compliances with the requirements of the Standards on Quality Control or Standards on Auditing or Accounting Standards?

**Professional Ethics**

25. Comment on the following scenario with reference to the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto.

- (a) Statutory Audit of Arihant Limited for the year 2021-22 was done by CA Acharya. Arihant Limited was in existence since 2010. The relevant extract from books of account of Arihant Limited are as below:

<b>Particulars</b>	<b>As at 31.03.2023 (₹ in lakh) (Unaudited)</b>	<b>As at 31.03.2022 (₹ in lakh) (Audited)</b>
Equity Share Capital	5.00	5.00
Reserve and Surplus	(10.00)	(8.00)
Provision for Audit Fees	For FY 2021-22- 1.00 For FY 2022-23- 1.00	1.00

(Figures in bracket indicates negative values)

CA. Nemi accepted the Statutory Audit of Arihant Limited for the year 2022-23 in spite of the fact that as on date of acceptance by CA Nemi, the audit fees of CA Acharya was unpaid.

- (b) CA Sumati is a practicing chartered accountant having office in Mumbai. CA Sumati is owner of domain cap.net. In order to generate additional revenue CA Sumati sold this domain name to XYZ Limited for earning royalty of ₹ 2,25,000. One of the directors of XYZ Limited contended that CA Sumati has violated the Code of Conduct. CA Sumati responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute.

### **SUGGESTED ANSWERS**

#### **PART A : ANSWERS TO MULTIPLE CHOICE QUESTIONS**

1. (a)
2. (a)
3. (b)
4. (b)
5. (c)
6. (b)
7. (c)
8. (d)

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**PART B : DESCRIPTIVE QUESTIONS**

9. As per SA 500 “Audit Evidence”, when information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, have regard to the significance of that expert’s work for the auditor’s purposes evaluate the competence, capabilities and objectivity of that expert.

A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats and may be created either by external structures (for example, the management’s expert’s profession, legislation or regulation), or by the management’s expert’s work environment (for example, quality control policies and procedures). Although safeguards cannot eliminate all threats to a management expert’s objectivity, threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

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

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

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

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

10. **Management Responsibility for Compliance with Laws and Regulations:**

SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”, states that it is the responsibility of management, with the oversight of those charged with governance to ensure that the entity’s operations are conducted in accordance with the



provisions of laws and regulations. For this purpose, management may apply the following procedures:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
  - Instituting and operating appropriate systems of internal control.
  - Developing, publicising and following a code of conduct.
  - Ensuring employees are properly trained and understand the code of conduct.
  - Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
  - Engaging legal advisors to assist in monitoring legal requirements.
  - Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.
11. XYZ Limited is the parent company, and it has a subsidiary named AT Private Limited. CA F is the appointed statutory auditor for XYZ Limited for the financial year 2022-23. Another auditor, CA B, has conducted the statutory audit for AT Private Limited and issued a CARO 2020 report, which includes a qualification regarding the short-term funds raised and utilised for long-term purposes.

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

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

**CA F's Responsibility:** Considering the provisions stated above, CA F, as the auditor of XYZ Limited's consolidated financial statements, is required to follow these steps:

- a. **Report under Clause (xxi) of Paragraph 3 of CARO 2020:** CA F must include a comment in the consolidated financial statement's audit report regarding whether there are any qualifications or adverse remarks in the CARO reports of the companies included in the consolidated financial statements.
- b. **Incorporate Qualification by CA B:** CA F should incorporate the qualification made by CA B (regarding short-term funds raised and utilized for long-term purposes in AT Private Limited) into the auditor's report for XYZ Limited's consolidated financial statements.

- c. **Mention Paragraph Number:** CA F must also provide the paragraph number of CA B's CARO report where the qualification is stated.

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

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

12. As per SA 700 "Forming an Opinion and Reporting on Financial Statements", if supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

The auditor's evaluation of whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information and whether it is clearly labelled as "unaudited."

In the current case, the Statement of Average Revenue Per Booking (ARPB) and Comparative is unaudited supplementary information that could be construed as being covered by the auditor's opinion. Hence, the audit team should evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If not, then audit can suggest management to change the presentation of unaudited supplementary information by:

- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labelling them as unaudited. Unaudited notes that are intermingled with audited notes can be misinterpreted as being audited.

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

13. (a) In the present case, there exists a material uncertainty that cast a significant doubt on the company's ability to continue as going concern and the same is not disclosed in the financial statements of MOKSH Ltd.

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

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

**Adverse Opinion**

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

**Basis for Adverse Opinion**

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

**(b) Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report**

Key audit matters—	Emphasis of Matter paragraph –
Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. [SA 701]	A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. [SA 706]
<p>Matters that are determined to be key audit matters in accordance with SA 701 may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with SA 701, the auditor may wish to highlight or draw further attention to its relative importance.</p> <p>Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements.</p>	<p>A widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.</p> <p>Use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters where SA 701 is applicable.</p> <p>There may be a matter that is not determined to be a key audit matter in accordance with SA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this SA.</p>
The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.	The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.

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- 14. Consolidated Financial Statements:** According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.

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

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

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

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

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

- 15.** (i) As per SEBI LODR, the Board of Directors of the top 2000 listed entities shall comprise of not less than six directors. In the given case, the Board of Directors of AB Limited which is in top 2000 listed entities, comprises of total five directors. Hence there is non-compliance on the part of AB Limited.
- (ii) As per SEBI LODR, the independent directors of the listed entity shall hold at least one meeting in a financial year, without the presence of non-independent directors and members of the management and all the independent directors shall strive to be present at such meeting. In the given case, the Independent Directors of AB Limited

did not meet in a financial year, without the presence of non-independent directors and members of the management. Hence there is non-compliance on the part of AB Limited.

- (iii) As per SEBI LODR, to devise a policy on Board diversity is a role of Nomination and Remuneration Committee. In the given case, devising a policy on Board diversity should be done by Nomination and Remuneration Committee instead of Risk Management Committee.
  - (iv) As per SEBI LODR, the chairperson of Stakeholders Relationship Committee shall be a Non-Executive Director. In the given case, the Chairperson of Stakeholders Relationship Committee of AB Limited is an Executive Director. Hence there is non-compliance on the part of AB Limited.
  - (v) As per SEBI LODR, the listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 21 days from the end of each quarter. In the given case, AB Limited submitted quarterly compliance report on corporate governance for the quarter ending 30<sup>th</sup> September, 2022 on 25<sup>th</sup> October, 2022. The company submitted quarterly compliance report after the due date. Hence there is non-compliance on the part of AB Limited.
16. (i) Review of complaints and requests received for non-receipt of refund amount relating to subscription to the rights issue of the company and actions taken on such complaints fall in the domain of Stakeholders relationship committee. It is due to the reason that resolving grievances of security holders of a listed entity is one of the functions/roles of the Stakeholders relationship committee in accordance with legal/regulatory provisions.
- (ii) Review of measures taken by the company to enable security holders to claim hitherto unclaimed dividends due for transfer to the Investor Education and Protection Fund (IEPF) also falls in the domain of the Stakeholders relationship committee. It is because of the fact that a review of various measures and initiatives taken by a listed entity for reducing the quantum of unclaimed dividends is one of the functions/roles of the Stakeholders relationship committee.
- (iii) Approval of upgraded evaluation criteria for the Board, its committees and directors fall in the domain of the Nomination and remuneration committee. Formulation of criteria for determining qualifications, positive attributes and independence of directors is one of the primary functions of such a committee.
- (iv) Omnibus approvals for transactions with related parties pertain to functions of the audit committee as envisaged under section 177 of the Companies Act, 2013.
17. Gross NPAs represent opening balances of NPAs as increased by fresh NPAs during the year and reduced by upgradations, recoveries and write-offs during the year.

Net NPAs are arrived at after deducting amounts on account of the total provision held against NPAs/ balance in the interest suspense account to park accrued interest on NPAs and certain other adjustments.

The Net NPAs to Net advances ratio is higher in the case of KNO Bank as compared to other public sector banks. It shows that there is a risk that the bank could not have made the required provisions in accordance with RBI guidelines. A higher net NPAs to Net advances ratio indicates the probability and risk of under-provisioning. Keeping in view the above, audit procedures have to be tailored towards the examination and verification of this crucial area.

18. The following controls may be considered by auditor in areas of credit appraisals and credit monitoring for ensuring that internal control over advances is effective and the system is capable of not only preventing and reducing the risk of NPAs at the sanction stage itself but also sending out timely signals to the bank subsequently.
- (i) Use of third-party data sources in the bank for comprehensive due diligence at the sanction stage itself to mitigate risk on account of misrepresentation and fraud.
  - (ii) Classification of accounts as special mentioned accounts (SMA) for early recognition of signs of incipient stress resulting in default in timely servicing of debt obligations. It can enable banks to initiate timely remedial actions to prevent potential slippages into NPAs.
  - (iii) Institution of comprehensive, automated Early Warning Systems (EWS) in banks with EWS triggers to detect stress and reduce slippage into NPAs
  - (iv) Reporting of repayment behaviour of borrowers in their loan accounts to credit information companies and inclusion of this information in the credit appraisal and decision-making process for further sanctioning of loans to borrowers.
19. The insurance arrangement in the present case is called Reinsurance. A reinsurance transaction may be defined as an agreement between a 'ceding company' and a 'reinsurer' whereby the former agrees to 'cede' and the latter agrees to accept a certain specified share of risk or liability upon terms as set out in the agreement. A 'ceding company' is the original insurance company which has accepted the risk and has agreed to 'cede' or pass on that risk to another insurance company or the reinsurance company. It may, however, be emphasised that the insured does not acquire any right under a reinsurance contract. In the event of loss, the insured's claim for full amount is against the original insurer only. The original insurer in turn, lodges a claim with the reinsurer.

There are broadly two types of reinsurance contracts, viz., facultative reinsurance and treaty reinsurance.

**Facultative Reinsurance** - It is that type of reinsurance whereby the contract relates to one particular risk and is expressed in the reinsurance policy. This is the oldest method of reinsurance, and it necessitates consideration of each risk separately. Each transaction under facultative reinsurance has to be negotiated individually. Each party to the

transaction has a free choice, i.e., for the ceding company to offer and the reinsurer to accept.

**Treaty Reinsurance** - Under this type of reinsurance, a treaty agreement is entered into between the ceding company and the reinsurer(s) where reinsurances are within the limits of the treaty. These limits can be monetary, geographical, section of business, etc. Under this contract, it is obligatory for the reinsurer to accept all risks within the scope of this treaty and it is obligatory for the ceding company to cede risks in accordance with the terms of the treaty. Treaties can also be divided into two categories, viz., proportional treaties and non-proportional treaties.

20. The contributions received from *employees* for various funds referred to in Section 36(l)(va) of the Income Tax Act, 1961 are to be reported in clause 20(b) of form 3CD as under:-

Serial number	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities
1	ESI	50500	15.4.2023	50,500	14.4.2023
2	PF	350000	15.4.2023	3,50,000	18.4.2023

Section 36(1)(va) permits deduction of any sum received by the assessee from any of his employees to which the provisions of section 2(24)(x) are applicable, if it is credited by the assessee to the account of the employees in the relevant statutory fund on or before the due date. Section 2(24)(x) includes within the scope of income any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or ESI Fund, or any other Fund for employees' welfare.

Under Clause 20(b), the requirement is only in respect of the disclosure of the amount and the tax auditor is not expected to express his opinion about its allowability or otherwise. Therefore, all amounts received from employees towards the contribution of the above funds are to be reported irrespective of the fact whether these have been deposited before due dates or not.

The *employer's contributions* towards various funds, including ESI and PF, are to be reported in clause 26 of form 3CD. Clause (b) of Section 43 B of the Income-tax Act, 1961 provides that any sum payable as an *employer* by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees be allowed as allowed deduction in the previous year in which amounts are paid. However, the deduction is available in respect of any sum which is actually paid by the assessee on or before the due date applicable in his case for furnishing the return of income under sub-section (1) of section 139.



Since the employer's contributions under ESI and PF have already been paid well before the due date of furnishing the return of income, the same would only be reported under clause 26(B)(a), providing details of the employer's contribution paid before the due date of furnishing return of income of the company.

21. Under section 140(5) of Companies Act, without prejudice to any action under the provisions of this Act or any other law for the time being in force, the Tribunal either suo motu or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its Directors or officers, it may, by order, direct the company to change its auditors.

In the given case, NCLT passed an order highlighting collusion between the company and the auditor.

Section 140(5) further provides that an auditor, whether individual or firm, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointed as an auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447 providing for punishment of fraud.

Further, it also provides that in the case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers.

Further, the auditor shall also be liable for a penalty of ₹5 lakh for failure to report fraud activities to the central government under section 143(15) of the Companies Act, 2013.

22. **A comparison between the Management Audit & the Operational Audit is as follows:**

Management audit is concerned with the "Quality of managing", whereas operational audit focuses on the "Quality of operations".

Management audit is the "Audit of management" while the operational audit is the "Audit for the management". The focus of Management Audit is on "Quality of Decision Making" rather than the effectiveness or efficiency of operations.

The basic difference between the two audits, then, is not in method, but in the level of appraisal. In a management audit, the auditor is to make his tests to the level of top management, its formulation of objectives, plans and policies and its decision making. It is not that he just verifies the operations of control and procedures and fulfillment of plans in conformity with the prescribed policies.

Since, the delays in payments and consequent penal interest payments and the delays in shipping and the consequent deteriorating vendor ratings are happening because of the delays in decision-making process of the management. Therefore, it appears that this is not just an internal control or operational issue but an issue of management process.

Therefore, management audit would be recommended in this case.

23. Investigations broadly range between two extremes; on the one hand there are those in respect of which complete accounts, documents, records and other information are available, and on the other, those in respect of which little information, besides published accounts and statistical data, is available. Then again, investigation may cover the whole of accounting or may relate to only a part or parts of accounting as may be specified. Some more issues often arise in investigation. They are stated below:

- (a) **Whether an investigator is required to undertake a cent per cent verification approach or whether he can adopt selective verification** - The answer to this question depends on the exact circumstances of the case under investigation. If the investigator has to establish the amount of cash defalcated by the cashier, he has probably no option but to carefully examine all the cash vouchers and related records. On the other hand, if he is to arrive at the profitability of a concern, he may verify constituent transactions on a selective basis taking extreme care to see that no material transaction that affects profit has remained concealed from his eyes. In investigation, it is always safer to go by statistically recognised sampling methods than to depend on the so-called "test checks" where circumstances permit selective verification.
- (b) **Whether an investigator necessarily requires assistance of expert** - Often an investigator may feel the necessity of obtaining views and opinions of experts in various fields to properly conduct the investigation. It would be therefore, proper for the investigator to get the written general consent of his client, to refer special matters for views of different experts at the beginning of investigation and he should settle the question of costs for obtaining the views and other related implications.
- (c) **Whether to retain working papers or not** - Another important precaution is that the investigating accountant should retain in his files full notes of the work carried out, copies of schedules and all working papers, annexures, facts, figures, record of conversations and the like. Also, the working papers should link up the figures as shown by the books of business with the final figures produced by the investigating accountant. Wherever required the investigator should take representation letter from the appointing authority. In the absence thereof, he would not be able to explain the figures when he is called upon to give evidence in a court of law to support his figures; for quite often the conclusions of the accountant are challenged by parties whose interest is adversely affected by his findings, for example, when the value of shares of a company taken over by the Government has been determined by him. This will also be of immense help to the investigator in correlating facts and events and later in drafting the report.

24. (a) **Various Stages involved in the Conduct of the Quality Review Assignments:**

The following table describes the various stages generally involved in the conduct of the quality review assignments:

- QRB selects Audit Firm and the audit file for review and identifies TR to conduct Quality Review.
- QRB sends Offer Letter of Engagement to TR.
- TR conveys his acceptance of Letter of Engagement to QRB by sending necessary declarations for meeting eligibility conditions and furnishing statement of confidentiality by himself and his assistant/s, if any.
- QRB intimates AFUR about the proposed Quality Review. QRB also sends a copy of this intimation letter to TR and provides them contact details of each other for further communication.
- TR sends the specified Quality Review Questionnaire to the AFUR for filling-up. He also calls for additional information from the AFUR, if required.
- TR & his team carry out the Quality Review by starting their off-site review by making proper planning for the review and then on-site visiting the office of the AFUR by fixing the date as per mutual consent ensuring that review exercise gets completed within specified time frame.
- On completion of on-site review, TR to send the preliminary report to AFUR. TR shall send a copy of preliminary report to QRB as well.
- AFUR to submit representation on the preliminary report to the TR and TR to immediately send the reply of the AFUR to QRB.
- TR to submit final report along with a copy of Annual report of the entity for the year under review, to the QRB in the specified format, on his (individual) letterhead, duly signed and dated within specified time frame or as extended by the QRB. In addition, he shall also send a copy of the final report to the AFUR, requesting them to send their final reply thereon to the QRB within 7 days of receipt of the final report. AFUR shall also send a copy of their final reply to TR.
- AFUR to submit to QRB their reply on the final report and feedback, in prescribed format, regarding their experience of the quality review.
- Upon receipt of the final reply from the AFUR, TR shall submit to QRB within next 7 days a summary of his findings, in the specified format, containing his findings, technical requirements, final reply of the AFUR and his final comments thereon.
- QRB to consider the report of the TR and responses of AFUR and make recommendations to QRB. QRB may also call for additional details/information/explanations, if required, from TR/AFUR or issue such

directions to TR, as it may deem appropriate, enabling it to assess the quality of audit and reporting by the AFUR.

- QRB to consider report and recommendations of QRG and decide further course of action.

**(b) The actions that the Board may take, based upon consideration of recommendations of the QRG, include one or more of the following:-**

- (i) Make recommendations to the Council of ICAI u/s 28B(a) of Chartered Accountants Act, 1949 for referring the case to the Director (Discipline) of the Institute for consideration and necessary action under the Chartered Accountants Act, 1949.
- (ii) Issue advisory and guidance to the AFUR u/s 28B(c) of Chartered Accountants Act, 1949 for improvement in the quality of services and adherence to various statutory and other regulatory requirements. A copy of such advisory may also be sent to the ICAI for information.
- (iii) Inform the details of the non-compliance to the regulatory bod(y)/ies relevant to the entity as may be decided by the Board.
- (iv) Intimate the AFUR as to the findings of the Report as well as action initiated as above.
- (v) In case of review arising out of a reference received from a regulatory body, inform the results of review and the details of action taken to the concerned regulatory body.
- (vi) Consider the matter complete and inform the AFUR accordingly.

- 25. (a)** As per Chapter VII of Central Council Guidelines 2008, a member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 2013 or various other statutes has not been paid:

Provided that in the case of sick unit, the above prohibition of acceptance shall not apply where a sick unit is defined to mean “where the net worth is negative as at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

As Explanation 1 of the Chapter VII of Central Council Guidelines 2008, for the purpose, the provision for audit fee in accounts signed by both — the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as “undisputed audit fees”.

In the instant case, though the undisputed fees are unpaid, CA Nemi would still not be guilty of professional misconduct since the Arihant Limited is a sick unit having negative net worth for the year 2022-23.

- (b) As per Clause (11) of Part I of Schedule I to the Chartered Accountants Act, 1949, a member in practice is deemed to be guilty if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage. Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (not being a managing director or a whole-time director) unless he or any of his partners is interested in such company as an auditor.

As per Regulation 190A, a chartered accountant in practice not to engage in any other business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the Council.

In the given case, CA Sumati is a practicing chartered accountant having office in Mumbai. CA Sumati is owner of domain cap.net. In order to generate additional revenue, CA Sumati sold this domain name for earning royalty of ₹ 2,50,000 to XYZ Limited. One of the directors of XYZ Limited contended that CA Sumati has violated the Code of Conduct. CA Sumati responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute. As per Regulation 190A, the activity of selling domain name for earning Royalty would amount to “other business/occupation” without approval is prohibited.

Hence, CA Sumati is guilty of professional misconduct under Clause 11 of Part I of Schedule I to the Chartered Accountants Act, 1949 for selling domain name for a royalty.